HSBC France

Registration document and annual financial report 2015

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: 47 million.
Served by: 255,000 employees.
Through four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, Global Private Banking.
Located in: 71 countries and territories.
Across five geographical regions: Europe, Asia, Middle East and North Africa, North America, Latin America.
Offices: Over 4,700.
Listed on stocks exchanges in: London, Hong Kong, New York, Paris, Bermuda.

Highlights – Year ended 31 December 2015:
Reported profit before tax was down 1 per cent to USD 18,867 million.
Adjusted profit before tax was down 7 per cent to USD 20,418 million.
Profit attributable to shareholders of the parent company was USD 13,522 million.
Total assets were USD 2,410 billion.

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This Registration Document was filed with the *Autorité des marchés financiers* on 4 March 2016, 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.

Registration document and annual financial report 2015

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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 part of HSBC Group, one of the largest and strongest banking groups in the world which ambition is to become the leading international bank. In France, HSBC is willing to be the privileged partner of French corporates for their international development and of retail clients for wealth management.

Mission of HSBC Group

Main strategic development pillars

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

Our strategy is to maintain an international network to connect faster-growing and developed markets. Our strategy is built around long-term trends and reflects our distinctive advantages.

Long-term trends

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

– increasing global connectivity: the international flow of goods, services and finance continues to expand, supported by the growing significance of technology and data in personal and commercial exchanges. We expect the international flow to increase three-fold between 2012 and 2025 to USD 85 trillion;

– shifting economic powers: of the world's top 30 economies, we expect 18 to be in Asia, South America, Middle-East and Africa and to increase in size by around four-fold by 2050;

– development of the middle class in the world's fast growing economies: the size of the middle class is expected to grow by 3 billion of individuals, from 1.8 billion in 2010 to 5 billion in 2030, of which 66 per cent in Asia;

– ageing populations: the world's population aged 60 and above will more than double from less than 1 billion in 2015 to more than 2 billion by 2050.

HSBC's business model is built around an international network that allows us to connect and serve a consistent portfolio of countries aligned with these opportunities.

Distinctive advantages

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

– unrivalled global presence: HSBC's network provides access to near 90 per cent of global trade and capital flows. We enable clients to participate in the most attractive global growth opportunities and offer leading product capabilities to support global economic flows;

– universal banking model: we serve the full range of banking customers through four global businesses, from individual savers to large multinational corporations. This universal banking model enables us to effectively meet our client's diverse financial needs and generate stable returns for shareholders.

Products and services

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

Our global businesses set globally consistent business strategies and operating models. They manage the products and business propositions offered to our customers.

Retail Banking and Wealth Management (RBWM)
RBWM comprises four main business areas: Retail Banking, Wealth Management, Asset Management and Insurance. RBWM provides products and services to individuals across the world to manage their finances, buy their dream home, save and invest for their future. RBWM offers solutions from day-to-day transaction banking, including deposits, and short and long term financing to insurance and investment products, advising clients to help manage and protect their financial wealth.

Commercial Banking (CMB)
CMB serves corporate customers from small enterprises focused primarily on their domestic markets, through to large corporates operating globally. We support our customers with tailored relationship management and financial solutions to allow them to operate efficiently and to grow. This includes providing them with working capital, term loans, payment services, international

trade facilitation, project finance and the expertise for acquisitions and access to financial markets. HSBC is also a leader in the development of the Chinese currency, the Renminbi, with capacity to deal in more than fifty countries.

CMB is organized around the need and complexity of its customers in three distinct segments: Business Banking, Mid-Market and Large Corporates.

Global Banking and Markets (GB&M)
GB&M operates on key capital markets, providing transactional and financing solutions to major corporate and institutional clients worldwide. GB&M is positioned as a key partner to assist customers in their projects and activities in France and globally, thanks the HSBC Group's local and international capabilities.

HSBC offers a full range of banking solutions, including advisory, vanilla and structured financing products, merger and acquisitions, access to debt and equity markets, project finance, payments and cash management, trade services, and a wide range of markets capabilities (rates, foreign exchange and equities).

Global Private Banking (GPB)
Leveraging the HSBC Group's expertise and strongly tailored solutions, the Private Bank teams work closely with clients and other HSBC business lines to provide solutions to grow, manage and preserve wealth today and for the future.

GPB serves high net worth individuals and families, offering tailored products and services, through the expertise of its discretionary and advisory management teams.

Strategic priorities for HSBC Group

The Group has set out a plan of 10 strategic actions to be mostly completed by 2017. HSBC France implements, in France, the HSBC Group's strategy with the objective to:

- re-size and simplify the Group;
- redeploy capital and invest in strategic businesses and markets;
- implement Global Standards.

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

Re-size and simplify the Group
Through its action plan, the Group is undertaking a re-alignment of its portfolio of activities. Beyond the decision to sale its businesses in Brazil, the Group intends to reduce significantly its Risk Weighted Assets (RWA), notably in GB&M, that will represent less than a third of Group's RWA.

Besides, the Group has defined cost savings initiatives through mainly the simplification of processes and procedures, with a target of USD 4.5-5.0 billion of annual savings from 2017, with a non-recurring investment of USD 4.0-4.5 billion to achieve this goal.

Redeploy capital and invest
HSBC will accelerate its investments to guarantee the sustainable development of its activities. HSBC targets a growth rate above world's GDP through its international network, continuing to invest in international products and services, such as Global Trade and Receivable Finance, Payments and Cash Management, Rates and Foreign Exchange. HSBC will also leverage its leading position in the internationalisation of the Renminbi.

HSBC will also invest in fast growing economies, notably in Asia where the Group has set an ambitious growth plan that will foster connectivity between the region and the rest of the world.

Implement Global Standards
In terms of Financial Crime Compliance, HSBC is actively deploying best-in class controls across the organisation in every market HSBC is operating, through its Global Standards programme.

Global Standards will provide the highest standards to support commercial activities, today and in the future and will provide a distinctive competitive advantage. HSBC's ambition is to complete their implementation by 2017.

A strategy implemented in France

HSBC is focusing on 18 priority markets, including France, where the Group has been developing the full range of businesses and established global platforms for some Global Markets capabilities.

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

The strategy of HSBC France is to serve its clients through its universal model and to develop its businesses leveraging the Group's international network, while accelerating the implementation of Global Standards and the transformation of the bank to improve its efficiency and profitability.

Key initiatives are:

- continue to focus on mass affluent individuals and invest in digital in RBMW;
- leverage Group's strengths, notably its international connectivity to grow revenue in CMB;
- reinforce its positioning in GB&M in Paris as the strategic platform for the Group;
- foster synergies across business lines;
- modernise its IT systems to gain efficiency and improve the quality of client service.

Retail Banking and Wealth Management
HSBC France has the ambition to become the leading bank for wealth management. With a significant presence in all major cities and three online branches, HSBC France can rely on expert teams, specialised by client segment and on dedicated propositions to meet HSBC Premier and Advance client's specific needs. HSBC France is undertaking initiatives to:

- extend the range of solutions and advisory in multi-management, brokerage and life-insurance to meet client's increasing needs in long-term investments, notably to prepare retirement;
- continue to strengthen wealth management expertise of relationship managers, notably for HSBC Premier, in order to propose appropriate solutions and services to customers, with a focus on risk management;
- invest in digital and deploy online services, while simplifying processes to serve clients who increasingly require mobile and online access to banking services.

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

The implementation of Global Standards that will drive improvement in controls and risk management remain another key priority for the business.

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

- ensure consistency and efficiency to customers through a global model, organised around client segments with dedicated propositions;
- continue to support client's international needs through the unique footprint of the Group to foster capital and trade flows around the world;
- invest in new products and systems to strengthen its proposition and quality of service, notably in Payments and Cash Management and Global Trade and Receivable Finance;
- further collaborate with other business lines.

CMB will also continue to improve its return on capital employed by focusing on strategic and profitable activities and clients. The implementation of Global Standards that will drive improvement in controls and risk management remain another key priority for the business.

Global Banking and Markets
The goal of GB&M is to be a "Top Five" bank to priority clients. Its business model and strategy support this ambition.

Priorities for GB&M in France are the following:

- help clients seize international growth opportunities, leveraging its expertise and global network connecting emerging and developed economies;
- continue to be a leading player in products that will benefit from global economic trends, such as Foreign Exchange, notably supporting the Renminbi internationalisation, Payments and Cash Management and Global Trade and Receivable Finance;
- support the Group in reducing RWA, by lowering exposure to non-strategic and non-profitable activities;
- reinforce the risk management, implement the Global Standards, collaborate with other business lines and simplify operations.

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

Global Private Banking
GPB will continue to develop through collaboration with other business lines to enlarge its client base and enrich its proposition in terms of services and products, notably in discretionary management and life insurance. The implementation of Global Standards, risk management, tax transparency and simplification of processes are also priorities for the private banking business.

Change of the organisational structures of HSBC Group in France

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

The bank's performance in 2015

Environment

The bank's faced a difficult economic background as well as severe regulatory changes in 2015.

It was a disappointing year for the global economy. Growth in emerging-market countries probably fell to its lowest level since 2009, seriously affecting the momentum of international trade. The slowdown in the Chinese economy, which largely reflected the structural shift in the country's economic model to one based more on consumer spending and services, was one of the main causes of slower growth in emerging markets. Weak Chinese demand depressed the exports of other large emerging-market countries, but also commodity prices, which affected major producer countries like Brazil and Russia.

Economic conditions were a little better in developed countries, where lower energy prices had a positive effect on consumer demand. In the eurozone, activity was also supported by an upturn in lending to the private sector because of new European Central Bank support measures. In particular, the ECB started a programme to buy sovereign bonds, which put further downward pressure on the euro and interest rates. Those factors helped the eurozone recovery to strengthen, but not enough to increase inflationary pressure in the region. As a result, the ECB has left the door open to further measures in the next few months.

France also saw stronger growth in consumer spending because of low inflation and higher borrowing in a low-interest-rate environment. Exports also recovered due to the weak euro. However, the lack of competitiveness among French companies limited the upturn in exports, and so French growth was slightly below the eurozone average.

In the USA, in contrast, the recovery is at a more advanced stage and the Federal Reserve was more open about the possibility of raising its key interest rate for the first time since 2006, which helped push the dollar higher. Despite the rate hike, which finally came in mid-December, the Federal Reserve has maintained its cautious stance regarding future increases because of weak US inflation. Accordingly, US interest rates will remain low despite the start of monetary tightening in the USA.

In this low-interest-rate environment, international equity markets had a tougher and more volatile year, because of greater concern about global growth. The MSCI World index fell 2.7 per cent in 2015 as a whole and emerging-market equity indexes lost 17 per cent. European equity markets fared better, with the EuroStoxx 50 gaining 3.8 per cent and the CAC 40 standing out with an 8.5 per cent increase.

2015 was the first year of implementation for HSBC France's new supervision framework. Since November 2014, after Banking Union was adopted by eurozone member-states, HSBC France has been supervised by the European Central Bank in conjunction with the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR). The ACPR remains responsible for certain areas. HSBC France is also supervised by the *Autorité des Marchés Financiers* (AMF) in its area of competence. Finally, as a member of the HSBC Group, HSBC France is subject to certain UK rules regarding prudential matters (safety and soundness) applied by the Prudential Regulation Authority (PRA) and by the Financial Conduct Authority (FCA) regarding conduct (consumer and market protection).

In 2015, various texts adopted at the European level in accordance with G20 decisions were gradually applied. They related in particular to Basel III standards, which introduce new requirements for liquidity and solvency, effectively increase banks' requirements for capital and liquid assets and will gradually result in an adjustment in their risk profiles.

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

In addition, the implementation of international and European rules regarding the prevention of banking crises and resolution mechanisms represents a major project for banks. Although the overall framework is now known and is starting to be implemented, certain aspects, such as banks' loss absorption capacity in the event of difficulties, were clarified during the year.

Finally, some texts are still being discussed, particularly at the European level, such as legislation on the separation of banking activities and a financial transactions tax. These may seriously affect the ways in which banks are organised and do business.

After the Single Supervisory Mechanism (SSM) came into force in November 2014, the European Central Bank carried out its first supervisory review and evaluation process in 2015. That involved taking an in-depth look at the situation of all significant banks in the eurozone, including HSBC France. In particular, the process looked at banks' business models, governance and risk management, and situation in terms of equity and liquidity.

After discussions with the ECB throughout 2015, the ECB asked HSBC France to maintain a phased-in Common Equity Tier 1 ratio of 10 per cent from 1 January 2016. That figure includes the capital conservation buffer.

HSBC France is not subject to the buffer required of systemically important banks.

That CET1 ratio requirement, which corresponds with the Pillar 2 requirement, was the subject of a publication by HSBC France on 29 December 2015 in accordance with the European Banking Authority's instructions of December 2015.

Scope of the performance review

Performance is analysed below from three different perspectives on the basis of the financial statements, which are prepared using IFRSs as defined in Note 1 to the consolidated financial statements:

– HSBC France group's consolidated results (legal perimeter);

– HSBC's operations in France (managed perimeter[1]);

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

HSBC France's performance on the basis of its individual financial statements, prepared in accordance with the generally accepted accounting principles applicable to credit institutions in France, is analysed in the note to the parent company financial statements entitled "2015 Highlights", page 276.

1 *The managed perimeter relates to the France's contribution 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, but excluding the financing costs of the acquisition debt recognised by HSBC Bank plc Paris Branch.*

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

The financial statements commented on below were prepared on the basis of the HSBC France group's consolidated scope, the financial statements of which are prepared in accordance with IFRSs as defined in Note 1 to the consolidated financial statements.

Income statement

(in millions of euros)	**31.12.2015**	31.12.2014
Interest income	**1,792**	1,960
Interest expense	**(318)**	(348)
Net interest income	**1,474**	1,612
Fee income	**906**	868
Fee expense	**(241)**	(209)
Net fee income	**665**	659
Trading income excluding net interest income	**(22)**	(272)
Net interest income on trading activities	**245**	212
Net trading income	**223**	(60)
Changes in fair value of long term debt issued and related derivatives	**15**	(50)
Net Income/(expense) from other financial instruments designated at fair value [1]	**312**	349
Net income/(expense) from financial instruments designated at fair value	**327**	299
Gains less losses from financial investments	**34**	43
Dividend income	**2**	4
Net earned insurance premiums	**1,957**	1,926
Other operating income	**174**	(133)
Total operating income	**4,856**	4,350
Net insurance claims incurred, benefits paid and movement in liabilities to policyholders	**(2,485)**	(2,421)
Total operating income before loan impairment (charges)/release	**2,371**	1,929
and other credit risk provisions	**(121)**	(112)
Loan impairment charges and other credit risk provisions	**2,250**	1,817
Net operating income	**(925)**	(948)
Employee compensation and benefits	**(649)**	(584)
General and administrative expenses	**(50)**	(45)
Depreciation and impairment of property, plant and equipment	**(8)**	(8)
Amortization and impairment of intangible assets	**(1,632)**	(1,585)
Total operating expenses	**618**	232
Operating profit	**–**	–
Share of profit in associates and joint ventures	**618**	232
Profit before tax	**(171)**	(33)
Tax expense		–
Profit for the year	**447**	199
Profit attributable to shareholders of the parent company	**445**	198
Profit attributable to non-controlling interests	**2**	1

Net interest income amounted to EUR 1,474 million in 2015 compared with EUR 1,612 million in the previous year. In an environment of prolonged low interest rates, interest income on deposits continued to fall, partly offset by a positive volume effect in Retail Banking. Lending volumes rose in the various business lines, and mortgages in the Retail Banking business generated an increase in net interest income.

Net fee income totalled EUR 665 million in 2015, compared with EUR 659 million in 2014. The change was driven mainly by good performance in Asset Management and Private Banking, coupled with growth in Commercial Banking due to a larger number of financing and advisory transactions with corporate clients. Those positive factors were offset by a decline in payment fee income in Commercial Banking and Global Banking and a decrease in banking fee income in Retail Banking.

Trading book income rose from EUR -60 million in 2014 to EUR 223 million in 2015. That increase was due to:

– volatile accounting items including certain significant items:
  • the change in fair value of non-qualifying hedges, amounting to EUR 36 million compared with EUR -173 million in 2014,
  • the change in the Debit Valuation Adjustment, which was EUR 15 million in 2015 compared with EUR -23 million the previous year;
– fixed-income trading revenues adversely affected by market conditions;
– the increase in market value of financial instruments held by the insurance company to back annuity commitments.

Income from financial instruments designated at fair value amounted to EUR 327 million compared with EUR 299 million the previous year. That change includes the change in fair-valued own debt under Fair Value Option due to the credit spread: EUR 35 million compared with EUR -61 million the previous year. It also includes the decrease in the market value of assets held by the life insurance company, partly with respect to unit-linked policies. The counterpart of that decrease is the change in liabilities to policyholders (see below).

Premiums earned amounted to EUR 1,957 million in 2015, compared with EUR 1,926 million in 2014. The increase reflects strong momentum in life insurance origination.

Other operating income came to EUR 174 million compared with EUR -133 million the previous year, reflecting the change in life insurance accounting PVIF[1] (EUR +152 million in 2015 versus EUR -159 million in 2014).

Net insurance claims and the movement in liabilities to policyholders amounted to EUR -2,485 million in 2015 compared with EUR -2,421 million in 2014. The decrease was due to an increase in the value of hedging products accounted for in the trading book and in gains on financial instruments under Fair Value Option.

Net operating income before loan impairment charges and other credit risk provisions came to EUR 2,371 million in 2015 compared with EUR 1,929 million for 2014 and to EUR 2,285 million compared with EUR 2,186 million on an adjusted basis, i.e. excluding significant items.

Loan impairment charges and other credit risk provisions came to EUR -121 million versus EUR -112 million in 2014. The 2014 figure had been affected by charges relating to several corporate loans. However, the level seen in 2015 remained moderate and in line with charges observed between 2008 and 2013. The standardised cost of risk represented 0.30 per cent of outstanding client loans, compared with 0.33 per cent in 2014, 0.25 per cent in 2013 and 0.32 per cent in 2012.

Operating expenses were EUR -1,632 million compared with EUR -1,585 million in 2014. The increase was mainly due to the application of IFRIC 21 in 2014 and the recognition of the EUR 38 million contribution to the Single Resolution Fund, partly offset by a firm grip on staff costs and administrative expenses. Adjusted for the impact of IFRIC 21 and the contribution to the SRF, administrative expenses were stable compared with 2014. Productivity gains enabled HSBC France to continue investing in compliance and combating financial crime, while supporting expansion in its businesses.

Profit before tax rose to EUR 618 million compared to EUR 232 million in 2014 and rose EUR 548 million compared with EUR 496 million on an adjusted basis, i.e. excluding significant items[2]. The increase was mainly due to growth in insurance company results driven by the positive change in PVIF, coupled with an improved operating performance by the various business lines.

Net profit attributable to shareholders of the parent company was EUR 445 million in 2015 versus EUR 198 million in 2014.

1 *Present value of in-force.*
2 *See page 10.*

Balance sheet

ASSETS

(in millions of euros)	**31.12.2015**	31.12.2014
Cash and balances at central banks	**395**	523
Items in the course of collection from other banks	**381**	367
Trading assets	**27,161**	38,720
Financial assets designated at fair value	**6,768**	6,156
Derivatives	**49,484**	70,567
Loans and advances to banks	**4,660**	6,022
Loans and advances to customers	**38,524**	36,240
Reverse repurchase agreements – non-trading	**10,163**	14,796
Financial investments	**27,677**	24,672
Other assets	**258**	283
Current tax assets[1]	**149**	99
Prepayments and accrued income	**852**	1,021
Interests in associates and joint ventures	**2**	1
Goodwill and intangible assets	**860**	709
Property, plant and equipment	**828**	706
Deferred tax assets[1]	**296**	136
TOTAL ASSETS	**168,458**	201,018

LIABILITIES AND EQUITY

(in millions of euros)	**31.12.2015**	31.12.2014
Liabilities		
Deposits by banks	**7,086**	7,021
Customer accounts	**32,811**	33,635
Repurchase agreements – non trading	**10,283**	15,938
Items in the course of transmission to other banks	**385**	368
Trading liabilities	**22,647**	29,407
Financial liabilities designated at fair value	**8,476**	6,911
Derivatives	**46,903**	69,583
Debt securities in issue	**10,501**	9,237
Other liabilities	**914**	989
Current tax liabilities[1]	**32**	24
Liabilities under insurance contracts issued	**20,943**	20,803
Accruals and deferred income	**762**	714
Provisions	**132**	147
Deferred tax liabilities[1]	**204**	3
Retirement benefit liabilities	**165**	158
Subordinated liabilities	**276**	276
TOTAL LIABILITIES	**162,520**	195,214
Equity		
Called up share capital	**337**	337
Share premium account	**16**	16
Other reserves[2]	**1,765**	1,701
Retained earnings[2]	**3,720**	3,679
TOTAL SHAREHOLDERS' EQUITY	**5,838**	5,733
Non-controlling interests	**100**	71
TOTAL EQUITY	**5,938**	5,804
TOTAL EQUITY AND LIABILITIES	**168,458**	201,018

1 *The method for offsetting current and deferred tax was reviewed as of June 2015. The impact of applying the new method on 31 December 2014 figures is not material and so has not been adjusted.*

2 *The opening balance as of 01/01/2015 includes:*
- *a reclassification of EUR 53 million net of deferred tax from "other reserves (cash flow hedge reserves)" to "retained earnings" resulting from the disqualification of economic hedges which originally did not meet all the conditions defined by IAS 39 to benefit from hedge accounting ;*
- *The opening balance as of 01/01/2015 includes a reclassification of EUR 33 million net of deferred tax from "retained earnings" to "merger reserves" and a reclassification of EUR 21 million net of deferred tax from "retained earnings" to "non-controlling interests". HSBC Trinkhaus Gesellschaft für Kapitalmarktinvestments oHG is 90% owned by the HSBC France group and went into liquidation during the reporting year.*

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

HSBC France's consolidated balance sheet had total assets of EUR 168 billion at 31 December 2015, versus EUR 201 billion at 31 December 2014. HSBC France's deposits with the central bank were stable. The trading book fell by EUR 12 billion and repo securities fell by EUR 5 billion. Derivative instruments fell EUR 21 billion due to the decline in interest rates and active management of existing positions. The client loan book continued to grow, by EUR 2 billion, due to further strong loan origination.

On the liabilities side of the balance sheet, deposits from banks were stable, including HSBC France's involvement in the Targeted Long Term Refinancing Operation (TLTRO). The trading book fell EUR 7 billion due to a decrease in short positions, and repo securities declined EUR 6 billion, while derivative instruments fell EUR 23 billion because of lower interest rates and active management of existing positions. The value of insurance policies taken out by clients was stable.

In accordance with regulations, the ACPR liquidity ratio was replaced from 1 October 2015 by the Liquidity Coverage Ratio (LCR) for HSBC France group credit institutions, i.e. HSBC France and HSBC SFH (France). It was 120.2 per cent at 31 December 2015. 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 98.1 per cent at end-December 2015 (101 per cent in 2014), demonstrating HSBC France's solid liquidity position.

In 2015 as a whole and in order to finance the development of its businesses, HSBC France issued EUR 1 billion of 7-year covered bonds via HSBC SFH (France), EUR 1.25 billion of 2-year medium-term negotiable debt securities, and EUR 1 billion of 4-year medium-term negotiable debt securities. Finally, HSBC France took part in the TLTRO in an amount of EUR 1.4 billion in 2015, taking its total participation to EUR 2.6 billion, in order to continue supporting the development of HSBC France's clients by offering them lending at competitive rates.

On 25 November 2015, as part of a Group programme, HSBC France carried out its first ever issue of "green bonds". EUR 500 million of 5-year green bonds were issued, and the proceeds will be used to finance projects that help to combat climate change including projects relating to renewable energies, energy efficiency, clean transport and sustainable buildings.

In 2015, risk-weighted assets fell EUR 0.8 billion to EUR 32.5 billion, due in particular to the decline in market risk and counterparty risk, partly offset by growth in the lending business.

The Common Equity Tier 1 (CET1) ratio improved, rising from 14.1 per cent at end-2014 to 14.9 per cent at end-2015.

Non-gaap measures

To make it easier to understand the performance review relating to the Group and its subsidiaries, HSBC has elected to supplement the accounting data reported 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)	**2015**	2014
Revenues		
Impact of credit spread on own debt under fair value option . .	**35**	(61)
Non qualifying hedges relating to housing loans portfolio	**36**	(173)
DVA (*Debit Valuation Adjustment*)	**15**	(23)
Expenses		
Restructuring costs and Costs to Achieve strategic initiatives	**(16)**	(7)
Total adjustments	**70**	(264)

Financial results of the HSBC Group in France (managed perimeter)

Profit before tax reported by HSBC in France was EUR 586 million in 2015, versus EUR 252 million in 2014. The change was mainly due to a 20 per cent rise in revenue, boosted by significant items and an increase in PVIF[1] in the insurance business. The cost of risk rose EUR 9 million compared with 2014 and operating expenses increased EUR 53 million, affected notably by the recognition of the charge relating to the Single Resolution Fund.

1 *PVIF: Present value of in-force.*

Total

(in millions of euros)	**2015**	2014
Net operating income before loan impairment charges	**2,422**	2,026
Loan impairment charges	**(121)**	(112)
Operating expenses	**(1,715)**	(1,662)
Reported Profit before tax	**586**	252
Adjusted Profit before tax	**516**	516

Reported revenue amounted to EUR 2,422 million compared with EUR 2,026 million in 2014. The "adjusted" revenue of HSBC in France rose to EUR 2,336 million compared with the 2014 figure of EUR 2,283 million. However, it included a substantial rise in manufacturing insurance revenue connected with the impact of the change in the PVIF of life insurance policies (economic PVIF [1] EUR +138 million in 2015 versus EUR -147 million in 2014), resulting from improved conditions in the bond and equity markets, and the adjustment of long-term assumptions in order to take into account the change in the macroeconomic context (see note 18 to the consolidated financial statements).

HSBC France continues to support its customers, offering them financing and investment solutions for their projects. Good performance in the equity market, together with an attractive product range, had a positive impact on the asset management, insurance and private banking businesses. In addition, good momentum in loan production in all of the bank's business areas, supported by renegotiation requests in the Retail Banking segment, offset some of the negative impact of lower interest rates on deposit margins and the fall in revenue in capital market activities, particularly in the second half.

The cost of credit risk rose to EUR -121 million, compared with EUR -112 million in 2014. The 2014 figure had been affected by charges relating to several corporate loans. However, the level seen in 2015 remained moderate and in line with charges observed between 2008 and 2013. The standardised cost of risk represented 0.30 per cent of outstanding client loans, compared with 0.33 per cent in 2014, 0.25 per cent in 2013 and 0.32 per cent in 2012.

HSBC in France reported operating expenses of EUR -1,715 million, up 3 per cent compared with 2014, mainly due to the application of IFRIC 21 in 2014 and the recognition of the contribution to the Single Resolution Fund, partly offset by a firm grip on staff costs and administrative expenses. 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. Because of tougher regulations and the adoption of the Global Standards, HSBC France is continuing to invest in compliance. The "adjusted" cost/income ratio was 73 per cent, without adjusting for the movement in PVIF.

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 by focusing on two areas: wealth management and mortgages, as part of a comprehensive banking relationship.

Retail Banking and Wealth Management

(in millions of euros)	**2015**	2014
Net operating income before loan impairment charges	**1,152**	656
Loan impairment charges	**(20)**	(21)
Operating expenses	**(780)**	(778)
Reported Profit before tax	**352**	(143)
Adjusted Profit before tax	**318**	34

Reported profit before tax in Retail Banking and Wealth Management was EUR 352 million, versus EUR -143 million in 2014. "Adjusted" profit before tax was EUR 318 million as opposed to EUR 34 million in 2014. The sharp increase is the result of higher deposits and loans outstanding, higher fee income in asset management and higher manufacturing insurance revenue, related to the increase in economic PVIF (EUR +135 million in 2015 compared to EUR -147 million in 2014), comfortably offsetting the impact of low interest rates on margins, the recognition of the SRF contribution, and the impact of applying IFRIC 21 in 2014.

HSBC now has around 818,000 Retail Banking and Wealth Management clients in France. The HSBC Premier client base remains the market in which HSBC France wishes to maintain a particular commercial focus. The 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 rose to 50 per cent.

Total client assets rose to EUR 37.6 billion at the year-end versus EUR 36.2 billion a year earlier.

Wealth Management benefited from an increase in client deposits, which stood at EUR 14.1 billion at end-2015, up 3 per cent, and with particularly strong growth in sight deposits which rose 10 per cent to EUR 6.9 billion. Deposits in savings accounts fell slightly, by 2 per cent, in a growing *épargne logement* savings market.

1 *Economic PVIF includes accounting PVIF, hedging instruments and technical provisions.*

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

In 2015, life insurance inflows totalled EUR 1.9 billion, up 2 per cent compared with 2014. Of that amount, unit-linked policies accounted for 22 per cent, a sharp increase relative to 2014 (16 per cent). Net inflows were positive, and totalled EUR 323 million in the HSBC France network. Assets under management by the insurance company were EUR 18.9 billion, versus EUR 18.5 billion a year earlier (+2 per cent).

HSBC Assurances' expertise and the good fit between its products and the needs of individuals, small businesses and corporate clients in the areas of life insurance, pensions and protection were recognised in 2015 through various awards, including Le Revenu magazine's Trophée d'Or life insurance award for HSBC Stratégie Patrimoine, Dossiers de L'Epargne magazine's Label d'Excellence award for HSBC Capital Prévoyance, and Dossiers de L'Epargne magazine's Label d'Excellence award for HSBC Homme Clé.

Wealth Management continued to grow in both the institutional and high net worth segments. Assets under management and distribution totalled EUR 78 billion at end-2015, an increase of 4 per cent. That growth came mainly from long-term investment products (fixed income and multi-asset) at a time when the equity market was rising.

The HSBC Group's expertise in bond management in France made a significant contribution to growth in assets under management for international clients (new mandates and inflows into new funds, and European institutional clients). Asset management products regularly received awards in 2015 for their 3- and 5-year performance.

Loans outstanding to individuals rose 5 per cent to more than EUR 17.5 billion in 2015, in line with market trends. New mortgage lending rose EUR 0.8 billion compared with 2014 to almost EUR 4.1 billion. Moreover, the high level of renegotiations and prepayments on housing loans observed in 2015, will burden future margins.

Overall, reported revenue rose sharply, from EUR 656 million in 2014 to EUR 1,152 million in 2015. On an "adjusted" basis (adjusted for the change in value of non qualifying hedges), revenue was EUR 1,116 million as opposed to EUR 829 million in 2014. Margins on deposits fell in a context of low interest rates, offset by a rise in asset management revenue and a volume effect on loans. Excluding the impact of changes in economic PVIF, revenue was similar to the 2014 level.

The cost of risk in Retail Banking and Wealth Management remained under control at EUR -20 million, little changed relative to 2014. Provision cover was stable at 0.12 per cent of outstanding loans.

Operating expenses amounted to EUR 780 million, stable with respect to 2014, despite the application of IFRIC 21 in 2014 and the recognition of the contribution to the SRF, which underlines the bank's efforts to increase productivity and control costs.

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)	**2015**	2014
Net operating income before loan impairment charges	**620**	655
Loan impairment charges	**(93)**	(79)
Operating expenses	**(390)**	(395)
Reported Profit before tax	**137**	181
Adjusted Profit before tax	**137**	182

With demand for lending recovering gradually, Commercial Banking increased its outstanding long-term and medium-term loan book by EUR 0.5 billion to EUR 8.2 billion. Total outstanding loans averaged EUR 10.4 billion over 2015. After firm growth in 2014, deposits were stable at EUR 10.7 billion in 2015, with an increase in sight deposits offset by a similar decrease in term deposits, due to ongoing low interest rates and the limited appeal of interest bearing deposits.

Revenue reported by Commercial Banking fell 5 per cent to EUR 620 million, compared with EUR 655 million in 2014. Deposits value-added fell sharply, because of the prolonged impact of low interest rates and repositioning of client segments. Lending value-added rose slightly, due to higher volumes and stable margins. Fee income rose, particularly in financing and foreign exchange transactions, and was supported by synergies with Global Banking and Markets.

The cost of risk in Commercial Banking was EUR 93 million, up 17 per cent compared with 2014, when it was affected by some significant provisions on major clients. Provision cover was 0.88 per cent of outstanding loans, up 9 basis points relative to 2014.

Operating expenses were under control (EUR -5 million compared with 2014). Thus, despite an uncertain economic background, Commercial Banking maintained a solid performance, with a cost/income ratio of 63.0 per cent.

Commercial Banking's profit before tax was EUR 137 million as opposed to EUR 181 million in 2014. Adjusted profit before tax was EUR 137 million, versus EUR 182 million in 2014.

Revenue generated by French customers in other international HSBC Group entities now represents over a third of revenues generated by the same companies in France. In 2015, this international revenue rose by 14 per cent to USD 79 million. Revenue generated by clients of other international HSBC Group entities in France totalled USD 72 million. As a result, HSBC confirmed its status as a key partner for French companies seeking to set up abroad and for foreign companies seeking to expand in France.

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 underlying assets.

Global Banking and Markets

(in millions of euros)	**2015**	2014
Net operating income before loan impairment charges	**597**	721
Loan impairment charges	**(7)**	(12)
Operating expenses	**(482)**	(437)
Reported Profit before tax	**108**	272
Adjusted Profit before tax	**98**	296

2015 was characterised by historically low interest rates and high market volatility, due to the Asian crisis and the possibility of Greece leaving the eurozone. Regulatory pressure also increased in 2015.

In those market conditions, reported net operating income in Global Banking and Markets was EUR 597 million in 2015, lower than the 2014 figure of EUR 721 million. The decline resulted mainly from structured fixed-income and equity products, and takes into account the impact of the fall in value of derivatives hedging financing operations (which do not qualify for hedge accounting under IFRS).

In the Markets business, volatility was higher than in 2014 and HSBC France's results suffered from a more cautious tone among investors and a macroeconomic environment that was unhelpful for its equity derivatives business. However, HSBC France delivered an excellent performance, consistently maintaining its position among the top market makers for eurozone countries and issuing significant volumes of government debt, particularly in France where it ranked fifth among primary dealers[1].

HSBC ended 2015 in first position among European public issuers[2] for sovereign, supranational, agency and local authority debt, and lead-managed inaugural issues of bonds by public-sector entities and of "green bonds". HSBC was the number one international bank for French bond issues in 2015, confirming its dominant position in hybrid debt issues. HSBC is also continuing to support large French issuers in the Asian markets, and in 2015 carried out some significant renminbi-denominated issues.

In Corporate and Investment Banking, results were affected by a fall in deposit and lending margins, and more specifically in non-structured lending activities for large corporations. Those trends were offset by an excellent performance in primary-market debt issues, underlying instruments for asset financing transactions, particularly relating to real-estate and aircraft financing, good results in equity financing transactions as lead manager of significant deals (IPOs, capital increases and convertible bond issues), and as adviser on M&A transactions.

Revenue generated by French clients in international markets rose 5 per cent compared with 2014 (at constant exchange rates), and now accounts for more than 55 per cent of total revenue generated by French clients within the HSBC Group. Revenue generated in France by clients of other HSBC Group entities also increased by 7 per cent against a difficult economic background in France.

The cost of risk in Global Banking and Markets was EUR 7 million in 2015, partly due to collective provisions, but fell relative to 2014.

Operating expenses amounted to EUR 482 million. The increase compared with 2014 was mainly due to HSBC France's contribution to the European Single Resolution Fund.

Adjusted profit before tax in Global Banking and Markets was EUR 98 million, versus EUR 296 million in 2014.

Private Banking

The Private Banking business focuses on high net worth clients with assets of more than EUR 1.5 million with the bank. It provides them with a broad and diverse range of investment and financing solutions, supported by strong synergies with the HSBC Group's network, particularly Commercial Banking in France.

1 *Source: Agence France Trésor.*
2 *Source: Dealogic.*

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

Private Banking

(in millions of euros)	**2015**	2014
Net operating income before loan impairment charges	**51**	40
Loan impairment charges	**(1)**	–
Operating expenses	**(38)**	(40)
Reported Profit before tax	**12**	–
Adjusted Profit before tax	**15**	–

The private banking profession as a whole is continuing to change as a result of tougher regulations (e.g. FATCA), which require banks to have full knowledge of their clients and their transactions.

Assets under management increased by 13 per cent to EUR 6.9 billion compared with the end-2014 figure of EUR 6.1 billion, driven by net inflows of EUR +440 million, mainly from resident clients.

Revenue was supported by firm lending activity and an improvement in the product mix, which offset the fall in deposit margins caused by lower interest rates. Revenue was also boosted by a favourable movement in PVIF. Revenue rose 27 per cent compared with 2014, while adjusted expenses fell 10 per cent.

Adjusted profit before tax in Private Banking therefore rose sharply compared with 2014.

Other Activities (including inter-segment)

Other Activities comprise operating income and expense items that are not allocated to the global businesses. They mainly include the change in fair-valued own debt due to the credit spread, which was EUR 35 million in 2015 compared with EUR -61 million in 2014, and profit or loss related to accounting effects of hedging transactions.

The impact in 2015 arising from the disqualification of economic hedges that do not meet all IAS 39 conditions amounted to EUR -23 million.

(in millions of euros)	**2015**	2014
Net operating income before loan impairment charges	**2**	(46)
Loan impairment charges	**–**	–
Operating expenses	**(25)**	(12)
Reported Profit before tax	**(23)**	(58)
Adjusted Profit before tax	**(52)**	3

Contribution of HSBC's operations in France to the French economy

HSBC's various operations in France contribute to the financing of the French economy in several ways.

Financing of individuals

HSBC France contributed with dynamism to the financing of France's housing market with increased lending volumes in 2015 and EUR 4.1 billion in new loans. The total customer loan book grew by 5 per cent over the year.

Financing of corporates and international support

Medium- and long-term lending balances grew to EUR 8.2 billion.

HSBC is positioned as a core bank for its French customers thanks to its presence in over 71 countries around the world including the fastest-growing emerging markets (China, India etc.), and has taken part in a number of important financing transactions for its major customers.

Financing of governments and local authorities

HSBC France is a major participant in the public debt market in France, ranking fifth[2] in the primary market for government securities[1].

The HSBC Group is also one of the main participants in the public debt market in Europe. This market allows securities to be issued and ensures liquidity, and thus helps governments to finance themselves and 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 Capital Markets expertise worldwide.

Since 2008, local authorities have increased their use of the debt market, which provides diversified financing sources for their investments (education, transport etc.) in a situation where it has been harder to access bank credit. HSBC France has been the number one bookrunner and arranger for French local authority bond issues for more than ten years.

Other contributions

Information on the way in which HSBC France takes account of the social and environmental consequences of its activities and meets its commitment to sustainable development:

Since 2004, HSBC in France has reported on the way in which it takes account of the social and environmental consequences of its activities and meets its commitment to sustainable development, firstly through a dedicated report and, since 2004, solely through its annual report. In the 2015 report, HSBC France is emphasising how its efforts in France are based on three aims, in line with the Group's strategy: making these issues an integral part of its banking activities, reducing its direct environmental footprint and supporting corporate sponsorship programmes seeking to protect the environment and to improve access to education for the most disadvantaged people. Its underlying responsibility is to help its stakeholders understand and take into account these issues. In 2015, HSBC France co-ordinated the group's COP21 commitments,

1 *Source: Dealogic.*
2 *Source: Agence France Trésor.*

carried out the HSBC Group's first issue of "green bonds" backed by a loan book identified by HSBC France, announced a reorganisation of its education foundation to coincide with its 10th anniversary, and identified seven non-profit organisations to receive support as part of the HSBC Group's 150th anniversary programme. All of these initiatives are described in the CSR report starting on page 70.

Results of the "France"[1] geographical segment as used by HSBC Holdings plc in its analysis of geographical contributions to the HSBC Group's results

In 2015, "France" as viewed by the HSBC Group contributed USD 639 million (EUR 575 million) to the Group's profit before tax, as opposed to USD 214 million (EUR 151 million) in 2014.

The difference between these figures and those presented in the comments on the managed perimeter above mainly arises because these figures include the financial expense relating to HSBC Bank plc's acquisition of CCF in 2000.

Principal risks and uncertainties

HSBC France continuously monitors and identifies risks. This process, gives rise to the classification of certain principal risks. Changes in the assessment of principal risks may result in adjustments to the bank's business strategy and, potentially, its risk appetite.

Principal banking risks are credit risk, operational risk, market risk, liquidity and funding risk, structural interest rate risk, compliance risk and reputational risk. We also incur insurance risk. The exposure to these risks and our risk management are explained in more detail in the Risk section on pages 97 to 148.

Each of these risks and, next to these pricipal banking risks, further risks have the potential to have a material impact on our financial results or reputation and the sustainability of our long-term business model.

Sluggish economic outlook and decreasing capital flows

Economic growth remained subdued in 2015, with a number of headwinds adversely affecting France as well as other developed and emerging market countries.

The slowdown of the mainland Chinese economy has dampened global trade flows and caused volatility in currency, commodity and global stock markets. Market concerns persist as to the scale of the slowdown and the potential for further depreciation of the renminbi and emerging market currencies.

Oil and gas prices fell gradually due to continuing global demand-supply imbalances, accentuating deflationary pressures in many geographical zones. These are particularly evident in continental Europe where the economies remain subject to low growth. France, with its quasi flat economic growth, did manage a reduction in its public deficit notwithstanding that its public sector debt and unemployment rate remain high. The UK "EU In / Out" referendum, expected in 2016, could, in case of an "Out" vote, have uncertain economic and political outcome for the other EU economies. Lastly, whilst the latest Greek crisis during the summer of 2015 was contained, its resolution remains dependent on the structural reforms that remain to be undertaken in a politically difficult context.

HSBC France's results could be impacted by a prolonged period of low or negative interest rates with a low inflation environment The economic situation is followed closely and numerous stress tests are undertaken regularly (with diverse economic scenarios) in order to estimate the impacts on the bank's activities. The bank adapts its strategy for each Global Business accordingly and takes the necessary mitigating action in this unfavourable environment.

Increasing regulatory requirements

The regulatory and supervisory authorities increase requirements in terms of liquidity, capital and conduct. These changes, which have for objective to improve the robustness of the financial system, do however contribute to the reduction in profitability of the banking sector. Contributions to the Single Resolution Fund will be significant and will result in an increase in HSBC France's operating expenses.

The advanced internal RWA models also need to conform to stricter standards which increase the risk that a certain number of these models could be questioned and may need to be discontinued in favour of either Standard or Foundation calculation methods which are more costly in terms of capital.

Lastly, the regulators and the legal authorities have increased their expectations of the banks in the fight against all financial crime and the respect of international sanctions. As such, banks are exposed to increasing risk of sanctions related to any failure linked to financial crime compliance with potential adverse financial and reputational consequences.

In mitigation, HSBC France maintains a regular and close dialogue with the regulation and control authorities, integrates the evolutions in the regulatory regulations into its balance sheet and liquidity management and modifies its models in accordance with the new requirements as they apply.

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, and including the costs of funding and the debt on acquisition recognised by HSBC Bank plc Paris Branch.*

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

Also, HSBC France has considerably reinforced its staff and technical capacity to ensure that it respects its obligations concerning financial crime and international sanctions as part of a global programme developed by HSBC Group which was itself reinforced and accelerated as part of the agreement entered into in 2012 with the US Department of Justice, the UK FCA and the US Federal Reserve Board.

Model risk

HSBC France uses models for a range of purposes in managing its business, including regulatory and economic capital calculations, stress testing, granting credit, pricing, fight against financial crime and fraud, and financial reporting.

Model risk is the potential for adverse consequences as a result of decisions based on incorrect model inputs, outputs and reports or the use of such information for purposes for which it was not designed as well as conception errors. Model risk can arise from the model capacity being overestimated or modelled outcome being misunderstood and acted upon inappropriately by management.

This risk can expose HSBC France to potential direct financial losses, to losses linked to missed opportunities or to a requirement to build additional capital via the imposition by the regulator of margins of conservatism or highly set floors.

HSBC France has strengthened its governance over the development, usage and validation of models within the framework defined by the HSBC Group notably in respect of recent regulatory requirements.The HSBC Group has in parallel increased its independent model review resources.

Cyber Crime and Information Security Risk

HSBC and other public and private organisations may be subject to cyber-attacks or frauds which may disrupt services including the availability of our external facing websites, compromising organisational and customer information or exposure security weaknesses. Cyber-attacks may result in potential financial losses as well as adversely affecting customer and third parties confidence. Any loss of customer data would also trigger regulatory breaches.

In order to mitigate this risk, HSBC France continues to strengthen the security of its information and technology infrastructure as part of the HSBC Group wide programmes. However, the bank is undertaking its own tests which seek to enhance its own information security framework and aims to ensure that systems are partitioned and that access to all "sensitive" applications is severelly restricted.

Legal Risk

As part of its normal course of activities, HSBC France is exposed to legal risk. The details of the significant litigation cases in progress is provided on page 137 of the Risk Management Report. These cases may result in potential financial losses as well as significant reputational damage.

In order to mitigate this risk, HSBC France seeks to ensure that its respects the letter and spirit of all laws and regulations to which it is subject to. The bank seeks to monitor and implement all evolutions to changes to laws, precedents and regulations. Lastly, the bank continually seeks to reinforce the relevance and efficiency of its control framework.

People Risk

The employees of HSBC France are faced with an increasing number of demands and requirements arising from an increasingly complex environment. The rapid transformation of the banking sector also requires a sustained effort by employees to adapt accordingly.

In this context, staff turnover is likely to increase especially for those highly trained and mobile employees which could negatively impact the rollout or the working of certain projects.

In order to mitigate this risk, the bank makes available appropriate training and via its Management and Human Resources department monitors any operational and psycho-social risks that employees may face linked to workload or the working environment & conditions.

Proposed resolutions

The Board of Directors has drawn up the following resolutions presented at the Ordinary General Meeting on 19 April 2016.

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 2015 as well as the transactions reflected in those statements or summarised in those reports.

Resolution 2 concerns the allocation of the 2015 net profit of EUR 280,890,662.74. Along with retained earnings of EUR 3,600,644,658.05, the profit available for distribution amounts to EUR 3,881,535,320.79. The dividend to be paid to the shareholders would be EUR 4.15 per share, for a total distribution of EUR 279,866,982.05. Therefore, retained earnings would amount to EUR 3,601,668,338.74. The dividend will be payable from 19 April 2016, after deduction of the interim dividend of EUR 3.71 per share decided by the Board on 18 December 2015 and paid to shares issued as of that date.

Resolution 3 proposes that the shareholders approve the consolidated financial statements at 31 December 2015, 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.

Resolutions 5 and 14 propose that the shareholders renew the directorships of Mrs Martine Gerow and Mrs Brigitte Taittinger and of Messrs Samir Assaf, Lindsay Gordon, Philippe Houzé, Alan Keir, Thierry Moulonguet, Antonio Simoes, Jacques Veyrat and Andrew Wild 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 2018.

In accordance with the provisions of article L. 511-73 of the French Monetary and Financial Code, the shareholders are asked in Resolution 15 to issue a favourable opinion on the aggregate amount of compensation of all kinds paid in 2015 to executive members and professionals having a significant impact on risks, which amounts to EUR 47,834,463.

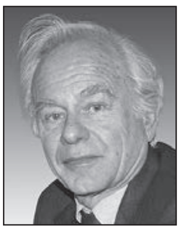
The 16th and last resolution is intended to grant full powers to the bearer of an original, a copy or an excerpt of the minutes of this General Meeting to carry out the required formalities.

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 54. Graduated from Ecole Polytechnique, Telecom engineer and Master of Economics, 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 45. 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 73. 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	Deputy Head of Global Banking and Markets
Loïc Bonnat	Head of Principal Investments
Hubert Bouxin	Co-Head of Banking
Myriam Couillaud	Head of Human Resources
Eric Emoré	Head of Insurance
François Essertel	Head of Private Banking
Emma Evans	Head of Financial Crime Compliance
Laurent Facque	Head of Regulatory Compliance
Sébastien Guillo	Head of Strategy and Organisation
Marc de Lapérouse	Head of Legal
Nathalie Léonard	Head of Tax
Philippe Moiroud	Chief Operating Officer, 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 15 February 2016 [1]

Samir Assaf *Born in 1960*
Holds 1 HSBC France share. First elected: 2012. Term ends: 2016 [2].
Chairman of the Board of Directors, HSBC France. Member of the Nomination Committee and of the Remuneration Committee, HSBC France.

Principal position:
Member of the Group Management Board. Chief Executive Officer Global Banking and Markets, HSBC Group*.

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

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 November 2012, he has been Chairman of the Board of Directors of HSBC France.

Jean Beunardeau *Born in 1962* [3]
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). Chairman of the Board, HSBC Assurances Vie (France) (since December 2015). Director, Valeurs Mobilières Elysées.

Other directorships outside of the HSBC Group:
Director, Institut de la Gestion Déléguée. Member of the Supervisory Board, Société Anonyme des Galeries Lafayette. Directorship expired in 2015: Director and Treasurer, Fondation ESTP.

Andrew Wild *Born in 1970* [3]
Holds 1 HSBC France share. First elected: 2015. Term ends: 2016 [2].

Principal position:
Deputy CEO, Deputy to the CEO, HSBC France. Head of Commercial Banking in France.

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 *Director standing for re-election at the Annual General Meeting to be held on 19 April 2016.*
3 *Résumé available on page 18.*
* *Listed company.*

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

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 Global Asset Management (France) (permanent representative of HSBC France). Directorships expired in 2015: Deputy CEO, HSBC France. Director, HSBC Bank A.S.

Other directorships outside of the HSBC Group:
Director and Treasurer, Association Française des Banques. Chairman, Groupement des Banques Etrangères en France. Directorships expired in 2015: Director, Fonds de Garantie des Dépôts et de Résolution. Director, MEDEF Paris (permanent representative of HSBC France).

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. 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. Member of the Remuneration Committee, HSBC France.

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

Other directorships in the HSBC Group:
Directorships expired in 2015: Member of the Supervisory Board, France Actionnariat Fonds. Deputy Chairman of the Board, Institution de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France.

Other directorship outside of the HSBC Group:
Directorship expired in 2015: Director, AGIRA "Retraite des cadres groupe APICIL".

Résumé:
Joined HSBC France in 1981.

Composition of the Board of Directors (continued)

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

Principal position:
Executive Vice-President and Chief Financial Officer, Carlson Wagonlit Travel.

Other directorships:
Chief Executive Officer, CWT SAS (since April 2015). Director, Bpifrance Participations (since May 2015). Director, Bpifrance Investissement (since May 2015).

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.

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

Other directorship in the HSBC Group:
Director, HSBC Bank Bermuda Limited (since January 2016).

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

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[1].
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:
Deputy Chairman and Chief Executive Officer, Motier. Chairman, Motier Domaines. Chairman, Didier Guérin (since March 2015). Director, Groupe Carrefour* (since June 2015). Director, Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Supervisory Committee, BHV EXPLOITATION (since October 2015). Member of the Steering Committee, Union du Grand Commerce de Centre-Ville (UCV). Elected Member, Chambre de Commerce et d'Industrie de Paris. 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. Director, EXPOFRANCE 2025 (since February 2015). Directorships expired in 2015: Director, iDbyMe. Member of the Supervisory Committee, Bazar de l'Hôtel de Ville-B.H.V. Censor, Groupe Carrefour.

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

1 *Director standing for re-election at the Annual General Meeting to be held on 19 April 2016.*
* *Listed company.*

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

Other directorships in the HSBC Group:
Director, HSBC Bank Middle East Limited. Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG*. Directorships and functions expired in 2015: Member of the Group Management Board, HSBC Group. Chief Executive Officer and Director, HSBC Bank plc. Group Managing Director for the EMEA region (Europe, Middle-East, Africa).

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. Alan Keir was Group Managing Director EMEA and Chief Executive Officer, HSBC Bank plc from October 2013 to September 2015.

Anne Méaux *Born in 1954*
Holds 1 HSBC France share. First elected: 2011. Last re-elected: 2015. Term ends: 2018.
Independent Director.

Principal position:
Chairman, Anne Méaux Conseil.

Other directorships:
Deputy Chairman, Association Force Femmes. Chairman of the Board of the Founders, Les Napoléons (since April 2015). Directorships expired in 2015: Chairman, Com Sept Finance. Chairman, Image 7. Member of the Advisory Committee, Women's Forum.

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[1].
Independent Director. Chairman of the Audit Committee and member of the Risk Committee, HSBC France.

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

Other directorships outside of the HSBC Group:
Chairman and Chief Executive Officer, Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board, Webedia. Director, Fimalac*. Director, Groupe Lucien Barrière. Director, Valeo*. Director, Prodways Group (since June 2015). Directorship expired in 2015: Director, Fitch Rating Group Inc.

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 2010, Executive Vice-President and Chief Financial Officer of the Renault Group, and then, until 2011, Director and Special Adviser to the President of the Renault-Nissan Alliance.

1 *Director standing for re-election at the Annual General Meeting to be held on 19 April 2016.*
* *Listed company.*

Composition of the Board of Directors (continued)

Philippe Pontet *Born in 1942* [1]
Holds 1 HSBC France share. First elected: 2005. Last re-elected: 2015. Term ends: 2018.
Director.

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:
Marketing Manager, Costumer Proposal Department, 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.

Carola Von Schmettow *Born in 1964*
Holds 1 HSBC France share. First elected: 2015.Term ends: 2018.
Director.

Principal position:
Chairman of the Management Board, HSBC Trinkaus & Burkhardt AG*.

Other directorships in the HSBC Group:
Directorships expired in 2015: Chairman, HSBC INKA GmbH. Chairman, HSBC Global Asset Management Deutschland GmbH.

Other directorships outside of the HSBC Group:
Member of the Advisory Board, L-Bank. Chairman of the Exchange Council, EUREX. Member of the Exchange Council, Frankfurt Stock Exchange. Member of the Supervisory Board, ThyssenKrupp AG*. Member of the Supervisory Board, BVV.

Résumé:
German nationality. Joigned HSBC Trinkaus & Burkhardt AG in September 1992 as Associate Trading. From October 1995 to July 1997, Head of Treasury then Head of Global Markets Coordination until September 1999. From October 1999 to June 2003, Chief Executive Officer of HSBC Trinkaus Capital Management GmbH. She was also Member of the Executive Committee of HSBC Trinkaus & Burkhardt AG from June 2001 to May 2004, firstly as Responsible for Private Banking and Asset Management then as Responsible for Institutional Clients, Markets and Asset Management. From June 2004 to May 2006, Managing Partner with unlimited liability of HSBC Trinkaus & Burkhardt KGaA, company for which she was Responsible for Institutional Clients, Markets and Asset Management. Since 2006, Member of the Management Board of HSBC Trinkaus & Burkhardt AG and Responsible for Markets, Capital Financing, Global Markets and Asset Management. On 2 June 2015, she was appointed Chairman of the Management Board of HSBC Trinkaus & Burkhardt AG.

1 *Résumé available on page 18.*
* *Listed company.*

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

Principal position:
Member of the Group Management Board, HSBC Group*. Chief Executive Officer, HSBC Bank plc (since September 2015). Chief Executive of Europe (since September 2015). Directorships and functions expired in 2015: Deputy Chief Executive, HSBC Bank plc and Chief Executive Officer of United Kingdom.

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

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. From June 2014 to September 2015, Deputy Chief Executive, HSBC Bank plc and Chief Executive Officer of United Kingdom. Since September 2015, Chief Executive Officer, HSBC Bank plc and Chief Executive of Europe.

Brigitte Taittinger *Born in 1959*
Holds 1 HSBC France share. First elected: 2008. Last re-elected: 2012. Term ends: 2016[1].
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[1].
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 Supervisory Board, Pacemar (since July 2015). Member of the Board of Directors, Cameron France Holding SAS. Censor, Sucres et Denrées. Directorship expired in 2015: Chairman of the Board of Directors, Maison Lejaby SA.

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.

1 *Director standing for re-election at the Annual General Meeting to be held on 19 April 2016.*
* *Listed company.*

Composition of the Board of Directors (continued)

Directorships held by the members of the Board of Directors (composition at 15 February 2016)

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	**2015**	2014	2013	2012	2011
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[1]	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. 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), HSBC Assurances Vie (France). Director: Valeurs Mobilières Elysées. Directorships outside of the HSBC Group: Director: Institut de la Gestion Déléguée. 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. 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.

1 *Director standing for re-election at the Annual General Meeting to be held on 19 April 2016.*

Director's name Principal position	First elected	Term ends	**2015**	2014	2013	2012	2011
Gilles Denoyel President International Institutional Relations, Europe, HSBC Group (since 1 March 2015).	2004	2017	Directorships in the HSBC Group: Director: HSBC France. Vice-Chairman of the Board: HSBC Assurances Vie (France). Director: HSBC Global Asset Management (France) (permanent representative of HSBC France). Directorships outside of the HSBC Group: 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: 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.
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 elected by employees: HSBC France.	–
Michel Gauduffe Deputy Head of the Limoges branch, HSBC France.	2008	2016	Directorships in the HSBC Group: Director elected by employees: HSBC France. Directorship outside of the HSBC Group: Director: AGIRA "Retraite des cadres groupe APICIL".	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.

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2015**	2014	2013	2012	2011
Martine Gerow Executive Vice-President and Chief Financial Officer, Carlson Wagonlit Travel.	2012	2016[1]	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chief Executive Officer: CWT SAS. Director: Bpifrance Participations, Bpifrance Investissement.	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[1]	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: 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.	–	–

1 *Director standing for re-election at the Annual General Meeting to be held on 19 April 2016.*

Director's name Principal position	First elected	Term ends	**2015**	2014	2013	2012	2011
Philippe Houzé Chairman of the Management Board, Groupe Galeries Lafayette.	1999	2016[1]	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, Didier Guerin. Director: Groupe Carrefour. Director: Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Steering Committee: Union du Grand Commerce de Centre-Ville (UCV). Elected member: Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee: BHV EXPLOITATION. President of the Council: France INSEAD. Director: INSEAD, EXPOFRANCE 2025. Chairman of the Governing Board: Novancia Business School. Deputy Chairman: Association Alliance 46.2 Entreprendre en France pour le Tourisme.	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.
Alan Keir Company Director.	2013	2016[1]	Directorships in the HSBC Group: 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, 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.	–	–

1 *Director standing for re-election at the Annual General Meeting to be held on 19 April 2016.*

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2015**	2014	2013	2012	2011
Anne Méaux Chairman, Anne Méaux Conseil.	2011	2018	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Anne Méaux Conseil. Deputy Chairman: Association Force Femmes. Chairman of the Board of the Founders: Les Napoléons.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Image 7, Com Sept Finance, Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.	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[1]	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, Prodways Group, Valeo.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, Valeo.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, Valeo.	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, Valeo.	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, Valeo.
Philippe Pontet Chairman Investment Banking, HSBC France.	2005	2018	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, Valeurs Mobilières Elysées.
Guillaume Praud Marketing Manager, Customer Proposal Department, HSBC France.	2012	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.	–
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 19 April 2016.*

Director's name Principal position	First elected	Term ends	**2015**	2014	2013	2012	2011
Carola Von Schmettow Chairman of the Management Board, HSBC Trinkaus & Burkhardt AG.	2015	2018	Directorship in the HSBC Group: Director: HSBC France. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. Directorships outside of the HSBC Group: Member of the Advisory Board: L-Bank. Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp, BVV.	–	–	–	–
Antonio Simoes Chief Executive Officer, HSBC Bank plc and Chief Executive Officer of Europe.	2012	2016[1]	Directorships in the HSBC Group: Chief Executive Officer and Director: HSBC Bank plc. Director: HSBC France.	Directorships in the HSBC Group: Director: HSBC France, HSBC Bank plc.	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[1]	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: 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.

1 *Director standing for re-election at the Annual General Meeting to be held on 19 April 2016.*

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2015**	2014	2013	2012	2011
Jacques Veyrat Chairman, Impala SAS.	2009	2016[1]	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Impala SAS, Impala Holding. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen, Pacemar. Censor: Sucres et Denrées.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Impala SAS, Impala Holding. Chairman of the Board of Director: Maison Lejaby SA. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen. Censor: 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.

1 *Director standing for re-election at the Annual General Meeting to be held on 19 April 2016.*

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, and the internal control and risk management procedures. This report also includes 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 2015. Management is responsible for defining and implementing adequate and effective internal control and risk management procedures with oversight by the Board of Directors.

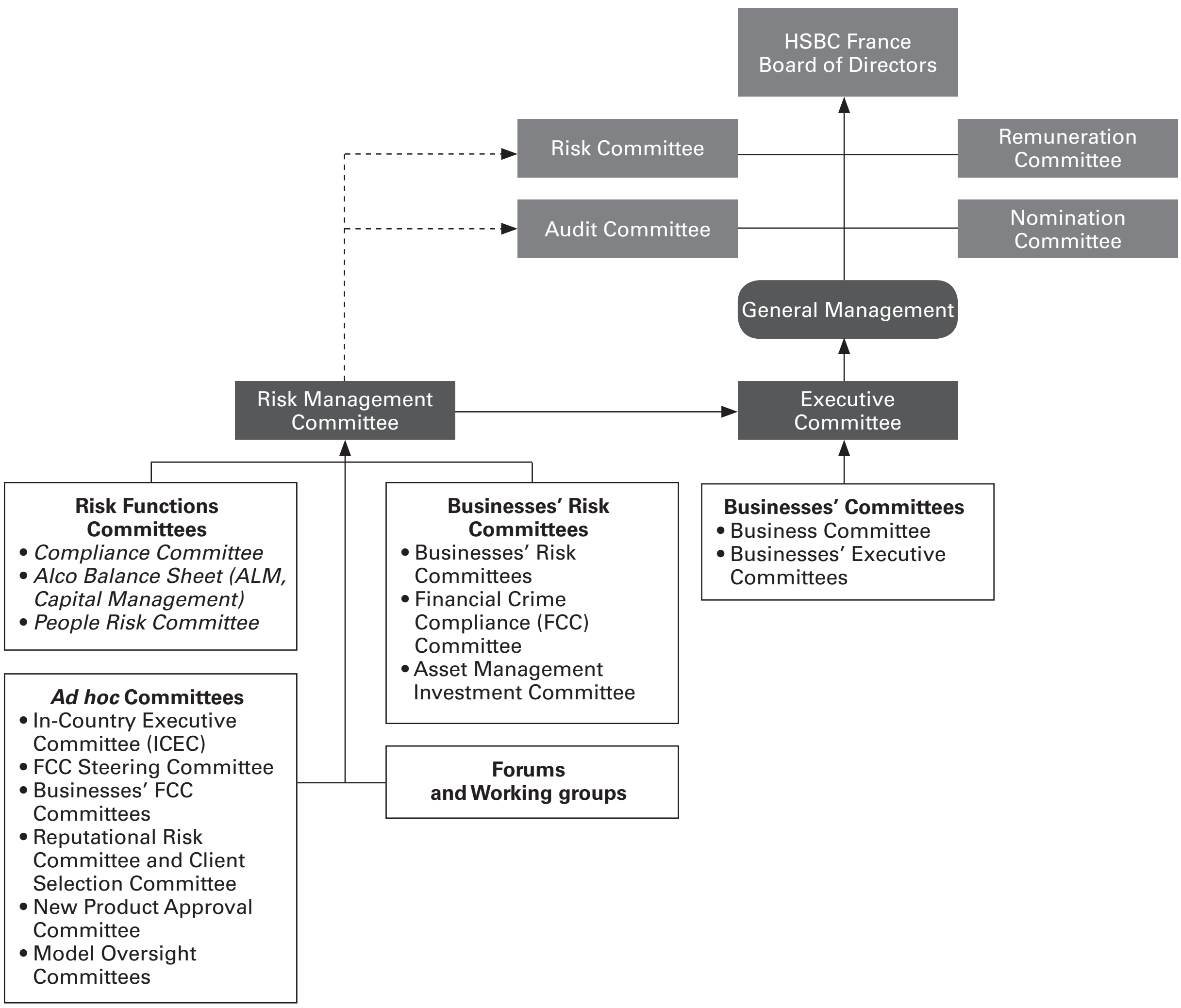
The first part of this report, regarding corporate governance and remuneration, was submitted to the Nomination Committee and to the Remuneration Committee on 1 February 2016 and the second part, on internal control and risk management procedures to the Audit Committee and to the Risk Committee, on 5 February 2016. The Board then approved the whole report on 8 February 2016.

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

Governance structure and principles

Committees' governance and structure



Board composition is detailed on pages 20 *et seq* of the Registration Document and presented in this Chairman report (see from page 35).

Membership, missions and work of the Board Committees are presented in relevant section of this Chairman report (see pages 39, 41, 44 and 45).

General Management and Executive Committee membership is detailed on pages 18 *et seq* of the Registration Document.

Corporate governance regime

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 HSBC Group companies (the "Code"), adopted by HSBC France Board of Directors at its meeting of 14 February 2014. The aim of this code is to provide consistent and high standard corporate governance practices throughout the HSBC Group and is consistent with HSBC France's specific situation of 99.9 per cent owned subsidiary of the HSBC Group and which capital securities are not admitted to trading on a regulated market.

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

Board of Directors' internal rules

The Board of Directors' internal rules were first established in 1996, and have been updated several times since their implementation and for the last time at the Board meeting of 6 February 2015, in order to insert in particular provisions resulting from CRD IV European directive.

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 Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee (as stipulated below in the parts related to each of these Committees' assignments). They also incorporate 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.

Board Chairmanship and Executive management

Since 2007, HSBC France's Board of Directors has chosen to separate the functions of Chairman of the Board and Chief Executive Officer. This choice has been maintained since then and is, furthermore in compliance with obligations for credit institutions since 2014.

Change in 2015

At its meeting on 20 January 2015, the Board of Directors appointed Andrew Wild as Deputy Chief Executive Officer of HSBC France and Deputy to the Chief Executive Officer from 1 March 2015, replacing Gilles Denoyel, who had taken a new role in the HSBC Group, and coopted him as a Director of HSBC France from 2 February 2015.

Missions of the Chairman of the Board

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

Chief Executive Officer's powers

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

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

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

These powers so delegated concern:

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

These powers so delegated 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.

Board of Directors

Composition of the Board

At 31 December 2015, the Board of Directors comprised 19 Directors, of which 15 appointed by the Shareholders' General Meeting and 4 elected by employees. A representative of the Central Works Council attends Board meetings, without voting rights.

The Directors' terms of office have been three years since Shareholders' General Meeting held on 30 April 2013. Directors elected by employees have a four-year term.

Changes occurred during 2015

The Nomination Committee reviewed the position of the Directors whose term of office expired at the AGM on 23 April 2015, Anne Méaux and Philippe Pontet, 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.

On the Nomination Committee's proposal, the Board of Directors also decided to submit to the AGM the appointment of Carola von Schmettow as a Director of HSBC France.

At its meeting on 20 January 2015, the Board of Directors co-opted Andrew Wild as a Director.

At the AGM held on 23 April 2015, the shareholders re-elected Anne Méaux and Philippe Pontet and appointed Carola von Schmettow as Directors for a further term of three years. It also ratified Andrew Wild's co-optation.

Board diversity

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

The Board includes five different nationalities. The average age of the Directors in office is 56.

Other than the Directors elected by employees, the Board comprises four women and eleven men. The Nomination Committee has set an objective for HSBC France Board membership of at least 40 per cent of women and 40 per cent of men (excluding Directors elected by employees), to be achieved no later than the Annual General Meeting to be held in 2017.

Independent Directors

In accordance with the Corporate Governance Code for HSBC Group companies, the Board of Directors determines, on appointment and annually thereafter, whether each non-executive Director is independent in character and judgement. To do this, it examines whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board should record its reasons if it determines that a Director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:

(i) is a former employee of the company or of the Group, until five years after employment, or any other material connection, has ended during this period;

(ii) has, or has had within the last three years, a material business relationship with a company in the HSBC Group either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with that company (including if the director has been a director, partner or principal of a professional adviser which currently provides services or provided services within one year of the date of appointment of the director or is an employee of such professional adviser who is or has been involved in providing such services to that company);

(iii) has received or receives additional remuneration from the company, apart from a director's fee, or additional remuneration from any other company in the HSBC Group, participates in a company or HSBC Group share option or a performance-related pay scheme, is a member of an HSBC Group pension scheme or is financially dependent on any company in the HSBC Group;

(iv) has close family ties with any advisers, directors or senior employees of any company in the HSBC Group;

(v) holds cross-directorships or has significant links with other directors of the company through involvement in other companies or bodies; or

(vi) represents a significant external shareholder.

1 *See Risk management, page 99.*
2 *See Risk management, page 128.*

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

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

Based on the Nomination Committee's report, the Board of Directors reviewed the situation of each of its members as at 31 December 2015 in the light of the criteria detailed above. It considered that seven Directors can be deemed independent. Nonetheless, one of them has served on the Board for more than nine years. Nevertheless, the Board of Directors found that this criterion alone did not call into question his independence of judgement vis-à-vis the company.

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

Conflicts of interest and ethical rules

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

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

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 evaluation

Pursuant to the Code's recommendations, a Board assessment was conducted internally at the end of 2014, under the responsibility of the Nomination Committee and on the basis of 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 were discussed by the Nomination Committee and then by the Board of Directors at its meeting of 6 February 2015.

The overall opinion regarding the Board and its operations is broadly favourable. Directors underline the quality of dialogue within the Board and with Senior Management, the progress made as regards the training courses provided to Directors, but also the attention that should be paid to the understandability of the material provided to the Board and to the Risk Committee due to their volume, as well as visibility of the budget process for the Directors.

A new Board assessment was conducted at the end of 2015 based on a questionnaire. Results will be presented to the Board during the first quarter of 2016.

Directors' training and information

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

Upon their initial election, new Directors receive an information pack on HSBC France, including, among others, legal information about the company and the role of directors, as well as the latest Registration Document and minutes of Board meetings for the past twelve months. In addition, the Company Secretary organises, to the new Director's intent and depending on his/her needs and priorities, a programme of working meetings with HSBC France's main executives in the business lines and functions.

In 2015, all Directors were invited to the following training sessions:

– A half-day dedicated to financial and accounting matters;

– A day during which HSBC France's executives of businesses and of certain functions presented their organisation, strategy and main challenges.

Board and Board Committees meetings are also used to bring Directors information necessary to their role and to update their knowledge.

Moreover, Directors external to the HSBC Group are invited every year to the forum organised by the HSBC Group for all non-executive Directors. Two forums are also organised every year to the intent of Audit and Risk Committees Chairmen, one by the HSBC Group and the other one by HSBC Bank plc for Europe.

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 2011, and of sector practices, and in view of the increased amount of work required from Directors and members of the Board Committees, the Remuneration Committee proposed to the Board of Directors in early 2015 to increase Directors' fees.

Hence, in its meeting on 6 February 2015, the Board of Directors decided to increase individual fees, from financial year 2015, as follows:

– each Director is allocated an annual flat fee of EUR 35,000, paid at the conclusion of the Annual General Meeting;

– the additional annual flat fee paid to Board Committees members amounts to:

  • EUR 22,500 for the Chairmen of the Audit Committee and of the Risk Committee;

  • EUR 15,000 for the members of the Audit Committee and of the Risk Committee;

  • EUR 7,000 for the Chairmen of the Nomination Committee and of the Remuneration Committee;

  • EUR 6,000 for the members of the Nomination Committee and of the Remuneration Committee.

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

In 2015, in respect of 2014, 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 2016 in respect of 2015 amount to EUR 0.35 million, to be compared to EUR 0.29 million paid in 2015 in respect of 2014.

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 2014 in respect of 2013	Directors' fees paid in 2015 in respect of 2014	Other compensation paid in 2014[1]	Other compensation paid in 2015[1]
Directors performing executive duties within the HSBC Group				
Gilles Denoyel[2]	–	–	–	EUR461,667
Alan Keir[3]	–	–	GBP2,281,498	GBP3,325,881
Philippe Pontet	–	–	EUR1,508,875	EUR965,319
Carola von Schmettow[4]	–	–	–	–[5]
Antonio Simoes[3]	–	–	GBP1,959,666	GBP2,285,712
Directors elected by the employees				
Véronique Duquesne[6]	EUR22,815	EUR22,815		
Michel Gauduffe[7]	EUR17,145	EUR17,145		
Guillaume Praud[7]	EUR17,145	EUR17,145		
Philippe Purdy[6]	EUR22,815	EUR22,815		
Independent directors[7]				
Martine Gerow	EUR28,575	EUR28,575	–	–
Lindsay Gordon[8]	EUR23,625	EUR31,500	–	–
Philippe Houzé	EUR26,035	EUR26,035	–	–
Anne Méaux	EUR17,145	EUR17,145	–	–
Thierry Moulonguet	EUR145,302[9]	EUR247,289[9]	–	–
Marcel Roulet[10]	EUR4,286	–	–	–
Peter Shawyer[11]	EUR32,799[12]	EUR31,500	–	–
Brigitte Taittinger	EUR17,145	EUR17,145	–	–
Jacques Veyrat	EUR24,765	EUR24,765	–	–

1 *Fixed and other fixed remuneration, variable remuneration and benefits in kind.*
2 *Deputy CEO until 1 March 2015. For information on remuneration up to this date, see page 47 et seq.*
3 *Emoluments shown are paid by other HSBC Group companies in respect of his/her executive functions within the Group.*
4 *Appointed on 23 April 2015.*
5 *Does not receive remuneration from controlled companies by HSBC France nor from companies which control HSBC France.*
6 *Directors' fees paid to a trade union organization, net of social contributions.*
7 *Amounts paid, net of social contributions and income tax prepayment.*
8 *Co-optation on 27 February 2013.*
9 *Of which EUR 36,195 paid by HSBC France.*
10 *Appointment ended on 30 April 2013.*
11 *Appointment ended on 31 December 2014.*
12 *Of which EUR 31,500 paid by HSBC France, excluding withholding tax.*

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

Missions and procedures of the Board of Directors

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

- to deliberate on all questions pertaining to its legal and regulatory obligations and those stemming from its articles of association;
- to determine orientations, on the basis of the strategy formulated by HSBC France, at the Chairman's motion, and to supervise implementation by the approved senior managers ("*dirigeants effectifs*");
- to approve strategic investments/divestments and all transactions liable to impact earnings significantly;
- to ensure the quality of the information disclosed to shareholders and markets via the accounts and annual report;
- regarding governance system oversight and risk supervision:
  - to review the company's governance system, to asses regularly its efficiency and to ensure that corrective measures to remedy possible deficiencies have been taken,
  - to approve and to review regularly strategies and policies governing risks taking, management, monitoring and mitigation,
  - to approve global risk limits,
  - to be informed by the approved senior managers of all significant risks, of risk management policies and amendments made to them,
  - to control publication and communication process;
- to care about HSBC Group reputation in France.

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

Board of Directors' meetings

The Board of Directors met seven times during 2015, including three times on extraordinary notice. The average attendance rate was 80.4 per cent, compared to 94.4 per cent in 2014, where no exceptional Board meeting was held:

- 20 January 2015 (attendance rate: 64.7 per cent);
- 6 February 2015 (attendance rate: 94.4 per cent);
- 2 March 2015 (attendance rate: 72.2 per cent);
- 23 April 2015 (attendance rate: 94.7 per cent);
- 22 July 2015 (attendance rate: 89.5 per cent);
- 6 November 2015 (attendance rate: 89.5 per cent);
- 18 December 2015 (attendance rate: 57.9 per cent).

The Board's work

In 2015, 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 examined revenue, costs, results, development of activities and position for each of its activities, as well as HSBC France's balance sheet. For each period considered, the Board heard the Statutory Auditors' opinion, who are invited to attend all Board meetings. At the meeting held on 6 February 2015, it examined and approved the budget and the risk appetite for 2015, and in the one held on 6 November 2015, it reviewed first budgetary orientations and a first draft of risk appetite for the financial year 2016.

The Board of Directors was informed of trends in regulatory capital and ratios, in particular capital, liquidity, solvency 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 its meetings, the Board received a report on the funding plan and position and trends in medium and long-term debt. Furthermore, the Board reviewed the updated contingency funding plan (meeting on 6 November 2015), the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) (meeting on 23 April 2015) and was informed of results of the stress test conducted by the Prudential Regulatory Authority (meeting on 22 July 2015).

At each meeting, the Board was informed of strategy execution. Moreover, specific presentations were given to the Board of Directors on digital trends on the French banking industry and HSBC France's strategy in this area (meeting on 23 April 2015) and on Commercial Banking business (meeting on 6 November 2015). In the meeting held on 23 April 2015, the Board of Directors approved the company's strategic directions, which were afterwards submitted to the Central Works Council. The Board answered the opinion issued by the Central Works Council in its meeting of 6 November 2015.

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

The Board was particularly attentive to the introduction of the new European Single Supervisory Mechanism (SSM), to communications with the Joint Supervisory Team in charge of supervising HSBC France, and also to the implementation and preliminary results of the Supervisory Review and Evaluation Process carried out by the regulator during the course of 2015. At its meeting on 22 July 2015, the Board hosted representatives of the European Central Bank and of the *Autorité de contrôle prudentiel et de résolution* (the ACPR, the authority responsible for supervising the banking and insurance sectors in France).

Given that 2015 was again a busy year in terms of changes, at each of its meetings the Board was notified of the main regulatory reforms, of their implementation and implications for HSBC France, in particular in terms of capital and liquidity requirements, of the banking model in terms of structure, of resolution and of financial transaction tax.

At each meeting, the Chief Risk Officer and the Chairman of the Risk Committee commented on the group's situation in terms of risks – risks in terms of credit, markets, disputes, tax, operations, security, fraud and human resources. In the areas of regulatory compliance and of financial crime compliance, the Board notably monitored the implementation of Global Standards and of the Conduct programme, as well as work relating to an inspection by the Monitor. At its meeting on 6 November 2015, the report on financial crime compliance was given to the Board by the Head of Financial Crime Compliance.

In terms of risk management procedures, the Board approved new anti-money laundering and sanctions policies (meeting on 23 April 2015) and the updating of the circular on HSBC France group's permanent control and operational risk management system (meeting on 22 July 2015). At each of its meetings, it examined a dashboard enabling it to appraise performances, and various indicators towards the level of risk accepted by the Board. Lastly, it took cognizance of the Annual Report, prepared in accordance with the French Government Order of 3 November 2014 (at its meeting on 23 April 2015), which was sent to the ACPR.

The Board of Directors was kept informed of discussions with the various supervisory authorities, as well as of audits and investigations carried out in particular the European central bank, 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 2014 (meeting on 6 February 2015) and the interim Board report as at 30 June 2015 (meeting on 22 July 2015). It also examined the mediator's report concerning her activity during 2014 (meeting on 22 July 2015). The Board approved the update of HSBC France recovery plan (meeting on 6 November 2015).

The CEO and the Chairman of the Audit Committee commented on the Internal Audit work, in particular audit reports adverse graded and changes in the number of open recommendations at each Board meeting, except at the meeting held on 22 July 2015. In fact, at this meeting, this report was commented in detail to the Board of Directors by the Head of Internal Audit.

The work of the Board Committees was set out in regular, 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 Committee and by the Risk Committee, particularly with regards to accounting matters, 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

The Board decided to separate from the beginning of 2015 its two specialised Committees (Audit and Risk Committee and Nomination and Remuneration Committee) in four separate Committees (Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee) in accordance with CRD IV Directive.

Audit Committee

Composition of the Audit Committee

Chairman:

– Thierry Moulonguet (independent)	Appointed 2009 and 2010 as Chairman

Members:

– Martine Gerow (independent)	Appointed 2012
– Lindsay Gordon (independent)	Appointed 2013

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

The Audit Committee's missions

The Audit Committee's duties were reviewed, for the last time, in February 2015 and are defined in the Board's internal rules. The Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on matters relating to financial reporting and internal audit, in particular:

- to monitor the integrity of the financial statements in order to ensure that information provided give a true and fair view of the company's position and to examine the findings of the reports issued by permanent and periodic control and compliance teams regarding accounting and financial reporting;
- to review financial and accounting policies and practices;
- to review and discuss with management the effectiveness of internal control systems relating to financial reporting;
- to monitor and review the effectiveness of the Internal Audit function, to consider the major findings of internal investigations and management's response, and to ensure that the Internal Audit function is adequately resourced and has appropriate positioning;
- to discuss with the external auditors their general approach, nature and scope of their audit and reporting obligations including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from their interim reviews and final audits, major judgemental areas, all alternative accounting treatments that have been discussed with management together, the nature of any significant adjustments, compliance with accounting standards and other regulations and any other matters the external auditor may wish to discuss (in the absence of management where necessary);
- to make recommendations to the Board of Directors regarding the appointment, renewal or removal of the Statutory Auditors, their fees and any other issues concerning their duties;
- to review and assess the independence and objectivity of the Statutory Auditors, including supervision of the turnover of the signing partners and the effectiveness of the audit process;
- to apply the code of conduct and the HSBC Group policy concerning the provision of non-audit services by the Statutory Auditors;
- to review the Statutory Auditors' annual report and management letter together with management's response to it, and to monitor the implementation of recommendations made;
- to ensure compliance of the company and its subsidiaries with directives issued by the supervisory authorities and with regulations applicable to them.

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

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

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

Audit Committee's work in 2015

The Audit Committee met four times in 2015, with an attendance rate of 100 per cent, as in 2014:

- 5 February 2015 (attendance rate: 100 per cent);
- 20 April 2015 (attendance rate: 100 per cent);
- 20 July 2015 (attendance rate: 100 per cent);
- 4 November 2015 (attendance rate: 100 per cent).

Each meeting was also attended by the Statutory Auditors, the Chief Financial Officer, the Chief Accounting Officer, the Head of Audit and the Chief Risk Officer. The Chief Executive Officer and the Deputy Chief Executive Officer also attended Committee meetings to answer any questions. HSBC France executives also attend Committee meetings covering any subjects falling under their responsibility. Audit Committee Chairman or members also met with the Statutory Auditors in private sessions prior to the four quarterly Committee meetings.

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

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

In addition, the Committee devoted a large part of its time in 2015 to the understanding and future trend in HSBC France's cost basis.

The second area of the Committee's work concerned controls. To this end, the Statutory Auditors commented on their management letter and the aspects subject to particular attention at the time of preparing the 2014 financial statements. The Committee discussed the Statutory Auditors' audit programme and independence, approved the fees paid in 2014 by the HSBC France group to the Statutory Auditors (meeting on 5 February 2015). As announced in 2014, the Committee examined the appointment of PricewaterhouseCoopers as Statutory Auditors to HSBC France to replace KPMG, before being proposed to the Board (meeting on 5 February 2015). This appointment follows the HSBC Group's decision to appoint PricewaterhouseCoopers as external auditors to the HSBC Group. External Auditors then presented their diligences on the financial statements at 31 March 2015, 30 June 2015 and 30 September 2015 (meetings on 20 April, 20 July and 4 November 2015), as well as their annual audit plan (meeting on 4 November 2015).

The Committee was also informed of the results of controls conducted on financial statements. Within this framework, it reviewed the work carried out as part of the application of Sarbanes Oxley: the list of procedures concerned and its development, identified weaknesses, their impact and monitoring. It reviewed the points raised in the account controls certificates and by accounting assurance reviews, as well as implementation of the recommendations raised in the Statutory Auditors' management letters.

The third aspect of the Committee work concerned the detailed review, at each meeting, of Internal Audit work. It reviewed the findings of the main audit missions, particularly those adversely rated. The Committee paid particular attention to proper audit recommendations implementation. It was informed of trends in Internal Audit staff number in 2014 and approved the new audit charter and the 2015 annual audit plan (meeting on 5 February 2015). Finally, the Committee was systematically informed of salient points discussed by the audit and risk committees of HSBC France subsidiaries.

Regarding governance matters, last area of the Committee's work, the Committee examined the section of the Chairman's report on financial information and Internal Audit and reviewed the section of the Board internal rules dealing with the Audit Committee. The Committee also examined Finance's situation regarding outsourcing within the HSBC Group (meeting on 20 April 2015). In the supervisory area, the Committee was informed of preliminary results of the Supervisory review and evaluation process as well as of the risk governance review, both conducted by the European Central Bank during 2015. It was also informed of the main initiatives in this area for 2016.

The Chairman of the Audit Committee reported on the key points discussed during Audit Committee meetings at the Board meetings held on 6 February, 23 April, 22 July and 6 November 2015.

Risk Committee

Composition of the Risk Committee
Chairman:

– Thierry Moulonguet (independent)	Appointed 2009 and 2010 as Chairman

Members:

– Martine Gerow (independent)	Appointed 2012
– Lindsay Gordon (independent)	Appointed 2013

At its meeting on 6 November 2015, the Board of Directors decided to appoint Lindsay Gordon as Chairman of the Risk Committee, while Thierry Moulonguet remains a member of this Committee.

The three Committee members are highly qualified in the financial, risk and internal control areas, as they serve or have in the past served in the capacity of Chairman and Chief Executive Officer of a bank, Risk Committee member or Chief Financial Officer.

The Risk Committee's missions
The Risk Committee's duties were reviewed, for the last time, in February 2015 and are defined in the Board's internal rules. The Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on matters relating to high level risk related matters and risk governance:

– to oversee and advise the Board on current and forward-looking risk exposures, HSBC France group's risk appetite and future risk strategy, including capital and liquidity management strategy, and management of risk within HSBC France group;

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

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

Risk Committee's work in 2015

The Risk Committee met six times in 2015, with an attendance rate of 96.4 per cent, compared with 94.4 per cent in 2014:

- 5 February 2015 (attendance rate: 100 per cent);
- 27 February 2015 (attendance rate: 100 per cent);
- 20 April 2015 (attendance rate: 100 per cent);
- 19 June 2015 (attendance rate: 66.7 per cent);
- 20 July 2015 (attendance rate: 100 per cent);
- 4 November 2015 (attendance rate: 100 per cent).

Each meeting was also attended by the Statutory Auditors, the Chief Risk Officer, the Chief Financial Officer, the Chief Accounting Officer and the Head of Internal Audit. The Chief Executive Officer and the Deputy Chief Executive Officer attended Committee meetings to answer any questions. HSBC France executives also attend Committee meetings covering any subjects falling under their responsibility. The Risk Committee Chairman or members also met with the Statutory Auditors in private sessions prior to the four quarterly Board meetings (meetings on 5 February, 20 April, 20 July and 4 November 2015).

At its meeting on 27 February 2015, prior to submission to the Board, the Risk Committee examined and approved the appointment of Emmanuel Rémy as HSBC France's Chief Risk Officer, also be in charge of the risk management function and responsible for permanent control, and replacing Gilles Denoyel.

Again in 2015, the Committee remained extremely attentive to developments in the regulatory and supervisory environment in which HSBC France operates and to the implications of such developments, in particular:

- the Work of the Basel Committee and of the European Banking Authority, referred to in conjunction as "Basel IV", on risks regarding credit, market (notably the fundamental reviews of trading books) and operational risks, the determination of minimum capital requirements and the Resolution Directive, in particular the MREL (Minimum Requirement for Own Funds and Eligible Liabilities) and TLAC (Total Loss-Absorbing Capacity) ratios;
- the European Single Supervisory Mechanism and contributions to the new single resolution fund;
- application of the French law on the Separation and Regulation of Banking Activities and of the US Volcker Rule, as well as other legislation on the same topic (the structure of banks), which has either been enacted or which is in the pipeline;
- legislation concerning the structure of markets, such as EMIR (the European Market Infrastructure Regulation), MiFID II (the Markets in Financial Instruments Directive) and CSDR (the Central Depositories Regulation);
- the planned financial transaction tax;
- implementation of the French Government Order of 3 November 2014 on Internal Control in Banks, which replaces Regulation 97-02.

The Committee approved HSBC France's risk appetite in the 2015 financial year (meeting on 5 February

2015) and the half-yearly updating (meeting on 20 July 2015), and then examined, at each of its meetings, the monitoring dashboard, in particular indicators which were not in line with the thresholds that had been set out. At its meeting on 4 November 2015, it examined a first draft regarding risk appetite for the year 2016. At each of its meetings, it reviewed HSBC France's risk map, top and emerging risks facing it, as well as their assessment and the action plans which had been implemented.

At each of its meetings, the Risk Committee continued to carry out a risk review; each of the individuals in charge of controlling such risks spoke, in particular concerning:

- Credit risks, with an individual review of major exposures, changes in credit outstandings and non performing advances by business, changes in risk-weighted assets and evolution in cost of risk and exposures and sectors on the worry list. In relation to economic and geopolitical developments, the Committee examined HSBC France's exposures in relation to Greece, Russia and to the Swiss Franc, and it also assessed the implications of the fall in the price of oil;
- Market risks, including their trends compared with limits, changes in exposure, the setting of limits, changes in market activities' risk weighted assets and the results of internal stress exercises; the Committee was informed of communications with supervisory bodies, in terms of market risks;
- Legal risks, included emerging risks, and legal disputes;
- Operational risks;
- Security and fraud risk, included cybersecurity, privileged access management, information security and business continuity;
- Liquidity and capital risks; the Committee approved an update to the contingency funding plan (meetings on 5 February and 4 November 2015) and examined the ICAAP (Internal Capital Adequacy Assessment Process) as at 30 June 2014 and 31 December 2014 (meetings on 5 February and on 20 April 2015) and the ILAAP (Internal Liquidity Adequacy Assessment Process) (meeting on 20 April 2015).

In the area of IT, the Committee was informed at each of its meetings of the main incidents and risks, and also of the progress made in major projects.

At each of its meetings, the Committee reviewed the work carried out in relation to stress tests, in particular implementation of the different points brought to light during the Comprehensive Assessment carried out by the European Central Bank (ECB) in 2014 and the contribution made by HSBC France to the stress test carried out by the Prudential Regulation Authority on the HSBC Group, as well as the schedule and results of internal stress exercises. The Committee held a meeting devoted to the exercise carried out by the Prudential Regulation Authority on 19 June 2015, in order to validate its results. At its meeting on 4 November 2015, it was informed that HSBC France may be involved in three regulatory stress exercises in 2016.

At its request, the Committee had special presentations of Retail Banking and Wealth Management (RBWM) in the area of Conduct (meeting on 5 February 2015), and of the credit (meeting on 5 February 2015) and market (meeting on 20 April 2015) risks weighted assets calculation models.

In relation to permanent control, compliance and relations with regulators, the Committee was informed, at each of its meetings, of the progress made as regards internal control plans and the main areas of weakness identified, as well as the action plans drawn up to deal with them. The Committee examined the update of the circular concerning HSBC France group's permanent control and operational risk management system (meeting on 20 July 2015).

At each of its meetings, the Committee was informed of operational losses sustained in the past quarter, of progress made in the work being carried out by Operational Risk department, notably of progress made in the roll-out of HSBC Group's operational risk management transformation programme. In accordance with the French Government Order of 3 November 2014, the Committee was informed of the essential services governance procedure, whether these services are sub-contracted within HSBC Group or to external suppliers, and likewise of a list of essential services sub-contracted externally, and the results of controls carried out (meeting on 4 November 2015).

In the area of financial crime compliance, the Committee took cognizance of the quarterly reports, which set out the main new matters and those already detailed during the course of previous meetings. In particular, the Committee was informed in detail of the situation regarding the handling of alerts, Know Your Customer (KYC) documentation, tools concerning and the application of international sanctions, and likewise the progress made as regards action plans and the implementation of recommendations made by Internal Audit concerning financial crime compliance. Moreover, the Committee took cognizance, at each of its meetings, of the progress made regarding the Global Standards programme – one of the strategic priorities of HSBC Group – whose aim is to apply, in a uniform fashion across the whole of HSBC Group, the highest standards in the area of financial crime compliance. In this context, the Committee reviewed the new anti-money laundering and sanctions policies (meeting on 20 April 2015). At its meeting on 4 November 2015, the Committee was given a presentation of the financial crime compliance framework, which covered systems and tools. The Committee was informed that a "Transformation" team had been put in place and that the team would be in charge of overseeing and coordinating the implementation of financial crime compliance in HSBC France's business lines and functions, and of progress made in the various activities, included therein in the area of company culture.

Throughout the year 2015, the Committee reviewed, attentively and in detail, preparatory work for an inspection of HSBC France by the Monitor, its running and conclusions. The Monitor is an independent inspector appointed within the framework of the agreements which were entered into in 2012 between HSBC Group and the US and UK authorities. The monitor assesses the progress made by HSBC in fully implementing the obligations set out in those agreements and regularly produces assessments of HSBC's Compliance function.

In the area of regulatory compliance, the Committee took cognizance of the quarterly reports, which set out the main new matters and those already detailed in the course of previous meetings. It also examined the progress made in the implementation of HSBC Group's Conduct programme in France, which is the risk of not treating customers fairly and/or of disrupting the integrity or transparency of the financial markets. Furthermore, it reviewed the results of inspections of the mechanism which monitors the contributions made by HSBC France to the markets' benchmarks. It was informed that a risk appetite had been created in the area of regulatory compliance (meeting on 20 July 2015) and that a transformation programme had been set up (meeting on 4 November 2015).

The Committee took cognizance of reports which were to be sent to supervisory bodies – the Chairman's report on internal control and risk management procedures (meeting on 5 February 2015); the annual report to the *Autorité de contrôle prudentiel et de résolution* (the ACPR, the authority responsible for supervising the banking and insurance sectors in France) concerning internal control (meeting on 20 April 2015); the annual reports to the *Autorité des marchés financiers* (the AMF, the stock market regulator in France) regarding the compliance of investment service providers and regarding the protection of customer's deposits (meeting on 20 July 2015); a questionnaire to be sent to the ACPR on compliance with customer protection rules (meeting on 20 April 2015); and lastly, the report by the mediator (meeting on 20 July 2015).

The Committee was informed of communications with supervisory bodies and of the conclusions of various inspection assignments carried out by supervisory bodies, and took cognizance of follow-up letters and replies to them in relation to these assignments, regarding following bodies: The AMF, the European Central Bank, the ACPR and the Prudential Regulation Authority, and of action plans initiated to implement their recommendations.

In application of the French Government Order of 3 November 2014 and of standards in the banking sector, the Committee examined, at its meeting on 14 November 2014 regarding the 2014 financial year, the links between risks and remuneration in the remuneration policy and, in particular, the involvement of risk functions in the remuneration policy and the consideration of risks in the determination of remuneration.

In addition to the presentations by the Risk functions regarding each type of risk, presentations of risk by each business line were made to the Committee – Commercial Banking (meeting on 20 April 2015), Private Banking (meeting on 20 July 2015), and Insurance (meeting on 4 November 2015).

The Committee approved the update of HSBC France's recovery plan (meeting on 4 November 2015).

The Chairman of the Risk Committee reported on the key points discussed during Risk Committee meetings at the Board meetings held on 6 February, 23 April, 22 July and 6 November 2015.

Nomination Committee

Composition of the Nomination Committee

Chairman:

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

Members:

- Samir Assaf — Appointed 2012
- Jacques Veyrat (independent) — Appointed 2010

In accordance with the Code, at least half of the Nomination Committee's membership are independent Directors.

The Nomination Committee's missions

The Nomination Committee's duties were reviewed, for the last time, in February 2015 and are defined in the Board's internal rules. This Committee reports its activities to the Board and is responsible for leading the processes for Board and Board Committees appointments and for identifying and nominating for the approval of the Board, candidates for appointment to the Board and its Committees. To this end, it:

- assesses regularly the structure, size, composition (including skills, knowledge, experience and diversity) and efficiency of the Board of Directors and Board Committees and makes recommendations to the Board with regard to any changes regarding the appointment of any director, the renewal of their terms of office and membership of Board Committees;

- prepares any question regarding corporate governance for the Board's consideration;
- conducts the evaluation of the Board of Directors;
- assesses non-executive Directors' independence;
- reviews and monitors the training and continuous professional development of Directors;
- ensures that plans are in place for orderly succession to senior management positions within HSBC France.

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

Nomination Committee's work in 2015

The Nomination Committee met four times in 2015, with an attendance rate of 91.7 per cent. Its main work concerned:

- proposal to the Board to appoint Andrew Wild as Deputy CEO, replacing Gilles Denoyel further to his resignation from his Deputy CEO position (meeting on 20 January 2015);
- reflections on the Board membership, based on considerations regarding skills, knowledge, experience and diversity balance, proposals to the Board to co-opt and appoint new Directors: Andrew Wild and Carola von Schmettow (meetings on 20, 30 January and 7 December 2015);
- proposals to the Board on renewing Directors' term of office at the Annual General Meeting to be held in 2015 and 2016 (meetings on 30 January and 7 December 2015);
- the review of each Director's independence in respect of 2014 and 2015 on the basis of the criteria defined in the Corporate Governance Code for HSBC Group companies, to which HSBC France refers, but also of criteria regarding experience, skills, independence of thought and involvement (meetings on 30 January and 7 December 2015);
- the review of the first part of the Chairman's report on corporate governance (meeting on 30 January 2015);
- proposals to the Board regarding renunciation to the Afep Medef Corporate Governance Code (meeting on 30 January 2015);
- the examination of CRD IV Directive's impacts on specialised Board Committees and proposals to the Board regarding membership of these Committees (meetings on 30 January and 4 November 2015);
- proposals to the Board regarding the update of the Board internal rule in particular to include the impacts of CRD IV Directive entry into force on Board specialised Committees (meeting on 30 January 2015);
- the review of the results of the Board evaluation conducted at the end of 2014 and actions to implement (meeting on 20 January 2015) and decision to perform a new evaluation (meeting on 7 December 2015);
- the review and proposal to the Board of a draft diversity policy of the Board of Directors (meeting on 7 December 2015);
- the review and proposals to the Board regarding the update of the Board policy on conflict of interests, included in the Board internal rules (7 December 2015).

The Chairman of the Nomination Committee reported to the Board on its work at the Board meetings on 6 February and 6 November 2015. All of the Committee's work was submitted to the Board for approval.

Remuneration Committee

Composition of the Remuneration Committee

Chairman:

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

Members:

– Samir Assaf	Appointed 2012
– Michel Gauduffe (elected by employees)	Appointed 2015
– Jacques Veyrat (independent)	Appointed 2010

The Remuneration Committee's missions

The Remuneration Committee's duties were reviewed, for the last time, in February 2015 and are defined in the Board's internal rules. This Committee reports its activities to the Board and is responsible for:

- considering remuneration matters for HSBC France and its subsidiaries in the context of the HSBC Group's remuneration policy and in compliance with local rules, and providing advice to the Board of HSBC France and to the HSBC Group Remuneration Committee on the remuneration policy and structure relevant to HSBC France based on the regulatory context and market conditions.

In particular, the Committee makes recommendations and proposals to the Board concerning remuneration, pension and health insurance plans, additional retirement plans, benefits in kind, and other emoluments of Executive Directors;

- reviewing annually the policy for the compensation of employees prepared in accordance with the order of 3 November 2014 and the French Monetary and Financial Code, particularly risk takers, employees exercising a control function and any employee with similar compensation levels, whose activities have a significant impact on the Company's risk profile, financial markets professionals whose activities may have a significant impact on the Company's risk exposure;
- proposing the fees for directors for approval by the Board and the Shareholders' General Meeting;
- reviewing and approving any statement required by HSBC France's regulators on the remuneration policy. In particular the Committee reviews the report prepared in accordance with Article 266 of the order of 3 November 2014 and the chapter of the Chairman's report regarding remuneration;
- seeking confirmation from the Risk Committee or Chief Risk Officer, that risk appetite was aligned with performance objectives set in the context of incentive packages.

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

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

The Remuneration Committee's work in 2015
The Remuneration Committee met three times in 2015, with an attendance rate of 88.9 per cent. Its main work concerned:

- the review HSBC's general remuneration policy in France, in respect of 2014 and 2015 years, taking into account regulations concerning compensation, in particular risk control and the contribution of the Risk and Compliance functions to the process for determining variable compensations, the review of the list of employees, identified as not entirely complying with the risk and compliance rules and impacts on their remuneration, as well as the review of the remuneration of employees defined as risk takers (meetings on 30 January and 7 December 2015);
- the review of the 20 highest remunerations in respect of 2014 and 2015 years (meetings on 30 January and 7 December 2015);
- 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 2014 and of Jean Beunardeau and Andrew Wild in respect of 2015 and setting out the fixed and variable elements of their remuneration and the number of shares to be awarded to them (see section "Executive Directors' compensation") (meetings on 30 January and 7 December 2015);
- proposals to the Board regarding the terms of Gilles Denoyel's departure, further to his resignation from his Deputy CEO position (meeting on 20 January 2015);
- the examination of CRD IV Directive's impacts on specialised Board Committees and proposals to the Board regarding the revision of Directors' fees (meetings on 30 January 2015);
- the review of the part of the Chairman's report on remuneration (meeting on 30 January 2015).

The Chairman of the Remuneration Committee reported to the Board on its work at the Board meeting on 6 February 2015. All of the Committee's work was submitted to the Board for approval.

Shareholders' general meeting

Meetings are open to all shareholders. They are convened and transact business in accordance with the provisions of the law and regulations in force. According to article 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 second business day preceding the General Meeting. However, the author of the notice to attend has the option at all times to reduce this period of time, as he so sees fit.

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

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

Compensation

Compensation and advantages of Executive Directors

Remuneration policy

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

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

The variable component is determined on the basis of 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 areas (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.

Award of shares

In 2015, 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 2015, 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 2015, Jean Beunardeau had accrued pension rights representing 6.0 per cent of his 2015 fixed remuneration and 3.2 per cent of his 2015 total remuneration. At 1st March 2015, the end of his executive director role, Gilles Denoyel had accrued pension rights at HSBC France representing 24.7 per cent of his 2015 fixed remuneration and 13 per cent of his 2015 total remuneration. Since this date, he didn't accrue pension rights.

The provision corresponding to the present value of these HSBC France pension commitments has been recorded in the HSBC France accounts at 31 December 2015, for an amount of EUR 6.2 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 until 1 March 2015 and Andrew Wild Deputy CEO of HSBC France since 1 March 2015 is detailed on next page.

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

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

Summary of compensation awarded to each Executive Director

Chief Executive Director[1]

(in euros)	2014 Total compensation	**2015 Total compensation**
Jean Beunardeau		
Fixed remuneration	545,826	**545,826**
Allowance "Material RiskTaker"[2, 3]	564,000	**564,000**
Variable remuneration in cash	189,413	**178,140**
Variable remuneration in shares[4]	189,413	**178,140**
Deferred variable remuneration in cash[5]	284,120	**267,210**
Deferred remuneration in shares without performance conditions[6]	284,120	**267,210**
Deferred remuneration in shares with performance conditions[7]	105,529	**98,967**
Directors' fees[8]	–	**–**
Benefits in kind	–	**–**
Total	2,162,421	**2,099,493**

1 *Deputy CEO then Chief Executive Officer since 10 january 2012*
2 *Allowance awarded to "Material RiskTakers" 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 per cent available for sale in year n+1 and 80 per cent in year n+5).*
4 *Shares that vest immediatly and are subject to a 6 months retention period.*
5 *Variable remuneration in cash deferred over 3 years (33 per cent will vest in year n+1, 33 per cent in year n+2 et 34 per cent in year n+3).*
6 *Variable remuneration in shares without performance conditions deferred over 3 years (66 per cent will vest in year n+2 and 34 per cent in year n+3) and subject to a 6 months retention period.*
7 *Variable remuneration in shares with performance conditions deferred over 5 years (100 per cent 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).*

Chief Executive Officer[1]

(in euros)	2014 Total compensation	**2015 Total compensation**
Gilles Denoyel		
Fixed remuneration	450,000	**75,000**
Allowance "Material RiskTaker"[2, 3]	104,000	**17,333**
Variable remuneration in cash	165,896	**24,257**
Variable remuneration in shares[4]	165,896	**25,001**
Deferred variable remuneration in cash[5]	110,598	**16,667**
Deferred remuneration in shares without performance conditions[6]	110,598	**16,667**
Deferred remuneration in shares with performance conditions[7]	–	**–**
Directors' fees[8]	4,647	**775**
Total	1,111,635	**175,700**

1 *Chief Executive Officer until 1 march 2015*
2 *Allowance awarded to "Material RiskTakers" 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 per cent available for sale in year n+1 and 80 per cent in year n+5).*
4 *Shares that vest immediatly and are subject to a 6 months retention period.*
5 *Variable remuneration in cash deferred over 3 years (33 per cent will vest in year n+1, 33 per cent in year n+2 et 34% in year n+3).*
6 *Variable remuneration in shares without performance conditions deferred over 3 years (66 per cent will vest in year n+2 and 34 per cent in year n+3) and subject to a 6 months retention period.*
7 *Renunced the payment of his fees by HSBC France (see page 37).*
8 *Company car.*

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

Chief Executive Officer[1]

(in euros)	2014 Total compensation	**2015 Total compensation**
Andrew Wild		
Fixed remuneration	NC	**329,167**
Allowance "Material Risk Taker"[2, 3]	NC	**81,667**
Variable remuneration in cash	NC	**76,875**
Variable remuneration in shares[4]	NC	**76,875**
Deferred variable remuneration in cash[5]	NC	**51,250**
Deferred remuneration in shares without performance conditions[6]	NC	**51,250**
Directors' fees	–	**–**
Benefits in kind	NC	**–**
Total	NC	**667,083**

1 *Chief Executive Officer since 1 march 2015*
2 *Allowance awarded to "Material Risk Takers" identified by Group according to the Prudential Regulatory Authority regulation.*
3 *Allowance awarded in form of shares and subject to a 5 years holding period (20 per cent available for sale in year n+1 and 80 per cent in year n+5).*
4 *Shares that vest immediatly and are subject to a 6 months retention period.*
5 *Variable remuneration in cash deferred over 3 years (33 per cent will vest in year n+1, 33 per cent in year n+2 et 34 per cent in year n+3).*
6 *Variable remuneration in shares without performance conditions deferred over 3 years (66 per cent will vest in year n+2 and 34 per cent in year n+3) and subject to a 6 months retention period.*

Share options awarded during the year to each Executive Director by HSBC France and any company of the HSBC Group (Table 4)

	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 47).						

Share options exercised during the year by each Executive Director (Table 5)

CCF options exercised in 2015

	Number of options exercised	Exercise price EUR/share	Date of award	Expiry date
None.				

HSBC Holdings plc options exercised in 2015

	Number of options exercised	Exercise price EUR/share	Date of award	Expiry date
None.				

Shares awarded to each Executive Director in 2016 in respect of 2015 (Table 6)

HSBC Holdings plc shares with performance condition[1]

In respect of 2016, 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	29.02.2016	ND	98,967	01.03.2021	On retirement

1 *The performance conditions to which is subject the acquisition of the Group Performance Shares are described page 47.*

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	29.02.2016	ND	EUR267,210	01.03.2018 for 33% 01.03.2019 for 33% and 01.03.2020 for 34%	29.08.2018 for 33% 29.08.2019 for 33% and 29.08.2020 for 34%
Jean Beunardeau	29.02.2016	ND	EUR178,140	29.02.2016 for 100%	29.08.2016 for 100%
Gilles Denoyel	29.02.2016	ND	EUR16,667	29.02.2018 for 66% and 29.02.2019 for 34%	29.08.2018 for 66% and 29.08.2019 for 34%
Gilles Denoyel	29.02.2016	ND	EUR25,001	29.02.2016 for 100%	29.08.2016 for 100%
Andrew Wild	29.02.2016	ND	EUR51,250	29.02.2018 for 33% 29.02.2019 for 33% 29.02.2020 for 34%	29.08.2018 for 33% and 29.08.2019 for 33% 29.08.2020 for 34%
Andrew Wild	29.02.2016	ND	EUR76,875	29.02.2016 for 100%	29.08.2016 for 100%

Performance shares which became available for each Executive Director in 2015 (Table 7)

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

HSBC Holdings plc shares, without performance conditions, which vested for each Executive Director in 2014 (Table 8)

The shares awarded in 2012 were vested for 66 per cent in 2014 and 34 per cent in 2015.

The shares awarded in 2013 were vested for 66 per cent in 2015.

The shares awarded in 2015 were vested for 100 per cent in 2015.

	Date of award	Number of shares vested[1]	Vesting conditions (in case of special conditions)
Jean Beunardeau	12.03.2012	24,975	
Jean Beunardeau	11.03.2013	40,043	
Jean Beunardeau	02.03.2015	23,954	
Gilles Denoyel	12.03.2012	22,072	
Gilles Denoyel	11.03.2013	25,159	
Gilles Denoyel	02.03.2015	20,980	

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. The immediates shares awarded and vested in 2015 under the Bristish plan are available 6 months after the vesting.*

10 highest awards of options to employees who are not Executive Directors and 10 highest exercises of options (Table 9)

	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 2015 in respect of 2014, to the ten employees whose number of awarded shares is the highest (Table 10)

	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	320,694	EUR 2,535,904	14.03.2017 for 66% and 14.03.2018 for 34% or 02.03.2015 for 100%	14.03.2019 for 66% and 14.03.2020 for 34% or 02.09.2015 for 100%

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 54) vests immediately and is available for sale after six months of vesting.*

HSBC Holdings plc free shares, without performance conditions, awarded in 2016 in respect of 2015, 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)	29.02.2016	ND	EUR2,736,719	01.03.2018 for 66% and 01.03.2019 for 34% or 01.03.2016 for 100%	01.03.2018 for 66% and 01.03.2019 for 34% or 01.03.2016 for 100%

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 54) vests immediately and is available after six months of vesting.*

HSBC Holdings plc free shares, without performance conditions, vested in 2015, 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 2015 (employees or former employees)	566,753	
Of which award 2012	170,602	12.03.2015
Of which award 2013	300,559	11.03.2015
Of which award 2015	95,592	02.03.2015

1 *The shares awarded under the French sub-plan are available two years after the vesting. The immediates shares awarded and vested in 2015 under the Bristish plan are available for sale 6 months after the vesting.*

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

Executive Director Function First appointed Term ends	Employment contract	HSBC France supplementary pension scheme[1]	Compensation or benefits due or that may be due upon termination or change in duties	Compensation due under terms of non-compete agreement
Jean Beunardeau Chief Executive Officer[2] 1 February 2010[3] 2017	Suspended	Yes	No	No
Gilles Denoyel Deputy CEO 1 March 2004 1 March 2015	Suspended	Yes	No	No
Andrew Wild Deputy CEO 1 March 2015[4] 2017	Suspended	Yes	No	No

1 *See page 47.*
2 *Deputy CEO since 10 January 2012.*
3 *Date of appointment as Deputy CEO.*

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

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

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

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

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

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

The People Committee, made up of the main Senior Executives of HSBC France (the Chief Executive Officer also in charge of Global Banking and Markets, the Deputy Chief Executive Officer in charge of the Commercial Banking, the Chief Risk Officer, the Chief Operating Officer 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 résolution* and the European Central Bank since 4 November 2014, the *Autorité des marchés financiers* and the *Fédération bancaire française*.

In addition, as regards variable compensation, it checks that all of the measures in place within the bank's various business lines adhere to the general principles defined in compensation policies 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 Remuneration Committee, chaired by an independent Director, reviews 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, to fix variable compensation budgets, is the profit before tax before variable compensation and excluding the change in value of own debt under Fair Value Option due to credit spread and capital gains or losses on businesses' and subsidiaries' disposals. On the other hand, it includes model and credit risk provisions.

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

Once these variable compensation budgets are approved, they are divided by regions and countries depending on their respective performance. Local performances are measured on one hand through financial metrics such as evolution of Profit Before Tax, growth in revenue, costs control, comparison of revenue and cost trends (jaws), trend in provisions for risks (LICs), return on risk weighted assets, completion of Group strategic objectives (in particular increase of cross border revenues, etc.) or regional priorities (customer experience improvement, local strategic plan, etc.) and on the other hand through non-financial metrics such as respect of obligations related to DPA (Deferred Prosecution Agreement), implementation of Monitor and/or regulator or Audit recommendations, continuation in implementing Global Standards, risk management which assessment is based on trends on provision for risks, level of risk weighted assets and corresponding return, liquidity ratio, operational losses, improvement of risk culture within the company, growth in women representation among GCB0-4. These indicators are included in performance scorecard and are analyzed by comparison to the previous year and against the budget.

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

– top performer;

– strong performer;

– good performer;

– inconsistent performer.

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

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

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

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

It is to be noted that Senior Executives (Group Classification 0 and 1) 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 39 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 21 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 60 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 60 employees, 6 of them are employees of HSBC Bank plc branch in France.

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

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

For this population as a whole, 42 per cent of variable remuneration is deferred, and variable remuneration represents 47 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 six month retention period starting from vesting (versus two year retention period previously), and there is a prohibition on hedging it.

In addition, with effect from 1st January 2015, management companies under certain conditions are governed by the AIFM Directive (Alternative Investment Funds Management). In accordance with this Directive, categories of employees of HSBC Global Asset Management (France) and HSBC REIM (France) are subject to specific rules in term of variable remuneration. The employees concerned, are those whose professional activity has a significant impact on the risk profile of the management company or its alternative investment funds. The list of these risk takers mainly comprises Executive Directors, Heads of Risk functions, Finance function and Legal function, Heads of sales and Heads of Funds management. In 2015, a total of 39 risk takers have been identified. For this population, subject to have a variable remuneration of more than EUR100,000 and representing more than 30 per cent of fixed pay, variable remuneration is 40 per cent deferred. The non deferred part comprises half cash variable and half shares. The deferred part comprises half cash variable deferred one third over 3 years and indexed on the funds performance and half shares. The shares vest after 2 years for 66 per cent of the award and after 3 years for 34 per cent of the award. The part of the variable awarded in form of shares, both in the non deferred part and in the deferred part, is subject to a 6 months retention period from the vesting date. Risk takers who do not meet the conditions above are subject to Group deferral standard rules.

It should be noted that beyond this Material Risk Takers population, the great majority of the company's senior managers are affected by the minimum deferred compensation rules laid down by the HSBC Group which, for 2015, provide for deferred compensation in the form of shares of between 10 per cent and 50 per cent of variable compensation, and to which the above rules on vesting apply. Nevertheless, deferred shares are no more subject to any retention period (versus two year retention period previously).

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

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

In accordance with CRD IV Directive

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

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

Remunerations awarded to overall staff

(in euros)	FTE Headcount	Total Remuneration 2015
Executive members	2	2,899,993
Global Banking and Markets	738	109,751,681
Retail Banking and Global Functions	7,764	445,584,004
Total	**8,504**	**558,235,678**

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 2015	Total fixed pay	Total variable pay
Executive members	2	2,899,993	1,602,826	1,297,167
Global Banking and Markets	38	27,972,919	14,881,950	13,090,969
Retail Banking and Global Functions	20	9,665,292	5,355,351	4,309,941
Total	**60**	**40,538,204**	**21,840,127**	**18,698,077**

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	599,100	698,067	1,297,167
Global Banking and Markets	6,620,956	6,470,013	13,090,969
Retail Banking and Global Functions	2,333,202	1,976,739	4,309,941
Total	**9,553,258**	**9,144,819**	**18,698,077**

Total variable pay: distribution between non deferred and deferred amount

(in euros)	Non deferred amount	Deferred amount	Total variable pay
Executive members	540,780	756,387	1,297,167
Global Banking and Markets	7,591,632	5,499,337	13,090,969
Retail Banking and Global Functions	2,721,494	1,588,447	4,309,941
Total	**10,853,905**	**7,844,172**	**18,698,077**

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	328,710	427,677	756,837
Global Banking and Markets	2,731,124	2 768,214	5,499,337
Retail Banking and Global Functions	776,583	811,865	1,588,447
Total	**3,836,416**	**4,007,755**	**7,844,172**

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	2,242,897
Global Banking and Markets	16,096,498
Retail Banking and Global Functions	3,191,216
Total	**21,530,611**

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	–	–
Total	–	–

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

Amount of severance payments[1]

(in euros)	Number of people concerned	Amount of severance payments
Executive members	–	–
Global Banking and Markets	NC	800,000
Retail Banking and Global Functions	NC	155,000
Total	**NC**	**955,000**

Contributions to defined benefit plan

(in euros)	Number of people concerned	Contribution to defined benefit plan
Executive members	1	386,870
Global Banking and Markets	–	–
Retail Banking and Global Functions	–	–
Total	**1**	**386,870**

Information on highest remunerations

Total remuneration

(in euros)	Number of Material Risk Takers
Between 1 million and 1.5 million excluded	6
Between 1.5 million and 2 million excluded	1
Between 2 million and 2.5 million excluded	1
Total	8

In accordance with AIFM Directive

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

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

HSBC Global Asset Management (France)

(in euros)	Total fixed pay	Total variable pay	Total Remuneration
Total of Employees (number: 373)	24,691,984	9,330,574	34,022,558
Including employees who have a significant impact on the risk profile AIFMD (number: 34)[1]	4,599,688	3,547,540	8,147,227
Including Senior Managers (number: 15)	2,237,241	1,693,986	3,931,228

1 *Including 2 Executive managers who are already in the CRD IV material risk takers.*

HSBC REIM (France)

(in euros)	Total fixed pay	Total variable pay	Total Remuneration
Total of Employees (number: 33)	2,220,395	908,049	3,128,444
Including employees who have a significant impact on the risk profile AIFMD (number: 5)[2]	741,331	474,914	1,216,245
Including Senior Managers (number: 5)	741,331	474,914	1,216,245

2 *Including 1 Executive managers who is already in the CRD IV material risk takers.*

CHAIRMAN'S REPORT ON INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

Operational risk management framework

In 2013, the HSBC Group adopted a risk management and internal control structure, with reference to the Three Lines of Defence, to ensure completion of its commercial aims and meeting regulatory and legal requirements and its accountabilities towards shareholders, customers and staff.

This framework was reviewed in 2015 through the ORTP Programme (Operational Risks Transformation Programme) in order to precise responsibilities regarding identification, evaluation, assessment, monitoring and mitigation of operational risks and to strengthen management of those risks. This clarification of roles and responsibilities aims at strengthening the articulation of the various internal control and operational risks management levels and efficiently coordinating the risks and control activities. This update led HSBC France to upgrade the definition and the structure of risk management departments defined in 2009. To comply with the French regulation (French order of 3 November 2014), risk management departments have been renamed to adopt the terminology of "risk functions".

First line of defence: businesses, functions and HOST (HSBC Operations, Services and Technology) has to ensure that all risks within their activities and operations are identified, mitigated and monitored by an appropriate control environment in line with its risk appetite.

The second line of defence is functions, which ensure that the risk appetite limits are well managed in relation to the risks area they are responsible for, they oversee and assess the risk management and control activities carried out by the First Line of Defence. They are responsible for ensuring that HSBC France complies with its duties within Operational risks and Internal control. They set policy, give advice and provide independent challenge and ensure that risk management activities are adequately managed by the first line of defence.

The third line of defence is Internal Audit, whose role is to provide an independent view to the Senior Management and the Board of Directors over the design and efficiency of risk management, governance and internal control processes.

Permanent control

Permanent control is primarily based on controls carried out by the managers responsible for each activity. The purpose of these controls is to ascertain that the activity is conducted in accordance with all internal and external rules and is up to standard. The key responsibility for control falls to the managers of the various businesses, functions and HOST who must ensure that primary controls are conducted in a proper manner compliant with the HSBC Global Standards Manual (GSM), that states: "controls should be considered as fully embedded in the activities".

In addition to first level of controls, the HSBC France group's permanent control is based on risk management framework, under the responsibility of the Chief Risk Officer. This comprises mainly:

- the Business Risk and Control Management teams (BRCM), who monitor and manage risks in their business/function;
- the functions acting as the second line of defence. Particularly, Compliance responsible for risk of non-compliance for HSBC France as a whole as defined in the French order of 3 November 2014;
- the Operational Risk function, in charge of coordinating Operational Risk Management Framework. The Operational Risk function oversees the work carried out by BRCM (Business Risk and Control Management) teams within the businesses, functions and HOST who reports hierarchically to these businesses and functions heads. Operational Risk function works closely with the functions acting as second line of defence, responsible for overseeing risks over their perimeter;
- and lastly, a number of committees, forums and working groups that examine the results of controls and the main deficiencies.

To comply with the American Sarbanes-Oxley law (SOX), the HSBC Group has implemented since 2006 a framework for documenting and assessing internal control, with regard to the processes and operations involved in drawing up financial statements.

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

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

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

On a quarterly basis, HSBC France's Audit Committee and the Risk Committee are informed of the results of controls carried out for SOX compliance purposes and of progress made in the action plans.

Permanent control Framework

First Line of Defence

Main activities of the first line of defence lead by businesses, functions and HOST:

- identify risks and ensure implementation of adequate and complete first level control environment to address risk recorded in their Risk Maps;
- ensure deficiencies are identified, priorized and escalated to the Operational Risk function and other second line of defence, and ensure that remediation actions that have been designed and implemented;
- communicate and train about risk culture in order 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 in risk and control monitoring and ensure that they have available qualified resources;
- evaluate, with the support of the BRCM teams the efficiency of controls to ensure that they are effective. This evaluation can take form of indicators, tests or detailed thematic examinations. They are formalized in a dedicated monitoring plan (ICM – Independent Control Monitoring);
- ensure that adequate means are implemented for this oversight following a documented risk approach;
- ensure that activities and process are performed in accordance with all external and internal rules.

Second Line of Defence

Main responsibilities of functions acting as second line of defence over their oversight:

- develop policies and standards required to manage risks within risk appetite and tolerances, oversee their effective implementation;
- coordinate the permanent control framework within businesses, functions and HOST;
- provide independent oversight of the operational risk profile, provide independent oversight and challenge control efficiency and action plans performed by Businesses, functions and HOST through Risk and Control Assessment, risk indicators and other reviews and carry out specific reviews of key risk issues;
- analyze and document risks, escalate risk issues to the appropriate governance committees, particularly to the Risk Management Committee, through Risk map and Top Risks;
- prepare and chair the specialised risk authorities.

Within the second line of defence, the Risk function, leaded by the Chief Risk Officer (CRO), plays a major role. The main 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 and Market Risk function, which oversees credit risks on wholesale market and market risk;
- Operational Risk function in charge of oversight operational risk management framework (ORMF – Operational Risk Management Framework).

The CRO relies also on other functions to ensure a complete and accurate risk oversight (Legal, Human Resources, Finance function as regard accounting, liquidity, structural interest rate, forex and tax risks, HOST function in charge of overseeing notably IT and outsourced services).

Since 2015, Legal, Financial Crime Compliance and Regulatory Compliance functions report directly to the Chief Executive Officer (CEO), in accordance with HSBC Group organisation. The FCC and RC Heads also report functionally to the Chief Risk Officer (Head of Permanent Control within the meaning of the decree of 3 November 2014) and the Heads of FCC and RC for the region. According to that organisation, the Tax function is integrated to the Finance function.

HSBC Group Manuals

The GSM (HSBC Global 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.

Handbook and Codes of Conduct

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

The internal committees, forums and working groups

Risks and internal control oversight are driven by a number of dedicated committees, forums and working groups.

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

Among these authorities, the Risk Management Committee (RMC), the Operational Risk Meeting (authority related to Operational Risk), and the Compliance Committee play a key role in control framework coordination.

The RMC, which is chaired by the Chief Risk Officer and includes 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 reports presented to the RMC informed the HSBC France's Executive Committee, the Audit Committee, the Risk Committee and the Board of Directors. The RMC covers all entities operating in France.

The RMC makes use of the work of all dedicated committees within each business that cover all risks monthly (see the organisation chart for "Committees Governance and structure" on page 33).

This framework is completed by dedicated risk forums and working groups in businesses and functions combining the various levels of internal control, in order to manage, monitor and control all HSBC activities specific risks in France. Main functions acting as second line of defence hold a monthly or quarterly meeting, chaired by the function head and attended by function's members and experts, businesses representatives, Operational Risk representatives and for some of them the Chief Risk Officer.

The Operational Risk Management Framework

Operational Risk function

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:

- ensure the implementation of the HSBC Group operational risk management framework;
- provide independent oversight of the operational risk profile, identify emerging risks and gaps and carry out specific analyses on some 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, 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 Operational Risk regional team, is organised by function, business and HOST to facilitate communication with first line of defence.

The Operational Risk function works closely with the businesses and functions' internal control and operational risk management teams (BRCM teams) and the functions acting as second line of defence on major themes such as reviews of risk and control maps, the design and monitoring of action plans, documentation of stress scenarios, incident reporting, risk indicators monitoring, and even reviewing control plans.

The framework of risks identification and incidents escalations is described in the operational risks section of the Risk management and control within the HSBC France Group chapter of the Annual Report page 135.

The authorities related to operational risk and internal control

The ORM (Operational Risk Meeting) meets on a quarterly basis under the chairmanship of the Chief

Risk Officer. The purpose is to ensure a transverse organization and coordination of operational risks management and control framework.

Within this framework, the ORM role is 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;
- review the progress made in action plans, in particular those relating to risks deemed the most critical;
- 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;
- review 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);
- review cross-functional issues relating to operational risk management or methodological issues (such as risk assessment, monitoring tool), define and periodically review operational risk monitoring indicators;
- examine the results of the reviews relating to businesses and functions internal control or thematic reviews.

The summary of the work and findings of the ORM is regularly communicated to the Risk Management Committee, the Risk Committee and the Board of Directors of the HSBC France group.

The work of the ORM is based primarily on the summary of the work of the HSBC France Operational Risk/BRCM Forum, which combines the Operational Risk function and 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 function, a few days before the Operational Risk Meeting. Supports material prepared by the Operational Risk function is based on the discussions and issues raised during Forum allows the Operational Risk function to achieve a summary of the highlights.

The organizational structure of the Compliance function and the dedicated control bodies

Organisational structure of the Compliance function

The HSBC France Group's system for the permanent control of non-compliance risks is managed by the Compliance function whose organisational structure changed in 2014 under the "Global Standards" programme implemented by the HSBC Group worldwide. The Compliance function is organised around two departments with specific expertise reporting respectively to the Financial Crime Compliance Officers or the Regulatory Compliance Officers:

The Financial Crime Compliance (FCC) Department encompasses anti-money laundering, anti-terrorism, international financial sanctions and anti bribery and corruption. This department is organised around centrally-located teams that are experts in the aforementioned areas and dedicated teams in each business line (Retail Banking and Wealth Management, Commercial Banking, Private Banking, Global Banking and Markets, Asset Management, Insurance).

The Regulatory Compliance (RC) Department encompasses the good conduct and client protection rules, market rules, and compliance with other regulations and includes advice to functions and businesses. This department is organised by business line and function (Retail Banking and Wealth Management, Business Banking, Private Banking, Global Banking and Markets, Asset Management, Insurance, HSBC Operations Technology and Services). Shared functions operating for both the Financial Crime Compliance and Regulatory Compliance departments encompass the teams in charge of controls, monitoring and testing (CMAT), regulatory affairs and policies (RAP) and the Business Management.

This new organisational structure of the Compliance function meets the following main objectives:

- the creation of a consistent organisational structure for the Compliance function within the HSBC Group at local, regional and global level;
- the Compliance function's improved alignment with the businesses and functions;
- the separation of the tasks of providing advice and support for businesses from the compliance control function.

The compliance teams of these two Departments report respectively to the FCC and RC heads and cover the subsidiaries in their scope.

The FCC and RC Heads report hierarchically to the Chief Executive Officer and functionally to the Chief Risk Officer (Head of Permanent Control within the meaning of the decree of 3 November 2014) and the Heads of FCC and RC for the region.

The FCC and RC heads report on the exercise of their role directly to the executive directors as well as the supervisory body via the Risk Committee and the

Board of Directors in accordance with Articles 30 and 31 of the decree of 3 November 2014.

They are responsible for HSBC France's compliance control, within the meaning of Article 28 of the above-mentioned decree, and for co-ordinating the HSBC France Group's compliance control system for their respective areas of responsibility. The Regulatory Compliance Head also carries out the roles of Head of Compliance for Investment Services (RCSI) for HSBC France in respect of Articles 313-3 and 313-4 of the general regulation of the AMF (French Financial Markets Authority).

The different Heads of Compliance for Investment Services (RCSI), Heads of Compliance and Internal Control (RCCI) as well as the majority of TRACFIN (French financial intelligence unit) declarants and representatives of all the legal entities of the HSBC France Group, come under the responsibility of the FCC and RC Heads or their direct staff.

The system for controlling the non-compliance risk

The Compliance function is responsible for ensuring the control, for all the entities of the HSBC France Group, of the non-compliance risk as defined by Article 10 p) of the decree of 3 November 2014 relating to banks' internal control systems.

- Identification of non-compliance risks

The Compliance function (RC and FCC) relies, in particular, on the legal monitoring work of the Legal function in order to monitor the modifications of legislative and regulatory texts as well as legal developments having an impact on the activities of the HSBC France Group, analyse them and define their application procedures.

The analysis of non-compliance risks is documented in maps recording the legislative, regulatory, professional provisions, as well as the provisions specific to the HSBC Group, applicable to each business or function, and the procedures and controls implemented to ensure compliance with the said provisions. The non-compliance risk maps are updated at least every six months.

The non-compliance risks relating to the activities of the HSBC France Group stem primarily from the following areas: anti money laundering, terrorist financing, international financial sanctions, anti bribery and corruption, client protection, compliance with conduct rules relating to client interests, complaint processing, the protection of the integrity and transparency of financial markets, the preservation of the confidentiality of information and the protection of personal data, employees code of ethics, risks related to the remuneration policy, the prevention of conflicts of interest and compliance with the applicable rules in terms of cross-border marketing.

The identification and monitoring of compliance with the regulations relating to certain specific areas are the responsibility, within the HSBC France Group, of the second line of defence functions with appropriate expertise and resources (accounting standards, prudential ratios, control of major counterparty risks, recommendations relating to the security of information systems, etc.). The Compliance function's remit does not extend to the control of compliance with rules not belonging to the banking and financial sector (labour and social security law, regulations relating to the security of people and property, etc.) and whose monitoring comes under the responsibility of other second line of defence functions of HSBC France. However, the Compliance function has to be informed, under the existing reporting or escalation procedures, by the departments concerned, of any problems identified and corrective measures implemented likely to have an impact on the non-compliance risk.

- Staff training and awareness

Each year, the Compliance function, in conjunction with the Training Department, draws up a staff training programme covering non-compliance risks. Training sessions, classroom-based or in the form of e-learning, are organised in the different businesses and functions.

In 2015, training programmes were provided on the following themes either in the form of e-learning or classroom-based:

– training of all the bank's employees on the following themes: anti money laundering, international financial sanctions, combating corruption, reputation risk, Conduct.

– classroom-based training according to the business lines on the following themes: training as part of the rollout of the Global Standards, notably of employees most exposed to the management of these risks, market integrity risks, duty to provide advice, inducements and remuneration, etc.

Throughout 2015, HSBC France rolled out five mandatory e-learning training programmes among all its employees. Each of these e-learning training programmes had to be completed within a prescribed time. The company's Management monitored the completion rate for these training programmes each month and took corrective measures, where applicable, enabling all employees to complete the programmes within short timeframes.

Because compliance should be everybody's business on a daily basis, in 2015, HSBC France continued with the rollout among all the company's employees of a mandatory training programme covering corporate culture and values. The objective followed by HSBC France is that a performance culture based on values becomes the code of conduct to be followed by each individual.

- Compliance examination procedures and detection and prevention tools

The HSBC France group has specific compliance examination procedures, in accordance with the provisions of Articles 35 to 38 of the decree of 3 November 2014 relating to banks' internal control systems, as well as tools for detecting and preventing the non-compliance risk. These procedures and tools are the subject of regular updates and upgrades.

- Control System

The Compliance function is considered to be first and foremost a second line of defence player in the HSBC Group. This role is ensured:

– firstly, by implementing the policies or circulars, by advising and training the operating staff in the businesses or functions;

– secondly, by implementing cross-functional theme-based reviews carried out by the Compliance Monitoring and Testing (CMAT) team.

- The reporting of issues and governance bodies

Monitoring of the functioning of the compliance control system and any problems identified is based, firstly, on the existing reporting procedures within the Compliance function as well as the information produced in the governance bodies.

- The reporting of issues

The problems identified in the implementation of the compliance obligations are the subject of an anomaly report that is drawn up and must be transmitted to the appropriate level of the Compliance line, followed by regular monitoring of the actions implemented to rectify the situation, using a dedicated tool called IRIS (Integrated Regulatory Information System). Under the consolidated approach to non-compliance risks, the Compliance function also ensures centralised monitoring of the regulatory authorities' interventions in the entities of the HSBC France group.

- Governance bodies and committees

The functioning of the system and the main non-compliance risks identified are reviewed in dedicated control bodies, consisting of both Compliance function representatives and operating managers. These bodies have either a decision-making role, in terms of the management of the compliance control system, or a role of providing information to the Senior Management on the functioning of the system, the problems observed, and the corrective measures undertaken.

The Regulatory Compliance Committee meets on a quarterly basis, under the chairmanship of the Chief Executive Officer and before Executive Committee members who are heads of the businesses. This Committee has the following roles:

– firstly, a decision-making role in terms of the management of the compliance control system;

– secondly, a role of providing information to the Senior Management on the functioning of the system, the problems observed and the corrective measures undertaken.

The main objective of the Anti-Money Laundering Executive Committee of the HSBC Group in France, which comprises the FCC Head, the Head of Anti-Money Laundering and the heads of FCC for the businesses is to:

– monitor and manage the risks in terms of anti-money laundering likely to have an impact on the system;

– identify and oversee the new types of risk.

The main objective of the Sanctions working committee, which comprises the FCC Head, the Head of Sanctions and the heads of the businesses is to:

– communicate on regulatory developments and HSBC Group policies and measure the operational impact;

– monitor and manage the risks in terms of sanctions likely to have an impact on the system.

Moreover, under the "Global Standards" programme implemented by the HSBC Group, a FCC Steering Committee has been set up in order to monitor the implementation of the action plan to combat financial crime and the "Global Standards" programme in France. This committee has also been implemented in each business line.

In addition, the quarterly anti-money laundering/sanctions committees, implemented in each business, and whose organisational structure and secretariat are overseen by the Financial Crime Compliance function, are intended to deal with any subject related to the anti-money laundering system and international financial sanctions. Changes in governance were initiated in the last quarter of 2015 with a view to rationalisation. This will result in these committees being integrated within the businesses' Risk Management Committees.

In the case of risks related to new products and services as well as significant modifications made to existing products, the majority of the businesses have specific bodies for the examination of products and services. At HSBC France Group level, new products and services meeting certain criteria are, in addition, subject to the prior approval of the New Products Committee, chaired by the Chief Executive Officer of HSBC France, and whose Regulatory Compliance function oversees the secretariat.

In addition, the non-compliance risks are also reported in broader governance bodies such as:

- the Risk Management Committee (RMC), the committee for the management of risks and permanent control at the level of HSBC France and each business line;
- the Operational Risk Meeting, whose purpose is to ensure a transverse organisation and coordination of operational risks management and control framework;
- the Risk Committee, an organ of the Board of Directors.

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 solo and consolidated basis. These reportings present collected data in comparison with those of the previous year.

Two sets of accounts are prepared, one under French GAAP and one under IFRS. The HSBC Group's integrated "SARACEN" consolidation software produces IFRS-compliant consolidated financial reporting statements that also meet all the requirements of the local regulator and the parent company.

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 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 the Group's accounting certification application, used by HSBC France and subsidiaries.

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 periodic review system. These detailed analyses of flows of transactions to accounts help improve audit trail control. Weaknesses identified by such controls must be corrected within agreed timelines of the remediation action plans 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 action plans 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 control

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

As part of HSBC Group's risk management framework, Internal Audit (INA) comprises the third line of defence, coming successively behind the businesses and functions' own first line of defence (Risk Owners, Control Owners, and Business Risk and Control Managers) and the second line of defence teams (Operational Risk and Risk Stewards: Compliance, Legal, Security, HR etc.). Whilst the first and second lines of defence are taken into account, INA has unlimited scope to define its own programme of work. This freedom is based on the fact that Internal Audit is responsible for providing Senior Management and the Audit Committee and Risk Committee of the bank, independent assurance on the risk exposure and level of control by management. As such, Internal Audit pays attention, in the first instance, to the evaluation of the respect of national legislation applicable to the audited area and, secondly, to the correct application of rules and procedures in force within HSBC Group and, finally, that audited activities remain within the defined appetite for exposure to the associated risks.

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

Global Internal Audit (GBL INA) is comprised of approximately 15 global audit teams whose role is to provide expert coverage of HSBC Group's businesses and functions.

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

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

– INA FRA, a general audit team based in France, in the main historically auditing central functions, Retail Banking and Wealth Management, Commercial Banking, banking operations, IT and strategically important projects. INA FRA comprises 33 members of staff in 2015, mainly split between business auditors and IT auditors;

– the global teams, specialised by business and/or function, based principally in London and Hong Kong, whose areas of involvement depend on the following functional structure:

  • Europe, Middle-East and GBM Audit, responsible for auditing Global Banking and Markets and the European and Middle-Eastern regions;

  • RBWM and GPB Audit, responsible for auditing Private Banking, Retail Banking and Wealth Management, Insurance and Pension risks, Asset Management and the system for protecting natural person clients;

  • 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 audit teams form one of the pillars of GBL INA's strategy. Country teams have the detailed knowledge of local regulations and environment enabling coverage to be adapted as appropriate, and functionally reporting to the global audit function strengthens their independence and ensures consistency between teams, all of whom are held to the high standards defined and regularly updated in the Global Audit Standards Manual (GASM). That all teams share a reporting line into a global function helps collaboration and the sharing of best practice.

Periodic controls on HSBC in France in 2015 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 structures the roles, responsibilities and coverage model.

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

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

HSBC France's Inspector General, Head of INA FRA reports to the Head of "Europe, Middle-East and GBM Audit" and HSBC France's Audit Committee, and administratively to the HSBC France Chief Executive Officer.

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.

After significant investment in enhancing the global audit methodology during 2014, Global Audit has continued to strive to improve the quality of audit work. In this regard:

– a global Quality Assurance (QA) team has been implemented, which includes a country representative in key geographies such as France. The role of QA is independent and reviews and grades each audit undertaken in line with GASM requirements, both before and after report issuance. In particular, the readability and quality of deliverables and the audit trail is assessed;

– the consistency of audit ratings, both issues and reports, has been driven by "tollgate" meetings which include all Internal Audit stakeholders affected by each audit, whether country-specific or global. Such meetings take place at each stage of every audit (detailed planning, end of fieldwork, reporting);

– issue remediation validation is closely monitored and has been strengthened through heightened formalism and standards required for the approval of extending a target implementation date. For management actions corresponding to a high risk audit issue, HSBC France's Chief Risk Officer (CRO) is now required to obtain approval for any extension from the European CRO, which is then in turn reviewed and approved or rejected by the Head of INA FRA. For medium risk actions, Head of INA FRA approves or rejects any extension requests directly;

– Global Internal Audit has increased its training capabilities for staff both at recruitment through an induction course and throughout their career to improve expertise.

In addition, HSBC Group's auditing standards are stated 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.

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 meeting, Financial Crime Compliance Committee and Regulatory Compliance Committee, the HSBC France Audit Committee and those of its subsidiaries;

– the senior audit managers participate in the risk committees of the different businesses and functions;

– regular bilateral meetings, usually quarterly, 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 person in charge of the audited entity or process, who is ultimately responsible for ensuring that Internal Audit's findings are remediated as well as any findings from the supervisory authorities or external auditors. The CEO, the Chief Risk Officer, the Head of Regulatory Compliance, the Head of Financial Crime Compliance and the Head of Operational Risk always receive a copy of all audit reports.

Audit reports relating to HSBC France subject to an adverse rating are routinely presented and commented on to HSBC France's Audit Committee by the Inspector General. This committee also monitors action plans resulting from high risk audit issues which have been outstanding for more than six months.

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 ministerial order of 3 November 2014. The ACPR's Secretary General stated their support of the committee's approach in a letter to the CIIG's president dated 7 April 2015.

The year's highlights

Reliability, strengthening and enhancement of internal control and operational risk framework continued in 2015 with notably:

– "Operational risk transformation program" (ORTP), which main objectives are to better priorise risks and controls, strengthen the Operational Risk Management Framework, risk management through the "Risk Appetite" definition and a simplification of operational risk processes, procedures and tools;

– the clarification of roles and responsibilities within the three lines of defence framework;

– the implementation of a new risk assessment methodology and grid;

– the annual Risk and Control maps review owned by Businesses and functions relevant Heads by experts of the second line of defence and their submission by businesses and functions to the Chief Risk Officer. They are regularly updated according to material events occurred during the year and changes in the risk profile and regularly submitted to Operational Risk and BRCM forums or working Groups. BRCM teams annual control programmes are based on the Risk Map;

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

– strengthen coordination of Internal Control plan between Businesses and support functions;

– the improvement in the supervision and control of third party services;

– the further enhancement of controls in areas such as Regulatory Compliance and Financial Crime Compliance, Information Security and Business Continuity.

In 2015, follow-up of the "Global Standards" programme results in the implementation of the Group's policies and procedures in terms of anti-money laundering and international financial sanctions. The training initiatives accompanying the rollout of this programme were maintained in 2015 with, in particular, the classroom-based training of employees most exposed to the management of these risks.

Concerning client protection and compliance with "conduct rules", the HSBC Group continued with the rollout of the Conduct programme relating to client protection systems. This programme provides a reminder of HSBC's commitments in terms of the fair and impartial treatment of clients, i.e. in particular:

- providing clients with clear, accurate, precise and non-misleading information on the characteristics and risks associated with products;
- offering products generating value for clients and that are appropriate to the needs and risk profiles of clients, in order to avoid the mis-selling risk;
- ensuring an appropriate investment to the commitments while at the same time invoicing the products fairly in relation to the services provided and between clients;
- ensuring Compliance with market integrity rules.

In 2015, this programme resulted in the implementation of the Group's policy, notably the adoption of a dedicated local governance system and specific indicators. A specific training programme delivered to all employees also accompanied the rollout of this programme.

Awareness of all employees on risk management was continued in 2015 notably through mandatory staff e-learning trainings.

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

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

Samir Assaf
Chairman

Paris, 8 February 2016

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 of Directors of HSBC France

(For the year ended 31 December 2015)

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

HSBC FRANCE
103, avenue des Champs-Elysées
75419 Paris Cedex 08
To the Shareholders,

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 to you on the report prepared by the Chairman of your company in accordance with article L.225-37 of the French Commercial Code for the year ended 31 December 2015.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L.225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

– to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and

– to attest that the report sets out the other information required by article L.225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

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

Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information
The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

– obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;

– obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;

– determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L.225-37 of the French Commercial Code.

Other information
We attest that the Chairman's report sets out the other information required by article L.225-37 of the French Commercial Code.

Neuilly sur Seine and Paris, on the 3 March 2016

The statutory auditors

PricewaterhouseCoopers Audit	BDO France – Léger & Associés
Nicolas Montillot Partner	Fabrice Chaffois Partner

Corporate, social and environmental responsibility

Sustainability

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. The Philanthropic and Community Investment Overnight Committee also has a non-executive role to oversee the Group's activities in this area in line with the Group's sustainable development objectives.

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.

Facilitating a low-carbon economy
Reducing global carbon dioxide emissions is a critical challenge for society. HSBC sees the potential for financial services to facilitate investment that can help the world transition to a low-carbon economy.

In 2015, the Global Research team was ranked number one for Integrated Climate Change for the second year running in the Extel survey.

Furthermore, the Asset Management business joined the Montreal Pledge to disclose the carbon intensity of its portfolio.

Climate business
HSBC helps facilitate investment in areas including infrastructure and renewable energy that help lower carbon dioxide emissions. In 2015, the Group issued a green bond for the first time when HSBC France raised EUR 500 million (USD 554 million) to fund customers and projects in the following sectors: renewables, energy efficiency, sustainable waste and water management, sustainable land use, climate change adaptation, and clean buildings and transportation. HSBC also pledged to invest USD 1 billion in a portfolio of green, social or sustainable bonds.

HSBC also helped CLP Windfarms become the first Indian corporate to issue a public green bond, and Vestas Wind Systems, based in Denmark, issue the first green bond by a wind turbine manufacturer. It also helped Agricultural Bank of China issue the first international green bond from a Chinese Bank.

Another example of the work facilitating a low-carbon economy involves the team dedicated to bus rapid transit systems. These use prioritised bus lanes in urban areas to cut journey time, reduce pollution and increase road safety. HSBC helped finance 466 efficient buses in 2015, in countries including Ghana and South Africa. Since the team was created in 2005, it has helped finance 4,500 buses and equipment such as workshops and ticketing systems. HSBC is also a member of the United Nations' Partnership on Sustainable, Low Carbon Transport.

In 2015, HSBC also helped finance three renewable energy deals in the US, and an energy efficiency programme in the UK to install around seven million electricity and gas smart meters into homes and businesses.

Managing environmental and social impacts
HSBC continues to reduce the environmental impact of its operations and has robust policies and processes to manage sustainability risks in its business activities.

It is reducing the amount of energy it consumes, and increasing the proportion it receives from renewable sources. To date, HSBC has signed agreements to increase the percentage of its electricity from new wind and solar sources to 9 per cent and has a target of 25 per cent by 2020.

HSBC reports on its carbon dioxide emissions for the year is available online at www.hsbc.com.

HSBC sustainability risk policies cover a number of sensitive industries and themes. After the bank issued new standards in its forestry and agricultural commodities policies in 2014, it took the decision to stop banking over 160 customers as soon as possible because they did not comply. In 2015, HSBC was recognised as a leader in the Forest 500 ranking of 150 investors' policies on the sustainability of forest commodity supply chains.

HSBC also supports a transition to certified, sustainable palm oil. Its standards require its palm oil customers to have all their operations certified as sustainable by the end of 2018 and the bank continues to support them in meeting this goal.

In 2015, there were more than 2,300 attendances by relationship and risk managers at training on the sustainability risk policies to help ensure their implementation is robust.

Details on HSBC sustainability risk framework and policies are available online at hsbc.com/sus-risk.

Respecting human rights
HSBC applies human rights considerations directly as they affect its employees and indirectly through its suppliers and customers, and through its action to prevent bribery and corruption. For example, the bank's code of conduct for suppliers includes elements related to human rights, as do its project finance lending and sustainability risk policies.

HSBC Statement on Human Rights, issued in 2015, explains how it does this and is available on the website. The bank will integrate the provisions of the Modern Slavery Act 2015 into its business and supply chain, and will report in line with the guidelines published by the UK government.

HSBC is guided by the International Bill of Human Rights, and support the UN Declaration of Human Rights and the principles concerning fundamental rights set out in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

Investing in our communities

HSBC believes that education and the environment are essential to resilient communities and thriving economies. For over 10 years, it focused its community investment activities on these two areas. In 2015, following survey responses from employees, it decided to add medical charities to the causes it supports.

In 2015, HSBC contributed a total of USD 205 million to charitable programmes and its employees volunteered 304,555 hours in community activities during the working day.

HSBC marked its 150th year by setting up an additional fund of USD 150 million to support causes selected by its employees. It will support 140 charities across the world over three years. It also made a one-off USD 62 million donation to charities in Hong Kong from the sale of commemorative HKD 150 bank notes.

Further detail on the Group 2015 performance will be available from the end of April 2016 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 2015, HSBC ranked ninth 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 18 priority markets, among four in Europe.

HSBC France has a solid balance sheet and has highly satisfactory financial ratios. Its Liquidity Coverage Ratio is at 120.2 per cent. The ACF (Advances to Core Funding) ratio – an internal indicator used by the HSBC Group, which compares customer loans outstanding with stable deposits and funding with a maturity of more than one year – has reached 98.1 per cent, demonstrating HSBC France's solid liquidity position. The Common Equity Tier One ratio is 14.9 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-; stable outlook; Moody's A2; stable 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)	**2015**	2014	2013
Levies and taxes	**554**	426	530
Dividend payment	**280**	150[1]	120
Salaries and employee benefits (net of payroll tax)	**742**	764	738

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

Total outstandings in the French mortgage market grew by around 3.6 per cent in 2015, driven particularly by high levels of remortgaging. Against that background, HSBC France's Retail Banking and Wealth Management business continued to expand its loan book with growth of circa 4 per cent. This sound performance, with an 11 per cent growth above the market, resulted in further market share gains.

Commercial Banking is continuing to make an active contribution to economic development by meeting the financing needs of small, medium-sized and large businesses both in France and abroad. That support was shown by a 4.3 per cent increase in client loans outstanding to almost EUR 10.4 billion.

In June 2015, HSBC Assurances and 22 other major investors – the Caisse des Dépôts, 19 insurance companies and three pension funds – set up the NOVI investment funds, which aim to foster growth and innovation in small and medium-sized businesses. They have a term of 21 years and the initial investment totalled EUR 580 million. The NOVI funds exclusively

Corporate, social and environmental responsibility (continued)

finance investments in growth and innovation by companies with revenue of between EUR 30 million and EUR 200 million and operating in manufacturing and services, including the nine "French industrial solutions" sectors. Selected companies receive financing of EUR 3 million to EUR 20 million. The aim is to finance over 50 companies per year.

HSBC Assurances invested EUR 50 million in the Tera Neva Green Bond, representing 10 per cent of the November 2015 bond issue. By supporting that initiative, HSBC Assurances is helping to finance energy transition projects led by the EIB through a Green Bond linked to a new index. That Ethical Europe Climate Care Index is made up of 30 STOXX® Europe 600 stocks selected on the basis of criteria including the quality of their ESG standards and energy transition strategies.

Since 2011, French local authorities have used the capital markets to diversify and optimise the cost of funding their investments (schools, transport, etc.), thus contributing to the appeal and dynamism of the areas under their responsibility.

In 2015, their use of the bond markets remained at historically high levels with issuance of EUR 2.4 billion, still representing 14-15 per cent of total local authority funding. In this market segment, HSBC France is strengthening its leading position, ranking number one among lead managers for French local authority issues, well ahead of its rivals due to its experience with these clients. It handled ten transactions out of a total 75 in 2015 and has handled 108 out of a total 336 since 2000.

As regards sustainability, it is also important to highlight HSBC France's strong involvement in developing Green Bonds and in local authority financing. HSBC France was joint lead manager of the City of Paris' first "climate bond" issue, which raised EUR 300 million over a 15.5-year term.

In 2015, HSBC was also the top-ranked arranger of EMTN (Euro Medium Term Note) programmes for French local authorities and has handled 17 out of a total 22 in the market, including three in 2015. In addition, HSBC has arranged over 90 per cent of commercial paper programmes for French local authorities since 2001, handling 27 out of a total 29 in the market, including three in 2015.

HSBC France was also directly involved in diversifying the financing of French local authorities in its roles as co-arranger of the EMTN programme and joint-lead manager of the inaugural EUR 750 million, 7-year bond issue carried out by its client *Agence France Locale* (AFL). AFL is an online bank owned by French local authorities wanting to combine their financing requirements in order to borrow money directly from the bond market.

In addition, hospitals and public-sector healthcare establishments are increasingly seeking to diversify and optimise their financing arrangements. HSBC France is working to support the development of this market segment, and in 2015 joint managed the "CHU 2015" bond issue carried out jointly by French public hospitals through the *"CHU de France Finance"* entity. This EUR 100 million, 10-year bond issue was designed to meet the financing requirements of eight regional and university hospitals in Angers, Bordeaux, Lyon, Metz-Thionville, Montpellier, Nîmes, Rennes and Strasbourg. HSBC France also worked with AP-HP, arranging the first ever commercial paper programme for a public-sector healthcare establishment in France. That was made possible by a provision introduced by France's 2013 budget and the implementing order of 27 March 2015. Through this programme, which has a maximum amount of EUR 300 million, AP-HP is pursuing its policy of diversifying its sources of financing, in order to minimise borrowing costs arising from its expenditure.

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 and to Global Corporate Sustainability. Consisting of a team of five, it co-ordinates the implementation of action plans developed in collaboration with representatives of each of the relevant business lines.

A Sustainability Committee brings them together quarterly, with a main objective of reporting on progress 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 "finance club" run by ORSE (*Observatoire de la Responsabilité Sociale de l'Entreprise*). ORSE is an independent organisation that works with member financial institutions in order to fully define the issues and identify best practice in the field of sustainability. 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 excerpt 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 through a consultation of its main stakeholders. The key steps in the consultation process held in 2014 were as follows:

– 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.

The results of that consultation were published in the 2014 registration document and in 2015 guided HSBC France actions in that area.

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.

For Retail Banking and Wealth Management customers, a "customer's voice" system measures the performance of the bank in terms of customer satisfaction across all points of contact three times a year, and twice a year enables a comparison with competitors to be made. Email surveys are also conducted regularly to measure customer satisfaction with branches and the Customer Relations Centre. The results (customer scores and comments from each branch) are submitted to the branch managers and teams, and are used in evaluating and calculating the variable remuneration of all employees concerned. All these indicators are used to propose action plans aiming to improve customer satisfaction and promote and share best practices.

In late 2015, the customer recommendation score was 6.8, putting HSBC in third position. 70 per cent of customers say they are planning to entrust their investments to HSBC, putting HSBC in first position and well ahead of the market average of 59 per cent. This indicator shows that HSBC retains a strong position in the wealth management market.

To find out about customer satisfaction in Commercial Banking, the HSBC Group decided in 2015 to adopt a new measuring system entitled Insight for Growth. That system, which covers a wider sample of customers, measures overall customer satisfaction with the brand but also with customer contacts and products and services used. The results are not yet available.

A second local study measures customer satisfaction at key moments of relationships, such as a change in relationship manager. The results of that study are not yet available.

Customer relations

The overall number of complaints recorded in 2015 by HSBC France's Retail Banking and Wealth Management network rose 9 per cent relative to 2014. This increase is primarily due to the introduction, in the fourth quarter of 2014, of a new direct channel of communications with our customers (secure email in the customer area of *Ma Banque en Ligne*), which makes it easier for customers to express dissatisfaction.

In 2015, the main area of complaints concerned account operation and pricing, representing 28 per cent of complaints: requests for refunds of various charges or commissions, and requests for explanation of account statements. Payment methods were the second-largest area of complaint, accounting for 26 per cent of the total. Complaints concerned cheques, SEPA and international transfers and bank cards (delays and errors). 11 per cent of complaints concerned mortgages, a very large increase on previous years. That was mainly due to interest-rate movements, which in the summer of 2015 led to an exceptionally high number of mortgage applications, remortgage applications and redemption requests, causing longer processing times and therefore complaints. Finally, customer service and support complaints accounted for 9 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.

The number of complaints sent to HSBC France's ombudsman is stable (+1 per cent) compared with

1 *http://www.about.hsbc.fr/hsbc-in-france/community*

Corporate, social and environmental responsibility (continued)

2014, and the number of complaints handled directly by the ombudsman through the referral process rose by 16 per cent. The latter increase was caused by the aforementioned temporary problems with mortgage processing that occurred in the summer of 2015.

Commercial Banking recorded a 13 per cent decrease in the number of complaints logged in the RSC (*Réclamation Service Client*) application.

The ten key reasons for dissatisfaction accounted for 72 per cent of total complaints. Payments accounted for 35 per cent of complaints, account management issues for 29 per cent and remote banking services for 8 per cent.

A key development in 2015 was the reduction in complaints regarding payments, due to the stabilisation of the new SEPA European payments platform.

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 perception of current changes through various themes: strategy, Global Standards, communication, customer experience, culture and working methods. 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" system initiated in December 2012, under which managers set up discussion and information meetings with their team members. The team is free to set the agenda for the meetings and the resulting feedback is sent to the HSBC Group. Since the programme was first introduced, it has been clear that employees taking part in 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. Participation in an Exchange meeting in the last three months improves by 7 points on average the engagement and facilitation index measured at the last Global People Survey study.

In parallel, for the past eight years, HSBC has carried out an annual survey of its staff to measure their engagement, the extent to which they feel supported in their work, and behaviours within the company in support of the HSBC Group's values. The Global People Survey (GPS) covers all staff and all key aspects of the business, particularly collaboration and inclusion, commitment and facilitation, behaviours and adoption of values, behaviour of direct managers, staff development and ethics, performance management, respect and recognition, and strategy. In 2015, the response rate was 51 per cent, and the overall engagement rate was also 51 per cent for 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 85).

Social relations: social dialogue and summary of collective agreements

Throughout 2015, 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 related to Retail Banking and Wealth Management, Commercial Banking and the combination of our teams at the Cœur Défense site.

HSBC France also consulted its Central Works Council on its strategic orientations and consequences on its business, and on the introduction of a behaviour assessment system. More than 450 meetings were held and more than 3,000 questions were dealt with during 2015 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 2015. 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 IT Operations Department, 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).

Within HSBC France, negotiations with unions, meanwhile, resulted in the signing of eight agreements and two amendments to existing agreements of which:

- Agreement on the career path of HSBC France Employee Representatives, aimed at enhancing:
  - The interaction between operational and union activities through specific measures,
  - The training and career development of employee representatives,
  - Support for employee representatives when returning to operational activities;
- Agreement on employment and skills planning obligations (*Gestion Prévisionnelle des Emplois et des Compétences*), through:

- A methodology for selecting and analyzing sensitive standard jobs and defining the human resources policies to be implemented to optimize the matching of needs and resources,
- The mobilization of HR policies;

– Collective agreement on the content of information sent to unions as part of mandatory annual wage negociations.

Within HSBC Global Asset Management, negotiations with unions resulted in the signing of one agreement and two amendments to existing agreements:

– Agreement relating to mandatory annual wage negotiations for HSBC Global Asset Management employees – 2015,
– Amendment 2 to the collective agreement setting up a supplementary pension plan,
– Amendment 2 to the Group Working Hours Agreement.

Subcontractor and supplier policy
Selection criteria for invitations to tender 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 the AFNOR (*Association Française de Normalisation*) Diversity Label.

In addition, in 2015, 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 2015, the total workforce of HSBC's GSCs working for France was around 905 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.

Accordingly HSBC France has partnered, among others, with PEXE (an association of eco-companies in France), Les Echos for a conference on smart cities, Paris Europlace for a conference on green bonds and La Tribune for a conference on smart cities ahead of COP 21.

It has also organised a series of press breakfast meetings on themes related to climate finance.

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.

The inspection company Qualiconsult has been appointed to draw up the "scheduled accessibility timetable" required by new French legislation.

The sites concerned are those classified as being open to the public: 275 sites in the Retail Banking and Wealth Management network and 5 sites in the Commercial Banking network.

Of those 280 sites, 5 have exemptions, 57 are compliant and the remaining 218 need to be brought up to standard.

As part of the "scheduled accessibility timetable" presented to the government, those 218 sites will be made compliant over a nine-year period.

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. The company refers mainly to the Code of Corporate Governance for HSBC Group companies.

At 31 December 2015, HSBC France's Board of Directors consisted of 19 Directors: five people who hold positions within the HSBC Group, three members of HSBC France's Executive Committee, seven independent Directors and four Directors elected by the employees. Not including Directors elected by the employees, the Board comprises four women and eleven men. In addition, the Board of Directors is assisted by four committees: a Risk Committee and an Audit Committee, both composed of independent Directors, and a Nomination Committee and a Remuneration Committee, both chaired by an independent Director. The Board of Directors 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.

In Regulatory Compliance, HSBC Group has continued to roll out its Conduct framework relating to customer protection arrangements. The framework sets out HSBC's commitments in terms of fair and equal treatment of customers, notably:

– providing customers with 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 mis-selling;

– ensuring that management of investments is in accordance with commitments, while charging for the products in a way that is fair given the services provided and equitable across all customers;

– ensuring that market integrity rules are observed in the relevant business activities.

In 2015, the programme resulted in the implementation of the Group policy, including the adoption of dedicated local governance and specific indicators intended to identify gaps between Conduct commitments and the way things work operationally. Action plans were implemented during 2015 and some will continue in 2016. Specific training was given to all employees to support the roll-out of the programme.

In Financial Crime Compliance (anti-money laundering efforts and international financial sanctions), the Global Standards programme aims to ensure that each HSBC Group entity adopts these rules in order to prevent 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 levels of control 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.

The continuation of the programme in 2015 led to the implementation of Group policies and procedures regarding the prevention of money laundering and international financial sanctions.

Training efforts supporting the roll-out of the Global Standards programme were maintained in 2015, including classroom-based training for the employees most involved in managing those risks.

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 137.

2015 highlights

COP 21
HSBC France has led different key initiatives on behalf of the Group ahead and during COP 21:

– taking part in several French government initiatives,
  - from contributing to the public consultation on the *Livre blanc dédié au financement de la transition écologique* (white Paper dedicated to financing of the ecological transition) early 2014,
  - and participating to the Pascal Canfin-Alain Grandjean Committee for the "Innovative ways to finance the energy transition" report submitted to the President of the Republic in June 2015,
  - to coordinating the Group's participation to the Business Dialogue in New-York in September 2015,

– leading the Group's commitment to the "Maintreaming Climate Finance within Financial Institutions" voluntary pledge proposed by the Agence Française de Développement and the World Bank Group,

– During COP21 : holding a series of events and conferences at the headquarter of HSBC France, as well as at the *Grand Palais* during the Solutions COP 21 side event together with ORSE *(Observatoire de la Responsabilité Sociale de l'Entreprise)* promoting climate finance and Vivapolis and Suez Environnement promoting Smart Cities.

Sustainable Finance
The two 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; and

– the increasing attention paid to environmental, social and governance issues in the assessment of company performance.

Sustainability risk management

Our approach to managing sustainability risk is fully aligned with the Group's approach described on page 70.

For several years now, HSBC has been assessing clients' compliance with its sustainability risk framework. After HSBC updated its Forestry policy and introduced new policies (agricultural commodities, world heritage sites and Ramsar zones) in 2014, there was no further update of its policies in 2015.

HSBC France was particularly active in 2015 regarding initiatives to train and inform internal employees of Global Banking and Markets and Commercial Banking. Overall, over 106 employees representing about 90 per cent of employees working directly or indirectly with customers (trade, business management, relationship managers) took part in half-day awareness-raising sessions.

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 Risk 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 late 2014. This theme is monitored regularly by the business line's executive committee in co-ordination with the Sustainability Department.

Since the end of 2015, HSBC France has been offering small and medium-sized businesses "green loan" environmental financing in partnership with Bpifrance. These loans, jointly financed by HSBC, are designed for investments geared towards environmental protection. The green loans are only for small and medium-sized businesses that have been operating for more than three years, and carry a reduced interest rate.

Retail Banking and Wealth Management also offers environmental works loans at attractive interest rates. These loans finance equipment to reduce energy consumption or to make use of renewable energies in renovation projects.

In 2015, HSBC Assurances maintained its strong focus on environmental quality in its real-estate policy. That involves acquiring properties that meet the highest environmental standards, retrofitting vacant buildings in order to enhance their quality (particularly by seeking accreditation such as BBC for low energy consumption), and encouraging tenants to use its buildings responsibly by having them sign a "green rider" to the lease including certain undertakings consistent with the policy adopted by HSBC Assurances.

In Global Banking and Markets, HSBC was involved throughout 2015 as an expert in various conferences on issues such as financing smart cities and green bond issuances: see section on "Communications and events", page 75. A green champion has been appointed, in charge of co-ordinating sustainability themes across Global Banking and Markets.

In 2015, HSBC France continued its work aimed at identifying business models, legal frameworks and financing methods that allow technological innovations to be used, particularly in the smart cities field. HSBC France pursued that objective as the only bank in the special working group set up in 2013 by the Institut de la Gestion Déléguée (IGD)[1], and is now contributing to discussions about the creation of the Smart Cities Institute (Institut de la ville Durable) -Vivapolis. HSBC France is also continuing its work with the IGD regarding the development of concession and public-private partnership arrangements, with the aim of enhancing the viability and financial structuring of various types of project that will be identified in France or abroad, either in Europe under the Juncker plan or in emerging markets. HSBC France is also co-ordinating the working group set up by Paris Europlace in infrastructure financing, a business that will be increasingly influenced by the need to combat the causes and effects of global warming. HSBC France is also a member of the working group set up by Michelin to increase the number of charging stations for electric vehicles in France.

In 2015, HSBC France confirmed its support for the research carried out by the 2° Investing Initiative think tank on the impact of climate change on financing activities, in addition to the research already supported through the Institut Paris Europlace's SRI Chair.

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

Article 225 of French act 2010-788 of 12 July 2010 on the national commitment to the environment, known as the "Grenelle 2" act, made social and environmental transparency compulsory for companies with respect to both issuers and asset managers. However, investor involvement was not regulated.

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)

Article 173 of the recent French act no. 2015-992 of 17 August 2015 on energy transition in support of green growth fills that gap. It states that investors, insurance companies, mutual insurers, provident institutions, pension funds etc. must mention in their annual report and provide their policyholders with information about the ways in which their investment policies take into account criteria relating to compliance with environmental, social and governance targets and on the resources used in support of energy and environmental transition. That French act forms part of a broader movement requiring ESG criteria, along with the carbon impact of investments, to be taken into account.

HSBC Global Asset Management (France) wants to support these new expectations through its commitments – such as the signature of the Montreal Carbon Pledge on 23 September 2015 – as well as in its products and services.

Application of ESG criteria in portfolio management

To meet its obligations as a signatory to the UN's Principles for Responsible Investment (PRI), instead of having separate ESG analysts, HSBC Global Asset Management (France) set up a team of equity, credit and ESG analysts in 2012 to cover all aspects of asset management, in line with the PRI philosophy.

Accordingly, ESG criteria are an integral part of the process of analysing and selecting stocks in all qualitative actively managed portfolios, not just in SRI funds. Around 6,000 issuers worldwide are covered by ESG analysis, the results of which can be accessed by all Group analysts and asset managers.

Companies and issuers are ranked as low, medium or high risk. High-risk stocks undergo in-depth examination. The companies/issuers in that category have breached one or more of the ten United Nations Global Compact principles or, at the end of our proprietary ESG analysis, are ranked in the bottom five per cent in their geographic category (either emerging markets or developed countries). Each stock is assigned to one of 30 ESG segments, which have been determined on the basis of the MSCI segmentation to make it easier to integrate them with existing segmentations. Each of these 30 ESG segments represents a homogeneous group of issuers. We have determined E, S and G weightings for each of them based on the in-depth research carried out by Equity/ESG and Credit/ESG analysts, co-ordinated by the global head of ESG research. The issue of whether or not to hold high-risk stocks in portfolios is raised and decisions are made by a special committee. The decisions are recorded and subsequently checked by a Global Committee chaired by the Global Chief Investment Officer. If a stock is excluded, it cannot be held in any qualitative actively managed portfolio, whether SRI or non-SRI. After that analysis, if the relevant companies/issuers are allowed to remain in portfolios, they are subject to special monitoring. The Group initiates a dialogue with the companies concerned, which may take various forms such as telephone or face-to-face discussions and letters. Special monitoring stops when a company is classified as low-risk based on all our indicators.

The way in which ESG has been integrated into our processes in 2015 represents a clear step forward by HSBC Global Asset Management (France), and is now one of the four cornerstones of our equity investment approach. It is a step towards meeting the Group's aim of fulfilling its duty of responsibility towards investors. The next step in 2016 is to set up teams in Hong Kong, London and Paris to engage with companies and encourage them to adopt better practices. In 2016, we will work on gradually adopting enhanced environmental, workforce/social and governance reporting for our institutional clients, along with reporting on the carbon impact of their portfolios.

Update on Socially Responsible Investment Funds (SRI)

The HSBC SRI range has been designed to meet the needs of all HSBC Global Asset Management (France)'s client segments: institutions, asset managers, multi-manager funds, corporates, associations and retail investors.

Assets under management

On 15 October 2015, the *HSBC Actions Développement Durable* fund changed its name to HSBC Sustainable Euroland Equity and the *HSBC Oblig Développement Durable* fund changed its name to HSBC Sustainable Euro Bond. In 2015, HSBC Sustainable Euroland Equity's assets under management fell 11.3 per cent to EUR 209 million while HSBC Sustainable Euro Bond's assets under management grew 14.7 per cent to EUR 99 million. As regards the *HSBC EE Diversifié Responsable et Solidaire* fund reserved for employee savings plans, assets under management have grown every year since its inception, rising from EUR 67 million to EUR 79 million in 2015.

Performance

Year-on-year returns at end-December 2015 were satisfactory, and in line with those achieved in traditional asset management. In Morningstar's[1] "Eurozone Large-cap Equity" category, HSBC Sustainable Euroland Equity ranked in the 2nd quartile over one

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year, in the 2nd quartile over three years and in the 2nd quartile over five years. In Morningstar's "EUR Diversified Bond" category, HSBC Sustainable Euro Bond ranked in the 2nd quartile over one year, in the 2nd quartile over three years and in the 1st quartile over five years.

Employee savings

As regards SRI employee savings plans, the highlights in 2015 were as follows:

- 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 Oblig Euro Responsables et Solidaire and HSBC EE Monétaire Etat.*
- Over 2015, the number of companies holding assets in the SRI employee savings funds increased by 5.7 per cent, the number of employees investing in the SRI funds increased by 9 per cent and assets under management increased by 13 per cent. Assets under management in the *Comité Intersyndical de l'Epargne Salariale* certified range amount to EUR 222 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: 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 the development of socially responsible companies, 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 continued in 2015 with an annual credit facility of EUR 2.4 million up 20 per cent compared to 2014. 1084 people, 361 people more than in 2014, were accompanied of which 554 microentrepreneurs to launch businesses and 530 disavantaged people to return to employment through personal microloans.

HSBC France also owns interests in social-impact venture capital funds, including EUR 1 million in *Financités* held since 2008, EUR 0.5 million 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 2015: EUR 0.3 million to SIFA, EUR 3 million to ADIE and EUR 2.15 million to *Habitat et Humanisme*, an increase of 38 per cent over 2014.

In 2015, 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.

Sustainable Operations

2012-2020 Objectives

To support the HSBC Group's Sustainable Operations strategy described on hsbc.com/sustainability which aims to cut annual carbon emissions from 3.5 tonnes per employee 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 2015, efforts focused on renovating buildings, optimising floorspace, promoting remote working and maintaining "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 for the second consecutive time for 2014-15 by Certivéa. Through this initiative, HSBC France has signed a commitment with the owner and the manager of the building to participate in efforts to control its environmental footprint in these premises. HSBC France is the first occupant to achieve this level of certification.

Corporate, social and environmental responsibility (continued)

Water consumption

HSBC France's water consumption figures 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.

Reducing CO_2 emissions

Greenhouse gases and carbon footprint

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

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

The company's 2014 greenhouse gas emission footprint is available on HSBC France's website, in the Community section[1].

Energy audit

HSBC France has carried out an energy audit in accordance with DDADUE (various provisions for adapting to European Union law) legislation in France, which requires an energy audit covering 65 per cent of its energy costs. Main recommendations involved raising employee awareness on the temperature of use of the premises and the extinction of computer monitors at night, server cooling conditions, and optimizing regulation centralized systems.

New contract with EDF

Ahead of the 31 December 2015 deadline, HSBC France signed a new contract with EDF that brings it into line with the HSBC Group target regarding new renewable energy generation capacity.

For each kWh purchased by HSBC France under the contract, EDF has undertaken to inject 1 kWh generated from renewable sources[2] into the grid. HSBC is also helping to reduce greenhouse gas emissions, since consuming 1 kWh of "*Équilibre*" power results in 6g of CO_2 emissions as opposed to 17g for EDF's overall energy mix in 2014. HSBC France wanted to give active support to research into renewable energies. Accordingly, for each kWh of power purchased, EDF has undertaken to allocate EUR 0.17 to finance research projects led by partner institutions.

Reducing CO_2 emissions related to business travel

Between 2014 and 2015, HSBC France's CO_2 emissions from business travel fell due to the strict application of the travel policy and a fall in kilometres travelled by air, partly through a shift from air to train travel. Employees are making greater use of alternatives to travel, in line with recommended practice, with the aim of significantly reducing travel and travel-related expenses. For example, use of telephone conference calls, webex and above all videoconferencing 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. In 2015, a car-sharing provider was selected by all companies, which they then promoted within their organisations, and access to paved areas of La Défense was opened up to bicycles, making them easier to use.

Reducing paper consumption and improving paper recycling

Paperless projects continued in 2015. Special efforts have been made to rationalise correspondence and documents sent to our customers. Fifty five per cent of all retail customers now receive e-statements for their current and savings accounts, which economised on the use and transport of 2,871,000 sheets of paper and 1,914,000 envelopes in 2015.

For corporate clients, the "automatic" combination of two monthly invoices since July 2015 avoided the use of 120,000 envelopes in 2015, saving around EUR 56,000.

The bank is in the process of eliminating or dematerialising HSBC internal printouts, including IT development that allows tasks to be performed on screen from existing applications. This initiative saved almost 1.6 million pages of printouts in 2015.

As part of the combination of teams in the Cœur Défense building, the new printers are shared and equipped with a badge-reader. The supplier guarantees that printing will fall by 20 per cent as a result of using this hardware.

Reducing production of non-recycled waste

All central sites have waste collection points with selective sorting. Computing waste is recovered or recycled by a company specialising in computer hardware reconditioning, which employs people with psychological disabilities or on inclusion programmes.

1 *More information on http://www.about.hsbc.fr/hsbc-in-france/community*
2 *Electricity produced solely from renewable sources: hydro, biomass, wind, photovoltaic, biogaz.*

The proportion of recycled waste was 80 per cent in 2015, a 6 point decrease compared with 2014. However, this evolution is related to a change in provider which has involved a change of rules for calculating the recycling rate.

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

HSBC France's main environmental and pollution risks stem from the businesses it finances, which are committed to managing environmental impacts as stated in the section on "Sustainability risk management", page 77.

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.

Valeurs Mobilières Elysées (formerly known as Nobel), a wholly-owned subsidiary of HSBC France acquired in 1986, was initially a manufacturing company that ended its manufacturing activities in 1965. Pursuant to its obligations, Valeurs Mobilières Elysées has, for several years, measured the quality of groundwater in the area in which it conducted its manufacturing activities. The measurements for 2015 show a satisfactory quality of groundwater, with concentrations below maximal guide values for most of the relevant parameters. However, the measurements obtained by two of the piezometers show certain concentration anomalies, although readings were stable compared with previous measurements.

Consideration of noise

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

Land use

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

Protecting biodiversity

The HSBC Group, including HSBC France, contributes to protecting biodiversity through its environmental community investment programmes (see section on "Sustainable Communities"), 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 76).

Financial risk

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

Corporate, social and environmental responsibility (continued)

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*

Employees – total

	2015	2014	2013 [1]	2012	2011 [2]
Total HSBC France group	**9,593**	9,793	9,891	9,851	10 335
of which HSBC France	**8,979**	9,144	9,198	9,424	9 860
of which subsidiaries and branches	**614**	649	693	427	475

Employees – full-time equivalent

	2015	2014	2013 [1]	2012	2011 [2]
Total HSBC France group	**9,217**	9,402	9,533	9,570	10,030
of which HSBC France	**8,621**	8,771	8,857	9,152	9,564
of which subsidiaries and branches	**596**	631	676	418	466

** Staff is mainly working in France, except the expatriates (67 at the end of 2015).*
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.*

HSBC France's workforce contracted slightly in 2015.

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

953 new employees were hired in 2015, comprising 641 on permanent contracts and 312 on fixed-term contracts, including 219 youth apprenticeship and work-study contracts.

1,118 employees left the company, with retirements making up 22 per cent of the total, the end of fixed-term contracts 34 per cent and resignations 23 per cent.

The retention rate among the best-performing staff was 96.7 per cent.

The structure of the workforce remained stable, with 68.3 per cent of staff having managerial status, and 50 per cent of managers being women.

At 31 December 2015, 1,095 employees worked under the voluntary part-time work agreement, equal to just under 12 per cent of registered employees.

According to DOETH (*déclaration obligatoire d'emploi de travailleurs handicapés* – mandatory disability employment declaration) 2014 definitions, disabled people made up 3.1 per cent of the workforce, as opposed to the target of 6 per cent. As a result, HSBC France paid EUR 1.17 million to Agefiph in 2015.

At 31 December 2015, HSBC France employed 362 disabled people (including 168 who are no longer working).

Remuneration and incentive plans

Salaries and salary developments

In 2014, in the absence of a collective agreement following the annual pay round, management unilaterally decided to implement a single measure for 2015. 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 2010 to 2014);
- for the review and possible revision of the remuneration of staff representatives, in application of the agreement of 30 October 2007 on the exercise of the right to organise within HSBC France.

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

Collective incentive plans

A new group employee profit-sharing and incentive system was 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 restated profit before tax.

The individual distribution method, which is 50 per cent based on hours worked and 50 per cent based on a capped salary, 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 plan of HSBC Holdings Group (B shares) through a French sub-plan compliant with French legislation and tax rules.

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

In 2005, HSBC 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 either immediately or 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 18 May and 5 June 2015, 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 1.50 million and the total investment was EUR 11.1 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 3.4 million in 2015.

HSBC France also pays an amount equal to 0.02 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.

In 2015, HSBC France also made EUR 9.5 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 2015 was 16.5 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 2015 was 11 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 co-ordinate 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 76,908 hours of overtime between January and December 2015, down 13 per cent compared with the same period of 2014.

Work performed in excess of regulated hours mainly takes place under the exceptional work agreement, which represents 64 per cent of overtime hours worked.

Absenteeism

In 2015, the level of absenteeism due to maternity leave was lower than in 2014. Total days of absence due to maternity leave fell by 18.6 per cent.

Absenteeism due to illness was higher than the previous year, with a rate of 3.65 per cent compared with 3.5 per cent in 2014.

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 2015, the CHSCTs continued their involvement in consultations relating to ongoing renovations and improvements of branches and central buildings – particularly in Cœur Défense building where 4,150 workstations will be located – as well as supporting reorganisations relating to employee working conditions.

In 2015, no specific agreement regarding health and safety at work was signed, although initiatives already underway continued, including:

a) 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. In 2014, 1,076 employees took part in the Stress Medical Observatory's research.

The results revealed higher levels of stress, anxiety and depression compared with previous years. They also revealed that the average stress level was higher than that of the IPRP firm's own panel.

Groups expressing less favourable psychological experiences were found among business line technicians processing banking transactions, employees aged 59 years and over and those aged under 30.

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, suitable training that takes into account developments in the business and support for young people when joining the company.

b) 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 in 2015.

Based on the results of the first Quality of Life in the Workplace survey, the Steering Committee continued its work to analyse risk situations, using the results of the fourth iteration carried out in March 2015.

Those results showed positive changes among employees taking part in the survey in Retail Banking and Wealth Management, Commercial Banking and the Operations Department:

– 27 per cent following training relating to quality of life at work, in which some managers also took part,

– 35 per cent following changes in the performance appraisal system,

– 21 per cent following changes in processes.

The work-related stress mapping initiative carried out in 2012 will be updated following the fifth iteration that started in November 2015, involving 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 2015, the work accident frequency rate (number of lost-time accidents / millions of hours worked) was 10.7 and the injury severity rate for work and travel-related accidents (number of days lost / thousands of hours worked) was 0.3.

Work/life balance

In late 2010, HSBC France introduced a remote working system which enables employees, if their functions 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 2015, 721 employees (8 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.

Training

In 2015, training initiatives focused on supporting and developing employee skills to help the HSBC Group continue implementing its strategy, based on stimulating growth while increasing effectiveness, and introducing the most demanding standards regarding compliance, particularly as regards efforts to combat money laundering, terrorist financing and corruption, as part of the Global Standards programme. HSBC France's professional training initiatives are a logical part of that effort. They are based on managing banking risks, implementing the Global Standards programme (consisting of three parts, i.e. know your customer, improvements to the compliance system regarding financial crime, and the monitoring and identification of new financial crime techniques), increasing managerial expertise, boosting language skills and developing technical expertise.

As part of the Global Standards programme, all employees in Retail Banking and Wealth Management who are particularly exposed to money-laundering risk (particularly Premier, Pro, 4 and Top Tier relationship managers and branch managers) attended a classroom-based one-day training day on the theme of efforts to combat money laundering and ensure compliance with sanctions.

Training was also organised for all staff – branch managers, relationship managers, receptionists and experts – on the theme of how to talk to customers about matters regarding compliance and efforts to combat financial crime, in order to engage with them against a background of risk.

Corporate, social and environmental responsibility (continued)

Senior managers attended two days of training on the theme of attaining excellence in coaching. Training courses for new arrivals continued for Premier sales assistants and Advance, Premier, Pro, 4 and Top Tier relationship managers.

Several cohorts of Contact Centre staff attended an integration course, including training provided to new recruits and particularly new staff at the Fussy site.

Private Banking continued to adapt its systems and processes in line with various regulatory requirements and the Global Standards (KYC/TOMIC). Staff received training appropriate to their duties to help them adopt these new systems and processes.

Commercial Banking continued to roll out training in strategic subjects (development of international connectivity, risk management and client relationship management), by focusing on increasing skills levels in relation to international activities, risk management and client relationships.

Sales teams facing international customers had the opportunity to attend strategic training sessions organised by the global Commercial Banking business line, enabling selected staff to network and take advantage of the Group's international reach.

AML & Sanctions training continued in the form of a one-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, the main initiatives continued on the technical themes of products and customer relations. Classroom-based training sessions were held on financial market conduct rules for all Global Markets staff, along with recognition and tax rules relating to forward financial instruments, and e-learning sessions were held in relation to Global Standards and technical subjects (the Volcker rule, competition law and benchmark rate-setting). AML & Sanctions training continued for staff particularly concerned by that theme.

In 2015, HSBC Operations, Services and Technology (HOST) continued its efforts to develop staff skills in areas including IT and project management. Some staff received training leading to internationally recognised qualifications in project management. As part of the Global Standards roll-out, staff working in International Payments and Service Delivery's Risk function took part in AML and sanctions training. English-language skills remain necessary for HOST staff who work regularly with HSBC Group's contacts (IT teams).

Training for support functions focused on the specific technical requirements of their teams, as well as on improving their English-language skills. Selected staff working in the Support Function Compliance Department received training on the theme of AML and sanctions, also as part of the Global Standards roll-out.

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 and individual classroom-based sessions). To complement these efforts, inter-cultural training was arranged to facilitate collaborative work within our international organisation.

The deployment of the Values Led High Performance Culture training course among GCB 3-4 managers in the various business lines and functions was completed in the first quarter of 2015. The main aim of that one-day course was to develop a new culture of leadership by using a common, shared toolkit based on HSBC's values.

The toolkit and its components also form the basis for two other training modules:

– "*Etre au Top*" (one day): all GCB 5-8 managers, making a total of 8,000 staff to be trained in France in 2015/2016. These sessions are open to all business lines and functions, and aim to enhance interaction and ensure that all staff take ownership of these tools in order to support a change in the Group's culture.
– "*Etre au Top pour manager*" (two days): GCB 4-7 managers, making a total of 600 managers in 2015 across all business lines and functions. The aim is to make it easier for managers to take ownership of new management tools and to adopt new practices in their teams.

Mandatory training for all staff was introduced at a rapid pace, including eight e-learning modules in 2015. This initiative will continue in the next few years.

The Group also continued to support staff choosing to take CPD (Continuing Professional Development) 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:

- Global Standards for Risk and Compliance teams who took part in AML & Sanctions Compliance sessions,
- Portfolio management, aimed at developing skills and embedding a methodology,
- Product knowledge (mutual funds, pension funds), particularly for Sales and Operations teams,
- Professional knowledge of regulations applicable to market participants (AMF certification).

Staff at HSBC Assurances Vie received training in the following areas:

- Global Standards for BRCM and Compliance teams who took part in AML & Sanctions Compliance sessions,
- Financial analysis for the Wealth/LPI *Assurance Vie Retraite* team,
- Regulatory developments (Solvency II), particularly for staff in the Finance and Operations departments in order to ensure they have up-to-date knowledge of the regulatory environment.

Diversity and equality of treatment

The global corporate agreement on Diversity and Equality signed by unions and management in November 2014 has four themes:

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

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

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

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

The other deals with pay, with a specific focus on wage equality. Since 2004, the bank has spent EUR 7.7 million in this area. The same wage equality analysis is carried out for staff representative bodies, people with disabilities and employees over 50 years of age.

In 2015, 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 were introduced in 2012, strengthened in 2014 and maintained in 2015. 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 2015, six women sat on the HSBC France Executive Committee, while women accounted for 50 per cent of executives and 38 per cent of branch, business banking centre and corporate business 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. As of 31 December 2015, it was being renegotiated to include HSBC Assurances Vie. It is intended to support the sustainable integration of young people into the workforce and maintain employment among older people, thus making it easier to pass on skills and expertise within the bank. In 2014, 184 young people aged 26 or under were hired on permanent contracts.

The "senior career review" for staff aged 55-58 has been maintained. In December 2014, it was offered to 881 employees who reached the relevant age limit in 2013 and 2014, and it will be offered to 427 employees in November 2015.

Corporate, social and environmental responsibility (continued)

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.

Meanwhile, e-learning training for managers continued in 2015.

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

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

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 2015, a total of 82 young people, including four with disabilities, were given summer jobs lasting between one and two months through these associations.

Disabilities

At 31 December 2015, HSBC France had 362 disabled employees, including 168 who are no longer working (second degree disability). In 2015, 22 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 2015, 30 workstation adjustments were carried out, including ergonomic chairs, armrests, special mice, keyboards for partially sighted people, ZoomText magnification software, 24-inch screens and headsets.

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, one employee was recruited on a permanent contract, one on a temporary basis and one on a work-study contract in 2015.

To improve day-to-day living standards, 390 disabled employees or employees with a disabled close relative received "CESU" cheques (enabling them to pay for domestic help) financed entirely by HSBC, while nine employees received support for buying individual equipment to alleviate their disability, such as hearing aids and other devices.

Sustainable communities

In 2015, HSBC France donated more than EUR 3.2 million to community investment programmes. More than 1,400 HSBC France group employees completed 1,783 voluntary assignments, representing more than 12,000 hours, including 79 per cent during work time. In line with the HSBC Group's policy, 81 per cent of donations were allocated to projects related to education (32 per cent) and the environment (49 per cent).

Education

As regards education, the main initiatives in 2015 were as follows:

– Support provided by the *Fondation HSBC pour l'Education* for 48 educational institutions and charities, benefiting more than 10,000 children in deprived areas of mainland France according to the four new priorities defined by the *Fondation's* Executive Committee:
  - preventing children disengaging at school,
  - facilitating educational success through access to culture,
  - promoting efforts to help children re-engage at school,
  - supporting equal access to excellence programmes;

– The tenth anniversary of the *Fondation HSBC pour l'Education* gave rise to:
  - a travelling exhibition of photos around approximately 10 HSBC sites in Paris and elsewhere in France, portraying 17 projects supported by the *Fondation* since its inception,
  - eight charity evenings in which the exhibited photos are auctioned to raise money for the *Fondation de France*'s "*Aider tous les collégiens à réussir*" ("helping all schoolchildren succeed") project,
  - two concerts presented by charities supported by the *Fondation HSBC pour l'Education* to raise awareness among HSBC customers and staff about its activities;

– 367 HSBC staff were involved in the *Fondation HSBC pour l'Education*'s initiatives, including 136 people who volunteered to tutor young people from disadvantaged backgrounds;

– Development of financial education programmes with:

  • *Entreprendre pour Apprendre* to encourage business start-ups,

  • CRESUS to help people who are in financial difficulties, have excessive debts or are excluded from mainstream banking.

Environment

As regards the environment, the main event in 2015 was the deployment of the HSBC Water Programme in France:

– Continued training in water-related issues for 77 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;

– The partnership with the ONF (French national forestry office), which contributes to preserving and restoring 50 natural wetland sites and involves HSBC France employees in nature projects across France. In 2015, 31 nature projects were organised with the ONF, enabling almost 604 employees to take part in restoring natural sites in French forests;

– The roll-out in France of HSBC's "Water Explorer" environmental education programme alongside our partner, the *Office français de la Fondation pour l'Education à l'Environnement en Europe* (OfFEEE). 919 teams, including 88 from France, consisting of schoolchildren aged 8-14 took part in the programme's international competition, and 10 HSBC France employees took part in the jury to select the best project.

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 eighth year of support for young musicians from the Aix academy. These two programmes help to expand the cultural horizons of people supported by *Fondation HSBC pour l'Education.*

150th anniversary

Finally, 2015 brought new partnerships to celebrate the 150th anniversary of the HSBC Group.

In the framework of the 150th year anniversary, HSBC France selected seven organisations to receive funding in three areas:

• education,

• health and research,

• environment, fauna and flora.

– In education, three charities are receiving support, in line with the priorities of the *Fondation HSBC pour l'Education*: preventing disengagement with *Agir pour l'école,* encouraging re-engagement with education with the *Ecoles de la deuxième chance* (RE2C) network and reducing inequality in terms of accessing excellence programmes through help to develop *Sciences Po*'s priority education agreements.

– As regards the environment, one public-sector entity and one charity are receiving support: restoring planting along the *Canal du Midi* with *Voies Navigables de France* and increasing biodiversity in urban areas with *Noé Conservation.*

– In the field of health, two foundations are being supported: *Fondation de la Recherche Médicale and Institut du Cerveau et de la Moelle épinière* (ICM) as part of their research programmes into age-related conditions.

Methodological details on corporate, social and environmental information

Scope of reporting

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

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

The social indicators relating to "Company saving plans: total assets of the SRI (Socially Responsible Investment) range" and to "Investment of the *HSBC EE Diversifié Responsable et Solidaire* company savings fund for the benefit of solidarity-based companies" are communicated within the scope of HSBC Global Asset

Corporate, social and environmental responsibility (continued)

Management (France), a subsidiary which is in charge of these indicators for HSBC in France.

Change in scope
For environmental indicators, entities consolidated or deconsolidated during the year are accounted for in the data reported on the date they enter the Group and until the date they exit.

Reporting period
The annual reporting period is the calendar year (from 1 January to 31 December). In 2015, for environmental indicators, the reporting period is from 1 October 2014 to 30 September 2015. Paper consumption is reported from 1 July 2014 to 30 June 2015.

Reporting tools and processes

For environmental indicators
The reporting tool is Metrix, developed by Enablon, which is used by the HSBC Group. Its main functions include the collection of data on energy (kWh), CO_2 emissions, water (m^3), paper (tonnes), waste (tonnes), km travelled and other data: comments, operational surface areas (m^2), number of sites, workforce (FTE), initiatives, dual validation at country level, then at regional and global levels and, finally, dashboards.

For social indicators
The HSBC Group uses the Peoplesoft HR database. Information that appears in reporting documents is the result of querying this database.

Because of a change in the information system in 2015, the actual number of training hours was not available on the date this document was published. The provisional number of training hours for 2015 is based on actual figures for the six months ended 30 June 2015, second-half figures estimated on the basis of the 2015 Draft Training Plan presented to the staff representative bodies, and figures from the information system, which are currently being validated.

Details on the definition of certain indicators

Environmental indicators
CO_2 emissions result from the consumption of electricity, gas, fuel oil, urban heating and air conditioning. Transport-related CO_2 emissions correspond to journeys made by train and plane (which are purchased through travel agencies), by taxi, and by hired cars or the group car fleet. Energy consumption is partly estimated as invoicing and reporting periods do not overlap precisely.

Social indicators
The total workforce comprises employees under permanent and fixed-term employment contracts. Internship, temporary and suspended contracts, employees taking early retirement, employees on long-term sick leave, permanently disabled employees and expatriates are included. Holiday auxiliary staff are excluded.

Recruitment and redundancy figures include employees under permanent and fixed-term employment contracts. More than one hire will be recorded for a person hired more than once under a fixed-term contract during the reporting period. Likewise, an employee whose contract changes from a fixed-term contract to a permanent contract will be recorded as a hire. Only the reasons for departures representing 20 per cent of departures are detailed.

The number of employees who work from home include those having signed an endorsement to their contract enabling them to work from home.

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

Table of sustainability performance indicators of the HSBC Group in France

Indicator	Change 2015	2014	2013	Reference document GRI 3[a]	ISO 26000[b]	Global Compact Principle[c]
Financial Indicators (Scope HSBC France group*)						
1 Pre-tax earnings (EURm)	**618**	232	546			
Total shareholders' equity (EURm)	**5,838**	5,733	5,391			
Cost Efficiency Ratio (%)	**66**	82	71			
Liquidity Coverage Ratio (%)	**120**					
Advances to Core Funding (ACF) ratio (%)	**98.1**	101.0	107.5			
Common Equity Tier 1 (CET1) Ratio	**14.9**	14.1	12.7			
Sustainable Economy (Social indicators) (Scope HSBC in France*)						
2 Number of financing for regional authorities made on the bond market	**10**	30	24			
Number of financing for AFL	**1**	–	–			
Number of financing for Public-sector Healthcare Establishments	**8**	1	0			
3 Equator principles – Category A.				FS 3	6.3.5, 6.6.3	2
- number of projects financed and their value (EURm)	**ND[1]**	0 and 0	0 and 0			
Equator principles – Category B.						
- number of projects financed and their value (EURm)	**ND[1]**	1 and 65	0 and 0			
Equator principles – Category C.						
- number of projects financed and their value (EURm)	**ND[1]**	0 and 0	0 and 0			
Consultancy (Number)	**ND[1]**	0	0			
4 Lines of credit allocated to Adie (EURm)	**2,4**	2	2			
Amount of microfinance loans made *via* ADIE partnership (EURm)	**1,830**	1,818	1,673	FS 7		
Number of microcredits disbursed (Adie)	**1,084**	723	605			
5 Company saving plans: total assets of the SRI range (EURm)	**222**	197	176	FS 10, 11, 12		
6 Investment of the HSBC EE *Diversifié Responsable et Solidaire* company savings fund for the benefit of solidarity-based companies (EURK)	**5,462: 3,001 Adie, 311 SIFA, 2,150 *Habitat et Humanisme***	3,960 1,500 Adie, 310 SIFA, 2,150 *Habitat et Humanisme*	3,309: 850 Adie, 309 SIFA, 2,150 *Habitat et Humanisme*	FS 10, 11, 12		
7 Number of customer complaints submitted to the Ombudsman	**744**	734	647	PR 8	6.7	
Number of complaints processed and signed by the Ombudsman	**190**	164	116		6.7	
8 Level of satisfaction of our retail customers: customers claiming to be "very satisfied" (%)	**47**	44	48			
Customer recommendations during the past two years (%)	**36**	36	36			
Environmental Footprint[2] (Scope HSBC in France*)						
9 Energy consumption (GWh)	**58**	59	64	EN 3, EN 4	6.5.5	
Energy consumption in MWh/FTE[3]	**6.32**	6.25	6.67			
10 Transportation (millions of km)	**34.85**	39.33	37.33	EN 16	6.5.5	7 & 8
11 Direct CO_2 emissions (thousands of tonnes equiv. CO_2)	**6.64**	7.50	9.77			
- direct CO_2 emissions (energy)	**2.98**	3.24	4.95	EN 16	6.5.5	7 & 8
- direct CO_2 emissions (transportation)	**3.66**	4.26	4.82			
12 Water consumption (thousands of m^3)[4]	**134**	152	158	EN 8	6.5.4	7 & 8
Water consumption per FTE[3] (m^3)	**14.55**	16.14	16.53			
13 Paper consumption (tonnes)	**1,294**	1,336	1,555	EN 1, EN 2, EN 22	6.5.4	
% of FSC paper	**94**	93[10]	93			
14 Waste production (tonnes)	**1,489**	1,512	1,490		6.5.4	7 & 8
Waste production per FTE[3] (kg)	**162**	161	156	EN 1, EN 2, EN 22		
% of recycled waste/total waste	**80**	86	78			
Human resources and security (Scope HSBC France*)						
15 Total workforce[5] (number): Women (W) / Men (M)	**5,169 W / 3,810 M**	5,250 W / 3,894 M	5,258 W / 3,940 M	LA 14	6.3.7	6 7 & 8

Corporate, social and environmental responsibility (continued)

	Change			Reference document		
Indicator	**2015**	2014	2013	GRI 3 [a]	ISO 26000 [b]	Global Compact Principle [c]
Recruitments	**953**	910	642			
Dismissals	**85**	73	82			
16 Organisation of working hours Absenteeism [6] (%)	**3,6**	3.5	3.2			
17 Equal treatment:						
- number of persons with disabilities	**362**	343	334		6.3.7	6
- number of recruitments via the IMS and Mozaik HR	**82**	101	101		6.3.7	
- % of employees less than 30 years old	**13.1**	13.0	14.0			
- % of employees over 50 years old	**29.3**	29.0	30.5			
- % of women in management	**18.2**	18.0	16.6			
18 % of non-executive directors at 31/12 (without function in the HSBC Group)	**37**	44	44		6.2	
19 Number of employees teleworking	**721**	655	582	LA 7	6.4.6	
20 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	**116**	137	115	LA 7	6.4.6	
- rate of work- and travel-related accidents[7]	**10.7**	10.5	9.1			
- severity rate of work-and travel-related accidents[8]	**0.3**	0.3	0.2			
21 Workforce split by status, gender and contract of employment (number):						
Total workforce	**8,979**	9,144	9,198			
- of which unlimited term contracts	**8,586**	8,686	8,755			
- of which women managers	**3,072**	3,061	3,012			
- of which men managers	**3,038**	3,084	3,093			
- of which women clerical staff	**1,893**	1,924	2,005			
- of which men clerical staff	**583**	617	645			
- of which fixed term contracts	**393**	458	443			
- of which women managers	**9**	20	32			
- of which men managers	**12**	15	35			
- of which women clerical staff	**26**	54	68			
- of which men clerical staff	**9**	10	26			
- of which women in apprenticeship	**169**	191	141			
- of which men in apprenticeship	**168**	168	141			
22 Training (total number of hours)	**328,000** [9]	289,102	259,729			6
Sustainable communities (Scope HSBC in France*)						
23 Sponsorship budget (EURm)	**3.2**	2.5	2.3		6.8	
% of the Community Investment donations / pre-tax earnings	**0.52**	1.08	0.42		6.8	
% approx. employees involved in volunteer SD activities	**16**	15	13		6.8	
Number of hours of volunteer work during work hours	**9,577**	8,725	9,502		6.8	

1 *Details on 2015 figures will be published on the HSBC Group's internet site "Citizenship" Section in April 2016.*
2 *Figures calculated over the period from 1 October 2014 to 30 September 2015.*
3 *Full-Time Equivalent.*
4 *100% of water consumption supplied by public network.*
5 *See also page 82.*
6 *Number of working days of absences due to sickness / number of total theoretical working days.*
7 *Rate of work- and travel-related accidents calculated using the following ratio: (number of accidents resulting in lost time/millions of hours worked).*
8 *Severity rate of work- and travel-related accidents calculated using following ratio: (number of working days lost due to work-and travel-related accidents/ thousands of hours worked).*
9 *Estimated figure.*
10 *Methodological change in 2014. The Group now assesses share of compliant paper (FSC, PEFC, Bonsucro) instead of share of FSC paper as in 2013.*
a *https://www.globalreporting.org/resourcelibrary/G3-Guidelines-Incl-Technical-Protocol.pdf*
b *http://www.iso.org/iso/home/standards/iso26000.htm*
c *http://www.un.org/fr/globalcompact/principles.shtml*

* *HSBC France is a 99.9 per cent-owned subsidiary of HSBC Bank plc. The HSBC France group corresponds to the perimeter of the consolidated financial statements and HSBC France corresponds to the perimeter of the individual financial statements.*
HSBC in France's scope of operations comprises the operations of the HSBC Group in France, which includes the HSBC France group and the Paris branch of HSBC Bank plc (excluding intra-group funding costs).

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

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

For the year ended December 31, 2015

To the Shareholders,

In our capacity as Statutory Auditor of HSBC France (the "Company"), appointed as independent third party and certified by COFRAC under number 3-1060 , we hereby report to you on the consolidated human resources, environmental and social information for the year ended December 31, 2015, included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Company's responsibility

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

Independence and quality control

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

Statutory Auditor's responsibility

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

– attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);

– express a limited assurance conclusion that CSR Information taken as a whole, is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

Our work involved four persons and was conducted between October 2015 and March 2016 during a 5 week period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the French professional standards and with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and with ISAE 3000 concerning our conclusion on the fairness of CSR Information.

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

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

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

1 Whose scope is available at www.cofrac.fr.
2 ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

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

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L.233-1 and the controlled entities as defined by article L.233-3 of the French Commercial Code within the limitations set out in the "Methodological information, Methodological details on CSR information" section of the management report.

Conclusion

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report, with the exception of the FSC paper element within the total paper consumption which has been presented for a different period from July, 1st 2014 to June 30, 2015 rather than the fiscal year, as mentioned in the methodological notes.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted around 20 interviews with about 30 persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

– assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;

– verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

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

Regarding the CSR Information that we considered to be the most important[3]:

– at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;

– at the level of a representative sample of entities selected by us on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents on average 94% of headcount and 99% of quantitative environmental data disclosed.

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

3 *Detailed in the appendix.*

4 *Corporate entities located in La Défense and in Paris (Champs-Elysées), concerning HSBC Group in France, HSBC France, HSBC France & Assurances subsidiaries, HSBC Global Asset Management (France)*

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

We believe that the sampling methods and sample sizes used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, except for the possible effects of the period retained for the presentation of the FSC paper element within the total paper consumption as mentioned above, no other material misstatements have come to our attention that cause us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, March 3rd, 2016

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Nicolas Montillot
Partner

Sylvain Lambert
Partner of "Sustainable Development" Department

Corporate, social and environmental responsibility (continued)

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

CSR Information that we considered to be the most important

Human resources

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

Environmental information

- Organization of the company to take into account the questions of environment;
- Measure of prevention, recycling and elimination of waste;
- Water consumption and water supply according to the local constraints;
- Consumption of raw materials and measures taken to improve the efficiency of their use;
- Energy consumption, measures taken to improve the energy efficiency and resort to the renewable energies;
- Emission of greenhouse gas.

Social information

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

Risk management and control within the HSBC France group

Risk Management

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

HSBC France also maintained its conservative risk profile by reducing exposure to the most likely areas of stress by:

– regularly assessing its exposure to sovereign debt and bank counterparties to ensure that the overall quality of the portfolio remained strong;

– regularly assessing higher risk countries and by adjusting its risk appetite and exposures accordingly;

– reinforcing its client selection filters further in managing the risk of financial crime.

Managing Risk

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

Risk management framework

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

The HSBC France risk management framework is designed to provide appropriate risk monitoring and assessment. The bank's Risk Committee focuses on risk governance and provides a forward-looking view of risks and their mitigation.

In compliance with the requirements of the French order of 3 November 2014 and the demands of the HSBC Group, the HSBC France group has established a permanent control and risk management system as set out in the Chairman's report on the internal control procedures and risk management procedure.

The Risk Committee is composed of members of the Board and has responsibility for oversight and advice to the Board on, inter alia, the bank's risk appetite, tolerance and strategy, systems of risk management, internal control and compliance. The Risk Committee maintains and develops a supportive culture in relation to the management of risk, appropriately embedded by executive management through procedures, training and leadership actions.

In carrying out its responsibilities, the Risk Committee is closely supported by the Chief Risk Officer, the Chief Financial Officer, the Head of Internal Audit and the Head of FCC & RC Compliance, together with other business functions on risks within their respective areas of responsibility.

Risk culture

All employees are required to identify, assess and manage risk within the scope of their assigned responsibilities. Global Standards set the tone from the top and are central to the group's approach to balancing risk and reward. Personal accountability is reinforced by the HSBC Values, with employees expected to act with courageous integrity in conducting their duties.

Employees are supported by a disclosure line (HSBC Confidential) which enables them to raise concerns in a confidential manner. HSBC France also has in place a suite of mandatory training to promote these values. Performance management is measured against objectives which are fixed at the start of the year by the manager for each employee. These objectives integrate qualitative targets (respect of compliance and internal control procedures, adherence to Global Standards, quality of sales or service, management of risk notably in terms of operational risk, closure of audit points, client recommendations, intra Global Business synergies, client acquisition etc) and either collective or individual financial criteria (increase in revenues, control of costs, increase in profit before tax etc).

The performance indicators, which underpin these objectives, are a function of the job held, the level of responsibility and are analysed in comparison with the previous year or versus the current annual plan.

The objectives, as a whole, are established at the start of the year in the annual scorecards of the employees.

It should be noted that Senior Management (Grades 0 &1) are also reviewed versus their adherence to the Group values (Dependable and do the right thing, Open to different ideas and cultures and Connect with our customers, communities, regulators and each other).

The risk culture is reinforced by HSBC France's approach to remuneration; individual awards are based on the achievement of both financial and non-financial objectives which are aligned to the global strategy.

Risk profile

Risks are assumed by HSBC France are followed in context of the local risk appetite. Risks are identified through the risk map process which sets out the HSBC France's risk profile in relation to key risk categories. Risks are regularly assessed through the risk appetite framework and of the regular review of emerging risks by senior management. Credit, market and operational risk are measured using the Basel 2 Pillar 1 framework for regulatory capital through the allocation of risk-weighted assets.

Risk management and control within the HSBC France group (continued)

Other risks are also measured through the group's economic capital model under Pillar 2.

Risk appetite

HSBC France's risk appetite is set out in the Risk Appetite Statement, which describes the types and levels of risk that HSBC France is prepared to accept in executing its strategy. Quantitative and qualitative metrics are assigned to the key categories: earnings, capital, liquidity and funding, cost of risk, risk categories and risk diversification and concentration. Measurement against the metrics:

- guides underlying business activity, ensuring it is aligned to risk appetite statements;
- informs risk-adjusted remuneration;
- enables the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and
- promptly identifies business decisions needed to mitigate risk.

The risk appetite statement is approved by the HSBC France Board following advice from the Risk Committee, and is a key component of the risk management framework. It is central to the annual planning process and seeks to be aligned with the strategy.

Stress testing

HSBC France's stress testing programme is central to the monitoring of top and emerging risks. This is achieved by the undertaking of internal as well as regulatory driven stress test exercises during the year.

The major activities of the HSBC France's stress test programme during 2015 (excluding market activities) were focused on the completion of the PRA concurrent stress test. As part of HSBC France's stress testing framework, specific macroeconomic driven and event or sector driven scenarios specific to France were considered and reported to senior management.

HSBC France also contributed to the HSBC Group stress testing programme, including Reverse Stress Testing. Reverse stress tests require a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities.

Regulatory stress tests

Stress testing is an important tool for regulators to assess the resilience of the banking sector and of individual banks to adverse economic or financial developments.

The results inform the regulator and Management of the capital adequacy of individual institutions and could have a significant effect on minimum capital requirements and planned capital actions, including the payment of dividends, going forward.

HSBC France, HSBC Bank plc and HSBC Group took part in the 2015 PRA concurrent stress test programme, involving all major UK banks. The scenarios for the 2015 stress test incorporate a synchronised global downturn affecting Asia and Emerging Markets, a reduction in global tolerance to risk and market liquidity, and a slowdown in the UK and euro area driven by the downturn in its trading partner. 2015 PRA Stress Test results for the Group were published by the Bank of England alongside the Financial Stability Report in the fourth quarter of 2015.

Financial Crime Compliance & Regulatory Compliance

The level of inherent compliance risk remained high in 2015 as the industry continued to experience greater regulatory scrutiny and heightened levels of regulatory oversight and supervision from both the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR) and the *Autorité des Marchés Financiers* (AMF).

In recent years, we have experienced a substantial rise in the volume of new regulation impacting our operational processes, along with increasing levels of compliance risk as regulators and other authorities pursued reviews and investigations into our activities.

Within the new Single Supervisory Mechanism, HSBC France is now under the supervision of the European Central Bank (ECB), for prudential matters. Within this context, the ECB expressed interests toward the bank compliance procedures and controls frameworks.

In this context, HSBC France in line with the Group heightened standards has continued to strengthen Financial Crime Compliance and Regulatory Compliance policies. Further details may be found in the chairman's report on pages 61 *et seq*.

We believe that the level of inherent compliance risk that we face as a Group will continue to remain high for the foreseeable future.

Structural reform

European Banking Structural Reform

In June 2015, the European Council reached an agreement on the European Commission legislative proposal on the structural reform of the European banking sector. According to the compromise, proprietary trading in financial instruments and commodities should have to be separated in a stand-alone separate subsidiary from deposit taking activities, trading activities should be monitored in order to identify any prohibited proprietary trading or excessive risks and supervisors would be enabled at their discretion, to require certain measures such as the reduction or separation of certain activities, additional capital requirements etc.

The European Parliament had vivid debates on the proposals, some members being much in favour of automatic separation whereas the rapporteur and other members being in favour of a risk based approach.

This complex text has raised many comments on level playing field issues with the European subsidiaries of third country groups having material trading activities in Europe.

Law no 2013-672 - 26th July 2013 – Separation and Regulation of banking activities

Following the publication of the implementing regulations in September 2014, the ACPR has conducted several on site inspections in order to understand how the new regulatory framework had been implemented by the banks. ACPR decided that the inspection reports would be issued once all the on site inspections are finalised. It is also expected that the French authorities would be willing to introduce amendments to the regulatory framework in order to take into account some conclusions drawn by ACPR.

FINANCIAL RISKS

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees and credit derivatives, and from the holding of debt securities. HSBC Group has established standards, policies and control procedures dedicated to monitoring and management of risk linked to its activities.

All the HSBC France group's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of different types of risks.

In compliance with the requirements of the French order of 3 November 2014 and the demands of the HSBC Group, the HSBC France group has established a permanent control and risk management system as set out in the Chairman's report on the internal control procedures and risk management procedure. This framework relies on a three lines of defence structure.

Credit Risk Management

Of the risks in which we engage, credit risk generates the largest regulatory capital requirements.

The principal objectives of our credit risk management are:

– to maintain across the group a strong culture of responsible lending and a robust risk policy and control framework;

– to both partner and challenge Global Businesses in defining, implementing, and continually re-evaluating our risk appetite depending on actual and scenario conditions; and

– to ensure there is independent expert scrutiny of credit risks, their costs and mitigation.

Within the bank, the Credit Risk function is headed by the Chief Risk Officer and reports to the Chief Executive Officer, with a functional reporting line to the Regional Chief Risk Officer. Its responsibilities include:

– formulating the local credit policy, which is consistent with group policies and very closely reflects the HSBC Group policy wherever possible;

– validating HSBC France's appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;

– undertaking an independent review and objective assessment of risk. Credit risk assesses – directly of through de minimis delegations - all commercial non-bank credit facilities and exposures, prior to the facilities being committed to customers or transactions being undertaken;

– monitoring the performance and management of portfolios across HSBC France;

– vetting and controlling exposure to sovereign entities, banks and other financial institutions, as well as debt securities which are not held solely for the purpose of trading;

– setting HSBC France's policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the HSBC France's capital base, and remain within internal and regulatory limits;

– maintaining and developing HSBC France's risk rating framework and systems through the local Model Oversight Committees, which oversees the local risk rating model management for both wholesale and retail businesses;

– reporting on retail and wholesale portfolio performance, high risk portfolios, risk concentrations, large impaired accounts, impairment allowances and stress testing results and recommendations to HSBC France's Risk Committee and the Board; and

– acting on behalf of HSBC France as the primary interface, for credit-related issues, with the ACPR, the ECB and rating agencies.

In the HSBC France group, credit risk management is overseen by four separate functions within Risk functions:

Risk management and control within the HSBC France group (continued)

– Wholesale Credit and Market Risk department: in addition to the Traded Credit and Market Risk Management teams, 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 a Risk Identification and Monitoring team;

– 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 de Recouvrement Amiable) and Recovery units from Retail clients, Decision-making Systems and Processes teams and also the team responsible for the credit risk models for Retail;

– Risk Business Management: this unit groups together the support and control functions of the Risk functions, namely Risk administration, Accounting, Reporting, the Credit review team, the Business Risk and Control Management covering the Risk teams and the credit model team for Wholesale;

– Risk Strategy: This entity manages risk appetite, stress scenarios, emerging risks and regulatory oversight for credit-related matters.

Independently of the businesses they relate to, these departments report directly to the CRO, and report functionally to the HSBC Group Risk Department Europe.

Risk Governance

Risk (including Credit risk) management for each of the four businesses (Global Banking and Markets, Commercial Banking, Retail Banking and Wealth Management, Private Banking) is supervised by the HSBC France Risk Management Committee (RMC). The role and responsibilities of the RMC are detailed on page 60 of the Chairman's report.

The control framework

The Chief Risk Officer is responsible for the permanent control and the risk function as requested by "arrêté du 3 novembre 2014".

Primary controls are performed by agents involved in operating activities (credit managers, credit analysts, branch managers and relationship managers and wholesale and retail risk monitoring departments) and monitored by dedicated internal controllers who carry out second-level independent controls (BRCM- Business Risk and Control Management) and the Credit review team.

Tools

In compliance with the French order of 3 November 2014 regarding internal control in banks regulated by the 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 credit models , which involves:

– Quality of the data used ("data quality");

– 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 through 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 determined by HSBC Bank plc. He has delegated his entire credit authorities to the CRO, who in turn has sub-delegated them partially 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 CRO, the CEO has also delegated some of his credit authorities in limited amountsto the certain heads of commercial entities in the network and to the CEO of HSBC Factoring France with option to delegate to certain team members subject to a pre-defined framework.

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.

As is the case for all HSBC Group entities, HSBC France has delegated responsibility to HSBC Holdings plc the quasi totality of its credit approval authorities concerning limits in favour of banks and certain non-bank financial institutions, on the basis of proposals from the relationship manager and on the recommendation by the Head of Wholesale Credit and Market Risk.

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 (Global Standards Manual and Functional Instruction Manuals), local credit directives and guidelines and the policy laid down by the risk management committees of each of the Global Busineeses (Global Banking and Markets, Commercial Banking and Retail Banking and Wealth Management and Private Bank).

Everyone involved in the lending process is part of credit risk control. Everyone involved in the approval process is accountable, although the responsibility for overseeing a loan falls mainly on the entity that has 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 team is involved in the second line of defence for credit risk. The Credit Review performs field and remote credit reviews. A risk-based approach has been retained to select the entities to be reviewed and put together samples of credit cases to be 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 through field and remote reviews, with the less risky entities being preferably audited through remote reviews. At the request of the CRO, the team can perform ad hoc audits of various issues relating to credit.

Credit quality

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.

Renegotiated loans and forbearance

A range of forbearance strategies is employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures and other forms of loan modifications and re-ageing.

HSBC France's policies and practices are based on criteria which enable local management to judge whether repayment is likely to continue. These typically provide a customer with terms and conditions that are more favourable than those provided initially. Loan forbearance is only granted in situations where the customer has showed a willingness to repay his loan and is expected to be able to meet the revised obligations.

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.

Risk management and control within the HSBC France group (continued)

Impaired loans – identification of loss events

The criteria used by HSBC France to determine that a loan is impaired include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days (more than 180 days for property loans and for loans to local government bodies);
- the probability that the borrower will enter bankruptcy or other financial distress procedure;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees; and
- a deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

Write-off of loans and advances

For details of our policy on the write-off of loans and advances. , see Note 2c on the Financial Statements.

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.

Maximum exposure to Credit Risk

(in millions of euros)	31.12.2015 Maximum exposure[2]	Offset[1]	Net exposure to credit risk
Cash and balances at central banks	**395**	**–**	**395**
Items in the course of collection from other banks	**381**	**–**	**381**
Trading assets	**27,161**	**–**	**27,161**
– treasury and other eligible bills	**791**	**–**	**791**
– debt securities	**17,831**	**–**	**17,831**
– loans and advances	**8,539**	**–**	**8,539**
– to banks	**5,112**	**–**	**5,112**
– to customers	**3,427**	**–**	**3,427**
Financial assets designated at fair value	**1,118**	**–**	**1,118**
– treasury and other eligible bills	**–**	**–**	**–**
– debt securities	**1,107**	**–**	**1,107**
– loans and advances to banks	**11**	**–**	**11**
Derivatives	**49,484**	**(47,392)**	**2,092**
Loans and advances held at amortised cost	**43,185**	**–**	**43,185**
– loans and advances to banks	**4,660**	**–**	**4,660**
– loans and advances to customers	**38,525**	**–**	**38,525**
– personal	**14,363**	**–**	**14,363**
– corporate and commercial	**22,647**	**–**	**22,647**
– financial (non-bank financial institutions)	**1,515**	**–**	**1,515**
Reverse repurchase agreements – non-trading	**10,163**	**(119)**	**10,044**
Financial investments[3]	**27,350**	**–**	**27,350**
– treasury and other eligible bills	**68**	**–**	**68**
– debt securities	**27,282**	**–**	**27,282**
Other assets	**1,090**	**–**	**1,090**
– endorsements and acceptance	**–**	**–**	**–**
– accrued income and other	**1,090**	**–**	**1,090**
Off-balance sheet	**27,347**	**–**	**27,347**
– financial guarantees and other credit-related guarantees	**2,731**	**–**	**2,731**
– loan commitments and other credit-related commitments	**24,616**	**–**	**24,616**
Total	**187,674**	**(47,511)**	**140,163**

1 *The loans and advances offset adjustment primarily relates to customer loans and deposits, and balances arising from repo and reverse repo transactions. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default but where all IAS32 requirements are not met; and as a result there is a net exposure for credit risk management purposes.*

2 *The derivative offset amount in the 'maximum exposure to credit risk table' relates to exposures where the counterparty has an offsetting derivative exposure with the group, a master netting agreement is in place and the credit risk exposure is managed on a net basis, or the position is specifically collateralised, normally in the form of cash. At 31 December 2015, the total amount of such offsets was EUR 82.3 billion (2014: EUR 175 billion), of which EUR 34 billion (2014: EUR 101billion) were offsets under a master netting arrangement, EUR 8.7 billion (2014: EUR 8.5 billion) were received in cash and EUR 39 billion (2014: EUR 66 billion) were other collateral. These amounts do not qualify for net presentation for accounting purposes as settlement may not actually be made on a net basis.*

3 *Reported amounts exclude equity instruments.*

Risk management and control within the HSBC France group (continued)

(in millions of euros)	31.12.2014 Maximum exposure[2]	Offset[1]	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
– to banks	5,869	–	5,869
– to customers	3,346	–	3,346
Financial assets designated at fair value	909	–	909
– treasury and other eligible bills	–	–	–
– debt securities	907	–	907
– loans and advances to banks	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	6,022	–	6,022
– loans and advances to customers	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	14,796	(6,268)	8,528
Financial investments[3]	24,464	–	24,464
– treasury and other eligible bills	205	–	205
– debt securities	24,259	–	24,259
Other assets	1,279	–	1,279
– endorsements and acceptance	–	–	–
– accrued income and other	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 *The loans and advances offset adjustment primarily relates to customer loans and deposits, and balances arising from repo and reverse repo transactions. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default but where all IAS32 requirements are not met; and as a result there is a net exposure for credit risk management purposes.*

2 *The derivative offset amount in the 'maximum exposure to credit risk table' relates to exposures where the counterparty has an offsetting derivative exposure with the group, a master netting agreement is in place and the credit risk exposure is managed on a net basis, or the position is specifically collateralised, normally in the form of cash. At 31 December 2015, the total amount of such offsets was EUR 82.3 billion (2014: EUR 175 billion), of which EUR 34 billion (2014: EUR 101 billion) were offsets under a master netting arrangement, EUR 8.7 billion (2014: EUR 8.5 billion) were received in cash and EUR 39 billion (2014: EUR 66 billion) were other collateral. These amounts do not qualify for net presentation for accounting purposes as settlement may not actually be made on a net basis.*

3 *Reported amounts exclude equity instruments.*

Concentration risk

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.

Derivatives

HSBC France is exposed to counterparty credit risk on its derivatives portfolio in case of a default of the counterparty with which a derivatives transaction has been undertaken. This risk is principally concentrated from OTC derivatives transactions. It is calculated on all exposures in both trading and non trading books.

Large Credit Exposure Policy - LCEP

The directives relative to the Large Credit Exposure Policy are determined by HSBC Group. They are then transposed to HSBC France level and validated by the CRO, the RMC and Board of HSBC France.

The LCEP sets out the policy of HSBC France on controlling large risks, and it also forms part of the policy of HSBC Bank plc, HSBC Holdings plc and meets the requirements of the French banking regulator, the ACPR (*Autorité de Contrôle Prudentiel et de Résolution*) and the European Central Bank (ECB).

The purpose of the LCEP is to ensure that:

– HSBC France adhere to the French regulatory requirements on large lending commitments;

– there is an appropriate framework procedure by which large commitments and concentrations of risk can be monitored and controlled;

– commitment to one individual borrower, or to a group of connected borrowers, should not become excessive in comparison to the capital base of HSBC France;

– excessive concentration and/or the combining of major exposures are excluded;

– commitments to geographical areas or specific business sectors are strictly monitored to ensure that risky assets are diversified;

To facilitate effective oversight and control of this risk, HSBC France holds centralised databases of information into which commitments are entered.

At the Wholesale Credit and Market Risk Department level, 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, documentary credits and standby letters of credit;

– category B: off-balance sheet treasury risks such as currency and interest rate swaps;

– payment: principally intraday settlement risk on payment commitments and foreign exchange business with customers or for their account.

Commitments to a single counterparty or group of counterparties and central governments/central banks

The approved commitments (total of category A and B limits on one side and category S limits on the other), after taking into account any risk mitigation / deduction techniques permitted under the regulations, may not exceed 25 per cent of the HSBC France consolidated capital for any single counterparty or group of connected counterparties. It should be noted that all commitments, as defined above, which exceed 10 per cent of the HSBC France consolidated capital require the approval by HSBC Bank plc independently of the credit approval authorities in place.

Furthermore, commitments (categories A and B) to financial institutions with:

– exposures with a maturity of more than one year;

– exposures to subsidiaries of financial institutions that are not financial institutions themselves;

should not exceed 10 per cent of HSBC France's consolidated capital.

A quarterly report on all single counterparty or groups of connected counterparties for which the HSBC France commitments (the total of categories A and B on one hand , and category S on the other) exceed 10 per cent of its consolidated capital are submitted to the RMC, to the Risk Committee and to the Board of HSBC France and to the various Risk committees in HSBC bank plc.

As at 31 December 2015, for HSBC France, 17 groups individually exceeded 10 per cent of the net capital (31 December 2014: 17 groups).

Risk management and control within the HSBC France group (continued)

Specific requirements from the Autorité de Contrôle Prudentiel et de Résolution (the French banking regulator)

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.

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 specific 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 Committee of Global Banking and Markets. Any modifications to these caps must be approved by the Risk Management Committee of Global Banking and Markets.

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 on the basis of the recommendations made by the Head of Wholesale Credit and Market Risk and relationship Managers in charge of central governments and central banks. Overall limits for single countries are revised at least annually or more frequently depending on circumstances. These limits are monitored continuously and adjustments may be made at any time.

A quarterly report on country cross-border risk exposure (total of limits to categories A and B) in excess of 10 per cent of HSBC France's capital is given to Senior Management, the Risk Committee and the Board of Directors of HSBC France and to the various Risk Committees of HSBC Bank plc.

Loans and Advances

The following tables analyses loans and advances by industry sector:

Loans and advances to customers by client segment

	31.12.2015		31.12.2014	
	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	**14,459**	**36.88**	12,952	35.08
– residential mortgages	**3,313**	**8.45**	2,399	6.50
– *Crédit Logement*	**9,167**	**23.38**	8,315	22.52
– other personal	**1,979**	**5.05**	2,238	6.06
Corporate and commercial	**23,223**	**59.23**	22,356	60.53
– commercial, industrial and international trade	**12,401**	**31.63**	11,350	30.74
– commercial real estate (including private real estate companies)	**5,332**	**13.60**	5,784	15.66
– other property-related	**245**	**0.62**	260	0.70
– government	**1,162**	**2.96**	268	0.73
– other commercial	**4,083**	**10.41**	4,694	12.70
Financial	**1,528**	**3.90**	1,619	4.39
– non-bank financial institutions	**1,528**	**3.90**	1,619	4.39
– settlement accounts	**–**	**–**	–	–
Total gross loans and advances to customers	**39,210**	**100.00**	36,929	100.00
Impaired loans as a percentage of total	**1,343**	**3.43%**	1,529	4.14%

Loans and advances to customers by geographical area (excluding reverse repurchase agreements transactions and settlement accounts)

As at 31 December 2015, 88 per cent of loans to customers (excluding reverse repurchase agreements transactions and settlement accounts) were to French counterparties (88 per cent as at 31 December 2014).

Reverse repurchase agreements transactions amounted to 30 per cent with French counterparties and 70 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.

Risk management and control within the HSBC France group (continued)

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.*

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.

Distribution of financial instruments by credit quality

	31.12.2015							
	Neither past due nor impaired							
(in millions of euros)	Strong	Good	Satisfatory	Sub-standard	Past due not impaired	Impaired	Impair-ment allow-ances	Total
Cash and balances at central banks	**395**	**–**	**–**	**–**	**–**	**–**	**–**	**395**
Items in the course of collection from other banks	**381**	**–**	**–**	**–**	**–**	**–**	**–**	**381**
Trading assets	**20,058**	**4,482**	**2,590**	**31**	**–**	**–**	**–**	**27,161**
Treasury and other eligible bills	388	386	17	–	–	–	–	791
Debt securities	14,449	2,700	662	20	–	–	–	17,831
Loans and advances to banks	2,394	1,235	1,472	11	–	–	–	5,112
Loans and advances to customers	2,827	161	439	–	–	–	–	3,427
Financial assets designated at fair value	**861**	**177**	**80**	**–**	**–**	**–**	**–**	**1,118**
Treasury and other eligible bills	–	–	–	–	–	–	–	–
Debt securities	861	177	69	–	–	–	–	1,107
Loans and advances to banks	–	–	11	–	–	–	–	11
Derivatives	**47,070**	**1,992**	**392**	**30**	**–**	**–**	**–**	**49,484**
Loans and advances held at amortised cost	**27,766**	**6,960**	**7,048**	**551**	**202**	**1,343**	**(686)**	**43,184**
Loans and advances to banks	3,607	96	952	5	–	–	–	4,660
Loans and advances to customers	24,159	6,864	6,096	546	202	1,343	(686)	38,524
– personal	13,688	366	15	–	82	308	(96)	14,363
– corporate and commercial	9,922	6,205	5,424	537	116	1,019	(576)	22,647
– financial (non-bank financial institutions)	549	293	657	9	4	16	(14)	1,514
Reverse repurchase agreement non trading	**6,673**	**2,161**	**1,329**	**–**	**–**	**–**	**–**	**10,163**
Financial investments	**23,642**	**2,179**	**1,529**	**–**	**–**	**1**	**(1)**	**27,350**
Treasury and other similar bills	–	–	68	–	–	–	–	68
Debt securities	23,642	2,179	1,461	–	–	1	(1)	27,282
Other assets			**1,090**	**–**	**–**	**–**	**–**	**1,090**
Endorsements and acceptances	–	–	–	–	–	–	–	
Accrued income and other	–	–	1,090	–	–	–	–	1,090
Total	**126,846**	**17,951**	**14,058**	**612**	**202**	**1,344**	**(687)**	**160,326**
Off balance sheet	**14,782**	**7,476**	**4,711**	**288**	**–**	**92**	**5**	**27, 354**
Financial guarantees and similar contracts	1,321	766	587	35	–	22	1	2,732
Loan and other credit-related commitments – endorsements and acceptances	13,461	6,710	4,124	253	–	70	4	24,622
Total	**141,628**	**25,427**	**18,769**	**900**	**202**	**1,436**	**(682)**	**187,680**

Risk management and control within the HSBC France group (continued)

(in millions of euros)	31.12.2014 Neither past due nor impaired Strong	Good	Satisfatory	Sub-standard	Past due not impaired	Impaired	Impair-ment allow-ances	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	128	481	30	–	–	–	–	639
Debt securities	22,852	5,004	1,004	6	–	–	–	28,866
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	–	–	–	–	–	–	–	–
Debt securities	815	86	6	–	–	–	–	907
Loans and advances to banks	–	–	2	–	–	–	–	2
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	13,175	25	1,596	–	–	–	–	14,796
Financial investments	21,577	2,021	849	17	–	–	–	24,464
Treasury and other similar bills	–	205	–	–	–	–	–	205
Debt securities	21,577	1,816	849	17	–	–	–	24,259
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

Past due but not impaired gross financial instruments

Past due but not impaired are those loans where although customers have failed to make payments in accordance with the contractual terms of their facilities.

Ageing analysis of past due but not impaired gross financial instruments

(in millions of euros)	Up to 29 days	30-59 days	60-89 days	90-179 days	Over 180 days	Total
At 31 December 2015						
Loans and advances to customers held at amortised cost	**138**	**44**	**20**	**–**	**–**	**202**
– personal	**50**	**22**	**10**	**–**	**–**	**82**
– corporate and commercial	**84**	**22**	**10**	**–**	**–**	**116**
– financial (non-bank financial institutions)	**4**	**–**	**–**	**–**	**–**	**4**
Other assets	**–**	**–**	**–**	**–**	**–**	**–**
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
Other assets	–	–	–	–	–	–

Impairment of loans and advances and available-for-sale financial assets

For details of HSBC France's policy concerning impairments of loans and advances, please refer to note 2c in the Consolidated Financial Statements.

Impaired loans and advances to Customers and banks by client segment

	Year ended 31.12.2015		
(in millions of euros)	**Individually assessed**	**Collectively assessed**	**Total**
Banks	–	–	–
Customers	1,343	–	1,343
Personal	308	–	308
Corporate and commercial	1,019	–	1,019
Financial	16	–	16
At 31 December	**1,343**	**–**	**1,343**

	Year ended 31.12.2014		
(in millions of euros)	Individually assessed	Collectively assessed	Total
Banks	–	–	–
Customers	1,529	–	1,529
Personal	324	–	324
Corporate and commercial	1,130	–	1,130
Financial	75	–	75
At 31 December	**1,529**	**–**	**1,529**

Risk management and control within the HSBC France group (continued)

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 insignificant 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.

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.

Risk management and control within the HSBC France group (continued)

Renegotiated loans and advances to customers[1]

(in millions of euros)	A 31 December 2015 Not past due nor impaired	Past due but not impaired	Impaired	Total	A 31 December 2014 Not past due nor impaired	Past due but not impaired	Impaired	Total
Residential Mortgages	**1**	**–**	**–**	**1**	1	–	1	2
Crédit Logement	**2**	**–**	**–**	**2**	2	–	–	2
Other personal lending	**2**	**–**	**1**	**3**	3	–	8	11
Commercial real estate	**2**	**–**	**4**	**6**	4	–	7	11
Corporate and commercial[1]	**121**	**–**	**107**	**228**	85	–	266	351
Financial	**–**	**–**	**6**	**6**	9	–	16	25
Total renegotiated loans and advances	**128**	**–**	**118**	**246**	104	–	298	402
Impairment allowance on renegotiated loans and advances as a % of total gross loans	**–**	**–**	**–**	0.63%	–	–	–	1.09%

1 *2014 amounts were restated following a change in the presentation made in 2015.*

Loan impairment charge to the income statement by client segment

(in millions of euros)	31.12.2015	31.12.2014
Personal	**14**	18
– residential mortgages	**4**	4
– *Crédit Logement*	**–**	–
– other personal	**10**	14
Corporate and commercial	**106**	79
– manufacturing and international trade and services	**70**	72
– commercial real estate and other property-related	**11**	10
– other commercial	**25**	(3)
Financial	**1**	15
Total loan impairment charge at 31 December	**121**	**112**
Individually assessed impairment allowances	**118**	114
– new allowances	**200**	218
– release of allowances no longer required	**(80)**	(101)
– recoveries of amounts previously written off	**(2)**	(3)
Collectively assessed impairment allowances	**2**	(10)
– new allowances net of allowance releases	**8**	1
– recoveries of amounts previously written off	**(6)**	(11)
Total charges for impairment losses	**120**	**104**
Other credit risk provisions	**2**	(1)
Impairment charges on debt security investments available-for-sale	**(1)**	9
Total loan impairment charge at 31 December	**121**	**112**

Loan impairment charge to the income statement by client segment

(in millions of euros)	**31.12.2015**	31.12.2014
Individually assessed impairment allowances		
New allowances and unprovided losses	**200**	218
Release of allowances no longer required	**(80)**	(101)
Recoveries of amounts previously written off	**(2)**	(3)
Amount written off	**118**	115
Utilisation of allowance	**(118)**	(115)
	118	114
Collectively assessed impairment allowances		
New allowances	**8**	1
Release of allowances no longer required	**(6)**	(11)
Recoveries of amounts previously written off	**–**	–
	2	(10)
Total charge for impairment losses	**120**	104
– banks	**–**	–
– customers	**120**	104
Other credit risk provisions	**2**	(1)
Impairment charges on debt security investments available-for-sale	**(1)**	9
Loan impairment charges and other credit risk provisionse	**121**	112
Customer charge for impairment losses as a percentage of closing gross loans and advances to customers	**0.31%**	0.30%
Balances outstanding		
Non-performing loans	**1,343**	1,529
Individual impairment allowances	**609**	614
Gross loans and advances		
– banks	**4,660**	6,022
– customers	**39,210**	36,929
Total	**43,870**	42,951
Total allowances cover as a percentage of non-performing loans and advances	**45.3%**	40.2%

Risk management and control within the HSBC France group (continued)

Movement in impairment allowances on loans and advances to customers and banks

(in millions of euros)	Banks Individually assessed	Customers Individually assessed	Customers Collectively assessed	Total
Impairment allowance at 1 January 2015	**–**	**(614)**	**(75)**	**(689)**
Amounts written off	**–**	**118**	**–**	**118**
Recoveries of loans and advances previously written off	**–**	**(2)**	**–**	**(2)**
Loan impairment charge	**–**	**(118)**	**(2)**	**(120)**
Exchange and other movements	**–**	**7**	**–**	**7**
At 31 December 2015	**–**	**(609)**	**(77)**	**(686)**
Impairment allowance on loans and advances	**–**	**(609)**	**(77)**	**(686)**
– personal	**–**	**(88)**	**(8)**	**(96)**
– corporate and commercial	**–**	**(511)**	**(66)**	**(577)**
– financial	**–**	**(10)**	**(3)**	**(13)**
as a percentage of loans and advances	**–**	**1.55%**	**0.20%**	**1.56%**
Impairment allowance at 1 January 2014	–	(620)	(85)	(705)
Amounts written off	–	115	–	115
Recoveries of loans and advances previously written off	–	(3)	–	(3)
Loan impairment charge	–	(114)	10	(104)
Exchange and other movements	–	8	–	8
At 31 December 2014	–	(614)	(75)	(689)
Impairment allowance on loans and advances	–	(614)	(75)	(689)
– personal	–	(93)	(8)	(101)
– corporate and commercial	–	(472)	(62)	(534)
– financial	–	(49)	(5)	(54)
as a percentage of loans and advances	–	1.66%	0.20%	1.60%

Wholesale lending

(in millions of euros)	Gross loans	Impaired loans	Impaired loans %	Impairment allowance [1]	Impairment allowance/ impaired loans	Loans impairment charge	Loan loss rate %
At 31 December 2015							
Corporate and commercial	**23,223**	**1,019**	**4%**	**517**	**51%**	**101**	**0.42%**
– Manufacturing	**2,274**	**141**	**6%**	**83**	**59%**	**18**	**0.79%**
– International trade and services	**10,127**	**629**	**6%**	**321**	**51%**	**52**	**0.52%**
– Commercial real estate	**5,332**	**176**	**3%**	**46**	**26%**	**8**	**0.16%**
– Other property-related	**245**	**33**	**13%**	**32**	**97%**	**4**	**1.49%**
– Government	**1,162**	**–**	**–**	**–**	**–**	**–**	**–**
– Other commercial	**4,083**	**40**	**1%**	**35**	**87%**	**19**	**0.47%**
Non-bank financial	**1,528**	**16**	**1%**	**13**	**80%**	**3**	**0.19%**
Asset-backed securities reclassified	**4,660**	**–**	**–**	**–**	**–**	**–**	**–**
Total wholesale lending	**29,411**	**1,035**	**4%**	**530**	**51%**	**104**	**0.35%**
At 31 December 2014							
Corporate and commercial	22,356	1,129	5%	481	43%	90	0.40%
– Manufacturing	1,971	146	7%	77	53%	9	0.47%
– International trade and services	9,381	691	7%	291	42%	70	0.75%
– Commercial real estate	5,784	210	4%	48	23%	6	0.11%
– Other property-related	260	40	15%	36	91%	4	1.51%
– Government	268	–	–	–	–	–	–
– Other commercial	4,692	42	1%	29	70%	–	0.01%
Non-bank financial	1,619	75	5%	54	72%	7	0.42%
Loans and advances to banks	6,022	–	–	–	–	–	–
Total wholesale lending	29,997	1,204	4%	535	44%	97	0.32%

1 *In order to comply with the presentation of the Group HSBC, 2014 numbers no longer include collective allowance.*

Loans and advances to banks

(in millions of euros)	**2015**
Not collateralised	**4,612**
Fully collateralised	**19**
Partially collateralised	**–**
– collateral value	**–**
At 31 December	**4,631**

Residential mortgage loans including loan commitments by level of collaterals

	2015
Non-impaired loans and advances	
Fully collateralised	**2,873**
– Less than 50% loan to value ('LTV')	**932**
– 51% to 75% LTV	**994**
– 76% to 90% LTV	**531**
– 91% to 100% LTV	**416**
Partially collateralised	
– greater than 100% LTV	**196**
– collateral value	**193**
Not collateralised	**4**
Impaired loans and advances	
Fully collateralised	**123**
– Less than 50% loan to value ('LTV')	**31**
– 51% to 75% LTV	**52**
– 76% to 90% LTV	**27**
– 91% to 100% LTV	**13**
Partially collateralised	
– greater than 100% LTV	**117**
– collateral value	**112**
Not collateralised	–
At 31 December	**3,313**

Analysis of Asset-Backed Securities (ABS)

This section contains information about our exposure to asset-backed securities ('ABSs'), some of which are held through consolidated structured entities and summarised in the table below.

Overall exposure

(in millions of euros)	**2015**	2014
Asset-backed securities	**–**	–
– Fair value through profit and loss	**–**	–
– Available for sale	**1**	28
– Held to maturity	**–**	–
– Loans and receivables	**–**	190
Total of Asset-Backed Securities	**1**	218

The table below shows the group's market risk exposure to Asset-Backed Securities.

	31.12.2015			
(in millions of euros)	**Gross principal[2]**	**CDS gross protection[3]**	**Net Principal exposure[4]**	**Carrying amount[5]**
– High grade[1]	**–**	**–**	**–**	**–**
– Rated C to A	**–**	**–**	**–**	**–**
– Not publicly rated	**9**		**9**	**1**
Total Asset-Backed Securities	**9**	**–**	**9**	**1**
Of which:				
– loans and advances to customers[6]	**–**	**–**	**–**	**–**
– available-for-sale portfolio	**9**	**–**	**9**	**1**

Risk management and control within the HSBC France group (continued)

(in millions of euros)	Gross principal[2]	CDS gross protection[3]	Net Principal exposure[4]	Carrying amount[5]
	31.12.2014			
– 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

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.*

(in millions of euros)	**Gross fair value movements other comprehensive income[2]**	**Reclassified from equity on impairment, disposal or payment[3]**	**AFS Impairment[4]**	Gross fair value movements other comprehensive income[2]	Reclassified from equity on impairment, disposal or payment[3]	AFS impairment[4]
	31.12.2015			31.12.2014		
– High grade[1]	**–**	**–**	**–**	(1)	1	–
– Rated C to A	**–**	**–**	**–**	–	–	–
– Not publicly rated	**3**	**–**	**–**	1	1	–
Total Asset Backed Securities	**3**	**–**	**–**	**–**	**2**	**–**

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.*

Carrying amount of HSBC France group's consolidated holdings of ABSs

(in millions of euros)	Trading	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Total
Mortgage-related assets	**–**	**–**	**–**	**–**	**–**	**–**
Leveraged finance-related assets	**–**	**1**	**–**	**–**	**–**	**1**
Student loan-related assets	**–**	**–**	**–**	**–**	**–**	**–**
Other assets	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2015	**–**	**1**	**–**	**–**	**–**	**1**
Mortgage-related assets	–	–	–	–	–	–
Leveraged finance-related assets	–	8	–	–	–	8
Student loan-related assets	–	–	–	–	–	
Other assets	–	20	–	–	190	210
At 31 December 2014	–	28	–	–	190	218

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 completed 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.

The bank's long term funding cost is directly linked to markets conditions, to its credit spreads and credit ratings. The funding cost may be affected by an unfavourable evolution of these factors.

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 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'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 measures 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:

- until September 2015, monitoring the French liquidity ratio, as required by French regulations (this has been replaced by the LCR ratio in October 2015, as required by the regulation);
- 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

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

Risk management and control within the HSBC France group (continued)

securities (publicly 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 and to align asset and liability maturities and currencies.

Given HSBC France's need to renew its long term debt maturing in 2016, HSBC France has issued in 2015 EUR 1 billion of Covered Bonds through its HSBC SFH (France) structure, as well as EUR 1.25 billion of senior FRN of 2 year maturity, EUR 1 billion of senior FRN of 4 year maturity and finally the inaugural Green Bond from the HSBC Group for EUR 500 million of senior unsecured of 5 year maturity. HSBC France also participated at the TLTRO programme by EUR 1.4 billion in 2015, leading to a total participation of EUR 2.6 billion.

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 2015 stands at EUR 5.1 billion.

Liquidity and funding in 2015

The liquidity position of HSBC France strengthened in 2015, and it continued to enjoy strong inflows of customer deposits and maintained good access to wholesale markets. During 2015, the HSBC France's loans and advances to customers grew by EUR 1.9 billion and customer deposits by EUR 0.8 billion, leading to a stronger advances to core funding ('ACF') ratio of 98 per cent at 31 December 2015 (2014: 101 per cent).

Liquidity regulation

Under European Commission Delegated Regulation ('EU') 2015/61, the consolidated Liquidity Coverage Ratio ('LCR') became a minimum regulatory standard from 1 October 2015.

The European calibration of NSFR is still pending following the Basel Committee's final recommendation in October 2014, and therefore external disclosure of this metric is currently on hold.

Liquidity coverage ratio – EU LCR delegated regulation

For the calculation of the consolidated LCR metric, HSBC France uses HSBC Group's assumptions around the definition of operational deposits notably.

Operational deposits are defined as transactional accounts arising from the provision of payments and cash management services ('PCM'), where the operational component is assessed to be the lower of the current balance, notional value of debits across the account in the previous calculation period, notional value of credits across the account in the previous calculation period.

On the basis of these conservative assumptions, the consolidated LCR as at 31 December 2015 under EU delegated act rules was 127 per cent.

Forward looking framework

From 1 January 2016 the Group will implement a new internal Liquidity and Funding Risk Management Framework. The new internal framework uses the external LCR and NSFR regulatory framework as a foundation, but adds additional metrics/limits and overlays to address the risks that HSBC France considers are not adequately reflected by the external regulatory framework.

The key aspects of the new internal Liquidity and Funding Risk Management Framework are:

- I. Stand alone management of Liquidity and Funding at HSBC France group level
- II. Classification by Inherent Liquidity Risk ('ILR') Categorisation
- III. Minimum Liquidity Coverage Ratio ('LCR') requirement dependant on ILR categorisation (EU LCR Delegated Regulation basis)
- IV. Minimum Net Stable Funding Ratio (NSFR) requirement dependant on ILR categorisation (Basel 295 basis pending finalisation of the EU NSFR delegated regulation)
- V. Depositor concentration limit
- VI. Three month & twelve month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financials and securities issued
- VII. Annual Individual Liquidity Adequacy Assessment (ILAA) at HSBC France group level

The new internal Liquidity and Funding Risk Management Framework and the Risk Tolerance (limits) have been approved by the Risk Management Meeting of the Group Management Board ('Group RMM'), and by the Board of Directors of HSBC France on the basis of the recommendation given by the HSBC France Risk Committee.

The HSBC France's ILAA process has been designed to identity any risk that is not reflected in the Group framework and where additional limits are assessed to be required locally, and to validate the Risk Tolerance at HSBC France group level.

The decision to create an internal framework based around the external regulatory framework was driven by the need to ensure that the external and internal frameworks are directionally aligned and to ensure that the internal funds transfer pricing framework incentivises the Global Business Lines to collectively ensure compliance with both the external (regulatory) and the internal Risk Tolerance.

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.

Inherent liquidity risk categorisation

HSBC Group categorises its operating entities into one of two categories to reflect its assessment of their inherent liquidity risk, considering political, economic and regulatory factors within the operating entities' host country, and also factors specific to the entity itself, such as the local footprint, market share, balance sheet strength and control framework. This assessment is used to determine the severity of the liquidity stress that the group expects its operating entities, and notably including HSBC France, to be able to withstand.

Core deposits

A key element of HSBC Group 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 HSBC France, 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 monitored until September 2015 the one month French regulatory ratio, as required by French regulators. Entities subject to the French regulatory ratio 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 still calculated on a stand alone basis for each subsidiary not subject to LCR.

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 wholesale funding. This is achieved by placing limits on the HSBC entities which restrict their ability to increase loans and advances to customers without corresponding 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. Capital is excluded from HSBC Group's definition of core funding. 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 (*in %*)	At 31 December **2015**	2014
Year-end	**98**	101
Maximum	**109**	108
Minimum	**98**	100
Average	**103**	103

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.*

Risk management and control within the HSBC France group (continued)

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 crisis, in which the rate and timing of deposit withdrawals and drawdowns on committed lending facilities vary 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 Committee.

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. HSBC France is 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 2015, 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 [1]

HSBC France	Stressed one-month coverage ratios at 31 December		Stressed three-month coverage ratios at 31 December	
(in %)	**2015**	2014	**2015**	2014
Year-end	**124**	119	**102**	101
Maximum	**124**	119	**102**	106
Minimum	**101**	104	**100**	101
Average	**108**	107	**101**	102

1 *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.*

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.

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. In addition to the Group's standard stress scenarios, HSBC France has designed its own scenarios to reflect specific local market conditions, product and funding bases.

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 inability 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 if lower;

– 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)	**31.12.2015**	31.12.2014
Level 1	**18,600**	13,907
Level 2	**1,498**	309
Level 3	**362**	2,850
Total	**20,460**	17,066

The Bank's liquid asset policy is to apply a more granular classification of liquid assets. These classifications are as follows:

– 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

– 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 Group's 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.

Risk management and control within the HSBC France group (continued)

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.

Funds transfer pricing
HSBC Group's funds transfer pricing policies give rise to a two-stage funds transfer pricing approach, reflecting the fact that we separately manage interest rate risk and liquidity and funding risk under different assumptions. They have been developed to be consistent with our risk management frameworks. HSBC France applies the Group's transfer pricing policy framework to determine the most appropriate interest rate risk transfer pricing curve, a liquidity premium curve (which is the spread over the interest rate risk transfer pricing curve) and a liquidity recharge assessment (which is the spread under or over the interest rate risk transfer pricing curve).

The interest rate risk transfer pricing policy seeks to ensure that all market interest rate risk arising structurally from non-trading (banking book) assets and liabilities, which is capable of being neutralised externally in the market or neutralised internally by off-setting transfers, is transferred to Balance Sheet Management ('BSM') to be managed centrally as non-traded market risk. The transfer price curve used for this purpose reflects how BSM in HSBC France is best able to neutralise the interest rate risk in the market at the point of transfer. Where basis risk can be identified between the re-pricing basis of an external asset or external liability and the re-pricing basis of the interest rate risk transfer pricing curve, this basis risk may be transferred to BSM provided it can neutralise the basis risk in the market.

Liquidity and funding risk is transfer priced independently from interest rate risk because the liquidity and funding risk of HBFR is transferred to ALCO to be managed centrally. ALCO monitors and manages the advances to core funding ratio and delegates the management of the liquid asset portfolio to BSM, and the execution of the wholesale term debt funding plan to ALCM and BSM to reach risk appetites.

The liquidity and funding risk transfer price consists of two components:

– Liquidity recharge: the cost of holding the benchmark liquid asset (the yield under the transfer price) to meet stressed cash outflows. The benchmark liquid asset is decided by ALCO and based on the weighted average duration that can be achieved by investing in level 1 liquid assets, with a residual duration of up to one year.
– Liquidity premium: the assessed cost/value of term funding (the yield over the transfer price) to pay for term debt and core deposits.

The assessed cost of holding liquid assets is allocated to the outflows modelled by the internal stressed coverage ratio framework.

Liquidity premium is charged to any asset that affects the three-month stressed coverage ratios based on the assessed behaviouralised liquidity life of the asset, with any asset affecting the ACF metric required to have a minimum behaviouralised life of at least one year, and the prevailing liquidity premium curve rate set by ALCO (calibrated in line with Group principles). Semi core deposits (i.e. deposits that are not core deposits according the ACF but that are stable according to the LCR) receive a pre-determined short term liquidity premium and core deposits therefore share equally in the liquidity premiums charged to the assets they support, after deducting the cost of any term funding and the liquidity premium received by Semi Core deposits.

Contingent liquidity risk arising from committed lending facilities
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. The RMC sets limits for non-cancellable contingent funding commitments after due consideration of HSBC France's ability to fund them. The limits are split according to the borrower, the liquidity of the underlying assets and the size of the committed line.

Sources of funding
Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. HSBC France issues wholesale securities (secured and unsecured) to supplement its customer deposits and change the currency mix, maturity profile or location of its liabilities.

The 'Funding sources and uses' table below, which provides a consolidated view of how the bank'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. It is to be noted that customer accounts do not follow the same definition as the accounting view, as central banks and multilateral banks, classified as banks in the accounting view, will be seen according to the liquidity behaviour as "customers".

The level of customer accounts and term funding continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets; cash and balances with central banks and financial investments, as required by the LFRF.

Funding sources and uses

(in millions of euros)	**2015**	2014
Sources		
Customer accounts	**32,811**	33,635
Deposits by banks	**7,086**	7,021
Repurchase agreements – non-trading	**10,283**	15,938
Debt securities issued	**10,501**	9,237
Subordinated liabilities	**276**	276
Financial liabilities designated at fair value	**8,476**	6,911
Liabilities under insurance contracts	**20,943**	20,803
Trading liabilities	**22,647**	29,407
Total equity	**5,938**	5,804
At 31 December	**118,961**	129,032

	2015	2014
Uses		
Loans and advances to customers	**38,524**	36,240
Loans and advances to banks	**4,660**	6,022
Repurchase agreements – non-trading	**10,163**	14,796
Trading assets	**27,161**	38,720
Financial investments	**27,677**	24,685
Cash and balances with central banks	**395**	523
Net deployment in other balance sheet assets and liabilities	**10,381**	8,046
At 31 December	**118,961**	129,032

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.

HSBC France manages its collateral through a central collateral pool, in line with the LFRF. When specific securities need to be delivered and HSBC France 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.

HSBC France 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.

Risk management and control within the HSBC France group (continued)

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	**2,400**	**1,084**	**1,846**	**1,715**	**1,218**	**1,527**	**5,695**	**5,842**	**21,326**
– unsecured CDs and CP	**284**	**1,009**	**1,673**	**1,586**	**1,076**	**0**	**0**	**0**	**5,627**
– unsecured senior MTNs	**2,116**	**75**	**170**	**129**	**92**	**1,527**	**4,043**	**549**	**8,700**
– unsecured senior structured notes	**0**	**0**	**3**	**0**	**50**	**0**	**283**	**1,543**	**1,880**
– secured covered bonds	**0**	**0**	**0**	**0**	**0**	**0**	**1,369**	**3,750**	**5,119**
– secured ABCP	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
– secured ABS	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
– other	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Subordinated liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**260**	**260**
– subordinated debt	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**260**	**260**
– preferred securities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
At 31 December 2015	**2,400**	**1,084**	**1,846**	**1,715**	**1,218**	**1,527**	**5,695**	**6,102**	**21,586**
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	–	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–	–
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

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)	31.12.2015	31.12.2014
Total on-balance sheet assets	**168,458**	201,018
Less:		
– reverse repo/stock borrowing receivables and derivative assets	**(59,750)**	(85,467)
– other assets that cannot be pledged as collateral	**(32,560)**	(34,797)
Total on-balance sheet assets that can support funding and collateral needs	**76,148**	80,754
Add off-balance sheet assets:		
– fair value of collateral received in relation to reverse repo/stock borrowing/derivatives that is available to sell or repledge	**35,815**	43,146
– fair value of collateral received in relation to derivatives that is available to sell or repledge	**256**	150
Total assets that can support future funding and collateral needs	**112,219**	124,050
Less:		
– on-balance sheet assets pledged	**(25,389)**	(30,932)
– re-pledging of off-balance sheet collateral received in relation to reverse repo/stock borrowing/derivatives	**(27,293)**	(38,146)
– re-pledging of off-balance sheet collateral received in relation to derivatives	**–**	–
Total assets available to support funding and collateral needs	**59,537**	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 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.

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.

Risk management and control within the HSBC France group (continued)

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 Chief Risk Officer in charge of risks and reviewed annually at the HSBC France Market Risk Forum.

There is also a more detailed version of each Entity Room Mandate, with greater granularity.

The limits set by HSBC France Market Risk Forum

Annually, this forum reviews and sets "one pager" entity mandate limits for HSBC France and HSBC Bank plc Paris Branch on the recommendation of the Head of Traded Risk France.

Operational limits

Traded Risk 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 Forum and those allocated overall to HSBC France.

Governance at the HSBC Group level

Wholesale Credit 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 and a local dimension in certain countries such as France.

Europe Traded Risk

The Head of Europe Traded Risk, who reports directly to Global Head Traded Risk and to European Head

1 *See the Consolidated financial statements, Note 14 Derivatives on pages 198 to 204 and Note 32 Maturity Analysis of financial assets and liabilities on pages 244 to 247.*

Wholesale Credit and Market Risk, supervises the Room Mandates review process. He submits them for review by WMR. He is also functional Head 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 Chief Risk Officer (CRO) 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 WMR France, the Head of Traded Risk France, the Head of Independent Model Review (IMR) and the Global Banking and Markets Product Control Officer. The Chief Financial Officer is also member.

Traded Risk France acts as secretary of the committee.

The HSBC France Market Risk Forum reviews risks and results indicators, analyses any significant events observed during the previous month, including any breaches of "one-pager" mandate limits, (see page 128 "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.

Traded Risk

Within Wholesale and Market Risk (WMR), Traded Risk 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 Traded Risk France reports on a hierarchical basis to the Head of Wholesale and Market Risk France.

The Head of Traded Risk France is responsible for both MRMaC (Market Risk Management and Control) 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 Traded Risk France in this section on market risk.

In general, it is the responsibility of the Head of Traded Risk France to provide Senior Management and HSBC France's Market Risk Forum with comments and explanations concerning any significant breaches of max-loss and limits (One pager Room Mandate), or any positions he deems useful for Senior Management to know about.

The Head of Wholesale Credit and Market Risk 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.

Risk management and control within the HSBC France group (continued)

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 Traded Risk Europe.

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.

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.

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 under the functional responsibility of the Head of Traded Risk Europe.

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.

Independent Model Review (IMR)
Models developed by the front office research team are used for managing, valuing and assessing the risks of some derivative products. These models as well as VaR models are validated by an independent unit of experts, the Independent Model Review (IMR) previously called Quantitative Risk and Valuation Group (QRVG). Its manager reports at a local level to the Chief Risk Officer in charge of risks and functionally to the Head of IMR 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 IMR 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 IMR, 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 exam-

ined 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 2015

2015 HSBC France Risk Mandate was in line with 2014’s one.

The European Central Bank (ECB) launched in January 2015 a wide program (Quantitative Easing) of Asset Purchases, including Asset Back Securities, Covered Bonds and Government debts aiming to last until at least end of 2016.This program has been a strong support of Euro markets, especially on interest rate.

HSBC France participated in 2015 to the PRA Stress Test exercice as part of HSBC Group in continuation to 2014 PRA/EBA Stress Test Exercice.

During 2015 year, HSBC France continued to play a major role as a platform for HSBC Group in Eurozone sovereign debt and Rate Derivatives in Euro and US Dollar.

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 2015 the main driver for market activity results.

Eurozone Sovereign exposures, in particular peripherals remained throughout 2015 within the allocated risk appetite limits.

Regarding capital requirement (RWA Market) computation, HSBC France operated with the minimal coefficient in 2015.

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 is working with Group HSBC to improve the VaR current model in order to better encompass very low or negatives rates environment. Value at Risk remained on reasonable levels in 2015.

Risk management and control within the HSBC France group (continued)

Greece tensions at mid-year resulted in the introduction of new volatile scenarios whereas decrease of exposures lowered VaR level at year-end.

Risk not in VAR framework

VaR captures the traditional risk factors directly observable on a daily basis, such as exchange rates, interest rates, equity prices, etc., but does not take account of potential changes in more exotic factors such as correlations, basis risk, return to mean parameters, etc. Therefore, since 31 December 2007, HSBC France also calculates an additional VaR measure called 'Add-On VaR' or Risk not in VaR in respect of these exotic risk factors.

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.

Stress Testing

Stress testing is an important tool that is integrated into the groups market risk management tool to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by VaR modelling.

Stress testing is implemented at the legal entity, regional and the overall Group levels. A standard set of scenarios is utilised consistently across all regions within the Group. Scenarios are tailored in order to capture the relevant events or market movements at each level. The risk appetite around potential stress losses for the Group is set and monitored against referral limits.

The process is governed by the Stress Testing Review Group forum which, in conjunction with group risk management, determines the scenarios to be applied at portfolio and consolidated level, as follows:

- single risk factor stress scenarios that are unlikely to be captured within the VaR models, such as the break of a currency peg;
- technical scenarios consider the largest move in each risk factor without consideration of any underlying market correlation;
- hypothetical scenarios consider potential macroeconomic events, for example, the slowdown in mainland China and the potential effects of a sovereign debt default, including its wider contagion effects; and
- historical scenarios incorporate historical observations of market movements during previous periods of stress which would not be captured within VaR.

Others scenarios are designed locally to take into account HSBC France (HBFR) specific activities.

The whole set of scenarios with a significant impact on portfolio valuations is discussed and reviewed during the monthly Market Risk Forum, chaired by the HSBC France CRO.

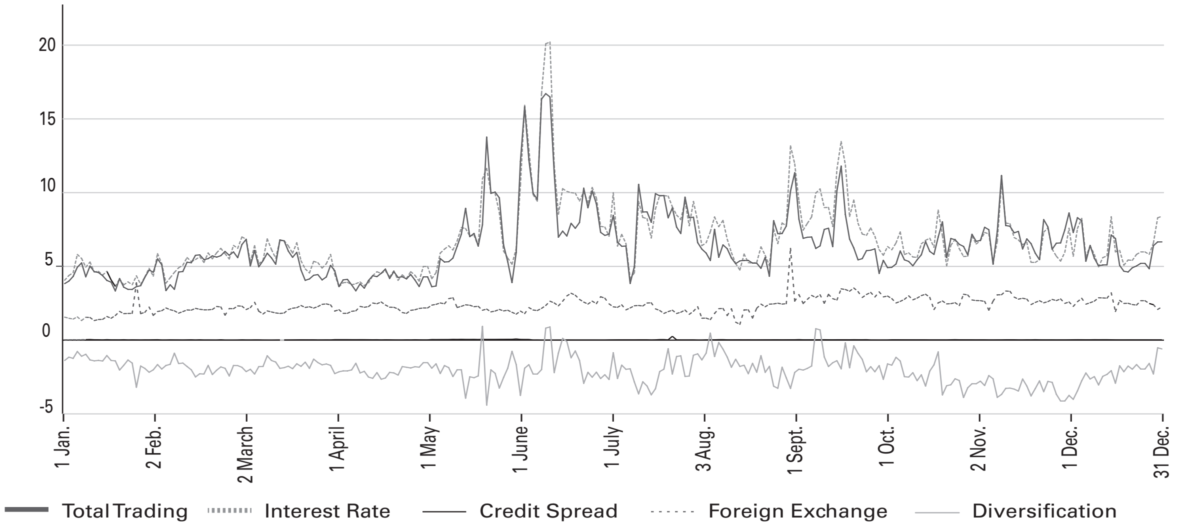
Trading portfolios

Value at Risk of the trading portfolios

Trading VaR predominantly resides within Global Markets. The total VaR for trading activity was higher at 31 December 2015 compared to 31 December 2014 due new scenarios arisen around Greece Tension context at mid-year.

Total trading VaR by risk type

(in millions of euros)	Foreign Exchange	Interest Rate	Equity	Credit Spread	Portfolio divers-ification	Total
Year 2015	**0.02**	**6.66**	**–**	**2.26**	**(0.60)**	**8.40**
Average	**0.02**	**6.36**	**–**	**2.35**	**(2.01)**	**6.79**
Maximum	**0.26**	**16.71**	**–**	**6.22**	**(4.41)**	**20.21**
Year 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



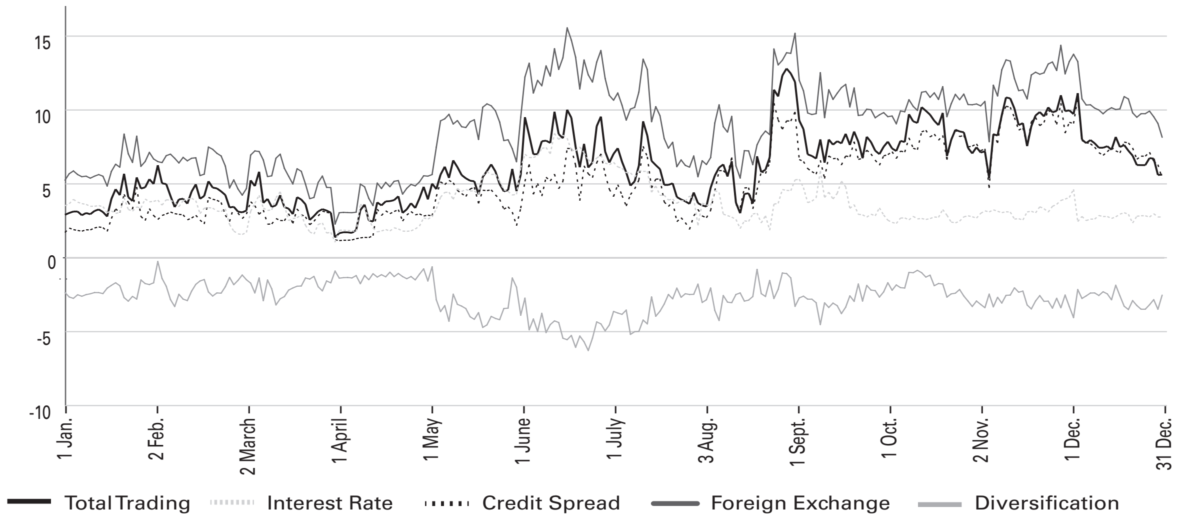
Non-trading portfolios

Value at Risk of the non-trading portfolio

Non-trading VaR of the group includes contributions from all global businesses. The non-trading VAR was higher at 31 December 2015 compared to 31 December 2014 primarily due to new scenarios arisen around Greece Tension context at mid-year.

Total accrual VaR by risk type

(in millions of euros)	Foreign Exchange	Interest Rate	Equity	Credit Spread	Portfolio divers-ification	Total
Year 2015	**–**	**2.77**	**–**	**5.36**	**(2.53)**	**5.63**
Average	**–**	**3.67**	**–**	**5.10**	**(2.67)**	**6.12**
Maximum	**–**	**8.41**	**–**	**10.81**	**(6.28)**	**12.81**
Year 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



Risk management and control within the HSBC France group (continued)

Structural interest-rate risk

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 home loans, and on the behaviour of depositors sight deposits. When necessary, behavioural features will be different from contractual features but assess in a better way the actual underlying 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 concern market operations. The main objective of HSBC France Interest Rate Risk of the Banking Book (IRRBB) management is to reduce 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).

Global interest rate risk hedging strategies set up by the bank are based on internal modelling of this risk. Behavioural features used are subject to be impacted by changes in the macro economic or interest rate environment, which does not remove risk of impact on profitability. Moreover, the way profit or loss on hedging operations are accounted for may increase volatility in reported results. Residual sensitivity of result subject to monitoring within the framework of governance 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, the Chief Risk Officer, 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 IRRBB, 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 IRRBB 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 Balance Sheet Management (BSM) and Global Markets (GM).

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 comply with in defining new hedging transactions. As such, the new gap after hedging must ensure that the residual exposure by time-bucket is kept within defined limits.

One of the 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, 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 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 are being identified and certificates drawn up according to the HSBC Group standards, in accordance with the Sarbanes-Oxley Act.

Balance sheet management

Effective governance across BSM is supported by the dual reporting lines it has to the Head of GB&M and to the Group Treasurer. BSM is responsible for managing liquidity and funding under the supervision of the local ALCO. It also manages the non-trading interest rate positions transferred to it within a defined Risk mandate.

In executing the management of the liquidity risk on behalf of ALCO, and managing the non-trading interest rate positions transferred to it, BSM invests in highly-rated liquid assets in line with the Group's liquid asset policy. The majority of the liquidity is invested in central bank deposits and government, supranational and agency securities with most of the remainder held in short-term interbank and central bank loans.

Withdrawable central bank deposits are accounted for as cash balances. Interbank loans, statutory central bank reserves and loans to central banks are accounted for as loans and advances to banks. BSM's holdings of securities are accounted for as available-for-sale assets.

Statutory central bank reserves are not recognised as liquid assets. BSM is permitted to use derivatives as part of its mandate to manage interest rate risk. Derivative activity is predominantly through the use of vanilla interest rate swaps which are part of cash flow hedging and fair value hedging relationships.

Credit risk in BSM is predominantly limited to short-term bank exposure created by interbank lending, exposure to central banks and high quality sovereigns, supranationals or agencies which constitute the majority of BSM's liquidity portfolio. BSM does not manage the structural credit risk of any Group entity balance sheets.

VaR is calculated on both trading and non-trading positions held in BSM. It is calculated by applying the same methodology used for the Markets business and utilised as a tool for market risk control purposes. BSM holds trading portfolio instruments in only very limited circumstances. Positions and the associated VaR were not significant during 2015 and 2014.

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 France terms this risk as "structural", and monitors it through exposure and capital adequacy sensitivity indicators calculated by the Finance Department.

OPERATIONAL RISKS

Operational risk is the risk of losses arising from shortcomings or failings of processes, employees, internal systems or external events including legal risk. Operational risk includes notably risks related to events that are unlikely to occur but which present a significant impact, risks of internal and external fraud, risks related to the model.

Identification and management of operational risks

Governance

The general organisation of the permanent control is the responsibility of the Chief Risk Officer (CRO), who is supported by the Operational Risk function. The Operational Risk function works closely with the independent control teams BRCM (Business Risk and Control Management) of Global Businesses, Global Functions and HOST and with the other Global Functions belonging to the second line of defence.

Within this framework, the lead committee in charge of overseeing risks is the Risk Management Committee. This committee relies on works of global businesses and some second line of defense functions (legal, regulatory

Risk management and control within the HSBC France group (continued)

compliance, financial crime compliance) risks management committees. This committee reviews on a monthly basis the operational risks of businesses, functions and HOST, the results of controls carried out, the progress made in action plans implemented to mitigate identified risks and operational losses. Operational Risk function holds a specific meeting on a regular basis, called Operational Risk Meeting and transversal topics with an operational impact; and disseminate risk culture within Global Business and Global Functions.

This framework relies on Forums and working groups related to operational risks and internal control within the businesses and risk functions that are responsible for overseeing management of the operational risks and permanent controls of each entity.

The HSBC France group has procedures covering the process for the identification, reporting, management, control and prevention of operational risks, specifying in particular that:

– operational risk management is first and foremost the responsibility of managers through how they run their operations;

– IT systems are used to identify and report operational risks and generate regular and appropriate reports;

– identification and assessment of risks and controls across the entire scope are updated at least once a year in order to identify any significant changes;

– operational losses are collated and reported on a monthly basis.

HSBC France uses the standardised approach for calculating the regulatory capital needed to cover operational risks. To estimate economic capital, HSBC France uses the same concept, but as applied to certain specific businesses in the HSBC Group's structure instead of the eight businesses of the regulatory approach.

Identification and risk measurement through risk and controls mapping

HSBC France and its activities are exposed to all the types of operational risks that banks face, particularly:

– operational risks link to Record Management process related to customer's document and data and ability to retrieve them with integrity and completeness in short delays;

– risks 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 (phishing, malware, cyber attacks…);

– external fraud risks, in particular: card fraud, Internet fraud, false transfers, social engineering;

– risk of mistakes in processing transactions;

– risk related to customer relations.

Operational risks may have consequences on reputational risk. Any lapse by HSBC France in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk which may impact its relationship with its clients, counterparts, shareholders, regulators and any other stakeholders. Safeguarding and building upon the Group's reputation is the responsibility of every employee of HSBC France.

Business Risk and Control Management teams of businesses, functions and HOST, 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, establishing risk maps. 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 HOST.

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 Risk FIM Group and HOST.

Operational risk and incident analyses and reports

Operational Risk function prepares monthly reports for the HSBC France and HSBC Group Senior Management, and presents summary reports to the relevant bodies (Operational Risk Meeting, Risk Management Committee, and the Audit Committee 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;
- main deficiencies escalated by internal control teams.

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.

Non-compliance risk

Management of the risk of non-compliance is described in the Chairman's report on page 61 *et seq*.

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, financial, and reputational risks arising from complex structured transactions. The DAJ participates in the Products Examination and Operational Risks Forum, 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 defence litigation matters. It is involved in dealing with credit files requiring special management or in default. The DAJ monitors other risks that might have a legal impact.

Control framework of legal risk

The Legal and Tax Risks Committee, chaired by the Chief Risk Officer, meets quarterly to ensure that the risks framework for legal and tax risks remains adequate in the face of changes in laws, regulations and group organization. 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 group Operational Risks Forum.

Each HSBC France subsidiary that is subject to the 3 November 2014 decision with regards to internal control 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. In the operational risk framework, The DAJ operates as first and second line of defence. The DAJ is deeply involved in the review and control of the legal risks assessed by the businesses and functions in their RCAs.

Litigation monitoring with regard to HSBC France group entities[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.

1 *See the Consolidated financial statements, Note 40 Legal proceedings and regulatory matters page 256 relating to HSBC Group entities generally.*

Risk management and control within the HSBC France group (continued)

Cases in progress as at 31 December 2015 involving legal risks likely to have a significant effect on the financial situation of the HSBC France group net assets are set out below. These cases have given rise to appropriate provisions, as necessary.

Interbank commissions relating to electronic cheque processing

In 2002, a number of banks with retail networks, including HSBC France, forming part of an inter-branch committee sponsored by the French Banking Federation, introduced a system of interbank fees applying to the new electronic cheque processing termed *Echange d'Images Chèques* (EIC), the cheque image exchange system.

In March 2008, the French Competition Authority sent notification of a complaint to the 12 members of the committee – including HSBC France – for the introduction of interbank fees when the EIC was set up.

On 20 September 2010, the French Competition Authority took an unfavourable decision as regards the scheme introduced in 2002. In substance, it found that the EIC constituted an illegal scheme, the purpose of which included effects on the cost of processing cheques causing an increase in costs charged on "major remitter" customers. The banks involved in setting up this charging system were fined a total of EUR 384.9 million. HSBC France was ordered to pay a fine of EUR 9.05 million. HSBC France, together with the other banks that were fined, except the Banque de France, decided to appeal this unfavourable decision.

The banks actually contest as much the anticompetitive purpose as the anticompetitive effect of the 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 appealed to the Supreme Court against the decision.

On 14 April 2015, the French Supreme Court overturned the decision of the Appeals Court of Paris of 23 February 2012 solely on procedural grounds.

Consequently, the banks had to transfer back the sums reimbursed on the basis of the decision of the Appeals Court of Paris of 23 February 2012.

The French Supreme Court referred the parties back to the Appeals Court of Paris.

The oral hearing before the Appeals Court of Paris is scheduled for November 2016.

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 stated, in July 2013, 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 was submitted in March 2015 to the Competition Authority, which stated, that the banks' adjustments offers complied with the banks' commitments under this procedure. The Competition Authority made these adjustments mandatory from 4 May 2015 for a period of 4 years.

The Apollonia case

As was the case for around twenty other banks, HSBC worked during a limited period of time (from early 2006 to April 2007), and mainly in one branch, with a financial adviser and estate agent, known as Apollonia. The latter offered its clients (mainly independent professionals) "turnkey" tax efficient products of the "*Loueur Meublé Professionnel (LMP)*" (professional lessor of furnished accommodations) type and for a small number of investors "Loi Robien" type tax efficient products.

Between April 2006 and April 2007, 184 property loan applications were approved, for a total of EUR 29 million, bearing in mind that different media have said the total amount of operations by Apollonia with all banks purportedly reached around EUR 2 billion.

At the end of September 2008, HSBC France became aware of the use of inappropriate marketing methods by Apollonia. Moreover, it appeared that most of the borrowers took out several loans through Apollonia from various banks without notifying HSBC France.

Five notaries have been indicted for conspiracy to commit organised fraud, forgery and use of forgeries. HSBC France is involved as a civil law party, giving it access to the criminal file. From this, it has become apparent that a very large proportion of the official agency authorisations, signed by the buyers giving authority to sign purchase and sales deeds, were not properly prepared.

HSBC France systematically files proceedings against those investors with loan repayments due but the hearings are held in abeyance because of the criminal proceedings 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.

Other regulatory, civil law or arbitration proceedings
To date, as far as HSBC France is aware, it is not threatened by any other regulatory, civil law or arbitration proceedings that are in progress or in suspense against it that might have, or over the last 12 months have had, any significant effect on the financial situation or the profitability of the company and/or of the group.

As reported in the French press, in April 2013 French judicial authorities opened an investigation against unnamed persons on the grounds of alleged illicit solicitation for banking and financial services, organised money laundering of funds obtained through illicit banking or financial solicitation, and organised money laundering for the purpose of tax evasion in the matter involving client data stolen from HSBC in Switzerland and relating to French residents. In November 2014, a member of the HSBC Group which is not a subsidiary of HSBC France, HSBC Private Bank Suisse SA, was formally placed under criminal investigation by magistrates in France. In April 2015, HSBC Holdings was informed that it has been placed under formal criminal investigation by the French magistrates in connection with the conduct of HSBC Swiss Private Bank in 2006 and 2007 for alleged tax offences, and a EUR 1 billion bail was imposed. HSBC Holdings appealed the magistrates' decision and, in June 2015, bail was reduced to EUR 100 million.

Tax risk

The HSBC France Tax Department (DAF), oversees as a second line of defence the HSBC France group tax risk.

This Department assists HSBC France group various businesses, along with its subsidiaries, in the prevention and the monitoring of tax risks.

The Department has analysed the 5 major tax risks Tax reporting, tax payments, tax compliance, tax avoidance and tax evasion. 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).

Accounting risk

The accounting risk control framework is described in the Chairman's report on page 64 *et seq*.

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;

Risk management and control within the HSBC France group (continued)

- 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 Operations, Services and Technology (HOST) and relies on four structures to support the IT services delivered to the HSBC France businesses and support functions:

- IT Infrastructure Delivery (ITID) Structure in charge of the implementation and maintenance of systems and infrastructures on which are hosted the banking functionalities rolled out within the businesses and functions of HSBC France;
- Application Development & Maintenance (ADM) Structure in charge of the development and maintenance of intra group or third parties software solutions;
- Business Management IT, Structure within Information Technology department which is in charge, among others, of managing major change programmes within HSBC France;
- COO Office, Department in charge of monitoring and managing operational risks of HOST activities in France.

The missions of the IT function are covered by the following HSBC Group manuals:

- Global Standard Manual (GSM).
- HOST Functional Instructions Manual (HOST 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. IT structures risks are identified around the four mapped departments before the IT organisational changes, that is to say COO Office, Change Delivery, IT Operations and Software Delivery. The maps will be reviewed in the first quarter 2016 to reflect the new IT organization.

Each IT risk cartography is revised at least annually and updated so as to reflect the main risk profile changes such as:

- global risk level assessed by the IT function;
- internal or external incidents and/or significant regulatory changes;
- significant changes or new processes or systems relating to the IT function;
- identification of a significant control issue through processes such as follow up and controls monitoring, SOX or issues raised by the regulator, the internal or external auditors.

For each significant IT risk identified, the IT functions identify and document key controls so as to mitigate the risk. In addition, a description of the current monitoring for each key control is identified.

The IT permanent control information (results of control reviews, progress with the control plan, change in risk reviews and control assessments, any failures and remedial actions taken) are communicated monthly to HOST' governance body (ExCo). Permanent control work and results are also reported monthly in the Risk Management Meeting (RMM) 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 HOST 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 HOST 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 HOST' permanent control management and HSBC France's permanent control supervision department (Operational Risk team).

Security and fraud risk

Security and Fraud Risk, which has responsibility for physical risk, fraud, information and contingency risk, takes functional direction from Group and Regional Security and Fraud Risk. This enables management to identify and mitigate the permutations of these and other non-financial risks across the countries in which the group operates. All businesses manage their risk in accordance with standards set by Security and Fraud Risk, which also provide expert advice and support.

Security and fraud risks include:

– **Fraud risks**: the threat of fraud perpetrated by or against our customers, especially in retail and commercial banking, may grow during adverse economic conditions. We increased monitoring, analysed root causes and reviewed internal controls to enhance our defences against external attacks and reduce the level of loss in these areas. In addition, Group Security and Fraud Risk worked closely with the global businesses to continually assess these threats as they evolved and adapt our controls to mitigate these risks; and

– **Information security**: the security of our information and technology infrastructure is crucial for maintaining our banking applications and processes while protecting our customers and the HSBC brand. A failure of the control framework which protects this could have implications for the wider financial sector and result in direct financial loss, and/or the loss of customer data and other sensitive information which could undermine both our reputation and our ability to retain the trust of our customers.

Programmes of work have been ongoing to strengthen internal security controls to prevent unauthorised access to our systems which may affect live services or facilitate data loss or fraud. In common with other banks and multinational organisations, we continue to be a target of increasingly sophisticated 'cyber' attacks such as Distributed Denial of Service attacks which affect the availability of customer-facing websites. In addition, reliance on standard internet technologies, protocols and services means we are subject to wide-scale remediation when flaws are reported in these technologies. Lessons learnt from attacks experienced within the industry and information sharing with other financial institutions, government agencies and external intelligence providers allows us to develop a better understanding of our own susceptibilities and to develop scenarios to test against.

They will continue to be a focus of ongoing initiatives to strengthen the control environment. Significant investment has already been made in enhancing controls around data access, the heightened monitoring of potential cyber-attacks and continued training to raise staff awareness. This is an area that will require continual investment in our operational processes and contingency plans.

Human Resources

Risks relating to human resources management and control system

At the end of 2015, the main HR risks with potentially significant impacts on the operation of HSBC France were as follows:

Risk management and control within the HSBC France group (continued)

- psycho-social risks created by a poor working environment, inadequate working conditions or inadequate managerial practices;
- data security risks relating to the loss or unauthorized 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 HR Risk Forum (previously 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, the representative of Legal in charge of Employment law and the representative of Audit France.

The Forum 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 "Operational Risk Committee".

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, COO, Chief Risk Officer 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 in term of risk management, of respect of internal, compliance and information security rules…

At the end of the meeting, the Committee prepares a summary of the decisions taken on compensation. This summary is presented at the Remuneration Committee of the Board of Directors that follows the People Committee.

Role of the Remuneration Committee
On the basis of a summary produced by the People Committee, the 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 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 Global 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, from 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 and significantly reinforced in 2015.

On a practical level, these functions are responsible, in their respective fields of operation, for:

- identifying and listing, throughout the year, all instances of non-adherence to compliance rules and/or rules of internal procedure and/or rules concerning risk or security information;
- instructing cases of individual breach in coordination with employee's manager and, if appropriate, with employment law team;
- presenting cases to the Operational Risk Committee of the business concerned in order to assess the gravity of the risk and the level of severity of the individual breach taking into account aggravating and mitigating factors. Finally, the Committee decides the disciplinary and/or managerial actions to be implemented;
- notifying HR department of all elements related to the breach and the corresponding decisions, HR being in charge to report the cases on a monthly basis in the Personal Conduct Cases tool;
- if necessary, providing feedback to management for possibly making changes to the "balanced scorecard" of the employees involved in the breaches.

In addition, Global Business/Global Function Breach Committees are held during the pay review process, in the presence of the Head of Business or Function concerned, of the Chief Risk Officer, of the Head of HR and of the Head of Performance and Reward. For each identified breach case, and even more for the ones identified as high or very high the Committee decides:

- the potential adjustment on performance rating;
- the impact on the variable compensation of the employees concerned;
- whether, regarding the severity of the breach, the "*malus*" rule needs to be applied, cancelling some or all previously awarded and unvested shares. After these decisions, the HR Department checks that any adjustments validated by the Committee is 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.

Risk management and control within the HSBC France group (continued)

Environmental risk

The management of environmental risks is described in the Corporate, social and environmental responsibility section on pages 67 *et seq*.

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 Meeting 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.

This section provides disclosures on the risks arising from insurance manufacturing operations including financial risks such as market risk, credit risk and liquidity risk, and insurance risk.

Risks in these operations are managed within the insurance entity using methodologies and processes appropriate to the insurance activities, but remain subject to oversight at HSBC Group Insurance level.

HSBC France's bancassurance model

We operate an integrated bancassurance model which provides wealth and protection insurance products principally for customers with whom the group has a banking relationship. Insurance products are sold predominantly by 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.

Where HSBC France does not have the risk appetite or operational scale to be an effective manufacturer, a handful of leading external insurance companies are engaged in order to provide insurance products to the HSBC Group's customers through its banking network and direct channels.

HSBC Assurances Vie sets its own control procedures in addition to complying with guidelines issued by the HSBC Group Insurance. Country level oversight is exercised by the subsidiary's local Risk Management Committee.

In addition, local subsidiary's ALCO monitors and reviews the duration and cash flow matching of insurance assets and liabilities.

All insurance products, whether manufactured internally or by a third party, are subjected to a product approval process prior to introduction.

Financial risks of insurance operations

The HSBC France group's insurance businesses are exposed to a range of financial risks which can be categorised into:

– market risk: risks arising from changes in the fair values of financial assets or their future cash flows from fluctuations in variables such as interest rates, foreign exchange rates and equity prices;

– credit risk: risk of financial loss following the default of third parties to meet their obligations; and

– liquidity risk: risk of not being able to make payments to policyholders as they fall due as a result of insufficient assets that can be realised as cash.

Regulatory requirements prescribe the type, quality and concentration of assets that the HSBC Group Insurance must maintain to meet insurance liabilities. These requirements complement the HSBC Group-wide policies.

The following table analyses the assets held in HSBC France's insurance manufacturing company by type of contract, and provides a view of the exposure to financial risk:

Financial assets held by HSBC Assurances Vie (France)

	31.12.2015			
(in millions of euros)	**Linked contracts**	**Non-linked contracts**	**Other assets**	**Total**
Financial assets designated at fair value				
– Interest rate assets	**–**	**712**	**–**	**712**
– equity assets	**64**	**5,188**	**397**	**5,649**
Total	**64**	**5,901**	**397**	**6,362**
Financial investments – available for sale				
– debt securities	**–**	**12,372**	**969**	**13,341**
– equity assets	**–**	**–**	**–**	**–**
Total	**–**	**12,372**	**969**	**13,341**
Derivatives	**–**	**102**	**46**	**149**
Other financial assets	**–**	**1,704**	**(185)**	**1,519**
Total	**64**	**20,080**	**1,227**	**21,370**

	31.12.2014			
(in millions of euros)	Linked contracts	Non-linked contracts	Other assets	Total
Financial assets designated at fair value				
– Interest rate assets	–	907	–	907
– equity assets	67	4,770	409	5,247
Total	67	5,678	409	6,154
Financial investments – available for sale				
– debt securities	–	13,367	914	14,281
– equity assets	–	–	–	–
Total	–	13,367	914	14,281
Derivatives	–	83	57	140
Other financial assets	–	941	(174)	767
Total	67	20,069	1,206	21,342

Approximately 66 per cent of financial assets were invested in debt securities at 31 December 2015, with 26 per cent invested in equity securities.

In life linked insurance, the net premium is invested in a portfolio of assets. HSBC Assurances Vie (France) manages the financial risks of this product on behalf of the policyholders by holding appropriate assets according to the type of contracts subscribed.

Market risk of insurance operations

Market risk arises when mismatches occur between product liabilities and the investment assets which back them. For example, mismatches between asset and liability yields and maturities give rise to interest rate risk.

The main features of products manufactured by the group's insurance manufacturing company which generate market risk, and the market risk to which these features expose the company, are discussed below.

Long-term insurance or investment products may incorporate benefits that are guaranteed. Interest rate risk arises to the extent that yields on the assets supporting guaranteed investment returns are lower than the investment returns implied by the guarantees payable to policyholders.

The income from the insurance and investment contracts with discretionary participation is primarily invested in bonds; a fraction is allocated to other asset classes in order to provide customers with an enhanced potential yield. The subsidiaries holding such type of product portfolio are at risk of falling market prices when discretionary bonuses cannot be fully taken into account. An increase in market volatility may also result in an increase in the value of the collateral for the insured.

Long-term insurance and investment products typically permit the policyholder to surrender the policy at any time or to let it lapse. When the surrender value is not linked to the value realised from the sale of the associated supporting assets, the subsidiary is exposed to market risk. In particular, when customers seek to surrender their policies when asset values are falling, assets may have to be sold at a loss to fund redemptions.

Risk management and control within the HSBC France group (continued)

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; and
- exiting, to the extent possible, investment portfolios whose risk is considered unacceptable.

The French insurance manufacturing company monitors exposures against mandated limits regularly and reports these quarterly to 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 or downward shift in the discount curves used to calculate the net present values, and to a steepening of a flattening of these curves;
- for equity price risk, the total market value of equity holdings and the market value of equity holdings by region and country.

The standard measures are relatively straightforward to calculate and aggregate, but they have limitations. The most significant one is that a parallel shift in yield curves of one basis point does not capture the non-linear relationships between the values of certain assets and liabilities and interest rates. Non-linearity arises, for example, from investment guarantees and product features which enable policyholders to surrender their policies. HSBC Assurances Vie (France) bears the shortfall if the yields on investments held to support contracts with guaranteed benefits are less than the investment returns implied by the guaranteed benefits.

On another hand, the sensitivity of some assets to the movement of the interest rates curve may vary itself according to the level of this curve. So it will not be adequate to calculate the impact of an important movement using only the impact of a small movement. Additional calculations will be necessary.

The group recognises these limitations and augments its standard measures with stress tests which examine the effect of a range of market rate scenarios on the aggregate annual profits and total equity of the insurance manufacturing companies after taking into consideration tax and accounting treatments where material and relevant. The results of these stress tests are reported to the HSBC Group Insurance and risk committees every quarter.

The following table illustrates the effect of selected interest rates, equity price and credit spread scenarios on the profits for the year and total equity of insurance manufacturing subsidiaries. Where appropriate, the impact of the stress on the present value of the in-force long-term insurance business asset ('PVIF') is included in the results of the sensitivity tests. The relationship between the profit and total equity and the risk factors is non-linear and, therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. The sensitivities are stated before allowance for the effect of management actions which may mitigate the effect of changes in market rates, and for any factors such as policyholder behaviour that may change in response to changes in market risk.

Sensitivity of risk factors related to the Insurance Company of the Group

	Effect on total equity	
(in millions of euros)	**31.12.2015**	31.12.2014
+ 100 basis points parallel shift in yield curves	**(1)**	60
– 100 basis points parallel shift in yield curves	**(65)**	(245)
10 per cent increase in equity price	**14**	10
10 per cent decrease in equity price	**(13)**	(13)
50 basis points increase in credit spread	**31**	33
50 basis points decrease in credit spread	**(53)**	(42)

The impact of a shift of the yield curves have decreased from 2014 to 2015. This is mainly due to the evolution of the economic situation (especially the steepening of the yield curve), and to the adjustments of the long term assumptions used in the calculation of the PVIF, to take into account this evolution (replacement of the swaps yield curve by a curve defined by EIOPA, adjustment of the equity risk premium and modification of the fees sharing model between HSBC France and HSBC Assurances).

There may be scenarios in which focus together all the negative sensitivities presented above. In certain exceptional conditions, the global amount of PVIF is subject to change dramatically.

Credit risk of insurance operations

Credit risk can give rise to losses through default and can lead to volatility in income statement and balance sheet figures through movements in credit spreads.

Management of the French insurance manufacturing company is responsible for the credit risk, quality and performance of their investment portfolios. The assessment of creditworthiness of issuers and counterparties is based primarily upon internationally 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 114.

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. 81 per cent of the assets included in the table are invested in investments rated as 'Strong'.

Treasury bills, other eligible bills and debt securities in the French insurance manufacturing company

	31.12.2015		
	Strong	**Good / Satisfactory**	**Total**
Financial assets designated at fair value	**467**	**246**	**713**
– treasury and other eligible bills	**–**	**–**	**–**
– debt securities	**467**	**246**	**713**
Financial investments – available for sale			
– treasury and other eligible bills	**–**	**–**	**–**
– debt securities	**10,915**	**2426**	**13,341**
Total	**11,382**	**2,672**	**14,054**

	31.12.2014		
	Strong	Good / Satisfactory	Total
Financial assets designated at fair value	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
Total	13,052	2,138	15,188

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.

Risk management and control within the HSBC France group (continued)

The following tables show the expected undiscounted cash flows for insurance contract liabilities. The remaining contractual maturity of investment contract liabilities is all undated as in most cases, policyholders have the option to terminate their contracts at any time.

Expected maturity of insurance contract liabilities

31 December 2015 *(in millions of euros)*	**Expected cash flow (undiscounted)** < 1 year	1-5 years	5-15 years	> 15 years	Total
Non-linked insurance[1]	**32**	**28**	**–**	**62**	**123**
Linked life insurance[1]	**–**	**–**	**–**	**45**	**45**
Total	**32**	**28**	**–**	**107**	**168**

31 December 2014 *(in millions of euros)*	Expected cash flow (undiscounted) < 1 year	1-5 years	5-15 years	> 15 years	Total
Non-linked insurance[1]	32	30	–	57	119
Linked life insurance[1]	–	–	–	48	48
Total	32	30	–	105	167

1 *Non-linked insurance includes remaining non-life business.*

Insurance risk

Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the insurer. Insurance risk is principally measured in terms of liabilities under the contracts.

The insurance risk profile of the HSBC French life insurance manufacturing business has not changed materially during 2015 despite the increase in liabilities to policyholders on these contracts to EUR 20.8 billion (2014: EUR 20.6 billion).

A principal risk faced by the HSBC French Insurance business is that, over time, the cost of acquiring and administering a contract, claims and benefits may exceed the aggregate amount of premiums received and investment income. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates.

The following tables analyse the HSBC French insurance risk exposures by type of business.

Analysis of life insurance risk – liabilities to policyholders

(in millions of euros)	**31.12.2015**	31.12.2014
Insurance contracts with DPF[1]	**–**	–
Credit life	**46**	46
Annuities	**64**	58
Term assurance and other long-term contracts	**13**	15
Non-life insurance	**-**	–
Total non-linked insurance[2]	**123**	119
Life (linked)	**64**	67
Investment contracts with DPF[1, 3]	**20,775**	20,636
Liabilities under insurance contracts	**20,962**	20,822

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.

Capital management and allocation

(audited unless otherwise specified)

Approach and policy

Our approach to capital management is driven by our strategic and organizational requirements, taking into account the regulatory, economic and commercial environment in which we operate.

It is our objective to maintain a strong capital base to support the development of our business and to meet regulatory capital requirements. To achieve this, we manage our capital within the context of an annual capital plan which is approved by the Board and which determines the optimal amount and mix of capital required to support planned business growth and meet local regulatory capital requirements. This capital plan is updated on a monthly basis afterwards.

Our capital management policy is underpinned by the capital management framework, which enables HSBC France to manage its capital in a consistent manner. The Internal Capital Adequacy Assessment Process (ICAAP) incorporates different assessments of the requirement related tothe management and allocation of capital within HSBC France. These capital measures include invested capital, economic capital and regulatory capital defined by the group as follows:

– Invested capital is the equity capital provided to the bank by HSBC Bank plc;

– Economic capital is the internally calculated capital requirement which is deemed necessary by HSBC France to support the risks to which it is exposed; and

– Regulatory capital is the minimum level of capital which HSBC France is required to hold in accordance with the rules set by the ECB for the bank.

The following risks managed through the capital management framework have been identified as material: credit, market, operational, interest rate risk in the banking book, insurance and residual risks.

Stress testing

Stress testing is incorporated into the capital management framework and is an important component of understanding the sensitivities of the core assumptions included in HBFR capital plans to the adverse effect of extreme but plausible, events. Stress testing allows senior management to formulate its response, including risk mitigating actions, in advance of conditions starting to reflect the stress scenarios identified.

The actual market stresses experienced by the financial system in recent years have been used to inform the capital planning process and further develop the stress scenarios employed within HSBC France.

Other stress tests and sensitivity analysis are also carried out, both at the request of regulators and by the regulators themselves using their prescribed assumptions. HSBC France takes into account the results of all such regulatory and internal stress testing when assessing internal capital requirements.

Risks to capital

Beyond stress-testing, a list of principal risks is regularly evaluated for their effect on HSBC France capital ratios. In addition, other risks may be identified which could affect our Risk Weighted Assets ('RWAs') and/or capital position. These risks are also included in the evaluation of risks to capital. The downside or upside scenarios are assessed against our capital management objectives and mitigating actions are assigned as necessary.

The group's approach to managing its capital position has been to ensure the bank exceeds current regulatory requirements and is well placed to meet future regulatory requirements from the on- going implementation of CRD IV.

Risk-weighted asset targets

RWA targets for our global businesses are established in accordance with the Group's strategic direction and risk appetite, and approved through the Region's and Group's processes, and through the Bank's annual planning process.

As these targets are deployed to lower levels of management, action plans for implementation are developed. These may include growth strategies; active portfolio management; business and/or customer-level reviews; RWA accuracy and allocation initiatives and risk mitigation.

Capital Management framework is embedded within Regional and Group's processes, and within the Bank's Annual Operating Plan, as validated by the Board of Directors.

Business performance against RWA targets is monitored through regular reporting to the ALCO and the Bank's Executive Committee.

Capital generation

HSBC Bank plc is the sole provider of equity capital to HSBC France and also provides non-equity capital where necessary. Capital generated in excess of planned requirements is returned to HSBC Bank plc in the form of dividends.

Capital measurement

The ECB is the supervisor of HSBC France. The ECB sets capital requirements, in line with the regulatory framework and receives information on the capital adequacy for the bank. HSBC France complied with the capital adequacy regulatory requirements throughout 2015.

Capital management and allocation (continued)

The Basel III framework, similarly to Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

From 1 January 2014, HSBC France capital is calculated under CRD IV / CRR.

Regulatory capital
Our capital base is divided into two main categories, namely Common equity tier 1, and Tier 2, depending on the degree of permanency and loss absorbency exhibited. HSBC France does not currently hold any Additional tier 1 capital.

– Common equity tier 1 ('CET 1') capital is the highest quality form of capital, comprising shareholders' equity and related non-controlling interests (subject to limits). Under CRD IV / CRR various capital deductions and regulatory adjustments are made against these items 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, negative amounts resulting from the calculation of expected loss amounts under IRB and defined benefit pension fund assets.

– Tier 2 capital comprises eligible capital securities and any related share premium and other qualifying tier 2 capital securities subject to limits. Holdings of tier 2 capital of financial sector entities are deducted.

Pillar 1 capital requirements

Pillar 1 covers the capital resources requirements for credit risk, market risk and operational risk. Credit risk includes counterparty credit risk and securitisation requirements. These requirements are expressed in terms of RWAs.

Credit risk capital requirements
CRR applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements.

The most basic, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories.

The next level, the internal ratings-based ('IRB') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but their estimates of exposure at default ('EAD') and loss given default ('LGD') are subject to standard supervisory parameters.

Finally, the IRB advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD. The capital resources requirement, which is intended to cover unexpected losses, is derived from a formula specified in the regulatory rules which incorporates PD, LGD, EAD and other variables such as maturity and correlation. Expected losses under the IRB approaches are calculated by multiplying PD by EAD and LGD. Expected losses are deducted from capital to the extent that they exceed total accounting impairment allowances.

In order to assess its credit risk, HSBC France used IRB advanced approach on sovereign, institutions, and retail customers' risks since 2007 year-end, following ACPR approval. HSBC France has subsequently been granted ACPR approval for the use of IRBA advanced approach on commercial customers (LGD in 2009, EAD in 2012). Only few residual expositions are currently still operated within IRB foundation or standardized approaches, by exception.

Counterparty credit risk ('CCR')
CCR is defined as the risk that a counterparty would default before the term of the contract and the associated payment of the expected cash flows. It applies to:

– Derivative instruments;

– Securities Financing Operations;

– Deferred Payment Transactions.

CCR applies to all these exposures, whether they are constituted of banking or trading book items.

In order to determine exposures at default, HSBC France applies the Market Price evaluation method for derivatives and the general method, based on financial security for deferred payment transactions.

These exposures are then risk-weighted under one of the two IRB approaches, to determine the final relevant capital requirements.

Two approaches are set out by the Regulatory Authorities for calculating the Credit Valuation Adjustment (CVA) risk capital charge: an advanced methodology that is only available to institutions that have prerequisite internal model approvals, and a standardized approach.

HSBC France currently uses the latest that determines the CVA risk charge according to a prescribed formula which is based on the exposure at default of the counterparty credit risk and the effective maturity of the transaction. Weights are applied in the calculation and are based on the external credit rating of the counterparty.

Securitisation
HSBC France only holds securitisation positions in banking books. CRR specifies two methods for calculating relevant credit risk, the standardised approach and the IRB approach. They both rely on the mapping of rating agency credit ratings to risk weights, which range from 7 per cent to 1,250 per cent.

HSBC France uses the ratings-based IRB method except for liquidity facilities and program-wide enhancements for asset-backed securitisations for which the full internal IRB assessment approach is applied.

Market risk capital requirement
The market risk related capital requirements cover:

a) Position risk and associated optional risk

Position risk divides into two items:

– General risk (linked to a price variation resulting from interest rates or stock market movements);

– Specific risk (related to a price variation resulting from issuer or underlying instrument characteristics changes).

b) Foreign Exchange Risk and associated optional risk

These risks are measured by internal models when approved by the ECB and the PRA, except the specific risk which is captured through the standardized approach. However specific risk could migrate under an internal model during year 2016. Internal Market Risk models are based on VaR and Stressed VaR.

Operational risk capital requirement
CRD IV / CRR include a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income less insurance premiums allocated to each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. Finally, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements. We have adopted the standardized approach in determining our operational risk capital requirements.

Cumulated Capital Requirements

CRD IV / CRR establish a number of capital buffers, to be met with CET1 capital, which is broadly aligned with the Basel III framework. CRD IV / CRR contemplate that these will be phased in from 1 January 2016, subject to national discretion.

Automatic restrictions on capital distributions apply if the bank's CET1 capital falls below the level of its CRD IV / CRR combined buffer. This is defined as the total of the Capital Conservation Buffer ('CCB'), the Countercyclical Capital Buffer ('CCyB'), Global or Other Systemically Important Institutions Buffer ('G-SII' or 'O-SII'), and the Systemic Risk Buffer ('SRB') as these become applicable. National regulators are the designated authorities for the G-SIIs and O-SII buffers and the CCB. The ACPR is therefore responsible for identifying the O-SIIs from 1 January 2016.

Capital conservation buffer
The CCB was designed to ensure banks build up capital outside periods of stress that can be drawn down when losses are incurred.

Countercyclical and other macro-prudential buffers
The CCyB is a macro-prudential tool at the disposal of National Authorities that can be deployed when the *Haut Conseil de Stabilité Financière* ('HCSF') judges that threats to financial stability have arisen in France increasing system-wide risk, and to protect the banking sector from future potential losses. Should a CCyB be required, it is expected to be set in the range of 0-2.5 per cent of relevant credit exposures RWAs, although it is uncapped.

Global / Other Systematically Important Institutions buffers
The G-SII buffer is intended to address systemic risk, which is assessed on an annual basis according to a number of indicators such as the size of a bank, its connectivity, lack of readily available substitutes or financial information infrastructure for the services it provides, its global cross-jurisdictional activity, and the complexity of its business model.

Systemic Risk Buffer
In addition to the measures above, CRD IV sets out a SRB for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk.

The SRB is to be applied to ring fenced banks and building societies (over a certain threshold), which are together defined as 'SRB institutions'. The SRB can be applied on an individual, sub consolidated or consolidated basis. Where applicable, the buffer rate must be set in the range of 1 per cent to 3 per cent. This would apply to all the SRB institution's exposures.

HSBC France is submitted, as other European banks to the CRR. It applies to a large extent the SSM applicable set of rules, including various national discretion options.

Capital management and allocation (continued)

Pillar 2 capital requirement

Pillar 2 (Supervisory and own funds management process) consists in the own assessment by banks and by the assessment from supervision authorities, of the opportunity to allocate capital resources to risks that are not covered by Pillar 1 framework. A major aspect of the Pillar 2 is the Internal Capital Adequacy Assessment Process (ICAAP) that consists in the Bank's and Regulator's identification and quantification of the risks stemming from the strategy, the risk profile and the capital position of the Bank. In that perspective, several stress-tests are applied to the Bank's financials. In addition to the economic capital need definition and other risk management tools, these stress-tests are taken into account into the capital adequacy internal evaluation by HSBC France.

This evaluation process is summarized in an annual ICAAP report, and updated on a frequent basis. It is then examined by the supervisory authorities.

Pillar 2 definition is embedded in a broader Supervisory Review and Evaluation Process (SREP) which leads to a final determination by the ECB of individual capital guidance under Pillar 2. This guidance can be completed by additional individual requirements.

Conversely, the leverage ratio requirement was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as tier 1 capital divided by total on- and weighted off-balance sheet exposures. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement.

Pillar 3 disclosure requirements

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to increase market transparency by requiring them to publish, at least annually, wide- ranging information on their risks and capital, and how these are managed. Our Pillar 3 Disclosures 2014 are published, at group's level, on HSBC's website, www.hsbc.com, under 'Investor Relations'.

Regulation and Supervision

HSBC France is submitted, as other European banks to the CRR. It applies to a large extent the SSM applicable set of rules.

RWAs at 31 December 2015 are calculated and presented on HSBC France's interpretation of final CRD IV/CRR legislation and final rules issued at the European level.

Several capital adjustments and deductions are implemented on a gradual basis from 1 January 2014 to 1 January 2018.

Additionally, current rules, include French National discretion rules notably include transitional disposition on non-sovereign AFS unrealized gains (CRR article 467 (3) 40 per cent phase-in retained in 2015, 60 per cent in 2016), a complete filter on sovereign AFS unrealized gains and losses (CRR article 468 (3)), a specific phase-in on DTA (CRR article 478 (3) 40 per cent phase-in retained in 2015, 60 per cent in 2016), and the potential application of the financial conglomerate prudential treatment for institutions holding significant insurance companies participations (CRR article 471 (1)).

Under CRD IV, as implemented under ECB supervision, banks are required to meet a minimum CET1 ratio of 4.5 per cent of RWAs (increasing to 5.125 per cent including capital conservation buffer from 1 January 2016), a minimum tier 1 ratio of 6 per cent of RWAs (increasing to 6.625 per cent including capital conservation buffer from 1 January 2016) and a total capital ratio of 8 per cent of RWAs (increasing to 8.625 per cent including capital conservation buffer from 1 January 2016).

The ECB will notably phase-in this buffer from 1 January 2016 to 1 January 2019. This additional requirement has been taken into account into previously mentioned capita requirements. This buffer will ultimately be set at 2.5 per cent of RWAs.

Regarding the CCyB, HSCF has set 2016 French CCyB at 0 per cent.

The ACPR attributed a 0 per cent buffer to HSBC France for year 2016.

Finally, HSBC France is not submitted to the SRB buffer at this stage.

In the context of the SREP, HSBC France Pillar II Common Equity Tier 1 ratio requirement has been set at 10 per cent, on a transitional basis, including Capital Conservation Buffer for 2016.

The table below provides a comparison of the key capital numbers based on the applicable capital requirements for each period. As no major methodological development has been performed between December 31st 2014 and December 31st 2015, Regulatory Capital and RWA evolution is mainly a result of the Bank's activity.

Key capital numbers

	As at 31 December	
(in millions of euros)	**2015**	2014
Capital resources		
CET1	**4,825**	4,693
Tier 1 Capital	**4,825**	4,693
Total Capital	**4,825**	4,693
Risk Weighted Assets [1]		
Counterparty Credit Risk	**3,809**	5,247
Credit Risk	**21,000**	20,691
– IRB	**15,748**	15,494
– Standardised	**5,252**	5,197
Market Risk	**2,594**	3,588
Operational Risk	**3,618**	3,789
Transitional requirement	**1,470**	–
Total Risk Weighted Assets	**32,491**	33,315
Capital Ratios (%) [1]		
CET1	**14.9%**	14.1%
Total Tier 1	**14.9%**	14.1%
Total Capital	**14.9%**	14.1%

1 *Unaudited.*

Capital management and allocation (continued)

Capital structure at 31 December

CRD IV transitional

(in millions of euros)	As at 31 December 2015	2014
Common Equity Tier 1 capital (CET1):		
Shareholders' funds of the parent company	**5,838**	5,732
Non-controlling interests	**60**	57
Less: dividends paid to the parent company	**(30)**	(150)
Less: items with a regulatory treatment	**(82)**	(119)
Less: prudent valuation adjustment (PVA)	**(30)**	(48)
Less: goodwill and intangible assets	**(374)**	(374)
Less : deductions in respect of expected losses	**(85)**	(105)
Less : investments in financial sector entities exceeding the 10% threshold of regulatory own funds	**(369)**	(269)
- Of which shareholder's equity of HSBC Assurance Vie (France) (- 233)		
Less : investments in financial sector entities and deferred tax assets exceeding the 17.65% threshold of regulatory own funds	**(104)**	(31)
Less: subordinated debts in financial sector entities		
- Of which subordinated debt of HSBC Assurance Vie (France)	**–**	–
Total CET1 capital	**4,825**	**4,693**
Tier 2 capital:		
Reserves arising from revaluation of property and unrealised gains on available-for-sale securities	**–**	–
Perpetual subordinated debts and term-subordinated debts	**276**	279
Less: deductions in respect of expected losses	**–**	–
Less: subordinated debts of HSBC Assurances Vie (France) consolidated by the equity method		
- Of which subordinated debt of HSBC Assurance Vie (France)	**(332)**	(270)
Less: investments in financial sector entities exceeding the 10% threshold of regulatory own funds	**56**	-9
Total qualifying tier 2 capital	–	–
Investments in other credit institutions and other financial institutions	–	–
Total capital	**4,825**	4 693
Total Basel III risk-weighted assets (unaudited)	**32,491**	33,315
Total risk-weighted assets before the additional requirement due to the floor	**31,021**	33,315

Regulatory Capital Developments

Despite the rules published to date, there remains continued uncertainty around the amount of capital that banks will be required to hold. Expected regulatory evolutions, as listed below, could notably change applicable requirements within the banking sector.

Conversely, the amount of regulatory capital that HSBC France will be required to hold, will depend on the evolution of the requirement set-up by the ECB within the Pillar 2 framework, and on its articulation with the different capital buffers.

EU developments
The ECB has launched a review of national options within the Eurozone. It will be pursued during Q1 2016.

International developments
In June 2015, the Basel Committee on Banking Supervision published a consultation relative to the inclusion of Interest Rate Risk in the Banking Book within the regulatory framework. Pending consultation and further discussion, this could lead to another capital requirement

On January 14 2016, the Basel Committee published its final rules pursuant to the Fundamental Review of the Trading Book. As mentioned by the Basel Committee, the key features of the revised framework include:

- A revised boundary between the trading book and banking book;
- A revised internal models approach for market risk;
- A revised standardised approach for market risk;
- A shift from value-at-risk to an expected shortfall measure of risk under stress;
- Incorporation of the risk of market illiquidity.

The revised market risk framework is expected to come into effect on 1st January 2019. The European Commission will need to table a proposal in order to amend the CRR.

Some rules are also expected to be revised by the Basel Committee in 2016 with regard to STC securitisation (final treatment will apply to both banking book and trading book); final CVA standards; ongoing review of credit risk, sovereigns and IRRBB; considering whether adjustments or exemptions should be applied to capital deductions thresholds for market-making or TLAC holdings; further regulatory data collection on profit and loss attribution.

Finally, the Basel Committee has published a consultation in October 2014 regarding the review of operational risk standardised approach for RWA quantitative definition. Capital charge would thus be based on a risk factor depending notably on the Bank's size.

Loss Absorbing Capacity (Total Loss Absorbing Capacity – TLAC and Minimum Requirement for Eligible Liabilities – MREL)
The EBA has produced a number of Regulatory Technical Standards ('RTS'), some of which are yet to be finalised, that will further inform the BRRD requirements, through the MREL framework. The MREL aims at ensuring institutions hold a loss absorption amount which reflects existing regulatory capital requirements and a recapitalisation amount which reflects the capital that a firm is likely to need post resolution. The MREL level will be set on an individual basis.

In parallel In November 2015, as part of the 'too big to fail' agenda, the G20 endorsed the final rules for TLAC for G-SIBs. It includes a minimum requirement of 16 per cent of RWAs and a leverage ratio of 6 per cent as a first step.

Furthermore, existing regulatory capital buffers will need to be met in addition to the minimum TLAC requirement, in effect treating a breach of TLAC as severely as a breach of minimum capital requirements. The TLAC requirement is to be applied in accordance with individual bank resolution strategies. The terms of application of these new requirements to HSBC France are still to be further advised in 2016.

Financial highlights *

HSBC France group

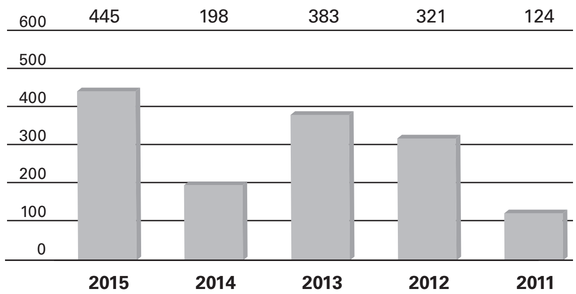
(in millions of euros)	**2015**	2014	2013	2012	2011
Profit before tax	**618**	232	546	388	59
Profit attributable to shareholders	**445**	198	383	321	124
Profit before tax for the HSBC Group's operations in France [1]	**586**	252	654	559	191
At 31 December					
Shareholders' funds	**5,839**	5,733	5,391	5,213	4,820
Loans and advances to customers and banks	**43,184**	42,262	40,235	76,486 [3]	82,984 [3]
Customers' accounts and deposits by banks	**39,897**	40,656	36,974	75,356 [4]	75,234 [4]
Total assets	**168,458**	201,018	208,893	225,208	221,390
Number of employees (full-time equivalents)	**9,217**	9,402	9,533	9,570	10,030
Capital ratios					
Total capital [2]	**14.9%**	14.1%	13.7%	12.6%	10.7%
Common Equity Tier One capital [2]	**14.9%**	14.1%	13.7%	12.6%	10.7%
Cost efficiency ratio	**68.8%**	82.2%	70.9%	75.9%	90.6%

The financial highlights are influenced by changes in the group structure over the five years. The most significant changes are as follows:

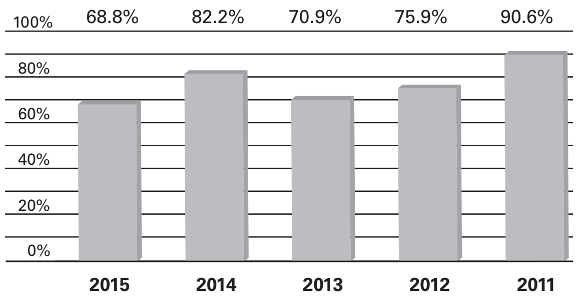
– in 2011: disposal by Sinopia Asset Management of Sinopia Asset Management (Asia Pacific) Limited to HSBC Global Asset Management (Hong Kong) Limited and Sinopia Asset Management (UK) Limited to HSBC Global Asset Management (UK) Limited. Disposal by HSBC Private Bank France of LGI to HSBC Private Bank (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.

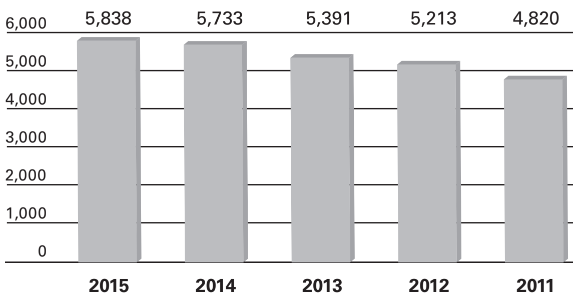
Profit attributable to Shareholders (in millions of euros)



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 2011, capital ratios under Basel 2.5 in 2012 and 2013, capital ratios under Basel III as of 2014.*

3 *Including reverse repos.*

4 *Including repos.*

Ratings

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

	Standard & Poor's	Moody's	FitchRatings
Long Term Senior Unsecured Debt	AA -	A2	AA -
Long Term Banking Deposits	AA -	A1	AA -
Outlook	Stable	Stable	Stable
Short-term rating	A-1+	P-1	F1+
Last update	9 June 2015	1 June 2015	10 November 2015

HSBC France's ratings have been reviewed during the year by FitchRatings and Moody's. Standard & Poor's reviewed HBFR within the HSBC Bank plc's framework.

During 2015, rating agencies adjusted their methodologies to take the new regulations BRRD and TLAC into account as well as the decreasing likelihood of extraordinary government support. Negative creditwatches, standing one year ago, have been resolved during the year and outlooks are now stable for all agencies. The differentiated rating of long term products relates to Moody's specific new-analysis of the balance sheet structure and assumed loss absorption capacity.

Information on supplier payable amounts schedule

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

At 31 December 2015, amounts payable to suppliers of HSBC France were EUR 43.6 million, of which 62 per cent with a due date less than 30 days.

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.

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 2015

(in millions of euros)	*Notes*	**31.12.2015**	31.12.2014
Interest income		**1,792**	1,960
Interest expense		**(318)**	(348)
Net interest income		**1,474**	1,612
Fee income		**906**	868
Fee expense		**(241)**	(209)
Net fee income		**665**	659
Trading income excluding net interest income		**(22)**	(272)
Net interest income on trading activities		**245**	212
Net trading income		**223**	(60)
Changes in fair value of long term debt issued and related derivatives		**15**	(50)
Net Income/(expense) from other financial instruments designated at fair value		**312**	349
Net income from financial instruments designated at fair value		**327**	299
Gains less losses from financial investments		**34**	43
Dividend income		**2**	4
Net earned insurance premiums	*33*	**1,957**	1,926
Other operating income		**174**	(133)
Total operating income		**4,856**	4,350
Net insurance claims incurred, benefits paid and movement in liabilities to policyholders	*33*	**(2,485)**	(2,421)
Total operating income before loan impairment (charges)/release and other credit risk provisions		**2,371**	1,929
Loan impairment charges and other credit risk provisions	*4*	**(121)**	(112)
Net operating income	*4*	**2,250**	1,817
Employee compensation and benefits	*5*	**(925)**	(948)
General and administrative expenses		**(649)**	(584)
Depreciation and impairment of property, plant and equipment	*19*	**(50)**	(45)
Amortisation and impairment of intangible assets	*18*	**(8)**	(8)
Total operating expenses		**(1,632)**	(1,585)
Operating profit		**618**	232
Share of profit in associates and joint ventures		**–**	–
Profit before tax		**618**	232
Tax expense	*7*	**(171)**	(33)
Profit for the period		**447**	199
Profit attributable to shareholders of the parent company		**445**	198
Profit attributable to non-controlling interests		**2**	1

(in euros)			
Basic earnings per ordinary share	*9*	6.61	2.94
Diluted earnings per ordinary share	*9*	6.61	2.94
Dividend per ordinary share	*9*	4.15	2.23

Consolidated statement of comprehensive income for the year ended 31 December 2015

(in millions of euros)	*Notes*	**31.12.2015**	31.12.2014
Profit for the - year (a)		**447**	199
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Available-for-sale investments: (b)		**75**	32
– fair value gains/(losses)		**104**	80
– fair value gains/(losses) transferred to the income statement on disposal		**(32)**	(43)
– amounts transferred to/(from) the income statement in respect of impairment losses		**(1)**	12
– income taxes		**4**	(17)
Cash flow hedges: (c)		**(46)**	109
– fair value gains/(losses)		**(36)**	259
– fair value (gains)/losses transferred to income statement		**(36)**	(90)
– income taxes		**26**	(60)
Exchange differences net of deferred tax (d)		**39**	11
Other comprehensive income for the period, reclassified in income statement on certain conditions (b) + (c) + (d) = (e)		**68**	152
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit plans		**(4)**	(3)
– before income taxes	*5*	**(6)**	(6)
– income taxes		**2**	3
Total variation of assets and liabilities that cannot be reclassified in income statement (f)		**(4)**	(3)
Total comprehensive income for the year (a) + (e) + (f)		**511**	348
Total comprehensive income for the year attributable to:			
– shareholders of the parent company		**504**	342
– non-controlling interests		**7**	6
		511	348

Consolidated financial statements (continued)

Consolidated balance sheet at 31 December 2015

ASSETS

(in millions of euros)	*Notes*	**31.12.2015**	31.12.2014
Cash and balances at central banks		**395**	523
Items in the course of collection from other banks		**381**	367
Trading assets	*12*	**27,161**	38,720
Financial assets designated at fair value	*13*	**6,768**	6,156
Derivatives	*14*	**49,484**	70,567
Loans and advances to banks	*32*	**4,660**	6,022
Loans and advances to customers	*32*	**38,524**	36,240
Reverse repurchase agreements – non-trading	*26, 32*	**10,163**	14,796
Financial investments	*15*	**27,677**	24,672
Other assets		**258**	283
Current tax assets [1]	*7*	**149**	99
Prepayments and accrued income		**852**	1,021
Interests in associates and joint ventures	*17*	**2**	1
Goodwill and intangible assets	*18*	**860**	709
Property, plant and equipment	*19*	**828**	706
Deferred tax assets [1]	*24*	**296**	136
TOTAL ASSETS		**168,458**	201,018

LIABILITIES AND EQUITY

(in millions of euros)	*Notes*	**31.12.2015**	31.12.2014
Liabilities			
Deposits by banks	*32*	**7,086**	7,021
Customer accounts	*32*	**32,811**	33,635
Repurchase agreements – non trading	*26, 32*	**10,283**	15,938
Items in the course of transmission to other banks		**385**	368
Trading liabilities	*29*	**22,647**	29,407
Financial liabilities designated at fair value	*22*	**8,476**	6,911
Derivatives	*14*	**46,903**	69,583
Debt securities in issue	*32*	**10,501**	9,237
Other liabilities	*23*	**914**	989
Current tax liabilities [1]	*7*	**32**	24
Liabilities under insurance contracts issued	*27*	**20,943**	20,803
Accruals and deferred income		**762**	714
Provisions	*25*	**132**	147
Deferred tax liabilities [1]	*24*	**204**	3
Retirement benefit liabilities	*5*	**165**	158
Subordinated liabilities	*28*	**276**	276
TOTAL LIABILITIES		**162,520**	195,214
Equity			
Called up share capital	*34*	**337**	337
Share premium account		**16**	16
Other reserves [2]		**1,765**	1,701
Retained earnings [2]		**3,720**	3,679
TOTAL SHAREHOLDERS' EQUITY		**5,838**	5,733
Non-controlling interests		**100**	71
TOTAL EQUITY		**5,938**	5,804
TOTAL EQUITY AND LIABILITIES		**168,458**	201,018

1 *The methodology of current and deferred tax netting has been reviewed in 2015. The application of this new methodology on the figures as of 31 December 2014 is non-significant and will therefore not be adjusted.*
2 *The opening balance as of 01/01/2015 includes:*
- *a reclassification of EUR 53 million net of deferred tax from "other reserves (cash flow hedge reserves)" to "retained earnings" resulting from the disqualification of economic hedges which originally did not meet all the conditions defined by IAS 39 to benefit from hedge accounting ;*
- *the opening balance as of 01/01/2015 includes a reclassification of EUR 33 million net of deferred tax from "retained earnings" to "merger reserves" and a reclassification of EUR 21 million net of deferred tax from "retained earnings" to "non-controlling interests". HSBC Trinkhaus Gesellschaft für Kapitalmarktinvestments oHG is 90% owned by the HSBC France group and went into liquidation during the reporting year.*

Consolidated cash flow statement for the year ended 31 December 2015

(in millions of euros)	*Notes*	**31.12.2015**	31.12.2014
Cash flows from operating activities			
Profit before tax		**618**	232
Adjustment for:			
– non-cash items included in profit before tax	*35*	**214**	125
– change in operating assets	*35*	**4,762**	(4,841)
– change in operating liabilities	*35*	**(3,051)**	(13,965)
– elimination of exchange differences		**9**	5
– net gain from investing activities		**(34)**	(47)
– share of profits in associates and joint ventures		**–**	–
– contribution paid to defined benefits plan		**–**	
– tax paid	*7*	**(138)**	(173)
Net cash (used in)/generated from operating activities		**2,380**	(18,664)
Cash flows from investing activities			
Purchase of financial investments		**(7,855)**	(4,988)
Proceeds from the sale and maturity of financial investments		**4,403**	5,086
Purchase of property, plant and equipment	*19*	**(115)**	(141)
Proceeds from the sale of property, plant and equipment	*19*	**3**	2
Purchase of goodwill and intangible assets	*18*	**(8)**	(7)
Proceeds from the sale of intangible assets		**–**	
Net cash outflow from acquisition of businesses and subsidiaries		**–**	–
Proceeds from disposal of subsidiaries		**–**	–
Proceeds from sale of associates		**–**	–
Net cash disposed of on sale of subsidiaries		**–**	–
Purchases of HSBC Holdings plc shares to satisfy share-based payment transactions		**(3,572)**	–
Cash flows from financing activities			
Issue of ordinary share capital		**24**	20
Issue of capital securities		**–**	–
Subordinated liabilities issued	*28*	**–**	260
Subordinated liabilities repaid		**–**	–
Net cash inflow from change in stake of subsidiaries		**–**	–
Dividends paid to shareholders	*8*	**(401)**	–
Dividends paid to non-controlling interests		**–**	–
Net cash (used in)/from financing activities		**(377)**	280
Net (decrease)/increase in cash and cash equivalents		**(1,569)**	(18,432)
Cash and cash equivalents at 1 January		**4,127**	22,507
Effect of exchange rate changes on cash and cash equivalents		**46**	52
Cash and cash equivalents at 31 December		**2,604**	4,127

Consolidated financial statements (continued)

Consolidated statement of changes in equity for the year ended 31 December 2015

(in millions of euros)	2015									
				Other reserves						
	Called up share capital	Share premium	Retained earnings [1,3]	Available-for-sale fair value reserve	Cash flow hedging reserve [1]	Foreign exchange reserve [2]	Merger reserve [3]	Total share-holders' equity	Non-controlling interests [3]	Total equity
At 1 January	337	16	3,678	133	2	(20)	1,566	5,712	92	5,804
Profit for the year	–	–	445	–	–	–	–	445	2	447
– available-for-sale investments	–	–	–	75	–	–	–	75	–	75
– cash flow hedges	–	–	–	–	(46)	–	–	(46)	–	(46)
– actuarial gains/(losses) on defined benefit plans	–	–	(4)	–	–	–	–	(4)	–	(4)
– exchange differences and other	–	–	–	–	–	34	–	34	5	39
Other comprehensive income (net of tax)	–	–	(4)	75	(46)	34	–	59	5	64
Total Comprehensive income for the year	–	–	441	75	(46)	34	–	504	7	511
– dividends to shareholders	–	–	(401)	–	–	–	–	(401)	–	(401)
– exercise and lapse of share options and vesting of share awards	–	–	(10)	–	–	–	–	(10)	–	(10)
– cost of share-based payment arrangements	–	–	9	–	–	–	–	9	–	9
– other Movements	–	–	3	–	–	–	21	24	(23)	1
– transfers	–	–	–	–	–	–	–	–	–	–
– changes in ownership interest in subsidiaries that did not result in loss of control	–	–	–	–	–	–	–	–	24	24
Total Other	–	–	(399)	–	–	–	21	(378)	1	(377)
At 31 December	337	16	3,720	208	(44)	14	1,587	5,838	100	5,938

1 The opening balance as of 01/01/2015 includes a reclassification of EUR 53 million net of deferred tax from "other reserves (cash flow hedge reserves)" to "retained earnings" resulting from the disqualification of economic hedges which originally did not meet all the conditions defined by IAS 39 to benefit from hedge accounting.

2 The movement for the reporting period includes a correction of EUR 38 million net of deffered tax due to exchange differences which were previously recognized through profit and losses instead of other comprehensive income (Foreign exchange reserve).

3 The opening balance as of 01/01/2015 includes a reclassification of EUR 33 million net of deferred tax from "retained earnings" to "merger reserves" and a reclassification of EUR 21 million net of deferred tax from "retained earnings" to "non-controlling interests". HSBC Trinkhaus Gesellschaft für Kapitalmarktinvestments oHG is 90% owned by the HSBC France group and went into liquidation during the reporting year.

Consolidated statement of changes in equity for the year ended 31 December 2014

	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	337	16	3,477	101	(54)	(26)	1,540	5,391	46	5,437
Profit for the year	–	–	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 year	–	–	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	337	16	3,679	133	55	(20)	1,533	5,733	71	5,804

Consolidated financial statements (continued)

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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 8 February 2016.

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 2015, there were no unendorsed standards effective for the year ended 31 December 2015 affecting these consolidated financial statements and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC France. Accordingly, HSBC France's financial statements for the year ended 31 December 2015 are prepared in accordance with IFRSs as issued by the IASB.

Standards adopted during the year ended 31 December 2015

There were no new standards applied during the year ended 31 December 2015.

b *Future accounting developments*

In addition to the projects to complete financial instrument accounting 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 original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The group has assessed the impact of IFRS and it expects that the standard will have no significant effect, when applied, on the consolidated 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.

Classification and measurement

The classification and measurement of financial assets will depend on the entity's business model for their 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.

1 Basis of preparation and future accounting development *(continued)*

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 is 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 Other Comprehensive Income.

The HSBC France group conducted an assessment of potential classification and measurement changes to financial assets based on the composition of the balance sheet as at 31 December 2014, which may not be fully representative of the impact as at 1 January 2018. This is because IFRS 9 requires that business models be assessed based on the facts and circumstances from the date of initial application. In addition, the contractual terms and conditions of the financial assets assessed as at 31 December 2014 may not reflect the contractual terms and conditions as HSBC's financial assets at transition.

However, based on the assessment of financial assets as at 31 December 2014 and expectations around changes to balance sheet composition, the HSBC France group expect that generally:

- existing loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9;
- financial assets designated at fair value through profit or loss will remain at fair value through profit or loss;
- debt securities classified as available for sale will primarily become FVOCI, with a small minority at FVPL either because of their contractual cash flow characteristics or the business model within which they are held;
- treasury and other eligible bills classified as available for sale will be mesasured at amortised cost or FVOCI, depending upon the business model in which they are held;
- all equity securities will remain measured at fair value. A significant majority will have fair value movements shown in profit or loss, while a minority will have fair value movements presented in OCI;
- the equity securities for which fair value movements will be shown in OCI are business facilitation and other similar investments where HSBC holds the investments other than to generate a capital return.

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'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1', financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2' and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired, are in 'stage 3'.

1 Basis of preparation and future accounting development *(continued)*

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk 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.

Transition

Based on the analysis performed to date, the HSBC France group expects to exercise the accounting policy choice to continue IAS 39 hedge accounting, although we will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

The classification as of measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. Hedge accounting is generally 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. The Group 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. Further information on change in fair value attributable to changes in credit risk is disclosed in Note 30.

HSBC France is currently assessing the potential impact of the phases "classification and measurement" and "impairment" on its financial statements.

Consolidated financial statements (continued)

1 Basis of preparation and future accounting development *(continued)*

c *Presentation of information*

Disclosures under IFRS 4 ‘Insurance Contracts’ and IFRS 7 ‘Financial Instruments: Disclosures’ concerning the nature and extent of risks relating to insurance contracts and financial instruments have been included in the ‘Risk management and control’ section on page 144 *et seq*.

Capital disclosures under IAS 1 ‘Presentation of Financial Statements’ have been included in the ‘Capital management’ section on page 149 *et seq*.

Disclosures relating to the group’s securitisation activities and structured products have been included in note 42 on page 258.

The functional currency of the bank is Euro, which is also the presentation currency of the consolidated financial statements of the HSBC France group.

The below sections were disclosed in the previous Annual Reports and Accounts under the note 36 of the financial statements and are now presented in the risk management report:

– Credit risks: page 99 *et seq*;

– Market risks: page 128 *et seq*;

– Liquidity risks: page 119 *et seq*;

– Insurance risks: page 144 *et seq*;

– Capital management and allocation: page 149 *et seq*.

d *Critical accounting estimates and judgements*

The preparation of financial information requires the use of estimates and judgements about future conditions.

In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the next financial year could differ from those on which management’s estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2015 Financial Statements. Management’s selection of the group’s accounting policies which contain critical estimates and judgements is listed below; it reflects the materiality of the items to which the policies are applied, the high degree of judgement and estimation uncertainty involved:

– Impairment of loans and advances: refer to risk management report on pages 116 to 118;

– Deferred tax assets: refer to Notes 7 and 24;

– Valuation of financial instruments: refer to Note 30;

– Goodwill impairment: refer to Note 18a;

– PVIF: refer to Note 18c.

1 **Basis of preparation and future accounting development** *(continued)*

e *Going concern*

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

f *Consolidation and related disclosures*

The HSBC France group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is initially assessed based on consideration of all facts and circumstances, and is subsequently reassessed when there are significant changes to the initial setup.

Where an entity is governed by voting rights, the group would consolidate when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power over the relevant activities or holding the power as agent or principal.

All internal transactions to the HSBC France group are eliminated on consolidation.

The consolidated financial statements of the group also include the attributable share of the results and reserves of joint ventures and associates, based on either financial statements made up to 31 December.

g *Significant events during the year*

Evolution of the regulatory framework and introduction of new banking taxes

- Single Resolution Board (SRB)

The Single Resolution Board is the central decision-making body of the Single Resolution Mechanism (SRM). Its mission is to ensure that credit institutions and other entities under its remit, which face serious difficulties, are resolved effectively with minimal costs to the taxpayers and for the real economy. The Board will also be responsible for managing the Single Resolution Fund which is established by the Single Supervisory Mechanism (SSM). The Single Resolution Board is a self-financed agency of the European Union.

- The Single Resolution Fund (SRF)

In order to provide the necessary resources that might be needed in the context of resolution procedure, a Single Resolution Fund has been established by the Banking Union Member States. This Fund will be endowed with 1 per cent of the total deposits of the concerned territory. Contribution will be collected over 8 years so as to reach circa EUR 55 billion in 2024. It will be supplied by French banks for EUR 15.5 billion, the share borne by France being approximately 28 per cent of the total.

HSBC France contribution amounted to EUR 54 million for 2015 and EUR 16 million have been recorded in balance sheet under security deposits.

1 Basis of preparation and future accounting development *(continued)*

HSBC France significant issuance

HSBC France issued :

- on the 3 December 2015 a green bond for a nominal of EUR 500 million with a 5 years maturity, which represents the first green bond issuance made by the HSBC Group;
- on the 27 November 2015 a senior floating rate note for a nominal of EUR 1 billion with a 4 years maturity;
- on the 2 October 2015 a senior floating rate note for a nominal of EUR 250 million with a 2 years maturity;
- on the 25 September 2015 a senior floating rate note for a nominal of EUR 1 billion with a 2 years maturity.

See Note 22 for more information.

SFH issuance

HSBC SFH (France) is a company dedicated to refinancing HSBC France by issuing a covered bonds secured by home loans. On 11 March 2015, HSBC SFH (France) issued a covered bond for a nominal of EUR 1 billion with a 7 years maturity and an option to delay the reimbursement by 1 year.

See Note 22 for more information.

Targeted Longer-Term Refinancing Operations (TLTRO)

HSBC France participated to the TLTRO by EUR 1.4 billion in 2015, increasing its total participation to the TLTRO up to EUR 2.6 billion.

PVIF (Present Value of In Force long term insurance business)

Some long term assumptions about the PVIF model have been reviewed during the first half-year of 2015. The changes and impacts are described in Note 18c PVIF of this document.

Review of macro hedge accounting documentations

During half year 2015, a detailed review of the documentation of the macro Cash Flow Hedge hedging relationships has been performed at HSBC Group level.

The opening balance as of 1 January 2015 includes a de-designation of EUR 53 million net of deferred tax from “other reserves (cash flow hedge reserves)” to “retained earnings” resulting from the disqualification of economic hedges which originally did not meet certain conditions defined by IAS 39 to benefit from hedge accounting.

VISA

Visa Europe securities were remeasured at a value of EUR 89 million at 31 December 2015 and recognized directly in Equity in order to account for the terms of the memorandum of agreement for a repurchase by Visa, Inc.

See Note 15 for more information.

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 at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

Any foreign exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the income statement depending where the gain or loss on the underlying non-monetary item is recognised.

In the consolidated financial statements, the assets, and liabilities of branches, subsidiaries, and associates whose functional currency is not euros, are translated into the group's presentational currency at the rate of exchange at the balance sheet date while their results are translated into Euro at the closing rates of exchange for the reporting period. Exchange differences on a non monetary item that is part of a net investment in a foreign operation are recognised in other comprehensive income in consolidated financial statements. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

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 allowance. Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

For certain leveraged finance and syndicated lending activities, the group may commit to underwrite loans on fixed contractual terms for specified periods of time, where the drawdown of the loan is contingent upon certain future events outside the control of the group. Where the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a trading derivative and measured at fair value through profit and loss. On drawdown, the loan is classified as held for trading and measured at fair value through profit and loss. Where it is not the group's intention to trade the loan, a provision on the loan commitment is only recorded where it is probable that the group will incur a loss. This may occur, for example, where a loss of principal is probable or the interest rate charged on the loan is lower than the cost of funding. On inception of the loan, the hold portion is recorded at its fair value and subsequently measured at amortised cost using the effective interest method. However, where the initial fair value is lower than the cash amount advanced, the write down is charged to the income statement in other operating income. The write down will be recovered over the life of the loan, through the recognition of interest income using the effective interest rate method, unless the loan becomes impaired. The write down is recorded as a reduction to other operating income.

2 Significant accounting policies *(continued)*

c *Impairment of loans and advances*

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances.

Individually assessed loans

All loans are individually assessed for the purpose of determining whether there is objective evidence of a loss and raise an impairment charge accordingly. Determining whether there is objective evidence that a loss event has occurred and, if so, the measurement of the impairment allowance, both require judgement. In determining whether there is objective evidence that a loss event has occurred, judgement is exercised in evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past-due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress, particularly where the likelihood of repayment is affected by the prospects for refinancing or the sale of a specified asset. For those loans where objective evidence of impairment exists, management determine the size of the allowance required based on a range of factors such as the realisable value of security, the likely dividend available on liquidation or bankruptcy, the viability of the customer's business model and the capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

The HSBC France group might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximize collection opportunities or avoid default or repossession. Where forbearance activities are significant, higher levels of judgment and estimation uncertainty are involved in determining their effects on loan impairment allowances. Judgements are involved in differentiating the credit risk characteristics of forbearance cases, including those which return to performing status following renegotiation. Forbearance activities take place in both retail and wholesale loan portfolios.

The exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which our loan impairment allowances as a whole are sensitive.

The criteria used to make this assessment include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

2 Significant accounting policies *(continued)*

Losses for impaired loans are recognised promptly when there is objective evidence of impairment. Impairment losses are calculated on individual loans and on loans assessed collectively and are recorded as charges to the income statement against the carrying amount of impaired loans on the balance sheet.

In determining such impairment losses on individually assessed accounts, the following factors are considered:

– HSBC France's aggregate exposure to the customer;

– the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service their debt obligations;

– the amount and timing of expected receipts and recoveries;

– the likely dividend available on liquidation or bankruptcy;

– the extent of other creditors' commitments ranking ahead of, or *pari passu* with, HSBC France and the likelihood of other creditors continuing to support the company;

– the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;

– the realisable value of security (or other credit mitigants) and likelihood of successful repossession;

– the likely costs of obtaining and selling collateral as part of foreclosure;

– the ability of the borrower to obtain, and make payments in, the relevant foreign currency if loans are not in local currency; and,

– where available, the secondary market price for the debt.

The determination of the realisable value of security is based on the market value at the time the impairment assessment is performed.

Impairment loss is calculated by comparing the present value of the expected future cash flows, which includes expected future receipts of contractual interests, discounted at the original effective interest rate of the loan, with its current carrying value. The impairment allowances on individually significant accounts are reviewed at least quarterly.

Collective impairment

A collective impairment is raised on loan portfolios to recognize losses incurred but not yet reported.

The collective impairment loss is determined after taking into account:

– historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product, etc.);

– the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and,

– management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each portfolio. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. The estimated period between a loss occurring and its identification may consequently vary over time as these factors change.

2 Significant accounting policies *(continued)*

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from realising the security have been received.

Reversals of impairment

If the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly.

The write-back is recognised in the income statement.

Renegotiated loans

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans taking into account the new contractual terms following renegotiation. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument. Any new agreements arising due to derecognition events will continue to be disclosed as renegotiated loans.

d *Impairment of available-for-sale financial assets*

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. If such evidence exists as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated, an impairment loss is recognised.

If the available-for-sale financial asset is impaired, the difference between its acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provision' in the income statement and impairment losses for available-for-sale equity securities are recognised within 'Gains less losses from financial investments' in the income statement. The impairment methodologies for available-for-sale financial assets are set out in more detail below.

Available-for-sale debt securities

In assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, level of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

2 Significant accounting policies *(continued)*

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

Available-for-sale equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the type of asset:

- for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in fair value of the financial asset is recognised in other comprehensive income. If the fair value of the debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, or the instrument is no longer impaired, the impairment loss is reversed through the income statement;
- for an available-for-sale equity security, all subsequent variations in the fair value of the instrument are treated as a revaluation and are recognized in other comprehensive income. Impairment losses recognised on equity securities are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity securities are recognised in the income statement, to the extent that further cumulatives impairment losses have been incurred.

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e *Operating income*

Interest income and expense

Interest income and expense for all interest-bearing financial instruments except those classified as held-for-trading or designated at fair value (other than debt issued by HSBC France and related derivatives) are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest method is the rate at inception that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairment.

2 Significant accounting policies *(continued)*

Non interest income and expense

- 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 for the provision of services, it is recognised as the services are provided (for example, asset management, portfolio and other management advisory and service fees);

– if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate (for example, loan commitment fees) and recorded in ‘Interest income and expense’.

- Net Trading income

Net Trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held-for-trading, together with related interest income, expense and dividends.

- Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value includes:

– all gains and losses from changes in the fair value of financial assets and liabilities designated at fair value through profit or loss, including liabilities under investment contracts;

– all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets or liabilities designated at fair value through profit or loss; and

– interest income, interest expense and dividend income in respect of:

  - financial assets and liabilities designated at fair value through profit or loss; and
  - derivatives managed in conjunction with the above,
  - except for interest arising from issued debt securities and derivatives managed in conjunction with those debt securities, which is included in ‘Interest expense’.

- Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for equity securities.

3 Business combination and disposal of subsidiaries

There was no business combination or disposal of subsidiary in 2015.

4 Net operating income (significant items) [1]

Net operating income for the year ended at 31 December 2015 amounts to EUR 2,250 million (2014: EUR 1,817 million) and includes in particular, but not exhaustively, income, expense, gains and losses as follows:

(in millions of euros)	**31.12.2015**	31.12.2014
Income		
Interest recognised on impaired financial assets	**35**	40
Interest income on loans and adcances to customers	**1,129**	1,229
Interest income on financial investments	**482**	559
Fees earned on financial assets or liabilities not held for trading nor designated at fair value, other than fees included in effective interest rate calculations on these types of assets and liabilities	**605**	593
Fees earned on trust and other fiduciary activities where HSBC holds or invests assets on behalf of its customers	**227**	209
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	**(197)**	(299)
– on customer accounts	**(106)**	(164)
– on debt securities in issue and subordinated liabilities, excluding interest on financial liablilities held for trading or designated at fair value	**(51)**	(49)
– other	**(40)**	(86)
Fees payable on financial assets or liabilities not held for trading nor designated at fair value, other than fees included in effective interest rate calculations on these types of assets and liabilities	**(237)**	(207)
Gains / (Losses)	**17**	19
– Gains/(losses) recognised on assets held for sale	**–**	–
– Impairment of available-for-sale equity securities	**–**	4
– Gains/(losses) on disposal of property, plant and equipment and non-financial investments	**17**	15
Loan impairment charges and other credit risk provisions	**(121)**	(112)
– net impairment charge on loans and advances	**(120)**	(104)
– release/(impairment) of available-for-sale debt securities	**1**	(8)
– release/(impairment) in respect of other credit risk provisions	**(2)**	–

1 *The table format was changed in order to comply with the HSBC Group presentation.*

Consolidated financial statements (continued)

5 Employee compensation and benefits

a *Total employee compensation*

(in millions of euros)	**31.12.2015**	31.12.2014
Wages and salaries	**673**	692
Social security costs	**183**	184
Post-employment benefits	**69**	72
	925	948

Average number of persons employed by the group HSBC France during the year

	2015[1]	2014[1]
Retail Banking and Wealth Management	**3,831**	3,803
Commercial Banking	**1,423**	1,520
Global Banking and Markets	**758**	685
Global Private Banking	**105**	112
Support Functions and Others[2]	**3,557**	3,699
Total[3]	**9,674**	9,819

1 *In order to comply with the presentation of the HSBC Group, the number of employees in 2014 and 2015 are from now on presented in average number of staff.*
2 *Including pre retirement (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.

HSBC France pays each retirement a retiring allowance. The amount is determined by the final earnings, the length of service in the company at this date and the garantees under collective and internal agreements. Those plans represent 76 per cent of all commitments in France.

HSBC France grants certain beneficiaries a scheme plan. Those plans represent roughly 20 per cent of all commitments in France.

The costs recognised for funding these post-employment plans are determined using the Projected Unit Credit Method, with annual actuarial valuations performed on each plan. HSBC 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 2015, and the 2016 periodic costs, were:

(in %)	*Discount rate*	*Deferred revaluation*[1]	*Inflation rate*	*Rate of increase for pensions in payment and deferred pensions*	*Rate of pay increase*	*Healthcare cost trend rate*[2]
At 31.12.2015						
France	**1.8**	**1.8**	**1.5**	**1.5**	**2.7**	**–**
At 31.12.2014						
France	2.0	2.0	1.5	1.5	2.7	–

1 *Expected Return Rate on Equity.*
2 *HSBC France uses 'mortality tables' TGH/TGF05 for pensions and TV 8890 for post employment benefits.*

HSBC France determines discount rates, in consultation with its actuary based upon the current average yield of high quality (AA rated or equivalent) debt instruments, with maturities consistent with that of the defined benefit obligations.

3. Recording of post-employment obligations

Income statement charge

Defined benefit pension plans

(in millions of euros)	**31.12.2015**	31.12.2014
Current service cost	**6**	4
Interest cost	**3**	5
Net interest (income) on net defined benefit assets	**–**	–
Past service cost	**–**	–
Total net expense	**9**	9

5 Employee compensation and benefits *(continued)*

Net assets/(liabilities) recognised on the balance sheet in respect of defined benefit plans

(in millions of euros)	*Fair value of plan assets*	*Present value of defined benefit obligations*	*Total*
2015	**10**	**175**	**165**
Total employee benefit assets	**–**	**–**	**–**
Total employee benefit liabilities	**10**	**175**	**165**
2014	11	169	158
Total employee benefit assets	–	–	–
Total employee benefit liabilities	11	169	158

Cumulative actuarial gains/(losses) recognised in other comprehensive income

(in millions of euros)	**2015**	2014
At 1 January	**70**	64
Total actuarial gains/(losses) recognised in other comprehensive income for the year	**6**	6
At 31 December	**76**	70

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.

5 **Employee compensation and benefits** *(continued)*

Actuarial assumption sensitivities

The discount rate is sensitive to changes in market conditions arising during the reporting period. The mortality rates used are sensitive to experience from the plan member profile. The following table shows the effect of changes in these and the other key assumptions on the principal plan:

(in millions of euros)	Defined benefits pension plans **2015**
Discount rate	
Change in pension obligation at year end from a 25bps increase	**(6)**
Change in pension obligation at year end from a 25bps decrease	**6**
Change in following year pension cost from a 25bps increase	**–**
Change in following year pension cost from a 25bps decrease	**–**
Rate of inflation	
Change in pension obligation at year end from a 25bps increase	**1**
Change in pension obligation at year end from a 25bps decrease	**(1)**
Change in following year pension cost from a 25bps increase	**–**
Change in following year pension cost from a 25bps decrease	**–**
Rate of increase for pensions in payment and deferred pensions	
Change in pension obligation at year end from a 25bps increase	**1**
Change in pension obligation at year end from a 25bps decrease	**(1)**
Change in following year pension cost from a 25bps increase	**–**
Change in following year pension cost from a 25bps decrease	**–**
Rate of pay increase	
Change in pension obligation at year end from a 25bps increase	**3**
Change in pension obligation at year end from a 25bps decrease	**(3)**
Change in following year pension cost from a 25bps increase	**–**
Change in following year pension cost from a 25bps decrease	**–**
Mortality	
Change in pension obligation from each additional year of longevity assumed	**2**

Consolidated financial statements (continued)

5 Employee compensation and benefits *(continued)*

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

(in millions of euros)	Fair value of plan assets	Present value of defined benefit obligations	Net benefit asset/ (liability)
Net defined benefit liability at 1 January 2015	**11**	**169**	**158**
Current service cost	–	6	6
Past service cost and (gains)/ losses from settlements	–	–	–
Service cost	–	6	6
Net interest (income)/cost on the net defined benefit liability	–	3	3
Remeasurement effects recognised in other comprehensive income	–	6	6
– actuarial losses/(gains) from changes in demographic assumptions	–	(1)	(1)
– actuarial losses/(gains) from changes in financial assumptions	–	7	7
– actuarial losses/(gains) from experience	–	–	–
Exchange differences	–	–	–
Benefits paid	(1)	(9)	(8)
At 31 December 2015	**10**	**175**	**165**
Retirement benefit liabilities recognised on the balance sheet	–	–	165
Retirement benefit assets recognised on the balance sheet	–	–	–
Present value of defined benefit obligation relating to:	–	175	–
– actives	–	132	–
– deferreds	–	7	–
– pensioners	–	36	–

5 Employee compensation and benefits *(continued)*

(in millions of euros)	Fair value of plan assets	Present value of defined benefit obligations	Net benefit asset/ (liability)
Net defined benefit liability at 1 January 2014	12	173	161
Current service cost	–	4	4
Past service cost and (gains)/ losses from settlements	–	–	–
Service cost	–	4	4
Net interest (income)/cost on the net defined benefit liability	–	5	5
Remeasurement effects recognised in other comprehensive income	–	6	6
– actuarial losses/(gains) from changes in demographic assumptions	–	(3)	(3)
– actuarial losses/(gains) from changes in financial assumptions	–	9	9
– actuarial losses/(gains) from experience	–	–	–
Exchange differences	–	(10)	(10)
Benefits paid	(1)	(9)	(8)
At 31 December 2014	11	169	158
Retirement benefit liabilities recognised on the balance sheet	–	–	158
Retirement benefit assets recognised on the balance sheet	–	–	–
Present value of defined benefit obligation relating to:	–	169	–
– actives	–	130	–
– deferreds	–	1	–
– pensioners	–	38	–

5 Employee compensation and benefits *(continued)*

Benefits expected to be paid from plans to retirees over each of the next five years and in aggregate for the five years thereafter, are as follows:

(in millions of euros)	2016	2017	2018	2019	2020	2021-2025
Total of plans	10	6	8	8	8	48

Fair value of plan assets by asset classes

	2015				2014			
(in millions of euros)	***Fair value***	***Quoted market price in active market***	***No quoted market price in active market***	***Thereof HSBC***	*Fair value*	*Quoted market price in active market*	*No quoted market price in active market*	*Thereof HSBC*
Total of plans								
Fair value of plan assets	**10**	**10**	**–**	**–**	11	11	–	–
Equities	**–**	**–**	**–**	**–**	–	–	–	–
Bonds	**10**	**10**	**–**	**–**	11	11	–	–
Property	**–**	**–**	**–**	**–**	–	–	–	–
Derivatives	**–**	**–**	**–**	**–**	–	–	–	–
Other	**–**	**–**	**–**	**–**	–	–	–	–

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.

6 Share-based payments *(continued)*

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.

Income statement charge

(in millions of euros)	**31.12.2015**	31.12.2014
Restricted share awards	**19**	14
Savings related and other share option plans	**2**	2
Year ended at 31 December	**21**	16

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.

6 Share-based payments *(continued)*

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 2004 and 2005 expired respectively in 2014 and in 2015.

	2015		2014	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**6,415**		15,832	
Granted in the year	**–**	**–**	–	–
Exercised in the year	**–**	**–**	–	–
Transferred in the year	**–**	**–**	–	–
Expired in the year	**(6,415)**	**7.29**	(9,417)	7.22
Outstanding at 31 December	**–**		6,415	

Share Options with performance conditions

Share options with performance conditions were granted in 2004 and 2005 under the Rules of the HSBC Share Plan to Senior Executives in France and also to certain employees of the Group. Options granted in 2004 and 2005 respectively expired in 2014 and in 2015.

	2015		2014	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**–**	**–**	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	**–**		–	

The amortization 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 amortized 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).

2. Group share plan

The aim of the Group share plan is to recognize 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.

6 Share-based payments *(continued)*

'Group Performance Shares'

	2015	2014
	Number (000)	*Number (000)*
Outstanding at 1 January	**45**	–
Capital increase	**–**	–
Granted in the year	**13**	45
Vested in the year	**–**	–
Transferred in the year	**–**	–
Expired in the year	**–**	–
Outstanding at 31 December	**58**	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 that vest 33 per cent after one year, 33 per cent after two years and 34 per cent after three years and for "Material Risk Taker" employees who are awarded immediate shares that vest immediately).

	2015	2014
	Number (000)	*Number (000)*
Outstanding at 1 January	**3,660**	3,934
Granted in the year	**1,499**	1,888
Vested in the year	**(2,273)**	(2,119)
Transferred in the year	**–**	–
Expired in the year	**(11)**	(43)
Shares issued	**–**	–
Outstanding at 31 December	**2,875**	3,660

This category of shares cannot be sold before the end of a further two-year tax lock-up period after their vesting.

In 2015, EUR 8.4 million was charged to the income statement in respect of amortization 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 2015, in respect of the 2014 performance year, was determined to have started on 1 January 2014. Prior to 2011, amortisation started at the date of grant of the shares.

3. Employee share offering

In 2015, the HSBC Group made a capital increase opened to current employees. Employees of the HSBC France Group took up a total of 1,497,450 HSBC Holdings plc shares, representing a total capital amount of EUR 11.1 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.

Consolidated financial statements (continued)

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 enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when HSBC France intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled based on tax rates and laws enacted, or substantially enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same legal entity, and relate to income taxes levied by the same taxation authority, and when the group has a legal right to offset.

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognised in other comprehensive income. Deferred tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred tax relating to fair value remeasurement of available-for-sale investments and cash flow hedging instruments, is credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

The amount of deferred tax expense has been recognized at 31 December 2015, taking into account the profit outlook as established in the budget.

Current and deferred tax expense

(in millions of euros)	**31.12.2015**	31.12.2014
Current tax	**118**	186
Deferred tax	**53**	(153)
Tax expense	**171**	33
Effective tax rate (per cent)	**27.7**	14.1

The additional contribution of 10.7 per cent was applicable for the exercises 2014 and 2015 (nevertheless, the deferred tax rate doesn't include this contribution).The 2016 Finances Law ('*Loi de Finances*') confirmed the cancellation of this contribution for 2016.

As a consequence, in 2015 France's tax rate is 38 per cent for companies which have a turnover over EUR 250 million.

The high variation of deferred tax between 2014 and 2015 is explained by the increase of IFRS income, particularly on the issues of Covered Bonds and PVIF, which generate a deferred tax expense in 2015.

7 Tax expense *(continued)*

Analysis of overall tax charges

(in millions of euros)	**31.12.2015** *Amount*	**31.12.2015** *%*	31.12.2014 *Amount*	31.12.2014 *%*
Taxation at French corporate tax rate of 38% (2014 : 38%)	**235**	**38.0**	88	38.0
Effect of taxing overseas profit at different rates	**(4)**	**(0.7)**	–	0.1
Non-taxable income and gains subject to tax at a lower rate	**(3)**	**(0.4)**	(1)	(0.6)
Deferred tax temporary differences not provided	**(1)**	**(0.1)**	–	–
Permanent disallowables	**17**	**2.7**	2	1.0
Changes in tax rates	**(11)**	**(1.7)**	3	1.3
Local taxes and overseas withholding taxes	**19**	**3.1**	22	9.3
Adjustment in respect of prior years	**8**	**1.2**	1	0.3
Other items [1]	**(89)**	**(14.4)**	(82)	(35.3)
Total tax charged/(credited) to the income statement	**171**	**27.7**	33	14.1

1 *In order to comply with the presentation of the Group HSBC, the line "Other items" was broken down between "Deffered temporary tax change not provided", "Permanent disallowables", "Change in tax rates", "Local taxes and overseas withholding taxes" and "Adjustment in respect of prior years".*

The effective tax rate for 2015 of 27.7 per cent was lower than the French corporate tax rate of 38 per cent, mainly due to tax credit and gain on French Fiscal Unity.

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.

Since 2014, the CVAE contribution is included in 'Income Tax'. In 2015, the impact of this accounting position was a classification of a charge of EUR 25.7 million (2014: EUR 28.6 million) on the 'Income Tax' and the recognition of a deferred tax liability of EUR 0.4 million (2014: EUR 1.6 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 2015, 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 2015, HSBC France group benefited from a EUR 7.4 million tax credit under the CICE (*Crédit d'Impôt Compétitivité Emploi*).

7 Tax expense *(continued)*

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 relocation of certain headquarter staff in La Défense;

– Information and technology innovative investments: expenses were dedicated to the development of enhanced commercial softwares, preliminary studies to contemplated IT modernisation, optimisation of wealth management and credit distribution tools, 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 2015 with certificated courses, language training courses as well as compliance and risk management;

– Recruitment: CICE also allowed to increase significantly the number of recruitments compared to the previous year.

8 Dividends paid in 2015 and 2014

	31.12.2015		31.12.2014	
(in millions of euros)	***EUR per share***	***Amount***	*EUR per share*	*Amount*
First interim dividend paid for current year	**3.71**	**251**	–	–
Dividend paid with respect to previous year	**2.23**	**150**	–	–
		401		–

Dividends related to 2015

The board of Directors held on 8 February 2016 will propose at the Annual General Meeting, on 19 April 2016, to distribute a dividend amounting for EUR 279,866,982.05 in respect of the 2015 results. This dividend, if approved by the shareholders, will be payable after deduction of the interim dividend of EUR 3.71 per share decided by the Board of directors held on 18 December 2015 and already paid to the outstanding shares at this date.

On 18 December 2015, the Board of Directors approved an interim dividend of EUR 3.71 per share in respect of the 2015 results. The interim dividend was paid on 21 December 2015 to the 67,437,827 outstanding shares at this date.

Dividends related to 2014

On 6 February 2015, the Board of Directors proposed that the Annual General Meeting, held on 23 April 2015, approved a dividend of EUR 2.23 per share in respect of the 2014 results.

9 Earnings and dividends per share

(in euros)	**31.12.2015**	31.12.2014
Basic earnings per share	**6.61**	2.94
Diluted earnings per share	**6.61**	2.94
Dividend per share	**4.15**	2.23

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 445 million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 67,437,827 (full year 2014: earnings of EUR 198 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

9 Earnings and dividends per share *(continued)*

shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 67,437,827 (full year 2014: 67,437,827 shares).

At 31 December 2015, 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 18c on pages 212 to 213).

– 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 as well as the dividend otherwise eliminated in the "Intersegment" column.

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 France, which mainly operated in France.

Measurement of segmental assets, liabilities, income and expenses is in accordance with the group's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made. The types of products and services from which each reportable segment derives its revenue are discussed in the 'Report of the Directors: Operating and Financial Review – Products and Services' (page 2 *et seq.*).

Consolidated financial statements (continued)

10 Segment analysis *(continued)*

- Profit/(loss) for the year

	31.12.2015						
(in millions of euros)	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
Net interest income	873	383	188	36	(5)	–	1,475
Net fee income	318	221	103	24	1	–	667
Hedging and trading income	5	(2)	280	4	(18)	–	269
Other income [1]	(44)	18	26	(13)	425 [1]	(401) [1]	11
Total operating income	1,152	620	597	51	403	(401)	2,422
Loan impairment charges and other credit risk provisions	(20)	(93)	(7)	(1)	–	–	(121)
Net operating income	1,132	527	590	50	403	(401)	2,301
Total operating expenses	(780)	(390)	(482)	(38)	(25)	–	(1,715)
Operating profit	352	137	108	12	378	(401)	586
Share of profit in associates and joint ventures	–	–	–	–	–	–	–
Profit before tax	352	137	108	12	378	(401)	586
Tax expense							(173)
Profit for the year – France							413
Perimeter differences [2]							34
Profit for the year – Legal							447

1 *Mainly dividends paid in April and December 2015 for EUR 401 million. Refer also to Note 8.*
2 *Mainly HSBC Bank Plc Paris Branch.*

10 Segment analysis *(continued)*

(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 [1]	(273) [1]	–	260	4	9	36	36
Other income [2]	(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 *RBWM: Mainly the impact of non-qualifying hedge on mortgage loans. Comments on global results can be found under the section 'Management Report' on pages 2 to 17.*
2 *Mainly the impact of PVIF. Detailed elements can be found in Note 18c of the Annual Report and Accounts 2014.*
3 *Mainly HSBC Bank Plc Paris Branch.*

Consolidated financial statements (continued)

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 Management*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter-Segment*	*Total*
Year ended 31 December 2015							
Net operating income	**1,132**	**527**	**590**	**50**	**403**	**(401)**	**2,301**
– external	**1,200**	**482**	**512**	**47**	**(20)**	**26**	**2,247**
– inter-segment	**(68)**	**45**	**78**	**3**	**423**	**(427)**	**54**
Year ended 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

Balance sheet information

(in millions of euros)	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter-Segment*	*Total*
Year ended 31 December 2015							
Loans and advances to customers (net)	**17,502**	**10,372**	**9,474**	**1,176**	**–**	**–**	**38,524**
Investment in associates and joint ventures	**2**	**–**	**–**	**–**	**–**	**–**	**2**
Total assets	**45,645**	**14,217**	**118,681**	**1,026**	**46**	**(11,157)**	**168,458**
Customer accounts	**14,062**	**10,725**	**7,306**	**718**	**–**	**–**	**32,811**
Total liabilities[1]	**45,645**	**14,217**	**118,681**	**1,026**	**46**	**(11,157)**	**168,458**
Year ended 31 December 2014							
Loans and advances to customers (net)	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	13,518	10,230	9,388	499	–	–	33,635
Total liabilities[1]	44,660	9,983	156,192	577	18	(10,412)	201,018

1 *The total of liabilities includes shareholder's equity.*

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)*

	31.12.2015							
(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*
Financial assets								
Cash and balances at central banks	–	–	–	–	**395**	–	–	**395**
Items in the course of collection from other banks	–	–	–	–	**381**	–	–	**381**
Trading assets	**27,161**	–	–	–	–	–	–	**27,161**
Financial assets designated at fair value	–	**6,768**	–	–	–	–	–	**6,768**
Derivatives	**49,061**	–	–	–	–	**42**	**381**	**49,484**
Loans and advances to banks	–	–	**4,660**	–	–	–	–	**4,660**
Loans and advances to customers	–	–	**38,524**	–	–	–	–	**38,524**
Reverse repurchase agreements – non-trading	–	–	**10,163**	–	–	–	–	**10,163**
Financial investments available for sale	–	–	–	**27,677**	–	–	–	**27,677**
Other assets	–	–	–	–	**258**	–	–	**258**
Accrued income	–	–	–	–	**852**	–	–	**852**
Total financial assets	**76,222**	**6,768**	**53,347**	**27,677**	**1,886**	**42**	**381**	**166,323**
Total non-financial assets	–	–	–	–	–	–	–	**2,135**
Total assets								**168,458**
Financial liabilities								
Deposits by banks	–	–	–	–	**7,086**	–	–	**7,086**
Customer accounts	–	–	–	–	**32,811**	–	–	**32,811**
Repurchase agreements – non-trading	–	–	–	–	**10,283**	–	–	**10,283**
Items in the course of transmission to other banks	–	–	–	–	**385**	–	–	**385**
Trading liabilities	**22,647**	–	–	–	–	–	–	**22,647**
Financial liabilities designated at fair value	–	**8,476**	–	–	–	–	–	**8,476**
Derivatives	**46,256**	–	–	–	–	**518**	**129**	**46,903**
Debt securities in issue	–	–	–	–	**10,501**	–	–	**10,501**
Insurance liabilities	–	–	–	–	**20,943**	–	–	**20,943**
Other liabilities	–	–	–	–	**914**	–	–	**914**
Subordinated liabilities	–	–	–	–	**276**	–	–	**276**
Accruals	–	–	–	–	**762**	–	–	**762**
Total financial liabilities	**68,903**	**8,476**	–	-	**83,961**	**518**	**129**	**161,987**
Total non-financial liabilities (shareholder's Funds)	–	–	–	–	–	–	–	**6,471**
Total liabilities								**168,458**

11 Analysis of financial assets and liabilities by measurement basis *(continued)*

	31.12.2014							
(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*
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	–	–	6,022	–	–	–	–	6,022
Loans and advances to customers	–	–	36,240	–	–	–	–	36,240
Reverse repurchase agreements – non-trading			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	–	–	–	–	7,021	–	–	7,021
Customer accounts	–	–	–	–	33,635	–	–	33,635
Repurchase agreements – non-trading	–	–	–	–	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

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. They are recognised on trade date, when HSBC France enters into contractual arrangements with counterparties to purchase the financial instruments and are normally derecognised when sold. They are initially measured at fair value, with transaction costs taken to the income statement. Subsequently changes in their fair value are recognised in the income statement in 'Net trading income'. For trading assets, the interest is shown in "Net Trading income".

(in millions of euros)	**31.12.2015**	31.12.2014
Trading assets:		
– which may be repledged or resold by counterparties	**13,820**	20,763
– not subject to repledge or resale by counterparties	**13,341**	17,957
	27,161	38,720

(in millions of euros)	**31.12.2015**	31.12.2014
Treasury and other eligible bills	**791**	639
Debt securities	**17,831**	28,866
Equity securities	**–**	–
Loans and advances to banks	**5,112**	5,869
Loans and advances to customers	**3,427**	3,346
Total trading assets	**27,161**	38,720

Included within the above figures for HSBC France are debt securities issued by banks and other financial institutions of EUR 2,827 million (2014: EUR 4,646 million), of which EUR 761 million (2014: EUR 2,281 million) are guaranteed by various governments.

13 Financial assets designated at fair value through profit or loss

At 31 December 2015, 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 irrevocably at its inception. HSBC France may designate financial instruments at fair value where the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial instruments or recognising the gains and losses on them on different bases from related positions. Under this criterion, the main classes of financial assets designated by the HSBC France group are financial assets under unit-linked insurance and unit-linked investment contracts. Liabilities to customers under linked contracts are determined based on the fair value of the assets held in the linked funds. If no fair value designation was made for the related assets, the assets would be classified as available for sale, with changes in fair value recorded in other comprehensive income. These financial instruments are managed on a fair value basis and information is provided to management on that basis. Designation at fair value of the financial assets under investment contracts allows the changes in fair values to be recorded in the income statement and presented in the same line;
- applies to a group of financial assets that is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management staff. The group has documented risk management and investment strategies designed to manage and monitor market risk of those assets on net basis, after considering non-linked liabilities. Fair value measurement is also consistent with the regulatory reporting requirements under the appropriate regulations for those insurance operations;
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

13 Financial assets designated at fair value through profit or loss *(continued)*

The fair value designation, once made, is irrevocable in respect of the financial instruments it affects.

Designated financial assets are recognised at trade date when HSBC France enters into contractual arrangements with counterparties, which is generally on trade date, and are normally derecognised when sold. Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured. Gains and losses arising from fair value changes of these assets are recognised in the income statement at the occurring date and, with interest income and expenses and dividend related are recognised in 'Net income from financial instruments designated at fair value'.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets are also included in 'Net income from financial instruments designated at fair value'. Interest on these derivatives is also included in this line. The amount of change during the period, and cumulatively, in the fair value of designated loans and receivables that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions.

(in millions of euros)	**31.12.2015**	31.12.2014
Financial assets designated at fair value:		
– not subject to repledge or resale by counterparties	**6,768**	6,156
	6,768	6,156
Treasury and other eligible bills	**–**	–
Debt securities	**1,107**	907
Equity securities	**5,650**	5,247
Securities designated at fair value	**–**	–
Loans and advances to banks	**11**	2
Total financial assets designated at fair value	**6,768**	6,156

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.

14 Derivatives *(continued)*

All derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists, and the cash flows are to be settled on the same date and on a net basis.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement. When derivatives are designated as hedges, they are classified as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedge'); 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.

Hedge accounting

Following the HSBC Group policy, HSBC France does not use the 'carve out' arrangements under the European regulation no. 2086/2004 in relation to the accounting for macro-hedging operations.

As required in IAS 39, HSBC France documents, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Therefore it is also required to measure, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest on designated qualifying hedges is included in 'Net interest income'.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability or group thereof that are attributable to the hedged risk.

If the hedging relationship no longer meets the criteria for hedge accounting, the hedge accounting is discontinued: the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement on a recalculated effective interest rate over the residual period to maturity. Where the adjustment relates to the carrying amount of a hedged equity security, this remains in retained earnings until the disposal of the equity security.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and 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 within 'Net trading income'.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income are 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 other comprehensive income 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 recognized in other comprehensive income is immediately reclassified to the income statement.

14 Derivatives *(continued)*

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 other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in other comprehensive income are included in the income statement when the foreign operation is disposed or partly 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.

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.

14 Derivatives *(continued)*

The table shows the fair value of derivatives by contract type:

	31.12.2015					
	Assets			***Liabilities***		
(in millions of euros)	***Trading***	***Hedging***	***Total***	***Trading***	***Hedging***	***Total***
Foreign exchange	**4,972**	**21**	**4,993**	**(4,851)**	**–**	**(4,851)**
Interest rate	**52,960**	**402**	**53,362**	**(50,352)**	**(647)**	**(50,999)**
Equities	**164**	**-**	**164**	**(85)**	**–**	**(85)**
Credit derivatives	**1**	**-**	**1**	**(4)**	**–**	**(4)**
Commodity and other	**-**	**-**	**-**	**–**	**–**	**–**
Gross total fair values	**58,097**	**423**	**58,520**	**(55,292)**	**(647)**	**(55,939)**
Netting			**(9,036)**			**9,036**
Net total			**49,484**			**46,903**

	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)

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. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin.

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)	**31.12.2015**	31.12.2014
Foreign Exchange	**145,074**	153,241
Interest rate	**2,270,287**	4,135,613
Equities	**10,695**	4,103
Credit derivatives	**166**	158
Total derivatives	**2,426,222**	4,293,115

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 166 million (2014: EUR 158 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)	**2015**	2014
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 2015 and 2014, 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:

	2015		2014	
(in millions of euros)	***Cash flow hedge***	***Fair value hedge***	*Cash flow hedge*	*Fair value hedge*
Foreign Exchange rate	**–**	**334**	–	133
Interest rate	**24,356**	**11,085**	49,199	9,269
At 31 December	**24,356**	**11,419**	49,199	9,402

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.

14 Derivatives *(continued)*

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 2015, were assets of EUR 42 million and liabilities of EUR 518 million (31 December 2014: assets of EUR 26 million and liabilities of EUR 645 million).

Gain or losses arising from fair value hedges

(in millions of euros)	**2015**	2014
On hedging instruments	**38**	(255)
On hedged items attributable to the hedged risk	**(37)**	259
Year ended 31 December	**1**	4

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was a profit of EUR 1 million for the year ended 31 December 2015 (a profit of EUR 4 million for the year ended 31 December 2014).

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.

Fair value of derivatives designated as cash flow hedges

	2015		2014	
(in millions of euros)	***Assets***	***Liabilities***	*Assets*	*Liabilities*
Foreign Exchange	**–**	**–**	–	–
Interest rate	**381**	**(129)**	561	(188)
Year ended 31 December	**381**	**(129)**	561	(188)

Schedule of expected cash flows

	31.12.2015			
(in millions of euros)	***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	**7,496**	**7,193**	**2,590**	**122**
Liabilities	**(6,792)**	**(6,600)**	**(5,481)**	**(1,976)**
Net cash inflows/(outflows) exposure	**704**	**593**	**(2,891)**	**(1,854)**

14 Derivatives *(continued)*

(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)

Reconciliation of movements in the cash flow hedge reserve

(in millions of euros)	**2015**	2014
At 1 January	**2**	(54)
Amounts recognised directly in equity during the year	**(36)**	259
Amounts removed from equity and included in the income statement for the year	**(36)**	(90)
Deferred taxation	**26**	(60)
At 31 December	**(44)**	55

At 31 December 2015 the amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was a gain of EUR 0.4 million (at 31 December 2014: a gain of EUR 4.5 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 2015, derivatives embedded in home purchase savings products represented a liability of EUR 6.3 million (at 31 December 2014: a liability of EUR 4.9 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.

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)	**31.12.2015**	31.12.2014
Financial investments:		
– which may be repledged or resold by counterparties	**1,233**	1,543
– not subject to repledge or resale by counterparties	**26,444**	23,129
Total	**27,677**	24,672

	31.12.2015		31.12.2014	
(in millions of euros)	***Book value***	***Fair value***	*Book value*	*Fair value*
Treasury and other eligible bills	**68**	**68**	205	205
– available-for-sale	**68**	**68**	205	205
Debt securities	**27,282**	**27,282**	24,259	24,259
– available-for-sale	**27,282**	**27,282**	24,259	24,259
Equity securities	**327**	**327**	208	208
– available-for-sale	**327**	**327**	208	208
Total financial investments	**27,677**	**27,677**	24,672	24,672

16 Assets transferred, assets charged as security for liabilities and collateral accepted as security for assets

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:

(in millions of euros)	**31.12.2015** *Carrying amount of assets*	**31.12.2015** *Carrying amount of associated liabilities*	31.12.2014 *Carrying amount of assets*	31.12.2014 *Carrying amount of associated liabilities*
Repurchase agreements	**15,053**	**15,258**	22,200	22,200
Securities lending agreements	**5,398**	**5,398**	2,158	2,158
Total	**20,451**	**20,656**	24,358	24,358

16 Assets transferred, assets charged as security for liabilities and collateral accepted as security for assets *(continued)*

The following table shows the carrying amounts of financial assets not qualifying for derecognition and their associated liability:

(in millions of euros)	**31.12.2015**	31.12.2014
Treasury bills and other eligible securities	**682**	206
Loans and advances to banks	**3,754**	4,207
Loans and advances to customers	**18,909**	17,223
Debt securities	**16,051**	24,170
Equity shares	**–**	–
Other	**–**	
Total	**39,396**	45,806

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 35,815 million at 31 December 2015 (EUR 43,146 million at 31 December 2014).

The fair value of financial assets accepted as collateral that have been sold or repledged was EUR 27,293 million at 31 December 2015 (EUR 38,146 million at 31 December 2014). The group is obliged to return equivalent securities.

Those transactions are made in accordance with the conditions of standard securities lending and borrowing operations.

17 Interests in associates and joint ventures

Investments in which the group, together with one or more parties, has joint control of an arrangement set up to undertake an economic activity are classified as joint ventures.

Investments in associates and interests in joint ventures are recognised using the equity method. Under this method, such investments are initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in the group's share of net assets.

Profits on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in the respective associates or joint ventures. Losses are also eliminated to the extent of the group's interest in the associates or joint ventures unless the transaction provides evidence of an impairment of the asset transferred.

Significant influence is the right to take part in the financial and operating policy decisions of an entity without exercising control over it. This influence is assumed if the Group owns, directly or indirectly, 20 per cent or more of an entity's voting rights. Participations below this threshold are excluded from the scope of consolidation unless they represent strategic investments and the Group exerts an actual significant influence.

Such is the case of the entity Service Epargne Entreprise born of a partnership with other groups. The Group HSBC France takes part in strategic decisions of the associate through its representation in the executive bodies, influences operational management by providing management systems or management staff or brings its technical cooperation to the company's growth.

At 31 December 2015, the group HSBC France consolidates under equity method only two entities with a joint control. The impact on consolidated financial statements is not significant.

	31.12.2015		
	Principal activity	***Interest in equity***	***Capital***
HCM Holdings Ltd	**Asset Mgmt**	**51%**	–
HSBC Global Asset Management (Switzerland)	**Asset Mgmt**	**50%**	–

Consolidated financial statements (continued)

17 Interests in associates and joint ventures *(continued)*

	31.12.2014		
	Principal activity	*Interest in equity*	*Capital*
HCM Holdings Ltd	Asset Mgmt	51%	–
HSBC Global Asset Management (Switzerland)	Asset Mgmt	50%	–

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.

At 31 December 2015, the HSBC France group consolidated only one entities through equity accounting method which is Service Epargne Entreprise, on which it has joint control. It has no significant impact on the consolidated financial statements.

18 Goodwill and intangible assets

(in millions of euros)	**31.12.2015**	31.12.2014
Cost		
Goodwill – net book value	**337**	337
Other intangible assets – net book value	**37**	38
Present value of in force long term assurance business ('PVIF')	**486**	334
Total	**860**	709

a *Goodwill*

Goodwill arises on business combinations, including the acquisition of subsidiaries, joint ventures or associates when the cost of acquisition exceeds the fair value of HSBC France's share of the identifiable net assets, liabilities and contingent liabilities acquired. By contrast, if HSBC France's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost to acquire, the excess is recognised immediately in the income statement.

Intangible assets are recognised separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. The group's CGUs are based on global businesses. Impairment testing is performed annually or whenever there is an indication of impairment, 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.

18 Goodwill and intangible assets *(continued)*

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)	**2015**	2014
Cost		
At 1 January	**370**	370
Additions	–	–
Disposals	–	–
Exchange differences	–	–
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

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 2015, 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.

Consolidated financial statements (continued)

18 Goodwill and intangible assets *(continued)*

At 31 December 2015, the following goodwill is carried by HSBC France. In 2015 and 2014, HSBC France did not record any impairment on its goodwill.

	Goodwill at 31.12.2015	**Discount rate**	**Nominal growth rate beyond initial cash flow projections**	*Goodwill at 31.12.2014*	*Discount rate*	*Nominal growth rate beyond initial cash flow projections*
	In millions of euros	*%*	*%*	*In millions of euros*	*%*	*%*
Commercial Banking	**169**	**8.6**	**2.0**	169	10	2.0
Asset Management	**66**	**7**	**2.0**	66	8	2.0
Retail Banking	**64**	**7**	**2.0**	64	9	2.0
Private Bank	**63**	**7.9**	**2.0**	63	9	2.0
Total goodwill in the CGUs listed above [1]	**362**	**–**	**2.0**	362	–	2.0

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 is 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'.

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

18 Goodwill and intangible assets *(continued)*

The analysis of intangible assets movements at 31 December 2015 is as follows:

(in millions of euros)	*Customer/ merchant relation- ships*	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost					
At 1 January 2015	**21**	**18**	**82**	**16**	**137**
Additions	**–**	**–**	**8**	**–**	**8**
Disposals	**–**	**–**	**–**	**–**	**–**
Amount written off	**–**	**–**	**–**	**–**	**–**
Exchange differences	**–**	**–**	**–**	**–**	**–**
Other changes	**–**	**–**	**–**	**–**	**–**
At 31 December 2015	**21**	**18**	**90**	**16**	**145**
Accumulated amortization and impairment					
At 1 January 2015	**(9)**	**(18)**	**(71)**	**(1)**	**(99)**
Amortisation charge for the year	**–**	**–**	**(8)**	**–**	**(8)**
Impairment charge for the year	**–**	**–**	**–**	**–**	**–**
Amount written off	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**–**	**–**	**–**
Exchange differences	**–**	**–**	**–**	**–**	**–**
Other changes	**–**	**–**	**–**	**(1)**	**(1)**
At 31 December 2015	**(9)**	**(18)**	**(79)**	**(2)**	**(108)**
Net carrying amount at 31 December 2015	**12**	**–**	**11**	**14**	**37**

(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 amortization and impairment					
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	–	–	–	–	–
Exchange differences	–	–	–	–	–
Other changes	–	–	(6)	–	(6)
At 31 December 2014	(9)	(18)	(71)	(1)	(99)
Net carrying amount at 31 December 2014	12	–	11	15	38

18 Goodwill and intangible assets *(continued)*

c *Present value of in-force insurance business*

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

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

Movement in PVIF

(in millions of euros)	**2015**	2014
At 1 January	**334**	493
Addition from current year new business	**55**	53
Movement from in-force business (including investment return variances and changes in investment assumptions)	**70**	(209)
Exchange differences and other movements	**27**	(3)
At 31 December	**486**	334

The PVIF moves from EUR 334 million as of 31 December 2014 to EUR 486 million as of 31 December 2015. The positive movement of EUR 152 million is mainly due to:

– favorable economic conditions over the year, affecting bonds and equity markets;

– adjustments to long term PVIF assumptions in order to account for the changes in the macroeconomic environment, including:

  • transition from the swap yield curve to an observable yield curve determined by EIOPA1 for discounting future cash flows with an impact of EUR 69 million at the end of December 2015 (as a reminder: impact of EUR 58 million at the end of June 2015);

  • the changes in market conditions, the review of the equity risk premium, the review of the fee sharing model between HSBC France and HSBC Assurances Vie with an aggregated impact of EUR 48 million at the end of December 2015.

There is no other significant change.

Key assumptions modification impacts over PVIF [2]

	2015	2014
Average weighted risk free rate	**1.57%**	1.21%
Average weighted risk discount rate	**2.55%**	1.73%
Expenses inflation	**1.70%**	2.00%

Risk margin over discount rate profits are (in millions of euros) [3]

	2015	2014
Operational risk	**10**	7
Model risk	**15**	15
Volatility risk	**26**	27

1 The EIOPA curve is determined by the European Insurance and Occupational Pensions Authority and is the yield curve in the incoming pan-European Solvency II Pillar regulatory solvency calculations.

2 For 2015, market value future profits' discounted rate used for the PVIF is of 2.55%, to which a risk margin of EUR 51 million is added. In 2014 a global rate of 1.73% was used. This rate equals to a market value discounted rate of 1.73% including a risk margin of EUR 49 million.

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

18 Goodwill and intangible assets *(continued)*

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 31.12.2015	PVIF at 31.12.2014
+ 100 basis points shift in risk-free rate	**16**	111
− 100 basis points shift in risk-free rate [1]	**(121)**	(389)
+ 100 basis points shift in risk-discount rate	**(25)**	(20)
− 100 basis points shift in risk-discount rate	**28**	23

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 per cent.*

Due to certain characteristics of the contracts, the sensitivities may be non-linear and the results of the sensitivity-testing should not be extrapolated to higher levels of stress. In calculating the scenario, the shift in the risk-free rate results in changes to investment returns, risk discount rates and bonus rates which are incorporated. The sensitivities shown are before actions that could be taken by management to mitigate impacts and before resultant changes in policyholder behaviour.

Sensitivity of the PVIF to non-economic assumptions

Policyholder liabilities and PVIF for life manufacturers are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. The table below shows the sensitivity of total equity at 31 December 2015 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 31.12.2015 [1]	Effect on total equity at 31.12.2014 [1]
10% increase in mortality and/or morbidity rates	**(13)**	(12)
10% decrease in mortality and/or morbidity rates	**13**	13
10% increase in lapse rates	**(28)**	(28)
10% decrease in lapse rates	**31**	31
10% increase in expense rates	**(28)**	(25)
10% decrease in expense rates	**28**	24

1 *Impacts on profits are shown after tax in 2015 and 2014.*

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.

Consolidated financial statements (continued)

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:

– freehold land is not depreciated;

– acquisition-related expenses on buildings are expensed in the year in which they occur, as are preliminary costs.

– depreciation of buildings is calculated over their estimated useful lives, which are generally between 25 and 75 years.

Equipment, fixtures and fittings (including equipment on operating leases where HSBC France is the lessor) are stated at cost less impairment losses and depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between 5 and 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.

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 2015	**548**	**606**	**1,154**
Additions at cost	**84**	**31**	**115**
Fair value adjustments	**60**	**–**	**60**
Disposals	**(3)**	**(23)**	**(26)**
Transfers	**–**	**1**	**1**
Exchange and other differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**–**	**–**	**–**
At 31 December 2015	**689**	**615**	**1,304**
Accumulated depreciation			
At 1 January 2015	**(27)**	**(421)**	**(448)**
Depreciation charge for the year	**(2)**	**(48)**	**(50)**
Disposals	**1**	**22**	**23**
Transfers	**–**	**(1)**	**(1)**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**–**	**–**	**–**
At 31 December 2015	**(28)**	**(448)**	**(476)**
Net book value at 31 December 2015	**661**	**167**	**828**

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 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

b *Investment properties*

The investment property is owned by HSBC Assurances Vie (France)[1].

(in millions of euros)	**2015**	2014
Fair value		
At 1 January	**437**	319
Addition	**83**	105
Fair value adjustments	**60**	13
Exchange and other changes	**–**	–
At 31 December	**580**	437

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

The group classifies investments in entities which it controls as subsidiaries. The group consolidation policy is described in Note 1(f).

a *Subsidiaries of HSBC France*

Consolidated companies	*Country of incorporation or registration*	*Consolidation method **	*Main line of business*	HSBC France group interest % **2015**	HSBC France group interest % 2014
Retail and Commercial Banking					
COPARI[1]	France	FC	Holding company	**–**	100.0
HSBC Factoring (France)	France	FC	Financial company	**100.0**	100.0
SAPC Ufipro Recouvrement	France	FC	Service company	**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[1]	France	FC	Financial company	**100.0**	100.0
DEM 10[1]	France	FC	Financial company	**–**	100.0
DEM 22[1]	France	FC	Financial company	**–**	100.0
DEM 23[1]	France	FC	Financial company	**–**	100.0
DEM 24[1]	France	FC	Financial company	**–**	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 Immo Invest	France	IG	Financial company	**100.0**	100.0
FDM 1[2]	France	FC	Financial company	**–**	100.0
FDM 2[2]	France	FC	Financial company	**–**	100.0
FDM 3[2]	France	FC	Financial company	**–**	100.0
FDM 4[2]	France	FC	Financial company	**–**	100.0
FDM 5	France	FC	Financial company	**100.0**	100.0
FDM 6	France	FC	Financial company	**100.0**	100.0
FDM 7[2]	France	FC	Financial company	**–**	100.0
FDM 8[2]	France	FC	Financial company	**–**	100.0
FDM 9[2]	France	FC	Financial company	**–**	100.0
FDM 10[2]	France	FC	Financial company	**–**	100.0
Finanpar 2	France	FC	Financial company	**100.0**	100.0
Finanpar 5[1]	France	FC	Financial company	**–**	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)[1]	Belgium	FC	Financial company	**–**	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
HSBC Real Estate Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC Services (France)	France	FC	Financial company	**100.0**	100.0
HSBC SFH (France)	France	FC	Financial company	**100.0**	100.0
HSBC Trinkaus Gesellschaft für KMI oHG	Germany	FC	Financial company	**90.0**	90.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Liquidation.*
2 *Merger.*

20 Investments *(continued)*

Consolidated companies	Country of incorporation or registration	Consolidation method *	Main line of business	HSBC France group interest % 2015	% 2014
Euro Secured Notes Issuer (ESNI) [3]	France	FC	Financial company	**16.7**	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) [2]	France	FC	Financial company	**–**	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	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi er	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi jiu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi liu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi qi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi wu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shiyi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang wu	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
SNC les Oliviers d'Antibes	France	FC	Financial company	**60.0**	60.0
Thasosfin	France	IG	Financial company	**100.0**	100.0
Asset Management					
CCF & Partners Asset Management Ltd	United Kingdom	FC	Financial company	**100.0**	100.0
HCM Holdings Ltd	United Kingdom	EM	Financial company	**51.0**	51.0
HSBC Epargne Entreprise (France)	France	FC	Financial company	**100.0**	100.0
Service Epargne Entreprise	France	EM	Service company	**15.7**	18.5
HSBC Global Asset Management (France)	France	FC	Asset management	**100.0**	100.0
HSBC Global Asset Management (Switzerland) AG	Switzerland	EM	Financial company	**50.0**	50.0
HSBC REIM (France)	France	FC	Service company	**100.0**	100.0
Sinopia TRS1	France	FC	Financial company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Liquidation.*
2 *Merger.*
3 *HSBC France silo, which is 100%-owned by HSBC France and fully consolidated.*

Consolidated financial statements (continued)

20 Investments *(continued)*

Consolidated companies	*Country of incorporation or registration*	*Consolidation method **	*Main line of business*	HSBC France group interest % 2015	% 2014
Insurance					
HSBC Assurances Vie (France)	France	FC	Insurance company	**100.0**	100.0
SCI HSBC Assurances Immo	France	FC	Financial company	**100.0**	100.0
ERISA Actions grandes valeurs	France	FC	Financial company	**100.0**	100.0
OPCVM3 - HSBC Objectif 3-6-8 FCP3DEC [3]	France	FC	Financial company	**–**	73.4
OPCVM6 - Elysées Ecrins FCP	France	FC	Financial company	**100.0**	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	**86.0**	85.5
HSBC Horizon 2013-2015 FCP	France	FC	Financial company	**71.1**	55.0
HSBC Horizon 2016-2018 FCP	France	FC	Financial company	**67.8**	58.4
HSBC Horizon 2034-2036 A FCP3DEC	France	FC	Financial company	**90.5**	93.0
HSBC Japane.eq. CL.H EUR C.3DEC	France	FC	Financial company	**65.1**	64.5
HSBC Multialp. Japan eq.A C3DEC [2]	France	FC	Financial company	**–**	59.1
HSBC Multimanager DEF.FCP3DEC [2]	France	FC	Financial company	**–**	75.5
HSBC Multimanager EXPA.FCP3DEC [2]	France	FC	Financial company	**–**	83.1
HSBC Multimanager HARM.FCP3DEC [2]	France	FC	Financial company	**–**	74.1
HSBC Multimanager OFF.FCP3DEC [2]	France	FC	Financial company	**–**	60.7
HSBC MUL.ASS.ST.FACT.S FCP3DEC [4]	France	FC	Financial company	**100.0**	–
HSBC MIX DYNAMIQUE FCP 3DEC [4]	France	FC	Financial company	**50.1**	–
HSBC PTF WLD Select.4 A C.3DEC	France	FC	Financial company	**54.6**	56.1
HSBC SELECT DYNAMIC A FCP 2DEC [4]	France	FC	Financial company	**59.4**	–
HSBC US Equity CL.H-USD C.3DEC [3/5]	France	FC	Financial company	**–**	85.9
Others					
Charterhouse Management Services Limited (CMSL)	United Kingdom	FC	Investment company	**100.0**	100.0
Charterhouse Administrators Ltd	United Kingdom	FC	Investment company	**100.0**	100.0
Keyser 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 *Liquidation.*
2 *Merger.*
3 *Deconsolidation.*
4 *New entry in Perimeter.*
5 *Name change in 2015.*

b *Main changes in the scope of consolidation*

New Entries in Perimeter

HSBC MUL.ASS.ST.FACT.S FCP3DEC
HSBC MIX DYNAMIQUE FCP 3DEC
HSBC SELECT DYNAMIC A FCP 2DEC

Mergers [1]

FDM 1
FDM 2
FDM 3
FDM 4
FDM 7
FDM 8
FDM 9
FDM 10
HSBC MULTIALP.JAPAN EQ.A C3DEC
HSBC MULTIMANAGER EXPA.FCP3DEC
HSBC MULTIMANAGER DEF .FCP 3DEC
HSBC MULTIMANAGER HARM.FCP3DEC
HSBC MULTIMANAGER OFF.FCP3DEC
SAF Leasing Holding (France)

Liquidation

COPARI
DEM 10
DEM 22
DEM 23
DEM 24
FINANPAR 5
HSBC LEASING (BELGIUM)

Deconsolidation

OPCVM3 - HSBC Objectif 3-6-8 FCP 3Dec
HSBC US EQUITY CL.H-USD C.3DEC

1 *The entities SAF Leasing Holding (France) and FDM 1, FDM 2, FDM 3, FDM 4, FDM 7, FDM 8, FDM 9, FDM 10 have been merged in to HSBC Leasing France.*

Consolidated financial statements (continued)

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 R. 511-16-4, I 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 31 December 2016. Thus, HSBC France is exempted from publishing such information on a single basis.

22 Financial liabilities designated at fair value

The fair value designation, once made, is irrevocable.

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.

HSBC France may designate financial instruments at fair value in the following cases:

Long-term debt issues

The interest payable on certain fixed rate long-term debt securities issued has been 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

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.

Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value which is calculated by reference to the value of the relevant underlying funds or indices. A liability adequacy test is carried out on insurance liabilities to ensure that the carrying amount of the liabilities is sufficient in the light of current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared with the carrying value of the liability. When a shortfall is identified it is charged immediately to the income statement.

Financial liabilities designated at fair value

(in millions of euros)	**31.12.2015**	31.12.2014
Deposits by banks and customer accounts	**161**	97
Liabilities to customers under investment contracts	**19**	19
Debt securities in issue	**8,296**	6,780
Subordinated liabilities	**–**	15
Preference shares	**–**	–
Total	**8,476**	6,911

22 Financial liabilities designated at fair value *(continued)*

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2015 was EUR 404 million for the HSBC France group (at 31 December 2014: EUR 531 million).

At 31 December 2015, the accumulated amount of the change in fair value attributable to changes in credit risk for the HSBC France group was EUR 91 million (at 31 December 2014: EUR 123 million).

In 2015, the amount reported in the income statement in respect of HSBC France's own credit risk was a gain of EUR 35 million (2014: a loss of EUR (61) million).

23 Other liabilities

(in millions of euros)	**31.12.2015**	31.12.2014
Amounts due to investors in funds consolidated by the group	**398**	406
Share-based payments	**20**	22
Other insurance liabilities	**2**	2
Other liabilities	**493**	559
Total	**914**	989

24 Deferred taxation

	31.12.2015			31.12.2014		
(in millions of euros)	***Deferred tax asset***	***Deferred tax liability***	***Total***	*Deferred tax asset*	*Deferred tax liability*	*Total*
Temporary differences:						
– retirement benefits	**44**	**(1)**	**(45)**	42	–	(42)
– assets leased	**86**	**2**	**(84)**	94	–	(94)
– revaluation of property	**(10)**	**1**	**11**	(12)	–	12
– other temporary differences	**176**	**202**	**26**	12	3	(9)
– deferred losses carried forward	**–**	**–**	**–**	–	–	–
	296	**204**	**(92)**	136	3	(133)

The Deferred Tax amounts in "other temporary differences" category mainly concern Deferred Tax Assets on Covered Bonds MTM and the Deferred Tax Liabilities on PVIF.

The main amounts of deferred tax related to items that are charged directly to equity are detailed as follows:

(in millions of euros)	**31.12.2015**	31.12.2014
Cash flow hedge [1]	**(25)**	30
Available-for-sale reserve	**52**	84
Net foreign exchange	**(20)**	–
Actuarial losses	**(21)**	(20)

1 *Cash-flow hedge amount for 2014 includes a disqualification of EUR 29 million due to economic hedges which originally did not meet all the conditions defined by IAS 39 to benefit from hedge accounting.*

Consolidated financial statements (continued)

24 Deferred taxation *(continued)*

Movement of net deferred tax assets/ (liabilities)

(in millions of euros)	*Retire-ment benefits*	*Loan impair-ment allow-ances*	*Property, plant and equip-ment*	*Available-for-sale invest-ments*	*Goodwill and intangi-bles*	*Other*	*Total*
Assets	**42**	**47**	**–**	**(84)**	**(5)**	**136**	**136**
Liabilities	**–**	**–**	**–**	**–**	**–**	**3**	**3**
At 1 January 2015	**(42)**	**(47)**	**–**	**84**	**5**	**(133)**	**(133)**
Income statement	**(1)**	**3**	**–**	**(1)**	**–**	**52**	**53**
Other comprehensive income	**(2)**	**–**	**–**	**(4)**	**–**	**(26)**	**(32)**
Equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Foreign exchange and other adjustments	**–**	**–**	**–**	**(27)**	**–**	**47**	**20**
Movement	**(3)**	**3**	**–**	**(32)**	**–**	**73**	**41**
Assets	**44**	**44**	**–**	**(29)**	**(5)**	**242**	**296**
Liabilities	**(1)**	**–**	**–**	**23**	**–**	**182**	**204**
At 31 December 2015	**(45)**	**(44)**	**–**	**52**	**5**	**(60)**	**(92)**

(in millions of euros)	*Retire-ment benefits*	*Loan impair-ment allow-ances*	*Property, plant and equip-ment*	*Available-for-sale invest-ments*	*Goodwill and intangi-bles*	*Other*	*Total*
Assets	39	43	–	(67)	(5)	51	61
Liabilities	–	–	–	–	–	2	2
At 1 January 2014	(39)	(43)	–	67	5	(49)	(59)
Income statement	(1)	–	–	(1)	–	(148)	(153)
Other comprehensive income	(3)	–	–	17	–	60	74
Equity	–	–	–	–	–	–	–
Foreign exchange and other adjustments	–	–	–	–	–	4	4
Movement	(4)	(3)	–	16		(84)	(75)
Assets	42	47	–	(84)	(5)	136	136
Liabilities	–	–	–	–	–	3	3
At 31 December 2014	(42)	(47)	–	84	5	(133)	(133)

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)	2015	2014
At 1 January	**147**	163
Additional provisions/increase in provisions	**33**	39
Provisions utilised	**(37)**	(37)
Amounts reversed	**(11)**	(21)
Acquisition/disposal of subsidiaries/businesses	**–**	–
Exchange differences and other movements	**–**	3
At 31 December	**132**	147

Information relating to legal proceedings and regulatory matters related to HSBC Group entities can be found in Note 40.

26 Sale and repurchase

When securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resale are not recognised on the balance sheet and the right to receive back the initial consideration paid is recorded in 'Loans and advances to banks', 'Loans and advances to customers' or 'Trading assets' as appropriate. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement for loans and advances to banks and customers. Securities lending and borrowing transactions are generally secured against cash or non-cash collateral. Securities lent or borrowed do not normally result in derecognition or recognition on the balance sheet. Cash collateral advanced or received is recorded as an asset or a liability respectively.

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.

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)	31.12.2015	31.12.2014
Assets		
Banks	**5,049**	9,935
Customers	**5,114**	4,861
Total	**10,163**	14,796
Liabilities		
Banks	**8,948**	13,926
Customers	**1,335**	2,012
Total	**10,283**	15,938

27 Liabilities under insurance contracts

The group issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which the group accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

Policyholders Liabilities

Liabilities under non linked life insurance contracts are calculated by each life insurance operation based on local actuarial principles. Liabilities under unit linked life insurance contracts are at least equivalent to the surrender or transfer value, which is calculated by reference to the value of the relevant underlying funds or indices.

Future profit participation on insurance contracts with discretionary participation features

Where contracts provide discretionary profit participation benefits to policyholders, liabilities for these contracts include provisions for the future discretionary benefits to policyholders. These provisions reflect actual performance of the investment portfolio to date and management expectation on the future performance in connection with the assets backing the contracts, as well as other experience factors such as mortality, lapses and operational efficiency, where appropriate. This benefit may arise from the contractual terms, regulation, or past distribution policy.

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 group therefore recognises the premiums for those contracts as revenue and recognises as an expense the resulting increase in the carrying amount of the liability.

In the case of net unrealised investment gains on these contracts, whose discretionary benefits principally reflect the actual performance of the investment portfolio, the corresponding increase in the liabilities is recognised in either the income statement or other comprehensive income, following the treatment of the unrealised gains on the relevant assets. In the case of net unrealized 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.

27 Liabilities under insurance contracts *(continued)*

(in millions of euros)	*Gross*	*Reinsurer's share*	*Net*
2015			
Non-linked life insurance contracts[1]			
At 1 January	**119**	**(3)**	**116**
– Claims and Benefits paid	**(23)**	**–**	**(23)**
– Movement in liabilities to policyholders	**27**	**–**	**27**
– Exchange differences and other movements	**–**	**1**	**1**
At 31 December	**123**	**(2)**	**121**
Investment contracts with discretionary participation features			
At 1 January	**20,636**	**–**	**20,636**
– Claims and Benefits paid	**(1,894)**	**–**	**(1,894)**
– Movement in liabilities to policyholders	**2,456**	**–**	**2,456**
– Exchange differences and other movements	**(423)**	**–**	**(423)**
At 31 December	**20,775**	**–**	**20,775**
Linked life insurance contracts			
At 1 January	**48**	**–**	**48**
– Claims and Benefits paid	**(4)**	**–**	**(4)**
– Movement in liabilities to policyholders	**2**	**–**	**2**
– Exchange differences and other movements	**–**	**–**	**–**
At 31 December	**45**	**–**	**45**
Total liabilities to policyholders	**20,943**	**(2)**	**20,941**

1 *Non-linked life insurance contracts include annuities, credit life and term life insurance.*

(in millions of euros)	*Gross*	*Reinsurer's share*	*Net*
2014			
Non-linked life insurance contracts[1]			
At 1 January	115	(3)	112
– Claims and Benefits paid	(20)	1	(19)
– Movement 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
– Claims and Benefits paid	–	–	–
– Movement 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
– Claims and Benefits paid	(4)	–	(4)
– Movement 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

1 *Non-linked life insurance contracts include annuities, credit life and term life insurance.*

27 Liabilities under insurance contracts *(continued)*

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 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)	**31.12.2015**	31.12.2014
Subordinated liabilities:		
– at amortised cost	**276**	276
– designated at fair value	**–**	15
	276	291

Subordinated borrowings issued by HSBC France:

		Book value	
(in millions of euros)		**31.12.2015**	31.12.2014
EUR260 million	Floating rate notes maturing 2029	**260**	260
EUR15 million	Floating rate notes maturing 2015	**–**	15
EUR16 million	Undated subordinated variable rate notes	**16**	16
		276	**291**

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)	**31.12.2015**	31.12.2014
Other liabilities – net short positions	**9,803**	13,974
Deposits by banks	**8,059**	8,770
Customer accounts	**2,198**	4,349
Other debt securities in issue	**2,587**	2,314
Total	**22,647**	29,407

In 2015, the group HSBC France recognised a gain of EUR 29 million with respect to HSBC France's own credit risk in the debt securities in issue (2014: a loss of EUR (33) 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 a standard transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price.

However, sometimes the fair value will be based on other observable current market transactions for the same instrument, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, HSBC France recognises a trading gain or loss (Day 1), being the difference between the transaction price and the fair value. When significant unobservable parameters have a significant impact over the valuation of financial instruments, the initial gap between fair value issued from the measurement model and the transaction price (Day 1) is not immediately 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.

The main assumptions and estimates which management considers when applying a model with valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument; judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- Selecting an appropriate discount rate for the instrument: management Judgement required to assess what a market participant would regard as the appropriate premium for an instrument over the appropriate risk-free rate;
- Judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity on the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which future cash flows are estimated. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. 'Projection' utilises market forward curves, if available. In option models, the probability

30 Fair value of financial instruments carried at fair value *(continued)*

of different potential future outcomes must be considered. In addition, the value of some products is dependent on more than one market factor, and in these cases it will typically be necessary to consider how movements in one market factor may affect the other market factors.

c *Control framework*

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by an independent function of the risk taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. On inactive markets, direct observation of traded prices may not be possible. In these circumstances, the group will source alternative market information to validate the financial instrument's fair value. Greater weight will be given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

– the extent to which prices may be expected to represent genuine traded or tradeable prices;

– the degree of similarity between financial instruments;

– the degree of consistency between different sources;

– the process followed by the pricing provider to derive the data;

– the elapsed time between the date to which the market data relates and the balance sheet date;

– the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of the logic within valuation models, the inputs to those models, any adjustments required outside the valuation models and, where possible, model outputs.

Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

d *Determination of fair value of financial instruments carried at fair value*

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, instruments designated at fair value through profit or loss, derivatives, and financial investments classified as available-for-sale (including treasury and other eligible bills, debt securities, and equity securities).

The reliability of the fair value measurement for financial instruments reported on the consolidated balance sheet at fair value is assessed according to how the fair values have been determined.

• Fair value hierarchy

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 that the group can access at the measurement date.

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.

30 Fair value of financial instruments carried at fair value *(continued)*

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 interest rate derivatives with collateralised counterparties and in significant major currencies, the group uses a discounting curve that reflects the overnight interest rate ('OIS discounting').

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. For these instruments, the fair value measurement derived is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ('day 1 gain or loss') is driven by unobservable inputs. 'Not observable' in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would likely occur, but it generally does not mean that there is absolutely no market data available upon which to base a determination of fair value (consensus pricing data may, for example, be used).

In certain circumstances, primarily where debt is hedged with interest rate derivatives, the group uses fair value to measure the carrying value of its own debt in issue. Where available, the fair value will be based upon quoted prices on an active market for the specific instrument concerned. Where not available, the fair value will either be based upon quoted prices on an inactive market for the specific instrument concerned, or estimated by comparison with quoted prices on an active market for similar instruments. The fair value of these instruments therefore includes the effect of applying the credit spread which is appropriate to the group's liabilities. For all issued debt securities, discounted cash flow modelling is utilised to isolate that element of change in fair value that may be attributed to the group's credit spread movements rather than movements in other market factors, such as benchmark interest rates or foreign exchange rates. Then, using discounted cash flow, each security is valued using a BOR-based discount curve. The difference in the valuations is attributable to the group's own credit spread. This methodology is applied consistently across all securities.

Issued structured notes and certain other hybrid instrument liabilities are included within trading liabilities, and marked at fair value. The credit spread applied to these instruments is derived from the spreads at which the group issues structured notes.

Gains and losses arising from changes in the credit spread of liabilities issued by the group are 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: Amounts with HSBC entities	Of which Level 3[1]	Total
At 31 December 2015							
Assets							
Trading assets	**18,609**	**7,660**	**4**	**26,273**	**888**	**–**	**27,161**
Financial assets designated at fair value	**6,087**	**286**	**–**	**6,373**	**395**	**–**	**6,768**
Derivatives	**68**	**31,248**	**262**	**31,578**	**17,906**	**262**	**49,484**
Financial investments available-for-sale	**27,038**	**13**	**313**	**27,364**	**313**	**–**	**27,677**
Liabilities							
Trading liabilities	**9,277**	**9,324**	**149**	**18,750**	**3,897**	**–**	**22,647**
Financial liabilities at fair value	**2,556**	**5,920**	**–**	**8,476**	**–**	**–**	**8,476**
Derivatives	**8**	**32,575**	**30**	**32,613**	**14,290**	**296**	**46,903**
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	65	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 at fair value	5	6,906	–	6,911	–	–	6,911
Derivatives	3	49,998	41	50,042	19,541	229	69,583

1 *This column has been added in order to identify level 3 amounts with HSBC Group subsidiaries. The remaining amounts with entities of the Group HSBC not in Level 3 are in Level 1 or 2.*

Transfers between Level 1 and Level 2 fair values.

(in millions of euros)	*Assets: Available for sale*	*Held for Trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Liabilities: Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
At 31 December 2015							
Transfers from Level 1 to Level 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers from Level 2 to Level 1	**–**	**–**	**–**	**–**	**–**	**2**	**–**
At 31 December 2014							
Transfers from Level 1 to Level 2	–	7,153	–	–	8,617	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–	–	–

f *Fair value adjustments*

Fair value adjustments are adopted when HSBC France considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model. HSBC France classifies fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to Global Banking and Markets.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Risk-related adjustments

Bid-offer

IFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if 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 HSBC France group may default, or may not pay full market value of the transactions (see below).

Model-related adjustments

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted.

30 Fair value of financial instruments carried at fair value *(continued)*

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.

Valorisation of not collateralized derivatives

Historically the Group HSBC France evaluated non-collateralised derivatives by discounting estimated future cash flow at a reference interest rate such as EURIBOR or an equivalent. In order to be in line with the evolution of the sector's practices, HSBC France has modified its methodology in the second half of 2014. HSBC France now uses the OIS rate (overnight indexed swap) as the reference discounting curve for collateralised or uncollateralised derivatives. Moreover, HSBC France has adopted the funding fair value adjustment ('FFVA') which reflects the future funding exposure of any uncollateralised component at rates other than OIS rates. At 31 December 2015, the FFVA is EUR 41 million (2014: 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	**313**	**–**	**–**	**–**	**–**	**–**	**–**
Asset-backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Structured notes	**–**	**4**	**–**	**–**	**149**	**–**	**–**
Derivatives	**–**	**–**	**–**	**262**	**–**	**–**	**30**
Other portfolios	**–**	**–**	**–**	**–**	**–**	**–**	**–**
HSBC Group subsidiaries[1]	**–**	**–**	**–**	**262**	**–**	**–**	**296**
At 31 December 2015	**313**	**4**	**–**	**524**	**149**	**–**	**326**
Private equity investments	74	–	–	–	–	–	–
Asset-backed securities	–	–	–	–	–	–	–
Leverage finance	–	–	–	–	–	–	–
Structured notes	–	–	–	–	–	–	–
Derivatives	–	–	–	283	–	–	41
Other portfolios	–	–	–	–	–	–	–
HSBC Group subsidiaries[1]	–	–	–	65	–	–	229
At 31 December 2014	74	–	–	348	–	–	270

1 *This line has been added to take into account HSBC subsidiaries amounts as shown in the table "Financial instruments at fair value" on page 220.*

Private equity

The group's private equity positions are generally classified as available for sale and are not traded on an active market. In the absence of an active market for the investment, fair value is estimated based upon an analysis of the investee's financial position and results, risk profile, prospects and other factors as well as reference to market valuations for similar entities quoted on an active market, or the price at which similar companies have changed ownership. Fair value investment estimation being subjected to judgement and uncertainty subjective factors remain until the private equity investment is sold.

Asset-backed securities (ABS)

While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required. For ABS, including residential mortgage backed securities, the valuation uses an industry standard model and the assumptions relating to prepayment speeds, default rates and loss severity based on collateral type, and performance, as appropriate. The valuations output is benchmarked for consistency against observable data for securities of a similar nature.

30 Fair value of financial instruments carried at fair value *(continued)*

Derivatives

Over-the-counter (*i.e.* non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some divergence in market practice.

Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices *via* model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historic data or other sources.

Examples of inputs that may be unobservable include volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors such as foreign exchange rates, interest rates and equity prices.

Derivative products valued using valuation techniques with significant unobservable inputs included certain types of correlation products, such as foreign exchange basket options, equity basket options, foreign exchange interest rate hybrid transactions and long-dated option transactions. Examples of the latter are equity options, interest rate and foreign exchange options and certain credit derivatives. Credit derivatives include certain tranched CDS transactions.

Structured notes

For structured notes whose fair value is derived from a valuation technique, the fair value will be derived from the fair value of the underlying debt security as described above, and the fair value of the embedded derivative will be determined as described in the section above on derivatives.

For assets and liabilities classified as held for trading, realised and unrealised gains and losses are presented in the income statement under 'Trading income excluding net interest income'. Fair value changes on long-term debt designated at fair value and related derivatives are presented in the income statement under 'Changes in fair value of long-term debt issued and related derivatives'. The income statement line item 'Net income/(expense) from other financial instruments designated at fair value' captures fair value movements on all other financial instruments designated at fair value and related derivatives.

Realised gains and losses from available-for-sale securities are presented under 'Gains less losses of financial investments' in the income statement, while unrealised gains and losses are presented in 'Fair value gains/(losses) taken to equity' within 'Available-for-sale investments' in other comprehensive income.

Trading liabilities valued using a valuation technique with significant unobservable inputs principally comprised equitylinked structured notes which are issued by HSBC and provide the counterparty with a return that is linked to the performance of certain equity securities, and other portfolios. The notes are classified as Level 3 due to the unobservability of parameters such as long-dated equity volatilities and correlations between equity prices, between equity prices and interest rates and between interest rates and foreign exchange rates.

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*[1]	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*[1]
At 1 January 2015	74	–	–	348	–	–	270
Total gains or losses recognised in profit or loss	(8)	–	–	222	–	–	41
– trading income excluding net interest income	–	–	–	222	–	–	41
– gains less losses from financial investments	(8)	–	–	–	–	–	–
Total gains or losses recognised in other comprehensive income	15	–	–	–	–	–	–
– available-for-sale investments fair value gains/(losses)	15	–	–	–	–	–	–
Purchases	42	–	–	–	–	–	–
Issues	–	–	–	–	–	–	–
Sales	(12)	–	–	–	–	–	–
Settlements	–	–	–	(54)	–	–	8
Transfer out	–	–	–	(354)	–	–	(257)
Transfer in	201	4	–	362	149	–	264
Exchange differences	1	–	–	–	–	–	–
At 31 December 2015	313	4	–	524	149	–	326
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 December	–	–	–	524	–	–	326
– trading income excluding net interest income	–	–	–	524	–	–	326
– loan impairment charges and other credit risk provisions	–	–	–	–	–	–	–
– gains less losses from financial investments	–	–	–	–	–	–	–

1 *Derivatives include amounts with other entities of the HSBC Group.*

Consolidated financial statements (continued)

30 Fair value of financial instruments carried at fair value *(continued)*

	Assets				Liabilities		
(in millions of euros)	*Available for sale*	*Held for Trading*	*Designated at fair value through profit or loss*	*Derivatives*[1]	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*[1]
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	–	–	–	65	–	–	229
Exchange differences	1	–	–	–	–	–	–
At 31 December 2014	74	–	–	348	–	–	270
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 December	1	–	–	348	–	–	270
– trading income excluding net interest income	–	–	–	348	–	–	270
– loan impairment charges and other credit risk provisions	–	–	–	–	–	–	–
– gains less losses from financial investments	1	–	–	–	–	–	–

1 *Derivatives include amounts with other entities of the HSBC Group.*

30 Fair value of financial instruments carried at fair value *(continued)*

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.

	Reflected in profit or loss		*Reflected in other*	
(in millions of euros)	*Favourable changes*	*Unfavourable changes*	*Favourable changes*	*Unfavourable changes*
At December 2015				
Derivatives/trading assets/trading liabilities[1]	**5**	**(5)**	**–**	**–**
Financial assets and liabilities designated at fair value	**–**	**–**	**–**	**–**
Financial investments: available-for-sale	**2**	**(2)**	**23**	**(23)**
At December 2014				
Derivatives/trading assets/trading liabilities[1]	8	(8)	–	–
Financial assets and liabilities designated at fair value	–	–	–	–
Financial investments: available-for-sale	–	–	4	(7)

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

The following table shows the sensitivity of level 3 fair values to reasonably possible alternative assumptions.

	Reflected in profit or loss		*Reflected in other*	
(in millions of euros)	*Favourable changes*	*Unfavourable changes*	*Favourable changes*	*Unfavourable changes*
At December 2015				
Private equity investments	**2**	**(2)**	**23**	**(23)**
Asset-backed securities	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**
Derivatives	**5**	**(5)**	**–**	**–**
Other portfolios	**–**	**–**	**–**	**–**
At December 2014				
Private equity investments	–	–	4	(7)
Asset-backed securities	–	–	–	–
Structured notes	–	–	–	–
Derivatives	8	(8)	–	–
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.

30 Fair value of financial instruments carried at fair value *(continued)*

Key unobservable inputs to Level 3 financial instruments

The table above lists key unobservable inputs to level 3 financial instruments, and provides the range of those inputs as at 31 December 2015. A further description of the categories of key unobservable inputs is given below.

	Fair value[1]				*Full range of inputs*		*Core range of inputs*	
(in millions of euros)	*Assets*	*Liabilities*	*Valuation technique*	*Key unobservable inputs*	*Lower*	*Higher*	*Lower*	*Higher*
At 31 December 2015								
Private equity including strategic investments .	**313**	**–**	See notes below	See notes below	n/a	n/a	n/a	n/a
Asset-backed securities	**–**	**–**						
– CLO/CDO[2]	**–**	**–**	Market proxy	Bid quotes	–	–	–	–
– Other ABSs	**–**	**–**			–	–	–	–
Structured notes	**4**	**149**	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	**4**	**149**						
Derivatives	**524**	**326**						
Interest rate derivatives:								
– securitisation swaps . .	**144**	**6**	Model – DCF[3]	Prepayment rate	**50%**	**50%**	**50%**	**50%**
– long-dated swaptions.	**336**	**289**	Model – Option model	IR volatility	**11%**	**35%**	**13%**	**31%**
– other	**43**	**30**						
Foreign exchange derivatives:								
– foreign exchange options.	**1**	**1**	Model – Option model	FX volatility	**5 %**	**14%**	**5%**	**14%**
Equity derivatives:								
– long-dated single stock options.	**–**	**–**	Model – Option model	Equity volatility	–	–	–	–
– other	**–**	**–**						
Credit derivatives:								
– other	**–**	**–**						
Other portfolios	**–**	**–**						
Total Level 3	**841**	**475**						

1 *Including Level 3 amounts with HSBC Group subsidiaries*
2 *Collateralised loan obligation/collateralised debt obligation.*
3 *Discounted cash flow.*

30 Fair value of financial instruments carried at fair value *(continued)*

(in millions of euros)	Fair value[1] Assets	Liabilities	Valuation technique	Key unobservable inputs	Full range of inputs Lower	Higher	Core range of inputs Lower	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[2]	–	–	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[4]	348	270						
Interest rate derivatives:								
– securitisation swaps	11	8	Model – DCF[3]	Prepayment rate	50%	50%	50%	50%
– long-dated swaptions	268	241	Model – Option model	IR volatility	8%	28%	11%	28%
– other	69	21						
Foreign exchange derivatives:								
– foreign exchange options	–	–	Model – Option model	FX volatility	–	–	–	–
Equity derivatives:								
– long-dated single stock options	–	–	Model – Option model	Equity volatility	–	–	–	–
– other	–	–						
Credit derivatives:								
– other	–	–						
Other portfolios	–	–						
Total Level 3	422	270						

1 *Including Level 3 amounts with HSBC Group subsidiaries*
2 *Collateralised loan obligation/collateralised debt obligation.*
3 *Discounted cash flow.*
4 *The derivatives amounts as of 31 December 2014 have been allocated on the lines swaps securities, long dated swap options and other.*

30 Fair value of financial instruments carried at fair value *(continued)*

Private equity including strategic investments

HSBC's private equity and strategic investments are generally classified as available for sale and are not traded on active markets. In the absence of an active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar quoted entities on an active market, or the price at which similar companies have changed ownership. Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs.

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. Prepayment rates are an important input into modelled values of asset-backed securities. A modelled price may be used where insufficient observable market prices exist to enable a market price to be determined directly. Prepayment rates are also an important input into the valuation of derivatives linked to securitisations. For example, so-called securitisation swaps have a notional value that is linked to the size of the outstanding loan portfolio in a securitisation, which may fall as prepayments occur. Prepayment rates vary according to the nature of the loan portfolio, and expectations of future market conditions. For example, prepayment rates will generally be anticipated to increase as interest rates rise. Prepayment rates may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historic prepayment rates, 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.

The range of prices used as inputs into a market proxy pricing methodology may therefore be wide. This range is not indicative of the uncertainty associated with the price derived for an individual security.

Volatility

Volatility is a measure of the anticipated future variability of a market price. Volatility tends to increase in stressed market conditions, and decrease in calmer market conditions. Volatility is an important input in the pricing of options. In general, the higher the volatility, the more expensive the option will be. This reflects both the higher probability of an increased return from the option, and the potentially higher costs that HSBC France may incur in hedging the risks associated with the option. If option prices become more expensive, this will increase the value of HSBC's long option positions (i.e. the positions in which HSBC France has purchased options), while HSBC France's short option positions (i.e. the positions in which HSBC France has sold options) will suffer losses.

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time. As a result, it is difficult to make general statements regarding volatility levels. For example, while it is generally the case that foreign exchange volatilities are lower than equity volatilities, there may be examples in particular currency pairs or for particular equities where this is not the case.

Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data. For example, longer-dated volatilities may be extrapolated from shorter-dated volatilities.

30 Fair value of financial instruments carried at fair value *(continued)*

The range of unobservable volatilities quoted in the table reflects below the wide variation in volatility inputs by reference market price. For example, FX volatilities for a pegged currency may be very low, whereas for non-managed currencies the FX volatility may be higher. As a further example, volatilities for deep-in-the-money or deep-out-of-the-money equity options may be significantly higher than at-the-money options as a result of 'volatility skew'. For any single unobservable volatility, the uncertainty in the volatility determination is significantly less than the range quoted above.

Correlation

Correlation is a measure of the inter-relationship between two market prices. Correlation is a number between minus one and one. A positive correlation implies that the two market prices tend to move in the same direction, with a correlation of one implying that they always move in the same direction. A negative correlation implies that the two market prices tend to move in opposite directions, with a correlation of minus one implying that the two market prices always move in opposite directions.

Correlation is used to value more complex instruments where the payout is dependent upon more than one market price. For example, an equity basket option has a payout that is dependent upon the performance of a basket of single stocks, and the correlation between the price movements of those stocks will be an input to the valuation. This is referred to as equity-equity correlation. There are a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations (*e.g.* equity-equity correlation) and cross-asset correlations (*e.g.* rate-rate correlation) used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Correlation may be unobservable. Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC trade prices, proxy correlations and examination of historical price relationships.

The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair. For any single unobservable correlation, the uncertainty in the correlation determination is likely to be less than the range quoted above.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept a lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices. Credit spreads may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to 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.

Consolidated financial statements (continued)

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.

	31.12.2015					31.12.2014	
(in millions of euros)	Carrying value	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Fair Value	Carrying value	Fair value
Assets							
Loans and advances to banks	**4,660**	**–**	**4,660**	**–**	**4,660**	6,022	6,022
Loans and advances to customers	**38,524**	**–**	**–**	**38,054**	**38,054**	36,240	35,839
Reverse repurchase agreements – non trading	**10,163**	**–**	**10,163**	**–**	**10,163**	14,796	14,796
Liabilities							
Deposits by banks	**7,086**	**–**	**7,086**	**–**	**7,086**	7,021	7,021
Customer accounts	**32,811**	**–**	**32,833**	**–**	**32,833**	33,635	33,656
Repurchase agreements – non trading	**10,283**	**–**	**10,283**	**–**	**10,283**	15,938	15,938
Debt securities in issue	**10,501**	**–**	**10,506**	**–**	**10,506**	9,237	9,489
Subordinated liabilities	**276**	**–**	**276**	**–**	**276**	276	276

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or 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.

31 Fair value of financial instruments not carried at fair value *(continued)*

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.

Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions may include value estimates from third party brokers which reflect over-the-counter trading activity; forward looking discounted cash flow models using assumptions which HSBC believes are consistent with those which would be used by market participants in valuing such loans; and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The stratification of a loan book considers all material factors, including vintage, origination period, estimates of future interest rates, prepayment speeds, delinquency rates, loan-to-value ratios, the quality of collateral, default probability, and internal credit risk ratings.

The fair value of a loan reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value impact of repricing between origination and the balance sheet date.

Deposits by banks and customer accounts

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

Repurchase and reverse repurchase agreements – non-trading

Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are generally short dated.

32 Maturity analysis of financial assets and liabilities

The balances in the note below will not agree directly with those in the consolidated balance sheet as the tables incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and trading derivatives). In addition, loan and other credit-related commitments and financial guarantees and similar contracts are generally not recognised on the balance sheet.

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.

The following table provides an analysis of consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. Asset and liability balances are included in the maturity analysis as follows:

- except for reverse repos, repos and debt securities in issue, trading assets and liabilities (including trading derivatives) are included in the 'Due not more than 1 month' time bucket, and not by contractual maturity because trading balances are typically held for short periods of time;
- financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due over 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due over 5 years' time bucket;
- non-financial assets and liabilities with no contractual maturity (such as property, plant and equipment, goodwill an intangible assets, current and deferred tax assets and liabilities and retirement benefit liabilities) are included in the 'Due over 5 years' time bucket;
- financial instruments included within assets and liabilities of disposal groups held for sale are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction; and liabilities under insurance contracts are included in the 'Due over 5 years' time bucket. Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are classified based on the contractual notice period investors are entitled to give. Where there is no contractual notice period, undated contracts are included in the 'Due over 5 years' time bucket;
- loan and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

32 Maturity analysis of financial assets and liabilities *(continued)*

Ventilations of cash flows payable by maturity

(in millions of euros)	**31.12.2015** *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]	**1,658**	**1,945**	**417**	**3,082**	**38**	**7,140**
Customer accounts[1]	**27,309**	**3,104**	**2,049**	**280**	**122**	**32,864**
Repurchase Agreements – non trading[1]		**10,097**	**186**	**–**	**–**	**10,283**
Trading liabilities	**22,647**	**–**	**–**	**–**	**–**	**22,647**
Financial liabilities designated at fair value	**–**	**91**	**16**	**5,831**	**2,713**	**8,651**
Derivatives	**46,259**	**5**	**97**	**306**	**236**	**46,903**
Debt securities in issue	**–**	**3,438**	**4,471**	**2,595**	**–**	**10,504**
Subordinated liabilities	**–**	**–**	**–**	**–**	**283**	**283**
Other financial liabilities	**2**	**668**	**527**	**126**	**512**	**1,835**
Sub Total	**97,875**	**19,348**	**7,763**	**12,220**	**3,904**	**141,110**
Loan commitments	**737**	**1,347**	**2,164**	**16,416**	**2,996**	**23,660**
Financial guarantee contracts	**452**	**–**	**–**	**–**	**–**	**452**
Total at 31 December 2015	**99,064**	**20,695**	**9,927**	**28,636**	**6,900**	**165,222**

1 *Repurchase agreements banks and customers have been merged into one line to comply with HSBC Group presentation.*

(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
Customer accounts[1]	27,219	4,638	1,468	242	71	33,638
Repurchase Agreements – non trading[1]	–	12,412	3,796	–	–	16,208
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
Sub Total	128,970	22,894	9,618	8,384	4,821	174,687
Loan commitments	1,141	1,049	1,884	15,766	2,296	22,136
Financial guarantee contracts	692	–	2	3	2	699
Total at 31 December 2014	130,803	23,943	11,504	24,153	7,119	197,522

1 *Repurchase agreements banks and customers have been merged into one line to comply with HSBC Group presentation.*

Consolidated financial statements (continued)

32 Maturity analysis of financial assets and liabilities *(continued)*

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 analyzed below. However, for items such as demand deposits and overdrafts, the contractual maturities could differ from expected maturities.

	31.12.2015						
(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	50	133	**183**	317	6,268	**6,585**	**6,768**
Loans and advances to banks [1]	823	560	**1,383**	3,120	157	**3,277**	**4,660**
Loans and advances to customers [1]	2,894	5,879	**8,773**	16,702	13,049	**29,751**	**38,524**
Reverse Repurchase Agreements – non-trading [1]	6,428	3,391	**9,819**	344	–	**344**	**10,163**
Financial investments	308	3,119	**3,427**	14,977	9,273	**24,250**	**27,677**
Other financial assets	27	182	**209**	17	23	**40**	**249**
At 31 December 2015	10,530	13,264	**23,794**	35,477	28,770	**64,247**	**88,041**
Liabilities							
Deposits by banks [1]	3,247	720	**3,967**	3,081	38	**3,119**	**7,086**
Customer accounts [1]	27,892	4,548	**32,440**	280	91	**371**	**32,811**
Repurchase Agreements – non-trading [1]	9,652	631	**10,283**	–	–	**–**	**10,283**
Financial liabilities designated at fair value	91	16	**107**	5,740	2,629	**8,369**	**8,476**
Debt securities in issue	2,350	5,556	**7,905**	2,595	–	**2,595**	**10,501**
Insurance contracts liabilities [2]	–	34	**34**	28	20,881	**20,909**	**20,943**
Other financial liabilities [2]	163	149	**312**	19	427	**446**	**758**
Subordinated liabilities	–	–	**–**	–	276	**276**	**276**
At 31 December 2015	43,395	11,654	**55,049**	11,743	24,342	**36,085**	**91,134**

1 *Repurchase agreements and reverse repurchase banks and customers have been merged into one line to comply with HSBC Group presentation.*
2 *The amounts relative to "Insurance contracts liabilities" previously disclosedunder "Other financial liabilities" are now on a separate row.*

32 **Maturity analysis of financial assets and liabilities** *(continued)*

(in millions of euros)	31.12.2014						
	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
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]	8,358	6,086	14,444	352	–	352	14,796
Financial investments	303	2,039	2,342	11,372	10,958	22,330	24,672
Other financial assets	26	218	244	7	25	32	276
At 31 December 2014	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
Customer accounts [1]	29,531	3,794	33,325	242	68	310	33,635
Repurchase Agreements – non-trading [1]	11,133	4,805	15,938	–	–	–	15,938
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
Insurance contracts liabilities [2]	–	50	50	40	20,713	20,753	20,803
Other financial liabilities [2]	169	224	393	19	426	445	838
Subordinated liabilities	–	–	–	–	276	276	276
At 31 December 2014	46,888	15,199	62,087	7,388	25,184	32,572	94,659

1 *Repurchase agreements and reverse repurchase banks and customers have been merged into one line to comply with HSBC Group presentation.*
2 *The amounts relative to "Insurance contracts liabilities" previously disclosedunder "Other financial liabilities" are now on a separate row.*

Further information regarding the group's liquidity and funding management is available in the Risk Management section page 119 *et seq*.

33 Net earned insurance premium income and net insurance claims, benefits paid and movement in liabilities to policyholders

Through its insurance subsidiary, HSBC France issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which HSBC France accepts insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

While investment contracts with discretionary participation features are financial instruments, they continue to be treated as insurance contracts as permitted by IFRS 4.

Insurance contracts are accounted for as follows:

Insurance premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

(in millions of euros)	*Non-linked insurance*	*Linked life insurance*	*Investment contracts with DPF[1] features*	*Total*
Gross earned premiums	**72**	**–**	**1,889**	**1,961**
– gross written premiums	**72**	**–**	**1,889**	**1,961**
– movement in unearned premiums	**–**	**–**	**–**	**–**
Reinsurers' share of gross earned premiums	**(4)**	**–**	**–**	**(4)**
– gross written premiums ceded to reinsurers	**(4)**	**–**	**–**	**(4)**
– reinsurers' share of movement in unearned premiums	**–**	**–**	**–**	**–**
Year ended 31 December 2015	**68**	**–**	**1,889**	**1,957**
Gross earned premiums	72	–	1,857	1,929
– gross written premiums	72	–	1,857	1,929
– movement in unearned premiums	–	–	–	–
Reinsurers' share of gross earned premiums	(3)	–	–	(3)
– gross written premiums ceded to reinsurers	(3)	–	–	(3)
– reinsurers' share of movement in unearned premiums	–	–	–	–
Year ended 31 December 2014	69	–	1,857	1,926

1 *DPF : Discretionary Participation Features.*

Insurance claims and reinsurance recoveries

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. Claims arising during the year include maturities, surrenders and death claims.

Reinsurance recoveries are accounted for in the same period as the related claim.

33 Net earned insurance premium income and net insurance claims, benefits paid and movement in liabilities to policyholders *(continued)*

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 per cent is allocated to policyholders; the remaining amount is accounted for as deferred participation and should be distributed to customers within 8 years.

(in millions of euros)	*Non-linked Insurance*	*Linked life Insurance*	*Investment contracts with DPF[1] features*	*Total*
Gross claims incurred and movement in liabilities	**27**	**2**	**2,456**	**2,485**
– claims, benefits and surrenders paid	**23**	**4**	**1,894**	**1,921**
– movement in liabilities	**4**	**(2)**	**562**	**564**
Reinsurers' share of claims incurred and movement in liabilities	**–**	**–**	**–**	**–**
– gross written premiums ceded to reinsurers	–	–	–	–
– reinsurers' share of movement in unearned premiums	–	–	–	–
Year ended 31 December 2015	**27**	**2**	**2,456**	**2,485**
Gross claims incurred and movement in liabilities	24	1	2,397	2,422
– claims, benefits and surrenders paid	20	4	1,741	1,765
– movement in liabilities	4	(3)	656	657
Reinsurers' share of claims incurred and movement in liabilities	(1)	–	–	(1)
– gross written premiums ceded to reinsurers	(1)	–	–	(1)
– reinsurers' share of movement in unearned premiums	-	–	–	–
Year ended 31 December 2014	23	1	2,397	2,421

1 *DPF : Discretionary Participation Features.*

34 Called up share capital

The share capital of HSBC France at 31 December 2015 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 2015	**67,437,827**	337
Shares issued	**–**	–
At 31 December 2015	**67,437,827**	337
At 1 January 2014	67,437,827	337
Shares issued	–	–
At 31 December 2014	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, liquidity 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 profit before tax

(in millions of euros)	**31.12.2015**	31.12.2014
Depreciation, amortisation and impairment	**58**	53
Share-based payments expense	**19**	14
Credit-related impairment losses	**115**	99
Provisions raised	**22**	18
Provisions utilised	**–**	–
Impairment of financial investments	**(1)**	12
Accretion of discounts and amortisation of premiums	**28**	10
Other	**(27)**	(81)
	214	125

Change in operating assets

(in millions of euros)	**31.12.2015**	31.12.2014
Change in prepayments and accrued income	**169**	120
Change in net trading securities and net derivatives	**3,210**	(3,023)
Change in loans and advances to banks [1]	**(38)**	(13,510)
Change in loans and advances to customers [1]	**(2,399)**	(1,811)
Change in reverse purchase agreements – non-trading [1]	**4,633**	13,216
Change in financial assets designated at fair value	**(612)**	83
Change in other assets	**(201)**	84
	4,762	(4,841)

Change in operating liabilities

(in millions of euros)	**31.12.2015**	31.12.2014
Change in accruals and deferred income	**48**	(183)
Change in loans and advances to banks [1]	**65**	3,911
Change in loans and advances to customers [1]	**(824)**	231
Change in reverse purchase agreements – non-trading [1]	**(5,654)**	(17,588)
Change in debt securities in issue	**1,264**	220
Change in financial liabilities designated at fair value	**1,579**	(1,217)
Change in other liabilities	**471**	661
	(3,051)	(13,965)

1 *The change in reverse purchase agreements – non-trading is disclosed on a new line in order to follow the policy of the HSBC Group.*

Breakdown of cash and cash equivalents

(in millions of euros)	**31.12.2015**	31.12.2014
Cash and balances at central banks	**395**	523
Items in the course of collection from other banks (assets)	**381**	367
Loans and advances to banks due in one month or less	**2,125**	3,525
Reverse repurchase agreements with banks of one month or less	**–**	–
Treasury bills, other bills and certificates of deposit due in less than three months	**88**	80
Less: items in the course of transmission to other banks	**(385)**	(368)
	2,604	4,127

36 Risk management

The below sections are now presented in the risk management report:
- Credit risk: page 99 *et seq*;
- Market risk: page 128 *et seq*;
- Liquidity risk: page 119 *et seq*;
- Insurance risk: page 144 *et seq*;
- Capital management and allocation: page 149 *et seq*.

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* [2]	*Gross amounts offset in the balance sheet*	*Amounts presented in the balance sheet*	*Amounts not offset in the balance sheet*			*Net amount*
				Financial Instruments	*Non-Cash collateral*	*Cash collateral receivedl pledged* [2]	
At 31 December 2015							
Derivatives[2]	**58,520**	**(9,036)**	**49,484**	**38,842**	**113**	**8,437**	**2,092**
Reverse repurchase, securities borrowing and similar agreements	**36,057**	**(25,791)**	**10,266**	**119**	**9,905**	**242**	**–**
Classified as:							
– trading assets	**103**	**–**	**103**	**–**	**103**	**–**	**–**
– non-trading assets	**35,954**	**(25,791)**	**10,163**	**119**	**9,802**	**242**	**–**
Loans and advances excluding reverse repos.	**776**	**(110)**	**666**	**–**	**–**	**–**	**666**
– to banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– to customers	**776**	**(110)**	**666**	**–**	**–**	**–**	**666**
Total	**95,353**	**(34,397)**	**60,416**	**38,961**	**10,018**	**8,679**	**2,758**
At 31 December 2014							
Derivatives[2]	142,228	(71,661)	70,567	59,798[1]	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
Total	187,646	(101,136)	86,510	66,066	8,365	8,516	3,563

1 *The amount has been adjusted for arithmetic needs.*
2 *In accordance to IAS 32 §42, HSBC apply offsetting on cash collateral from second half year 2015. This neting is disclosed against gross amounts of recognized financial liabilities and reduced from cash collateral pledged.*

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*[1]	*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 received/pledged*[1]	*Net amount*
At 31 December 2015							
Derivatives	**55,939**	**(9,036)**	**46,903**	**38,847**	**637**	**6,860**	**559**
Repurchase, securities lending and similar agreements	**36,409**	**(25,791)**	**10,618**	**119**	**10,416**	**83**	**–**
Classified as:							
– trading liabilities	**335**	**–**	**335**	**–**	**335**	**–**	**–**
– non-trading liabilities	**36,074**	**(25,791)**	**10,283**	**119**	**10,081**	**83**	**–**
Deposits by banks excluding repos	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Customer accounts excluding repos	**110**	**(110)**			**–**		**–**
Total	**92,458**	**(34,937)**	**57,521**	**38,966**	**11,053**	**6,943**	**559**
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)	–	–	–	–	–
Total	189,336	(101,136)	88,200	66,084	13,525	7,836	755

1 *In accordance to IAS 32 §42, HSBC apply offsetting on cash collateral from second half year 2015. This neting is disclosed against gross amounts of recognized financial liabilities and reduced from cash collateral pledged.*

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.

37 Offsetting of financial assets and financial liabilities *(continued)*

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.

38 Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security as well as contingent liabilities related to legal proceedings or regulatory matters (see Note 37), are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured.

Contingent liabilities are not recognised in the financial statements.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

a *Contingent liabilities and commitments*

(in millions of euros)	**31.12.2015**	31.12.2014
Contract amounts		
Guarantees and other contingent liabilities		
Guarantees	**4,600**	3,933
Other contingent liabilities	**–**	–
	4,600	3,933
Commitments[1]		
Documentary credits and short-term trade-related transactions	**689**	557
Undrawn formal standby facilities, credit lines and other commitments to lend[2]		
– 1 year and under[1]	**6,887**	9,222
– over 1 year	**19,410**	18,062
	26,986	27,841

1 *Excluding capital commitments, which are separately disclosed below.*
2 *Based on original contractual maturity.*

The above table discloses the nominal principal amounts of third-party off-balance sheet transactions. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default.

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the group's annual credit review process.

The total of the nominal principal amounts is not representative of future liquidity requirements.

38 Contingent liabilities, contractual commitments and guarantees *(continued)*

b *Guarantees*

The group provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the group. These guarantees are generally provided in the normal course of the group's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which the group could be required to make at 31 December were as follows:

	31.12.2015		31.12.2014	
(in millions of euros)	***Guarantees in favour of third parties***	***Guarantees by the group in favour of HSBC entities***	*Guarantees in favour of third parties*	*Guarantees by the group in favour of HSBC entities*
Guarantee type				
Financial guarantees contracts [1]	**452**	**6**	698	6
Credit-related substitutes [2]	**2,279**	**106**	1,587	39
Other guarantees [3]	**1,652**	**105**	1,399	204
Total	**4,383**	**217**	3,684	249

1 *Financial guarantees include undertakings to fulfil the obligations of customers or group entities, should the obligated party fail to do so. The inter-company financial guarantees include a specific guarantee related to debt issued by the group for the benefit of other entities of the group and with respect to regulatory requirements. Financial guarantees also include stand-by letters of credit, which are financial guarantees given irrevocable obligations on the part of HSBC France to pay a third party when a customer fails to meet a commitment.*

2 *Credit-related substitutes include performance bonds and stand-by letters of credit related to particular transactions which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.*

3 *Other guarantees include bid bonds and other transaction-related guarantees which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.*

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the group's annual credit review process.

The group had no contingent liabilities or commitments in relation to joint ventures or associates, incurred jointly or otherwise.

The majority of the above guarantees have a term of more than one year. Those guarantees are subject to the group's annual credit review process.

When the group gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

Provisions with respect to the group's obligations under outstanding guarantees

(in millions of euros)	**31.12.2015**	31.12.2014
Acceptances and endorsements	**–**	–
Other items	**4**	4

39 Lease commitments

a *Accounting policy*

Assets leased to customers under agreements which transfer to counterparties 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 2015, HSBC France's operating lease commitments amount is EUR 10 million.

There were no future minimum sublease payments expected to be received under non-cancellable subleases.

c *Finance and operating 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.

Finance lease receivables

	31.12.2015			31.12.2014		
(in millions of euros)	***Total future minimum payments***	***Interest charges***	***Present value***	*Total future minimum payments*	*Interest charges*	*Present value*
Finance lease receivables:						
– no later than one year	**548**	**(75)**	**473**	458	(74)	384
– later than one year and no later than five years	**1,651**	**(197)**	**1,454**	1,670	(214)	1,456
– later than five years	**1,041**	**(114)**	**927**	1,099	(129)	970
Total	**3,240**	**(386)**	**2,854**	3,227	(417)	2,810

At 31 December 2015, unguaranteed residual values of EUR 124 million (2014: EUR 131 million) had been accrued, and there was no accumulated allowance for uncollectible minimum lease payments receivable.

39 Lease commitments *(continued)*

Operating lease receivables

(in millions of euros)	**31.12.2015**	31.12.2014
Future minimum lease payments under non-cancellable operating lease expiring		
No later than one year	**2**	1
Later than one year	**8**	16
Total	**10**	17

40 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 137 to 139 of the 2015 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 2015.

Anti-money laundering and sanctions-related matters

In December 2012, HSBC Holdings plc ("HSBC Holdings" or "HSBC"), the bank's ultimate parent company, HSBC North America Holdings ("HNAH") and HSBC Bank USA, N.A. ("HBUS") entered into agreements with US and UK government agencies regarding past inadequate compliance with the US Bank Secrecy Act ("BSA"), Anti-Money Laundering ("AML") and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year Deferred Prosecution Agreement with 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 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 the Financial Crimes Enforcement Network ("FinCEN") of the US Treasury Department and a separate civil money penalty order with the Office of the Comptroller of the Currency ("OCC"). 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 totaling USD 1.9 billion to US authorities. Under these agreements, HSBC Holdings has also certain obligations to ensure that the entities in the HSBC Group, including HSBC Bank plc and its subsidiaries (including HSBC France), comply with certain requirements. In 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. An independent compliance monitor (the 'Monitor') was appointed in 2013 under the agreements entered into with the DoJ and the FCA to produce annual assessments of the effectiveness of HSBC's AML and sanctions compliance programme. Additionally, the Monitor is serving as HSBC's independent consultant under the consent order of the FRB. In January 2016, the Monitor delivered his second annual follow-up review report as required by the US DPA.

Under the terms of the US DPA, upon notice and on opportunity to be heard, the DOJ has sole discretion to determine whether HSBC has breached the US DPA. Potential consequences of breaching the US DPA could include the imposition of additional terms and conditions on HSBC, an extension of the agreement, including its monitorship, or the criminal prosecution of HSBC, which could, in turn, entail further financial penalties and collateral consequences.

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 programme.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation relating to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

London interbank offered rates, European interbank offered rates and other benchmark interest rate investigations and litigation

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

In May 2014, these HSBC entities received a Statement of Objections from the European Commission (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 to the Commission's Statement of Objections in March 2015. The hearing before the Commission took place in June 2015.

In November 2013, HSBC (HSBC Holdings plc and HSBC Bank pcl, but not HSBC France) and other panel banks were also named as defendants in a putative class action filed in the US District Court for the Southern District of New York on behalf of persons who transacted in euro futures contracts and other financial instruments allegedly related to Euribor. The complaint alleges, amongst other things, misconduct related to Euribor in violation of US antitrust laws, the CEA, and state law. The court previously stayed proceedings until May 2015. After the stay expired, the plaintiffs filed an amended complaint. In October 2015, HSBC filed a motion to dismiss which remains pending.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of these private lawsuits. Based upon the information currently available, it is possible that any liabilities that might arise as a result of the claims in these actions could be significant.

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.

Following the oral hearing, the Commission decided in December 2015 to close the case against all 13 investment banks, including all of the HSBC entities. The Commission's investigation relating to Markit and ISDA is on-going.

41 Structured entities

a *General policy*

A structured entity is an entity designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. Thus, these entities have a limited scope of activities and a well-defined purpose.

Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 1.

HSBC France is involved directly or indirectly with structured entities mainly through securitisation of financial assets, conduits and investment funds.

Group arrangements that involve structured entities are authorised centrally when they are established to ensure appropriate purpose and governance. The activities of structured entities administered by the group are closely monitored by senior management. The HSBC France group has involvement with both consolidated and unconsolidated structured entities, which may be established by the group or by a third party, detailed below.

Securitisations

HSBC France uses structured entities to securitise customer loans and advances that it has originated in order to diversify its sources of funding for asset origination and for capital efficiency purposes. The loans and advances are transferred by HSBC France to the structured entities for cash or synthetically through credit default swaps, and in return, the structured entities issue debt securities to investors.

HSBC France group managed funds

The HSBC France group has established a number of money market, and non-money market funds in order to offer its customer investment opportunities. When HSBC France is deemed to be acting as principal rather than agent in its role as investment manager, HSBC France will control and hence consolidate these funds.

Non-HSBC France Group managed funds

HSBC France purchases and holds 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.

The amount of assets transferred to and income received from such sponsored entities during 2015 and 2014 was not significant.

Other

HSBC France also enters into a number of transactions in the normal course of business, including asset and structured finance transactions where it has control of the structured entity.

41 Structured entities *(continued)*

b *Consolidated structured entities by HSBC France*

Total assets of the HSBC France group's consolidated structured entities, split by entity type.

(in millions of euros)	*Securiti-sations*	*HSBC France group managed funds*	*Other*	*Total*
At 31 December 2015	**–**	**1,826**	**4,479**	**6,305**
At 31 December 2014	243	2,414	4,004	6,661

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)[2]	*Group managed funds*	*Non-group managed funds*	*Other*	*Total*
At 31 December 2015				
Total assets	**44**	**135**	**2**	**180**
Group interest – assets:				
Cash	**–**	**–**	**–**	**–**
Trading assets	**–**	**–**	**–**	**–**
Financial assets designated at fair value	**2**	**1**	**–**	**3**
Derivatives	**–**	**–**	**–**	**–**
Loans and advances to customers	**–**	**–**	**–**	**–**
Loans and advances to banks	**–**	**–**	**–**	**–**
Financial investments	**–**	**–**	**–**	**–**
Other assets	**–**	**–**	**–**	**–**
Total assets in relation to the group's interests in the unconsolidated structured entities	**2**	**1**	**–**	**3**
Group interest – liabilities:				
Customer accounts	**–**	**–**	**–**	**–**
Total liabilities in relation to the group's interests in the unconsolidated structured entities	**–**	**–**	**–**	**–**
The group's maximum exposure	**2**	**1**	**–**	**3**
Total income from the group interests[1]	**–**	**–**	**–**	**–**
At 31 December 2014				
Total assets	31	241	3	275
Group interest – assets:				
Cash	–	–	–	–
Trading assets	–	–	–	–
Financial assets designated at fair value	3	1	–	4
Derivatives	–	–	–	–
Loans and advances to customers	–	–	–	–
Loans and advances to banks	–	–	–	–
Financial investments	–	–	–	–
Other assets	–	–	–	–
Total assets in relation to the group's interests in the unconsolidated structured entities	3	1	–	4
Group interest – liabilities:				
Customer accounts	–	–	–	–
Total liabilities in relation to the group's interests in the unconsolidated structured entities	–	–	–	–
The group's maximum exposure	3	1	–	4
Total income from the group interests[1]	–	–	–	–

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.*
2 *Figures presented now in millions of euros.*

42 Related party transactions

The ultimate parent company of the group is HSBC Holdings plc, which is incorporated in England.

Copies of the Group financial statements may be obtained from the following address:
HSBC Holdings plc
8 Canada Square
London
E14 5HQ

All transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

a *Transactions, arrangements and agreements involving Key Management Personnel*

The table below sets out transactions which fall under IAS 24 'Related Party Disclosures' between HSBC France and the Key Management Personnel of HSBC France and on one hand, their respective spouses and children living in the family home, and on the other hand, controlled companies.

(in thousands of euros)	**31.12.2015** Number of persons	**31.12.2015** Highest balance during the year[1]	**31.12.2015** Balance at 31 December[1]	31.12.2014 Number of persons	31.12.2014 Highest balance during the year[1]	31.12.2014 Balance at 31 December[1]
Loans	**19**	**78,861**	**19,502**	18	24,149	25,267
Credit cards	**19**	**107**	**26**	18	83	32
Guarantees	**19**	**10,112**	**10,112**	18	7,490	7,490

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)	**31.12.2015**	31.12.2014
Short-term employee benefits	**165**	184
Post-employment benefits	**160**	165
Other Long-term benefits	**–**	–
Termination benefits	**178**	217
Share-based payment	**1,659**	2,373
Total	**2,162**	2,939

Directors and other Key Management Personnel shareholdings and options:

	31.12.2015[1]	31.12.2014[1]
Number of options under employee share plans over HSBC Holdings plc held by Directors and other Key Management Personnel	**–**	–
Number of shares held by Directors and other Key Management Personnel beneficially[2]	**1,802,227**	1,606,446

1 *The number of key management personnel (including Directors and executive employed) were seven persons at 31 December 2015. Executive employees were not included at 31 December 2014.*
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 35 to 37).

Consolidated financial statements (continued)

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 group and fellow subsidiaries of the HSBC Group.

(in millions of euros)	2015 Highest balance during the year	2015 Balance at 31 December	2014 Highest balance during the	2014 Balance at 31 December
Assets				
Trading assets	**4,753**	**888**	7,310	626
Derivatives	**24,867**	**17,906**	31,317	19,951
Loans and advances to banks	**1,162**	**809**	1,901	1,901
Loans and advances to customers	**222**	**186**	67	–
Reverse repurchase agreement – non trading	**3,758**	**1,105**	6,880	3,404
Financial investments	**348**	**313**	347	346
Other assets	**340**	**280**	309	289
Prepayments and accrued income	**91**	**47**	101	46
Financial asset designated at fair value	**462**	**395**	677	453
Liabilities				
Deposits by banks	**1,956**	**566**	1,308	558
Customer accounts	**87**	**67**	100	89
Repurchase agreement – non trading	**9,962**	**5,360**	13,907	8,419
Trading liabilities	**7,960**	**3,897**	6,317	1,227
Derivatives	**24,164**	**14,290**	20,938	19,541
Other liabilities	**216**	**170**	210	210
Accruals and deferred income	**136**	**124**	114	
Financial liabilities designated at fair value	**–**	**–**	–	90
Subordinated liabilities	**260**	**260**	260	260
Guarantees	**290**	**217**	398	249
Income Statement				
Interest income[1]		**43**		64
Interest expense[1]		**14**		9
Fee income		**87**		67
Fee expense		**99**		78
Gains less losses from financial investments		**–**		–
Other operating income		**–**		–
Dividend income		**–**		–
General and administrative expenses		**88**		79

1 *Including interests on trading assets and trading liabilities for EUR 2.5 million in 2015 (2014: EUR 0.1 million).*

43 Audit fees

(in thousands of euros excluding VAT)	PwC in 2015 KPMG in 2014				BDO France – Léger & Associés				Others			
	Amount		*%*		*Amount*		*%*		*Amount*		*%*	
	2015	*2014*	***2015***	*2014*	***2015***	*2014*	***2015***	*2014*	***2015***	*2014*	***2015***	*2014*
Audit												
Statutory audit, certification, examination of parent company and consolidated accounts	**1,607**	1,439	**67%**	64%	**634**	552	**95%**	98%	**–**	67		100%
– issuer	**1,102**	898	**–**	–	**388**	388	**–**	–	**–**	–		–
– fully-consolidated subsidiaries	**505**	541	**–**	–	**246**	164	**–**	–	**–**	67		–
Related assignments	**801**	807	**33%**	36%	**35**	12	**5%**	2%	**44**	–	**100%**	–
– issuer	**436**	478	**–**	–	**22**	–	**–**	–	**44**	–		–
– fully-consolidated subsidiaries	**369**	329	**–**	–	**13**	12	**–**	–		–		–
Sub-total	**2,412**	2,246	**100%**	100%	**747**	564	**100%**	–	**44**	67	**100%**	100%
Other services												
Legal, tax, social		–		–		–		–		–		–
Other (if > 10 per cent of audit fees)		–		–		–		–		–		–
Sub-total		–		–		–		–		–		–
Total	**2,412**	2,246	**100%**	100%	**747**	564	**100%**	100%	**44**	67	**100%**	100%

44 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 2015 financial statements.

Consolidated financial statements (continued)

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

Year ended 31 December 2015

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

BDO France – Léger Et Associés
113, rue de l'Université
75007 Paris

HSBC FRANCE
103, avenue des Champs-Elysées
75419 Paris Cedex 08

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended 31 December 2015, on:

– the audit of the accompanying consolidated financial statements of HSBC France;

– the justification of our assessments;

– the specific verification 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 2015 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.

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 litigation related to its activities. We have examined the procedures in your group allowing them identified, measured and accounted for. We ensured that possible uncertainties identified during the implementation of these procedures were properly described in note 40 to the financial statements.
- 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.
- Your company reviewed in 2015 several long-term assumptions PVIF model as shown in the notes 1.g and 18.c of the consolidated financial statements. Our work consisted in assessing the appropriateness of these changes, their correct application and appreciate the information in the consolidated financial statements regarding these changes.

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.

Neuilly sur Seine and Paris, on the 3 March 2016

The statutory auditors

PricewaterhouseCoopers Audit	BDO France – Léger & Associés
Nicolas Montillot Partner	Fabrice Chaffois Partner

Parent company financial statements

Balance sheets 2015-2014

ASSETS

(in thousands of euros)	Notes	31.12.2015	31.12.2014
Cash and amounts due from central banks and post office banks		**127,584**	215,276
Treasury bills and money-market instruments	4	**29,743,007**	34,484,932
Loans and advances to banks	2	**27,309,384**	32,809,408
Loans and advances to customers	3	**50,628,084**	52,293,914
Bonds and other fixed income securities	4	**12,842,711**	8,486,764
Equities and other variable income securities	4	**50,996**	18,731
Investments in subsidiaries and equity securities held for long-term	5	**93,345**	89,260
Interests in affiliated parties	5	**1,573,085**	1,642,173
Finance leases	7	**407,756**	341,520
Intangible fixed assets	6	**245,592**	244,680
Tangible fixed assets	7	**200,284**	216,030
Other assets	9	**21,157,516**	25,818,360
Prepayments and accrued income	10	**46,273,813**	138,403,630
TOTAL ASSETS		**190,653,157**	295,064,678
Off-balance sheet items			
Financing commitments given	21	**24,844,937**	23,389,566
Guarantees and endorsements given	21	**4,702,406**	4,044,246
Securities commitments (other commitments given)		**30,693,570**	28,307,482

LIABILITIES

(in thousands of euros)	Notes	31.12.2015	31.12.2014
Central bank, CCP		**21,239**	104
Due to credit institutions	11	**35,993,572**	40,432,643
Customer accounts	12	**46,279,400**	52,394,114
Debt securities in issue	13	**16,349,074**	14,016,031
Other liabilities	15	**42,140,129**	44,730,100
Accruals and deferred income	16	**44,181,238**	137,645,839
Provisions for liabilities and charges	14	**376,002**	387,467
Subordinated liabilities	17	**276,382**	291,465
Share capital	18	**337,189**	337,189
Additional paid-in capital	19	**16,139**	16,139
Reserves	19	**1,042,891**	1,042,891
Special tax-allowable reserves	19	**8,560**	19,665
Retained earnings[1]	19	**3,600,645**	3,357,913
Net profit of the year	19	**280,891**	393,118
Interim dividend	19	**(250,194)**	–
TOTAL LIABILITIES		**190,653,157**	295,064,678
Off-balance sheet items			
Financing commitments received	21	**1,852,965**	3,549,574
Guarantees and endorsements received	21	**12,797,181**	11,722,453
Securities commitments (other commitments received)		**26,861,358**	30,747,021

1 *Before proposed appropriation submitted to Annual General Meeting's approval.*

The euro conversion of foreign currency denominated balance sheet amounted to EUR 25.7 billion at 31 December 2015 and to EUR 34.7 billion at 31 December 2014.

Profit and loss accounts 2015-2014

(in thousands of euros)	*Notes*	**31.12.2015**	31.12.2014
Income/(Expenses)			
Interest and similar income	23	**1,804,900**	1,639,412
Interest and similar expenses	23	**(835,450)**	(603,562)
Finance leases income		**110,753**	61,451
Finance leases expenses		**(108,597)**	(61,106)
Income from equities and other variable instruments	24	**77,059**	96,346
Commissions received	25	**771,264**	751,260
Commissions paid	25	**(194,508)**	(170,142)
Dealing profits	26	**222,432**	318,406
Gains or losses on available-for-sale securities	27	**19,511**	21,684
Other banking operating income		**14,510**	14,032
Other banking operating expenses		**(5,966)**	(3,477)
Net banking operating income		**1,875,908**	2,064,304
General operating expenses	28	**(1,410,172)**	(1,374,174)
Depreciation, amortisation and impairment of fixed assets		**(53,572)**	(49,860)
Gross operating income		**412,164**	640,270
Cost of risk	8	**(115,964)**	(119,061)
Net operating income		**296,200**	521,209
Gains or losses on disposals of long term investments	29	**11,928**	(7,490)
Profit before tax		**308,128**	513,719
Exceptional items		**–**	(5)
Income tax	30	**(38,342)**	(121,061)
Gains and losses from regulated provisions		**11,105**	465
Net income		**280,891**	393,118

Statement of reported net profit and movements in shareholders' funds

(Recommendation of the Stock Exchange Commission – Bulletin no. 79 of February 1976)

(in thousands of euros)	**31.12.2015**	31.12.2014
Net profit for the year		
– total	**280,890.7**	393,117.6
– per share (in euros) [1,2]	**4.17**	5.83
Movements in shareholders' funds (excluding the net profit of 2015)		
(after appropriation of 2014 net profit)		
– change in revaluation difference	**–**	(78.9)
– transfer to reserves and change in retained earnings	**242,731.2**	211,334.6
– allocation of net profit for the previous year	**393,117.6**	331,373.9
– appropriation of net profit	**(150,386.4)**	(120,039.3)
– change in revaluation reserve and special tax-allowable reserves	**(11,105.3)**	(463.2)
Change in shareholders' funds	**231,625.9**	210,792.5
– per share (in euros) [1,2]	**3.43**	3.13
Proposed dividend		
– total	**279,867.0**	150,386.4
– per share (in euros) [1,2]	**4.15**	2.23

1 *Number of shares outstanding at year end: 67,437,827 in 2015 and 2014.*
2 *Based on the weighted average number of shares outstanding, dividend per share amounted to EUR 4.15 in 2015 (67,437,827 shares) and EUR 2.23 in 2014 (67,437,827 shares).*

Parent company financial statements (continued)

Appropriation of net profit

(in thousands of euros)	31.12.2015	31.12.2014
Results available for distribution		
– retained earnings	**3,600,645**	3,357,913
– net profit for the year	**280,891**	393,118
TOTAL (A)	**3,881,536**	3,751,031
Appropriation of income		
– dividends	**279,867**	150,386
– legal reserve	**-**	-
– free reserve	**-**	-
TOTAL (B)	**279,867**	150,386
Retained earnings (A - B)	**3,601,669**	3,600,645

Five-year highlights

(Articles R. 225-81 and R. 225-102 of the French Commercial Code)

(in thousands of euros)	2015	2014	2013	2012	2011
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	67,437,827
Nominal value of shares in euros	**5**	5	5	5	5
Results of operations for the year					
Sales	**3,020,428**	2,902,591	3,062,914	3,263,800	3,316,395
Profit before tax, depreciation and provisions	**459,061**	697,821	643,612	799,099	146,388
Profit after tax, depreciation and provisions	**280,891**	393,118	331,374	601,190	26,504
Per share data *(in euros)*					
Profit after tax, but before depreciation and provisions	**6.0**	8.6	7.9	8.6	4.4
Profit after tax, depreciation and provisions	**4.2**	5.8	4.9	8.9	0.4
Dividend paid per ordinary share, eligible as of 1 January	**4.15**	2.23	1.78	3.56	1.75
Employees (France)					
Number of employees[1]	**8,979**	9,144	9,198	9,424	9,860
Average number of employees (excluding employees available)[2]	**9,056**	9,158	9,207	9,645	9,748
Salaries and wages	**528,628**	533,636	553,982	559,888	577,016
Employee benefits	**258,673**	257,461	266,903	289,322	244,808
Payroll and other taxes	**59,656**	69,723	59,794	62,784	72,650
Incentive schemes and/or employee profit-sharing scheme[3]	**25,260**	27,237	37,520	–	29,560

1 *Banking status employees, registered as at 31 December of each year.*
2 *Of which 6,165 executives and 2,891 non-executives in 2015; of which 6,194 executives and 2,964 non-executives in 2014; of which 6,202 executives and 3,005 non-executives in 2013; of which 6,402 executives and 3,243 non-executives in 2012; of which 6,322 executives and 3,426 non-executives in 2011.*
3 *Based on previous year's profits.*

List of equity shares and debt securities held at 31 December 2015 (excluding trading securities)

Held-on maturity, available-for-sale and portfolio activity securities

(in thousands of euros)	31.12.2015
A – Held-to-maturity securities	**270,496**
Debt securities	**270,496**
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	**270,200**
Accrued interest	**296**
B – Available-for-sale and portfolio activity securities	**13,300,031**
Debt securities	**13,249,035**
Treasury bills and other eligible bills	**67,622**
Other public sector securities	**8,548,369**
Money market instruments	–
Commercial paper	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Asset-backed securities	–
Bonds and similar	**4,557,554**
Negotiable medium-term notes issued by banks	–
Accrued interest	**75,490**
Equity shares	**50,996**
Equity shares and similar	**50,996**
Mutual fund units	–
TOTAL HELD-TO-MATURITY, AVAILABLE-FOR-SALE AND PORTFOLIO ACTIVITY SECURITIES	**13,570,527**

Interests in related parties, other participating interests and long-term securities

(in thousands of euros)	31.12.2015
A – Other participating interest and long-term securities	**93,345**
Securities listed on a recognized French exchange	**252**
Unlisted French securities	**93,093**
Foreign securities listed on a recognised French exchange	–
Foreign securities listed elsewhere	–
Unlisted foreign securities	–
Accrued income	–
B – Interests in related parties	**1,573,085**
Listed French securities	–
Unlisted French securities	**1,553,690**
Listed foreign securities	–
Unlisted foreign securities	**19,395**
Accrued income	–
TOTAL INTERESTS IN RELATED PARTIES, OTHER PARTICIPATING INTERESTS AND LONG-TERM SECURITIES	**1,666,430**

Parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2015

In accordance with the CNC opinion (Avis no. 2010-11) for the application of article L. 511-45 of the French Monetary and Financial Code, HSBC France does not hold direct or indirect investments in non-cooperative countries or territories.

(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) 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Housing Investment company	EUR113,250	EUR2,476	100.00
HSBC Factoring (France) 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Factoring	EUR9,240	EUR71,914	100.00
Société Française et Suisse 64, rue Galilée – 75008 Paris (France)	Limited company (SA)	Investment company	EUR599	EUR7,730	100.00
FDM 6 39, rue de Bassano – 75008 Paris (France)	Simplified join-stock company (SAS)	Investment company	EUR139,053	EUR5,892	100.00
SAPC UFIPRO Recouvrement 39, rue de Bassano – 75008 Paris (France)	Limited liability company (SARL)	Commercial company	EUR7,619	EUR1,572	99.98
HSBC Epargne Entreprise (France) 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Employee savings	EUR16,000	EUR12,738	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	EUR67,048	93.67
HSBC Services (France) 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Commercial company	EUR2,442	EUR2,534	100.00
Valeurs Mobilières Elysées 109, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Investment company	EUR41,920	EUR8,208	100.00
SAF Palissandre 64, rue Galilée – 75008 Paris (France)	Simplified join-stock company (SAS)	Financial company	EUR42,033	EUR876	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 HSBCFrance [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	–	–	EUR115,243	EUR1,639	–	–
EUR39,236	EUR39,236	EUR1,452,803	–	–	EUR5,467	–	–
EUR60,384	EUR10,488	–	–	–	EUR117	–	–
EUR128,916	EUR128,915	–	–	–	EUR(20)	–	–
EUR16,260	EUR9,190	–	–	–	EUR36	–	–
EUR15,148	EUR15,148	–	–	EUR10,137	EUR(880)	–	–
EUR134,546	EUR134,546	EUR331	–	EUR215,502	EUR41,437	EUR53,636	Including interim dividend 2015
EUR36,877	EUR4,952	–	–	–	EUR(27)	–	–
EUR67,757	EUR67,757	EUR4,988	–	–	EUR4,986	EUR13,500	–
EUR41,617	EUR41,617	–	–	–	EUR(19)	EUR52	–

Parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2015 (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)	Limited company (SA)	Leasing	EUR168,528	EUR(24,594)	100.00
Société Financière et Mobilière 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Holding company	EUR40,000	EUR4,175	100.00
Foncière Elysées 103, avenue des Champs-Elysées – 75008 Paris (France)	Simplified join-stock company (SAS)	Real estate	EUR14,043	EUR14,146	100.00
Société Immobilière Malesherbes Anjou 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Real estate	EUR13,412	EUR12,098	100.00
Charterhouse Management Services Ltd 8 Canada Square – London E14 5HQ (United Kingdom)	Limited company under English law	Investment company	GBP10,000	GBP2,220	100.00
HSBC Real Estate Leasing (France) 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Real Estate Leasing	EUR38,255	EUR35,672	80.98
CCF & Partners Asset Management Ltd 8 Canada Square – London E14 5HQ (United Kingdom)	Limited company under English law	Investment holding	GBP5,000	GBP438	100.00
HSBC Assurances Vie (France) 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Insurance company	EUR115,000	EUR330,753	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 subsidiaries (aggregated)	–		–	–	–
b) Foreign subsidiaries (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		Loans and advances granted by HSBC France [1]	Guarantees given by HSBCFrance [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						
EUR281,756	EUR281,756	–	–	EUR17,241	EUR87,973	–	–
EUR84,053	EUR84,053	–	–	EUR144	EUR(11,571)	–	–
EUR44,478	EUR38,393	–	–	EUR2,084	EUR2,067	EUR1,432	–
EUR49,385	EUR31,799	–	–	EUR11,538	EUR2,747	–	–
EUR13,625	EUR13,625	–	–	EUR84	EUR32	–	–
EUR37,190	EUR37,190	–	–	EUR138,865	EUR9,683	EUR8,283	–
EUR5,770	EUR5,770	–	–	EUR20	EUR13	–	–
EUR513,982	EUR513,982	EUR270,000	–	EUR1,961,147	EUR62,515	–	–
EUR44	EUR44	–	–	–	–	EUR347	–
EUR1,818	EUR1,360	–	–	–	–	–	–
EUR4	EUR4	–	–	–	–	–	–
–	–	–	–	–	–	–	–

Parent company financial statements (continued)

Transactions with subsidiaries and other related parties

	31.12.2015	
(in millions of euros)	Subsidiaries	Other related parties
ASSETS		
Treasury bills and money-market instruments	–	6,565.8
Loans and advances to banks	2,955.7	3,667.6
Loans and advances to customers	124.6	505.7
Bonds and other fixed income securities	272.8	4,976.6
LIABILITIES		
Due to credit institutions	5,549.4	11,717.4
Customer accounts	935.1	76.1
Debt securities	–	–
Other liabilities	–	10,239.9
Subordinated liabilities	–	260.0
OFF-BALANCE SHEET ITEMS		
Financing commitments given	1,332.0	2,370.0
Guarantees and endorsements given	104.0	181.0
Securities commitments (other commitments given)	–	–

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2015 Highlights

Business review

In France and in Europe, 2015 faced a weak economic growth despite new support measures of The European Central Bank and the decrease of oil prices. Interest rates remained in a historically low level, and the equity market decreased after an increase in the first months of the year.

Net operating income was EUR 1,876 million in 2015, 9 per cent lower than in 2014. This change was mainly explained by the impact of historically low rates on margin deposits and unfavorable economic conjuncture that affected interest rate markets activities. In 2015, the bank noted significant amounts of renegotiations and early repayments of mortgages. The distribution of revenues remains balanced between the various businesses.

Operating expenses were EUR 1,410 million, 3 per cent higher than 2014 and were well managed but affected by the contribution to the Single Resolution Fund and by C3S tax.

Loan impairment charges were EUR 116 million compared to EUR 119 million in 2014. Profit before tax was EUR 308 million in 2015.

Profit attributable to shareholders was EUR 281 million compared to EUR 393 million in 2014. In respect of financial 2015, a dividend of EUR 280 million has been proposed to be distributed to shareholders (an interim dividend of EUR 250 million was paid in 2015).

On 31 December 2015, the balance sheet was EUR 190.7 billion compared to EUR 295.1 billion in 2014. This decrease is mainly explained by lower derivative positions in assets for EUR 92 billion and in liabilities for EUR 93 billion.

Establishment of the Single Resolution Fund

In order to provide the necessary resources that might be needed in the context of resolution procedure, a Single Resolution Fund has been established by the Banking Union Member States. HSBC France contribution amounted to EUR 54 million for 2015, of which EUR 38 million have been accounted in the income statement and EUR 16 million have been recorded in balance sheet under security deposits.

Significant emissions of HSBC France

HSBC France issued:

– on the 3 December 2015 a green bond for a nominal of EUR 500 million with a 5 years maturity;
– on the 27 November 2015 a senior floating rate note for a nominal of EUR 1 billion with a 4 years maturity;
– on the 2 October 2015 a senior floating rate note for a nominal of EUR 250 million with a 2 years maturity;
– on the 25 September 2015 a senior floating rate note for a nominal of EUR 1 billion with a 2 years maturity.

Targeted Longer-Term Refinancing Operations (TLTRO)

HSBC France participated to the TLTRO by EUR 1.4 billion in 2015, increasing its total participation to the TLTRO up to EUR 2.6 billion.

1 Principal accounting policies

The presentation of the 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 assessments after their first recognition of the 2014-03 ANC regulation on the depreciation, amortisation and impairment of assets.

HSBC France applies the component approach in recognising, depreciating and amortising fixed assets.

Operating and investment fixed assets

For operating and investment fixed assets, HSBC France adopted the components approach as a minimum floor using the following components, methods and useful lives:

Components	Periods and depreciation and amortisation methods
Infrastructure	
Building	25 and 50 years on a straight-line basis
Civil engineering works	25 years on a straight-line basis
Technical installations	
Air conditioning Ventilation Heating	10 years on a straight-line basis
Electrical installations	10 years on a straight-line basis
Telephone and electrical fittings	10 years on a straight-line basis
Security fittings	10 years on a straight-line basis
Fittings	
Improvements and internal fittings	10 years on a straight-line basis

Goodwill

Acquired goodwill is subject to impairment on the basis of objective indicators.

Other fixed assets

For other fixed assets, depreciation periods are determined according to the remaining useful lives of the assets concerned:

Components	Periods and depreciation and amortisation methods
Office equipment	5 years, reducing or straight-line basis
Furniture	5 to 10 years, reducing or straight-line basis
IT hardware	3 to 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.

Depreciation and amortisation of fixed assets leased under operating leases are recognised as an expense on finance lease or operating lease.

1 Principal accounting policies *(continued)*

In financial accounting, the financial contracts outstanding is substituted to net fixed assets leased. The difference between the outstanding amounts of financial assets and the net book value of fixed assets is represented by the unearned finance income.

b *Securities portfolio*

Securities transactions are recognised in accordance with the principles set out in articles 2311-1 to 2391-1 of 2014-07 ANC regulation.

Securities are categorised as follows:

– trading account securities;

– available-for-sale securities;

– held-to-maturity securities;

– portfolio activity securities;

– other long-term securities;

– interests in subsidiaries and associates.

Securities are recognised on the balance sheet at the date of settlement.

Trading account securities

Trading accounts securities are those securities traded on an active market originally acquired or sold with the intention that they will be resold or bought back within short timescale and are held for market activities or for the specialised management of the trading portfolio.

Trading securities are stated at cost (including accrued interest for fixed-income securities). At the balance sheet date, the securities are valued at market price, and changes in value are recognised through profit or loss.

Trading securities are measured mainly on the basis of quoted prices in an active market. However, if a market becomes inactive, the bank uses measurement techniques based on observable market inputs. In this case, an element of judgement is involved in determining fair value.

Available-for-sale securities

Available-for-sale securities are those securities not treated as trading account securities, neither portfolio activity securities nor as securities covered by articles 2351-1, 2351-2 and 2351-3 of 2014-07 ANC regulation, acquired for the purposes of income and liable to be resold within a relatively short timescale.

On the date of acquisition, they are recorded at cost price (excluding accrued income for fixed-income securities).

At the closing of the period, available-for-sale securities are valued individually at the lowest of their cost price or market value. The market value of equity and similar securities is represented by quoted prices at 31 December for listed securities and by probable trading prices for unlisted securities. The market value of fixed-income securities is the quoted price on the last working day of the period.

Unrealised losses give rise to the recognition of an impairment.

Realised or unrealised gains or losses on hedging instruments are taken into account by instrument for the calculation of any impairment.

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 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.

1 Principal accounting policies *(continued)*

Recognition of gains and losses

Gains or losses on trading securities are recorded under the heading "Dealing profits".

Gains or losses on sale and changes in impairment of available-for-sale securities are recorded under the heading "Gains or losses on available-for-sale securities".

Concerning the other securities, gains or losses on sale and impairment charges are recognised under the heading "Gains or losses on disposals of long-term investments" in the income statement, except for capital gains realised as part of restructuring operations, which are recognised as exceptional items.

Sale and repurchase agreements

Stock lending or temporary acquisition, governed for legal purposes by law no. 93-1444 of 31 December 1993, amended by law no. 2003-1311 of 30 December 2003, referred to as stock repurchase agreements, have no effect on the composition and valuation of the securities portfolio. For accounting purposes, in accordance with article 2411-1 to 2412-4 of 2014-07 ANC regulation, they are treated as financing transactions, with the counter-entries to cash movements being receivables or payables, depending on whether they involve stock lending or borrowing. Income and expenses received or borne by the transferee or transferor are recognised as interest.

Securities received or given under repurchase agreements

Repurchase transactions that do not fall within the scope of law no. 93-1444 are categorised under this heading in the balance sheet. Their treatment for accounting purposes is similar to that described above for securities under sale and repurchase agreements.

Similar treatment is applied to "Buy and sell back" and "Sell and buy back" transactions.

Bonds versus bonds

Bonds versus bonds transactions are recognised in accordance with the principles set out in the article 2361-2 of 2014-07 ANC regulation.

Off-balance sheet repos and reverse repos

In accordance with articles 2371-4 "measured at cost" of 2014-07 ANC regulation, repo transactions recorded in off-balance sheet between the trade date and the settlement/delivery date are shown under "Securities Commitments".

c *Loans and advances*

Loans assessed individually

Non-performing and impaired loans

Non-performing loans and impaired loans are recorded in accordance with the article 2222-1 of 2014-07 ANC regulation.

Non-performing loans include all types of receivables, even receivables with collateral, with a probable or certain risk of non-recovery, in full or in part.

Loans and receivables are classified according to HSBC France's internal loan rating system. Performing loans have a rating of between 1 and 8, non-performing loans have a rating of 9 and impaired loans, including unrecoverable loans not yet written off, have a rating of 10. External ratings do not have a direct influence on loan classification, except that a loan whose external rating reflects a position of default will be classified as "non-performing" other than in exceptional circumstances.

The following are therefore categorised as non-performing loans:

– receivables overdue for more than three months for all types of loans and equipment leases, with this period rising to more than six months for property loans or leases and more than nine months for loans to local government bodies;

1 Principal accounting policies *(continued)*

- receivables with known risk criteria;
- receivables which, before expiry of these time limits, appear to be at risk (insolvent administration, liquidation or personal bankruptcy, etc.);
- receivables deriving from debt restructuring for which the debtor is again in default.

HSBC France applies the provisions of articles 2221-2 of 2014-07ANC 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 loan.

In application of the articles 2221-8 of 2014-07 ANC regulation, impaired loans are those for which the prospect of recovery is very remote and for which a write-off is being considered. These include receivables which are long overdue or for which the contract has been terminated in case of leasing, and also receivables that have been categorised as non-performing for more than one year, unless final write off is not being considered because of information on the prospects for recovery available at that stage. Interests on impaired loans are not recognised through profit or loss until the date of actual payment.

Reclassification into performing loans

In application of the article 2221-5 of the 2014-07 ANC regulation, a loan that has been classified as non-performing may be reclassified as performing when the original scheduled payments have been resumed without further incident and, in the case of restructured loans, the counterparty risk has been eliminated.

Risk mitigation instruments

The bank uses the customary risk mitigation instruments including guarantees and collateral (which is re-measured at least annually depending on its nature) and, to a minor extent, the purchase of credit default swaps (CDS). In this latter case, the risk mitigation impact is only recognised if the CDS meets the relevant regulatory conditions for recognition (term, currency, etc.).

Recognition of gains and losses

Charges for impairment against non-performing and impaired loans, included in the calculation of the banking result, are determined annually on the basis of the risk of non-recovery assessed by analysing each loan individually. In application of the article 2231-1 of the 2014-07 ANC regulation, impairment of non-performing and impaired loans has been calculated on the basis of the difference between the net present value of expected future recoveries and the carrying amount of the loan. Impairment may not be less than the amount of unpaid, recognised interest on the loan.

Expected future cash flows are determined on the basis of an individual review of the customer's position, including the existence or probability of a collective procedure against the customer, as well as the value and liquidity of any guarantees or collateral. The discount rate used is the original effective interest rate for fixed-rate loans and the last known contractual rate for variable-rate loans.

In the income statement, charges and releases of provisions, losses on irrecoverable receivables and recoveries on receivables that had been written off are recognised in the "Cost of risk" line.

Parent company financial statements (continued)

1 Principal accounting policies *(continued)*

Loans assessed on a portfolio basis

Non-performing loans are not measured on a portfolio basis. Impairment is individually assessed.

Discount on restructured debt

In application of articles 2221-5 and 2231-3 of the 2014-07 ANC regulation, HSBC France applies a specific system for dealing with restructured debt, when they have a significant impact.

On restructuring, any waived principal and interest, accrued or due, is written off.

Moreover, at the time of restructuring, a discount is provided for on the restructured debt for the difference between the present value of initially anticipated contractual cash flows and the present value of future flows of capital and interest arising from the restructuring plan. The discount rate used is the original effective interest rate for fixed interest loans, or the most recent effective rate before the restructuring calculated in accordance with contractual terms for floating-rate loans.

This discount is recognised in the net cost of risk on restructuring and is then written back through net interest income over the remainder of the period that the debt has to run.

Application of the effective interest rate

HSBC France has applied the articles 2111-1 to 2171-1 of the 2014-07 ANC regulation. HSBC France has recognised lending fees and costs on a time-apportioned basis, with effect to 1 January 2010.

d *Due to credit institutions and customer accounts*

All liabilities towards banks and customers are recognised at amortised cost. These headings include repurchase transactions. Accrued interest on these liabilities is recorded in the balance sheet in an accrued interest account.

e *Debt securities in issue*

Debt securities are classified according to their nature: certificates of deposit, interbank market securities, tradable debt securities, bonds and similar securities. This category does not include any subordinated securities, which are recorded under subordinated debt.

Accrued unpaid interest on these securities is recorded in the balance sheet in an accrued interest account with a corresponding amount recognised in profit or loss.

Issue or redemption premiums on bonds are amortised on an actuarial basis over the life of the bond. Issue expenses are deferred over the life of the bond on a straight-line basis.

f *Provisions*

In accordance with the article 3222 of 2014-03 ANC regulation, provisions are registered where it is probable that an outflow of resources, without an at least equivalent inflow being expected from the beneficiary (whether known or not), will be required to extinguish a legal or implicit obligation arising from past events and where the amount of the obligation can be reliably estimated.

Retirement and other benefit liabilities

As of 1 January 2004, HSBC France has opted to adopt ANC recommendation 2013-02 on the rules for recognising and measuring obligations for retirement and similar benefits.

HSBC France provides some of its employees post-employment benefits such as pension plans, termination payments.

1 Principal accounting policies *(continued)*

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.

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 2012 firstly, to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the "Group Performance Share Plan", which aim the Senior Executives. In this context, the French sub-plan (Schedule 5 of the new rules) has also been subject to a review to comply with local social and tax rules.

Since 2006, the HSBC Group set up free share award plans for certain employees, under which a fixed number of HSBC Holdings plc shares are awarded. The shares vest in the employees' ownership two or three years after they are awarded, conditional on continued employment within the HSBC Group.

No cover arrangements were put in place for the plans granted in 2010 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.

Parent company financial statements (continued)

1 Principal accounting policies *(continued)*

In accordance with the article 624-1 of the 2014-03 ANC regulation:

- the expense is recognised on a straight-line basis over the vesting period with the counter-entry going to a provision account which is cleared on final employee vesting. The measurement of the expense is based on assumptions on the number of beneficiaries leaving and on performance conditions;
- the provision recognised is based on the closing quoted price of the HSBC Holdings plc stock.

HSBC Group share option plans

The HSBC Group Share Option Plan was a long-term incentive plan available to certain Group employees between 2000 and 2005. The aim of the plan was to raise awareness of the best-performing employees about value-creation objectives for shareholders. The options were awarded at market value and could normally be exercised from the third year and up to the tenth anniversary of being awarded, subject to vesting conditions.

HSBC Group share options without performance conditions were granted between 2001 and 2005 to certain HSBC Group employees.

Finally, share options with performance conditions were granted in 2005 under the HSBC Group Share Plan to Senior Executives in France. The award of these options is combined with a bonus to be paid at the exercise date of the options for an amount equal to the exercise price of the options awarded. These share options are subject to a double Corporate Performance Condition, which consists of an absolute Earnings Per Share measure and a Total Shareholder Return measure, based on the HSBC Group's ranking against a comparative group of 28 major banks. The options vest on expiry of a period of three years and can be exercised up to the fourth anniversary of the date of grant, after which they become void.

g *Foreign exchange position*

With the exception of structural foreign exchange positions valued at historical cost, the asset and liability foreign exchange positions are restated at the exchange rates applicable at the period end. The resulting gains or losses are included in operating banking income or expenses.

h *Forward foreign exchange contracts*

Forward exchange contracts that are open at the closing of the period and hedged with spot transactions are valued at the spot rate at the period end. Differences between spot and forward rates calculated on close out are recorded on a time-apportioned basis in the income statement. Outright forward exchange contracts and those hedged by forward instruments are restated at the rate for the remaining period.

i *Financial derivatives*

The HSBC France group operates on all financial instruments markets, whether on behalf of its customers or for the purposes of hedging balance sheet items or for arbitration purposes.

Interest-rate and currency options

Options are contracts reached between two parties by which one, the buyer, is granted the right to buy or to sell an actual asset or another financial instrument called an "underlying asset" at the expiry of a certain time period, at a price agreed at the time the contract was concluded.

Option contracts result in a premium being paid by the buyer to the seller.

1 Principal accounting policies *(continued)*

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, in accordance with the above-mentioned article 4 of CRBF regulation 88-02 as amended, interest-rate risk affecting an item or a group of similar items or credit risk in the case of Credit Default Swaps (CDS);

– hedge and manage the entity's overall interest rate risk on assets, liabilities and off-balance sheet items;

– 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 many market activities, the contracts negotiated by HSBC France are revalued at market conditions after the date of the trade.

The notionals are recorded as off-balances-sheet items.

Counterparty risk on derivatives

The fair value of contracts has to take into account counterparty risk linked to contracts.

The adjustment to value for counterparty risk is at least equal to the cost in equity determined under the terms of articles 2525-3 of 2014-07 ANC regulation.

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 page 191).

2 Loans and advances to banks

(in millions of euros)	**31.12.2015**	31.12.2014
On demand deposits[1]	**12,539.6**	14,848.7
Term deposits	**14,754.4**	17,949.4
≤ 3 months	**9,257.5**	8,232.7
> 3 months and ≤ 1 year	**1,390.9**	5,477.5
>1 year and ≤ 5 years	**3,799.0**	3,885.9
>5 years	**307.0**	353.3
Accrued interest	**15.4**	11.3
Total	**27,309.4**	32,809.4
Of which securities received under repurchase agreements	***19,643.5***	*23,781.8*
Of which subordinated loans	***61.9***	*61.9*

1 *Including overnight stock lending.*

3 Customer loans

Outstanding at 31 December

Breakdown of outstanding loans by type

(in millions of euros)	**31.12.2015**	31.12.2014
Commercial loans	**1,058.3**	430.0
Ordinary accounts – debit balances	**1,512.0**	1,487.0
Other customer facilities[1]	**48,057.8**	50,376.9
Total	**50,628.1**	52,293.9
Of which eligible loans for European Central Bank or Banque de France refinancing	***14,118.8***	*14,178.1*
1 *Including unspecified term lending.*	–	*20.3*

3 **Customer loans** *(continued)*

Breakdown of outstanding loans by quality

(in millions of euros)	**31.12.2015** Performing loans	Non-performing loans	Impairment on non-performing loans	Total	31.12.2014 Total
Retail loans	**12,687.3**	**259.4**	**(82.3)**	**12,864.4**	12,139.6
Financial customer loans	**673.9**	**4.9**	**(3.4)**	**675.4**	704.0
Non-financial customer loans	**20,099.5**	**1,015.1**	**(511.5)**	**20,603.1**	18,921.5
Securities received under repurchase agreements	**16,411.1**	–	–	**16,411.1**	20,451.2
Accrued interest	**74.1**	–	–	**74.1**	77.6
Total	**49,945.9**	**1,279.4**	**(597.2)**	**50,628.1**	52,293.9
Of which subordinated loans				***1.0***	*7.1*
Of which gross non-performing loans				***579.7***	*732.5*
Of which gross impaired loans				***699.7***	*741.1*
Of which impairment on gross non-performing loans				***(148.0)***	*(132.7)*
Of which impairment on gross impaired loans				***(449.1)***	*(472.0)*
Of which restructured loans				***243.6***	*402.6*

Breakdown of outstanding loans by remaining contractual maturity

(in millions of euros)	**31.12.2015**	31.12.2014
Repayable on demand[1]	**2,192.9**	8,798.5
Term deposits	**48,361.1**	43,417.8
≤ 3 months	**16,652.5**	14,818.4
> 3 months and ≤ 1 year	**4,743.8**	6,025.4
>1 year and ≤ 5 years	**14,926.6**	11,133.2
>5 years	**12,038.2**	11,440.8
Accrued interest	**74.1**	77.6
Total	**50,628.1**	52,293.9

1 *Including overnight stock lending*

Breakdown by business sector

(in millions of euros)	**31.12.2015**	31.12.2014
Retail	**13,282.0**	12,858.7
Industrial	**1,813.5**	1,631.3
Commercial and Services	**8,955.3**	8,170.9
Real estate	**5,989.6**	5,956.0
Finance	**17,872.2**	22,100.6
Others	**2,715.5**	1,576.4
Total	**50,628.1**	52,293.9

Parent company financial statements (continued)

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities

(in millions of euros)	**31.12.2015** *Carrying amount*	31.12.2014 *Carrying amount*
Treasury bills and other eligible bills	**29,743.0**	34,484.9
Trading account securities	**21,081.5**	27,909.2
Available-for-sale securities	**8,616.0**	6,531.3
Held-to-maturity securities	**–**	–
Accrued interest	**45.5**	44.4
Debt securities	**12,842.7**	8,486.8
Trading account securities	**7,984.6**	5,001.5
– bonds and other quoted securities	**7,984.6**	5,001.5
– unquoted bonds, interbank market securities and tradable debt securities	**–**	–
Available-for-sale securities	**4,557.6**	2,990.9
– quoted bonds	**4,557.6**	2,990.9
– unquoted bonds, interbank market securities and tradable debt securities	**–**	–
Held-to-maturity securities	**270.2**	470.0
– quoted bonds	**270.2**	470.0
– unquoted bonds, interbank market securities and tradable debt securities	**–**	–
Accrued interest	**30.3**	24.4
Of which subordinated debt	***270.0***	*270.0*
Equity shares and similar & portfolio equities	**51.0**	18.7
Trading account securities	**–**	–
– quoted shares	**–**	–
– unquoted shares and similar	**–**	–
Available-for-sale securities	**7.7**	–
– quoted shares	**–**	–
– unquoted shares and similar	**7.7**	–
Portfolio activity securities	**43.3**	18.7
– quoted portfolio activity shares	**–**	–
– unquoted portfolio activity shares	**43.3**	18.7
Total	**42,636.7**	42,990.4

Breakdown by remaining contractual maturity of treasury bills and government bonds

(in millions of euros)	**31.12.2015**	31.12.2014
Treasury bills and other eligible bills		
≤ 3 months	**6,924.8**	4,095.5
> 3 months and ≤ 1 year	**2,996.0**	1,560.9
>1 year and ≤ 5 years	**10,345.4**	10,526.3
>5 years	**9,431.3**	18,257.8
Accrued interest	**45.5**	44.4
Total	**29,743.0**	34,484.9
Debt securities		
≤ 3 months	**5,061.6**	415.7
> 3 months and ≤ 1 year	**266.2**	499.4
>1 year and ≤ 5 years	**5,420.8**	5,063.6
>5 years	**2,063.8**	2,483.7
Accrued interest	**30.3**	24.4
Total	**12,842.7**	8,486.8

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)	**31.12.2015** *Net carrying amount*	*Estimated value*	31.12.2014 *Net carrying amount*	*Estimated value*
Treasury bills and other eligible bills	**8,616.0**	**9,031.8**	6,531.3	7,049.8
Debt securities	**4,557.6**	**4,663.3**	2,990.9	3,130.4
Equity shares and similar and other portfolio equities	**51.0**	**62.3**	18.7	20.6
Total available-for-sale and portfolio activity securities (excluding related receivables)	**13,224.6**	**13,757.4**	9,540.9	10,200.8

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 165 to 167.

Unrealised gains and losses in available-for-sale and portfolio business securities)

(in millions of euros)	**31.12.2015** **Before provisions**	**Provisions**	**Net amount**
Unrealised gains in available-for-sale and portfolio business securities[1]	**527.7**	**5.4**	**533.1**
– treasury bills and other eligible bills	**412.7**	**3.3**	**416.0**
– bonds and other fixed-income securities	**103.7**	**2.1**	**105.8**
– equity shares and similar & portfolio equities	**11.3**	**–**	**11.3**
Unrealised losses in available-for-sale and portfolio business securities[1]	**3.7**	**3.6**	**0.1**
– treasury bills and other eligible bills	**0.4**	**0.3**	**0.1**
– bonds and other fixed-income securities	**0.3**	**0.3**	**–**
– equity shares and similar & portfolio equities	**3.0**	**3.0**	**–**

1 *Available derivatives of partners cover EUR -455.5 million.*

Additional information on the securities given in compliance with ANC 2014-07 regulation dated 26 November 2014

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 134.2 million in 2015 and to EUR 18.4 million in 2014.

Total of securities assigned to another portfolio

No security was transferred from a portfolio to another portfolio in 2015 or in 2014.

Parent company financial statements (continued)

5 Investments in subsidiaries and equity securities held for long-term

(in millions of euros)	**31.12.2015** *Net carrying amount*	31.12.2014 *Net carrying amount*
Interests in subsidiaries and associates	**79.5**	78.7
Listed securities	**0.3**	0.4
– banks	**–**	–
– others	**0.3**	0.4
Non-listed securities	**79.2**	78.3
– banks	**45.0**	45.0
– others	**34.2**	33.3
Other long-term securities	**13.8**	10.6
Listed securities	**–**	–
– banks	**–**	–
– others	**–**	–
Non-listed securities	**13.8**	10.6
– banks	**–**	–
– others	**13.8**	10.6
Interests in group companies	**1,573.1**	1,642.2
Listed securities	**–**	–
– banks	**–**	–
– others	**–**	–
Non-listed securities	**1,573.1**	1,642.2
– banks	**572.0**	570.1
– others	**1,001.1**	1,072.1
Accrued interests	**–**	–
Total (including the 1976 statutory revaluation)	**1,666.4**	1,731.5

(in millions of euros)	**31.12.2015**	31.12.2014
Gross amounts at 1 January (excluding advances and accrued interests)	**1,891.9**	1,949.0
Changes in the year:		
– acquisitions of securities/share issues	**3.4**	–
– disposals/capital reductions[1]	**(105.4)**	(56.9)
– effect of foreign exchange differences	**1.0**	1.2
– other movements/merger	**–**	(1.4)
Gross amounts at 31 December (excluding advances and accrued interests)	**1,790.9**	1,891.9
Impairments at 1 January	**(160.4)**	(144.5)
Changes in the year:		
– new allowances	**(3.2)**	(18.0)
– release of allowances no longer required[2]	**39.1**	1.3
– other movements	**–**	0.8
– effect of foreign exchange differences	**–**	–
Impairment at 31 December	**(124.5)**	(160.4)
Accrued interests	**–**	–
Net book value including accrued interests	**1,666.4**	1,731.5

1 *Relate mainly to share capital decrease for VME for EUR 48.6 million and HSBC Services for EUR 19.1 million, the liquidation of ANTYCIP for EUR 0.4 million, the transfer of assets from COPARI to Foncière Elysées for EUR 36.4 million and various outputs of stocks for EUR 1.0 million.*

2 *Relate mainly to reversals of impairment for EUR 36.2 millions for COPARI following the tranfer of assets, for EUR 1.1 million for Société Française et Suisse and for EUR 0.8 million for Foncière Elysées.*

6 Intangible fixed assets

(in millions of euros)	**31.12.2015**	31.12.2014
Gross amounts at 1 January	**503.5**	497.0
Changes in the year:		
– transfers and other movements	**–**	–
– fixed asset acquisitions	**7.5**	6.8
– fixed asset disposals and other changes	**(0.1)**	(0.3)
Gross amounts value at 31 December	**510.9**	503.5
Amortisation at 1 January	**258.8**	252.5
Changes in the year:		
– charges for the period for amortisation and impairment	**6.5**	6.5
– transfers and other movements	**–**	–
– fixed asset sales, disposals and other changes	**–**	(0.2)
Amortisation at 31 December	**265.3**	258.8
Net book value of fixed assets at 31 December	**245.6**	244.7

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 2015, 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 and remains identical to the amount of 2014.

Concerning HSBC Private Bank France

At the end of 2015, the goodwill on merger, amounting to EUR 72.0 million, is fully attributed to purchased goodwill.

Parent company financial statements (continued)

7 Tangible fixed assets

(in millions of euros)	31.12.2015	31.12.2014
Gross amounts at 1 January	**805.2**	782.3
Changes in the year:		
– transfers and other movements	**–**	–
– fixed asset acquisitions	**31.7**	35.4
– fixed asset disposals and other changes	**(13.3)**	(12.5)
Carrying amount at 31 December	**823.6**	805.2
Depreciation at 1 January	**589.2**	558.1
Changes in the year:		
– charges for the period for depreciation and impairment	**46.9**	41.7
– transfers and other movements	**(0.1)**	–
– fixed asset disposals and other changes	**(12.7)**	(10.6)
Depreciation at 31 December	**623.3**	589.2
Carrying amount at 31 December	**200.3**	216.0

Breakdown of tangible fixed assets by type

(in millions of euros)	31.12.2015	31.12.2014
Operating land and buildings	**30.6**	11.9
Non-operating land and buildings	**2.6**	0.8
Other tangible assets	**167.1**	203.3
Carrying amount at 31 December	**200.3**	216.0

Leasing and renting with buy option

(in millions of euros)	31.12.2015	31.12.2014
Assets under construction	**3.4**	1.5
Gross values[1]	**602.8**	450.5
Amortisation	**(198.4)**	(110.5)
Related loans	**–**	–
Total	**407.8**	341.5

1 *Main assets in 2015: road assets for EUR 272 million, public building and construction for EUR 72,5 million, machine tools for EUR 46,5 million.*

At 31 December 2015, the financial outstanding amounts to EUR 369.1 million (EUR 314.0 million in 2014) and the negative unearned finance income before deferred tax to EUR 49.1 million (EUR 33.0 million in 2014).

8 Loan impairment

(in millions of euros)	*Balance at 31.12.2014*	*Charges*	*Utilised releases*	*Available releases*	*Other changes*	***Balance at 31.12.2015***
Impairment on interbank and customer non-performing loans (excluding doubtful interest)	604.8	177.5	(99.9)	(78.3)	(6.8)[1]	**597.3**
Impairment on securities	18.4	–	(17.8)	–	0.1	**0.7**
Provisions for commitments by signature	3.7	3.4	–	(2.8)	0.2	**4.5**
Total of impairment and provisions recognised in cost of risk	626.9	180.9	(117.7)	(81.1)	(6.5)	**602.5**

1 *Of which discounting effect on impaired loans recognised in net operating income* . . *(7.3)*
Of which effect on exchange rate variation . . . *0.5*

Loan impairment

(in millions of euros)	**31.12.2015**	31.12.2014
Net impairment charge for the period:		
– interbank and customer non-performing and impaired receivables (excluding doubtful interest)[1]	**(116.8)**	(114.7)
– counterparty risk on securities	**1.0**	(8.4)
– commitments by issuer[2]	**(2.1)**	(0.5)
– recoveries of amounts previously written off	**1.9**	3.3
Total cost of risk excluding country risk	**(116.0)**	(119.3)
Country risk	**–**	0.2
Total cost of risk[3]	**(116.0)**	(119.1)

1 *Of which unprovided losses on non-performing and impaired receivables*	***(17.4)***	*(18.0)*
2 *Of which unprovided losses*	–	–
3 *Of which losses hedged by provisions*	***(118.2)***	*(96.4)*

9 Other assets

(in millions of euros)	**31.12.2015**	31.12.2014
Securities transactions settlement accounts	**24**	391
Sundry debtors and other receivables	**21,134**	25,427
Total	**21,158**	25,818

10 Prepayments and accrued income

(in millions of euros)	**31.12.2015**	31.12.2014
Items in course of collection from other banks	**282**	360
Other prepayments and accrued assets[1]	**45,992**	138,044
Total	**46,274**	138,404

1 *Including mark-to-market on derivatives instruments for EUR 45,417 million in 2015 and EUR 127,883 million in 2014.*

11 Treasury and interbank transactions

Deposits by banks

(in millions of euros)	31.12.2015	31.12.2014
On demand deposits	**2,831.8**	12,305.2
Term deposits	**33,080.9**	28,061.0
≤ 3 months	**24,691.5**	16,232.7
> 3 months and ≤ 1 year	**798.6**	6,496.9
>1 year and ≤ 5 years	**5,384.2**	3,081.4
>5 years	**2,206.6**	2,250.0
Accrued interest	**80.9**	66.4
Total	**35,993.6**	40,432.6
Of which securities given under repurchase agreements	***23,777.6***	*29,569.2*

12 Customer accounts

Outstanding at 31 December

Breakdown of customer credit balances by type of deposit

(in millions of euros)	31.12.2015	31.12.2014
On demand deposits	**20,846.0**	20,387.0
Special demand accounts	**6,909.3**	7,072.5
Special term accounts	**667.8**	646.3
Term accounts	**5,208.9**	6,382.6
Total customer deposits (excluding repurchase agreements)	**33,632.0**	34,488.4
Securities given under repurchase agreements	**12,632.1**	17,895.1
Accrued interest	**15.3**	10.6
Total customer credit balance accounts	**46,279.4**	52,394.1

Breakdown of customer credit balances by remaining contractual maturities

(in millions of euros)	31.12.2015	31.12.2014
On demand deposits	**27,755.3**	27,459.6
Term deposits	**18,508.8**	24,923.9
≤ 3 months	**14,788.9**	20,003.7
> 3 months and ≤ 1 year	**3,232.1**	4,567.0
>1 year and ≤ 5 years	**281.9**	210.2
>5 years	**205.9**	143.0
Accrued interest	**15.3**	10.6
Total	**46,279.4**	52,394.1

13 Bonds and other fixed income securities

(in millions of euros)	**31.12.2015**	31.12.2014
Certificates of deposit (including accrued interest)	**–**	–
Interbank market securities and tradable debt securities	**7,023**	7,611
Bonds	**9,303**	6,382
Accrued interest	**23**	23
Total	**16,349**	14,016

Breakdown of debt securities by maturity

(in millions of euros)	**31.12.2015**	31.12.2014
Debt securities	**16,326**	13,993
≤ 3 months	**3,765**	4,062
> 3 months and ≤ 1 year	**4,677**	3,570
>1 year and ≤ 5 years	**5,857**	3,887
>5 years	**2,027**	2,474
Accrued interest	**23**	23
Total	**16,349**	14,016

Issuances premium yet paid off are EUR 8.5 million at 31 December 2015 and EUR 8.1 million at 31 December 2014.

14 Provisions

(in millions of euros)	*Balance at 31.12.2014*	***Charges***	***Release for written off***	***Available releases***	***Other movements***	***Balance at 31.12.2015***
Provisions for commitments by signature and disputes	82.7	**4.5**	**(3.9)**	**(3.7)**	**0.2**	**79.8**
Other provisions[1]	304.8	**71.6**	**(74.9)**	**(5.5)**	**0.2**	**296.2**
Total	387.5	**76.1**	**(78.8)**	**(9.2)**	**0.4**	**376.0**

1 *Including employee benefits provision (see Note 20 "Pensions and post-employment benefits") and share-based payment provision (see the comments of Note 28 "General operating expenses").*

Provision on PEL/CEL home ownership products

	31.12.2015				
	PEL				
(in millions of euros)	***≤ 4 years***	***> 4 years and ≤ 10 years***	***> 10 years***	***Total***	***CEL***
Amounts collected	**152.0**	**125.0**	**377.0**	**654.0**	**99.6**
Outstandings collected	**0.1**	**0.7**	**0.4**	**1.2**	**4.6**
Provisions	**(4.6)**	**(0.4)**	**(1.2)**	**(6.2)**	**(0.1)**
Allocation to provisions/reversal	**(2.3)**	**0.3**	**0.5**	**(1.4)**	**0.1**

15 Other liabilities

(in millions of euros)	**31.12.2015**	31.12.2014
Securities transactions settlement accounts	**9**	274
Sundry creditors[1]	**8,799**	8,580
Short position and securities received under repurchase agreements confirmed resold	**33,332**	35,876
Total	**42,140**	44,730

1 *Of which deposits on derivatives received in 2015: EUR 8,627 million and EUR 8,310 million in 2014.*

Parent company financial statements (continued)

16 Accruals and deferred income

(in millions of euros)	**31.12.2015**	31.12.2014
Items in course of collection from other banks	**259**	316
Accruals and deferred income[1]	**43,922**	137,330
Total	**44,181**	137,646

1 *Including mark-to-market on derivatives instruments for EUR 42,768 million in 2015 and EUR 128,115 million in 2014.*

17 Subordinated debt

(in millions of euros)	**31.12.2015**	31.12.2014
Subordinated notes	**–**	15.0
Undated subordinated notes	**16.2**	16.2
Subordinated debts	**260.0**	260.0
Accrued interest	**0.2**	0.3
Total	**276.4**	291.5

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	**31.12.2015**	31.12.2014
Redeemable subordinated securities	15.12.2000	15.12.2015	Floating rate	EUR	**–**	15.0
Accrued interest					**–**	–
Total for securities issued by HSBC France (including accrued interest)					**–**	15.0

Participating securities: undated subordinated securities and debt

(in millions of euros)	Date of issue	Nominal rate	Issue currency	**31.12.2015**	31.12.2014
Undated subordinated securities	22.07.1985	Effective monthly rate – 0,25	FRF	**16.2**	16.2
Accrued interest				**0.1**	0.1
Total (including accrued interest)				**16.3**	16.3

Subordinated debts

(in millions of euros)	Date of issue	Date of maturity	Interest type	Currency of issue	**31.12.2015**
Subordinated debts	22.12.2014	22.12.2029	Floating rate	EUR	**260.0**
Accrued interest					**0.2**
Total for securities issued by HSBC France (including accrued interest)					**260.2**

18 Share capital

(shares of 5 euros)	**31.12.2015** Number of shares		31.12.2014 Number of shares	
	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 2015, the total of voting rights stood at 67,437,827.

19 Equity

(in millions of euros)	**31.12.2015**	31.12.2014
Called-up share capital	**337.2**	337.2
Share premium account	**16.1**	16.1
Reserves	**1,042.9**	1,042.9
– legal reserve	**38.1**	38.1
– long-term gains reserve	**405.5**	405.5
– revaluation reserve	**4.9**	4.9
– extraordinary and other reserve	**304.8**	304.8
– free reserve	**294.1**	294.1
– revaluation reserve on past service costs	**(4.5)**	(4.5)
Retained earnings [1]	**3,600.6**	3,357.9
Interim dividend	**(250.2)**	–
Special tax-allowable reserves	**8.6**	19.7
Net profit for the year	**280.9**	393.1
Equity	**5,036.1**	5,166.9

1 *Before proposed appropriation submitted to Annual General Meeting's approval.*

Changes in equity in 2015

(in millions of euros)	**2015**
Balance at 1 January	**5,166.9**
Net profit for the year	280.9
New shares issued upon exercise of stock options	–
Reduction of capital	–
Interim dividend	(250.2)
Others	(161.5)
Balance at 31 December	**5,036.1**

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.

Parent company financial statements (continued)

19 Equity *(continued)*

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)	**31.12.2015**	31.12.2014
Provision for employee-related commitments[1]	**161.0**	153.9

1 *Including defined benefits pension plans for Executive Directors for EUR 2.1 million in 2015 and for EUR 5.8 million in 2014.*

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 table*
At 31 December 2015	**1.80**	**1.80**[1]	**1.50**	**1.50**	**2.70**	**–**[2]
At 31 December 2014	2.00	2.00[1]	1.50	1.50	2.70	–[2]

1 *Expected rate of return on bonds.*
2 *HSBC France uses the tables TGH/TGF05 for pension obligations and TV 88/90 for retirement benefits.*

HSBC France determines discount rates in consultation with its actuaries based on the current average yield of high quality (AA-rated) debt instruments, with maturities consistent with that of the pension obligation. The expected rate of return on plan assets is determined in consultation with HSBC's actuaries, based on historical market returns, adjusted for additional factors such as the current rate of inflation and interest rates.

Provision recognised

(in millions of euros)	**31.12.2015**	31.12.2014
Present value of benefit obligations	**171.1**	165.2
Fair value of plan assets	**(10.1)**	(11.3)
Net liability recognised	**161.0**	153.9

21 Off-balance sheet items

(in millions of euros)	**31.12.2015**	31.12.2014
A - Loan commitments		
Commitments given	**24,845**	23,290
Refinancing agreements and other financing commitments in favour of banks	**2,025**	2,259
In favour of customers	**22,820**	21,131
– confirmed credit facilities	**22,739**	21,074
– acceptances payable and similar instruments	**81**	57
Commitments received	**1,853**	3,550
Refinancing agreements and other financing commitments in favour of banks	**1,853**	3,550
B - Guarantee commitments		
Commitments given	**4,702**	4,044
Guarantees, acceptances and other securities to banks	**854**	991
Guarantees, acceptances and other securities to customers	**3,848**	3,053
Commitments received	**12,797**	11,722
Guarantees, acceptances and other security from banks	**12,797**	11,722

Loans pledged for Covered Bonds issues

(in millions of euros)	**31.12.2015**
Covered bonds	**6,744**
Loans pledged on guarantee 3G and TRICP	**3,151**
Loans pledged on guarantee CCBM	**4,658**
Securities pledged on guarantee	**4,420**
Total	**18,973**

22 Derivatives

Exchanges rate contracts

(in billions of euros)	31.12.2015 Fair value at 31.12.2015	31.12.2015 Hedging contracts[1]	31.12.2015 Trading contracts[1]	31.12.2015 Total[1]	31.12.2014 Fair value at 31.12.2014	31.12.2014 Hedging contracts[1]	31.12.2014 Trading contracts[1]	31.12.2014 Total[1]
Unconditional transactions	**2.2**	**53.0**	**1,855.3**	**1,908.3**	(0.5)	83.3	3,802.1	3,885.4
Exchange traded	**–**	**–**	**83.4**	**83.4**	–	–	122.1	122.1
– interest rate	**–**	**–**	**83.4**	**83.4**	–	–	122.1	122.1
– exchange rate	**–**	**–**	**–**	**–**	–	–	–	–
– equity	**–**	**–**	**–**	**–**	–	–	–	–
Non-exchange traded	**2.2**	**53.0**	**1,771.9**	**1,824.9**	(0.5)	83.3	3,680.0	3,763.1
– futures	**–**	**–**	**64.0**	**64.0**	–	–	236.8	236.8
– interest rate	**2.1**	**52.3**[2,3]	**1,534.8**	**1,587.1**	(0.8)	81.8	3,262.8	3,344.6
– exchange rate	**–**	**0.7**	**41.3**	**42.0**	0.1	0.6	44.4	45.0
– other contracts	**0.1**	**–**	**131.8**	**131.8**	0.3	0.9	136.1	136.9
Conditional transactions	**(0.7)**	**0.3**	**590.6**	**590.9**	(0.6)	0.4	519.1	519.4
Exchange traded	**–**	**–**	**30.1**	**30.1**	–	–	40.9	40.9
Interest rate	**–**	**–**	**2.3**	**2.3**	–	–	3.3	3.3
Exchange rate	**–**	**–**	**27.8**	**27.8**	–	–	37.6	37.6
Other contracts	**–**	**–**	**–**	**–**	–	–	–	–
Non-exchange traded	**(0.7)**	**0.3**	**560.5**	**560.8**	(0.6)	0.4	478.2	478.6
Caps and floors	**(0.6)**	**0.1**	**171.5**	**171.6**	–	0.2	118.5	118.7
Swaptions and options	**(0.1)**	**–**	**–**	**–**	(0.6)	–	–	–
– bought	**–**	**0.2**	**48.5**	**48.7**	–	0.2	58.6	58.7
– sold	**–**	**–**	**340.5**	**340.5**	–	–	301.1	301.1
Total derivatives		**53.3**	**2,445.9**	**2,499.2**		83.7	4,321.1	4,404.8

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.*
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.*

22 Derivatives *(continued)*

Other information on derivatives

(in billions of euros)	**31.12.2015**	31.12.2014
Microhedge contract	**22.5** [1]	13.6
Macrohedge contract	**29.8** [2]	68.3
Trading	**1,534.8**	3,262.8
Other	**–**	–

1 *Cf. footnote 2 page 300.*
2 *Cf. footnote 3 page 300.*

Derivatives: maturity analysis

	31.12.2015			
(in billions of euros)	***≤ 1 year***	***>1 year and ≤ 5 years***	***> 5 years***	***Total***
Derivatives:				
– Exchange contracts	**9.6**	**15.6**	**16.6**	**41.8**
– Interest rate contracts	**1,042.1**	**757.1**	**527.6**	**2,326.8**
– Others	**129.4**	**1.2**	**-**	**130.6**
Total	**1,181.1**	**773.9**	**544.2**	**2,499.2**

Risk-weighted assets - Amount of Exposure At Default (EAD) for derivatives contracts

(in millions of euros)	**31.12.2015**	31.12.2014
A – Contracts concluded under Master agreement with close-out netting	**7,856.7**	13,290.8
1. Transactions with banks from OECD countries	**7,774.7**	13,241.1
2. Transactions with customers and banks localised outside OECD countries	**82.0**	49.7
B – Other contracts	**593.5**	962.1
1. Transactions with banks from OECD countries	**537.1**	895.2
– interest rate contracts	**516.7**	839.7
– exchange contracts	**16.0**	36.5
– equity derivatives contracts	**–**	19.0
– credit derivatives contracts	**4.4**	–
– commodities contracts	**–**	–
2. Transactions with customers and banks localised outside OECD countries	**56.4**	30.9
– interest rate contracts	**15.5**	21.9
– exchange contracts	**40.9**	9.0
– equity derivatives contracts	**–**	–
Total Exposure At Default	**8,450.2**	14,216.9
Corresponding risk-weighted assets (RWA)	***2,276.6***	*2,839.4*

Clearing effect on Exposure At Default

(in millions of euros)	**31.12.2015**	31.12.2014
Original exposure before credit risk mitigation (including close-out netting)	**70,518.9**	165,647.9
Exposure mitigation due to close-out netting	**(53,711.9)**	(144,045.2)
Exposure mitigation due to credit mitigation	**(8,356.8)**	(7,385.8)
Exposure value after credit risk mitigation (including close-out netting)	**8,450.2**	14,216.9

Parent company financial statements (continued)

23 Net interest income

(in millions of euros)	31.12.2015	31.12.2014
Interest and similar income		
Banks and financial institutions	**188.6**	166.4
Customers	**929.8**	996.0
Bonds and other fixed-income securities	**686.5**	477.0
Total	**1,804.9**	1,639.4
Interest and similar expenses		
Banks and financial institutions	**221.9**	239.4
Customers	**101.2**	152.8
Subordinated liabilities	**6.0**	1.5
Other bonds and fixed-income securities	**506.4**	209.9
Total	**835.5**	603.6

24 Fixed-income securities

(in millions of euros)	31.12.2015	31.12.2014
Income		
Available-for-sale and similar & portfolio activity securities	**–**	–
Interests in subsidiaries and associates and other long-term securities	**–**	–
Interests in group companies	**77.1**	96.3
Total	**77.1**	96.3

25 Breakdown of fees

(in millions of euros)	31.12.2015	31.12.2014
Fees		
Income	**771.3**	751.3
On transactions with banks	**3.7**	3.4
On transactions with customers	**90.7**	96.0
On foreign exchange transactions	**1.9**	1.9
On primary securities market activities	**77.8**	53.6
On provision of services for third parties	**442.1**	434.8
On commitments	**112.2**	114.7
Other commission	**42.9**	46.9
Expenses	**(194.5)**	(170.1)
On transactions with banks	**(8.4)**	(6.5)
On corporate actions	**(26.4)**	(25.6)
On forward financial instrument activities	**(11.5)**	(10.4)
On provision of services for third parties	**(133.1)**	(114.5)
On commitments	**(5.1)**	(5.0)
Other commission	**(10.0)**	(8.1)
Total fees	**576.8**	581.2

26 Gains and losses on portfolio business transactions

(in millions of euros)	31.12.2015	31.12.2014
Gains or losses		
Trading securities	**(107.0)**	1,928.9
Foreign exchange transactions	**95.9**	56.2
Forward financial instruments	**233.5**	(1,666.7)
Total	**222.4**	318.4

27 Gains or losses on available-for-sale securities

(in millions of euros)	**31.12.2015**	31.12.2014
Results for available-for-sale securities		
Gains or losses	**20.1**	18.5
Impairment	**(1.7)**	(1.1)
– charges	**(4.2)**	(4.4)
– releases	**2.5**	3.3
Results for portfolio activity securities		
Gains or losses	**0.3**	3.8
Impairment	**0.8**	0.5
– charges	**(0.4)**	(0.1)
– releases	**1.2**	0.6
Total	**19.5**	21.7

28 General operating expenses

(in millions of euros)	**31.12.2015**	31.12.2014
Employee compensation and benefits		
Salaries and wages, social security, taxes and levies on compensation[1]	**(751.7)**	(762.8)
Pension expense	**(95.3)**	(98.1)
Profit sharing	**(2.0)**	(6.3)
Incentive plan	**(20.2)**	(21.5)
Compensation expense subtotal	**(869.2)**	(888.7)
Other administrative expenses	**(541.0)**	(485.5)
Total operating expenses	**(1,410.2)**	(1,374.2)

1 *Including EUR 18 million for Executive Committee compensation for 2015 and EUR 18.8 million for Executive Committee compensation for 2014.*

Share award plans

Allowance was 34 per cent released for the 2011 plan, 66 per cent released for the English sub-plan 2012 plan and 33 per cent released for the 2013 plan, 33 per cent released for the 2013 English sub plan released, against shares attribution for EUR 14.9 million.

Regarding the ongoing plans, the final charge for HSBC France is not yet known as the attributed shares were not bought by the Trust.

The allowance defined is hence accounted on a linear basis on the employees' grant acquisition period based on quoted price as 31 December 2015.

At 31 December 2015, allowance stood at EUR 3.0 million for the 2012 plan, at EUR 10.3 million for the 2013 plan, at EUR 3.5 million for the 2014.

2015 share award plans

The allowance defined is hence accounted on a linear basis on the employee's grant acquisition period based on awarding hypothesis.

At 31 December 2015, allowance stood at EUR 1.6 million.

It should be noted that, to comply with the group designations, starting from 2015, the plans naming corresponds to the performance years (and not the award years any more).

29 Gains or losses on disposals of fixed assets

(in millions of euros)	**31.12.2015**	31.12.2014
Gains or losses on held-to-maturity securities	**–**	–
Gains or losses on tangible and intangible fixed assets[1]	**8.3**	7.7
Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies[2]	**3.6**	(15.2)
Total	**11.9**	(7.5)

1 *In 2015, gains on disposal of Paris Saint Germain for EUR 7.7 million and Avron for EUR 0.6 million. In 2014, gains on disposal of Saint Ferréol for EUR 6.9 million and Ballande branch for EUR 1.0 million.*

2 *In 2015, gains on disposal of ROBERTET shares for EUR 0.6 million, gains on disposal of UGT shares for EUR 0.1 million, gains on disposal of VME shares for EUR 1.4 million, gains on disposal of HSBC Services for EUR 1.8 million, provisions on investments of HSBC Services for EUR 1.8 million, various gains on disposal of stocks for EUR 0.1 million and reversal of provisions on investments of SFS for EUR 1.1 million, and Foncière Elysées for EUR 0.8 million. In 2014, provisions on investments of Malesherbes-Anjou for EUR 16.2 million.*

30 Corporate income tax

(in millions of euros)	**31.12.2015**	31.12.2014
Current tax		
At standard rate	**(29.7)**	(107.1)
At reduced rate	**–**	–
Deferred taxation	**(8.6)**	(14.0)
Total	**(38.3)**	(121.1)

Deferred tax is calculated according to the principles set out in Note 1 j on page 286.

The rates used for calculating taxes are:

(in %)	**Payable 2016**	**Payable 2015**	Payable 2014
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	10.7
Deferred taxation			
Standard rate on DT	**33.33**	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 2015, deferred taxes are calculated on the taxation discrepancies generated by temporary differences.

Tax group

Since 2001, the parent company of the tax group has been HSBC Bank plc Paris branch.

In 2015, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 98.6 million. The proportion of benefits passed on to HSBC France was EUR 53.6 million.

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.

These benefits are recognised in their entirety under the heading “Taxes”.

30 Corporate income tax *(continued)*

Deferred tax in the balance sheet

The net deferred tax receivable recognised in the balance sheet at 31 December 2015 was EUR 86.1 million compared with EUR 94.7 million at 31 December 2014.

At 31 December 2015 this receivable is made up of deferred tax assets of EUR 120.7 million against EUR 124.8 million at 31 December 2014 and a deferred tax liability of EUR 34.5 million compared with EUR 30.1 million at 31 December 2014.

CICE allocation

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 2015, 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 payroll taxes. As such, HSBC France recognises the CICE as a reduction in employee compensation and benefits.

HSBC France benefited from a EUR 7.0 million tax credit (7.4 million EUR at HSBC France group level) in respect of CICE (*Crédit d'Impôt Compétitivité Emploi*) during the fiscal year of 2015.

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 relocation of certain headquarter staff in La Défense;

– Information and technology innovative investments: expenses were dedicated to the development of enhanced commercial softwares, preliminary studies to contemplated IT modernisation, optimisation of wealth management and credit distribution tools, 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 2015 with certificated courses, language training courses as well as compliance and risk management;

– 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 137 to 139 of the 2015 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 2015.

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 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").

31 Legal proceedings and regulatory matters relating to HSBC Group entities generally. *(continued)*

In addition, HSBC Bank USA entered into a civil money penalty consent order with the Financial Crimes Enforcement Network ("FinCEN") of the US Treasury Department and a separate civil money penalty order with the Office of the Comptroller of the Currency ("OCC"). 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 totaling USD 1.9 billion to US authorities. Under these agreements, HSBC Holdings has also certain obligations to ensure that the entities in the HSBC Group, including HSBC Bank plc and its subsidiaries (including HSBC France), comply with certain requirements. In 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. An independent compliance monitor (the 'Monitor') was appointed in 2013 under the agreements entered into with the DoJ and the FCA to produce annual assessments of the effectiveness of HSBC's AML and sanctions compliance programme. Additionally, the Monitor is serving as HSBC's independent consultant under the consent order of the FRB. In January 2016, the Monitor delivered his second annual follow-up review report as required by the US DPA.

Under the terms of the US DPA, upon notice and on opportunity to be heard, the DOJ has sole discretion to determine whether HSBC has breached the US DPA. Potential consequences of breaching the US DPA could include the imposition of additional terms and conditions on HSBC, an extension of the agreement, including its monitorship, or the criminal prosecution of HSBC, which could, in turn, entail further financial penalties and collateral consequences.

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 programme.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation relating to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

London interbank offered rates, European interbank offered rates and other benchmark interest rate investigations and litigation

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

In May 2014, these HSBC entities received a Statement of Objections from the European Commission (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 to the Commission's Statement of Objections in March 2015. The hearing before the Commission took place in June 2015.

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 for the Southern District of New York on behalf of persons who transacted in euro futures contracts and other financial instruments allegedly related to Euribor. The complaint alleges, amongst other things, misconduct related to Euribor in violation of US antitrust laws, the CEA, and state law. The court previously stayed proceedings until May 2015. After the stay expired, the plaintiffs filed an amended complaint. In October 2015, HSBC filed a motion to dismiss which remains pending.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of these private lawsuits. Based upon the information currently available, it is possible that any liabilities that might arise as a result of the claims in these actions could be significant.

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.

Following the oral hearing, the Commission decided in December 2015 to close the case against all 13 investment banks, including all of the HSBC entities. The Commission's investigation relating to Markit and ISDA is on-going.

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.

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Statutory Auditors' report on the financial statements

This is a free translation into English of the statutory auditors' 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 and in the documents addressed to shareholders.
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 2015

To the shareholders,
HSBC FRANCE
103, avenue des Champs-Elysées
75419 Paris Cedex 08

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended 31 December 2015, on:

- the audit of the accompanying financial statements of HSBC France;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these 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 sample 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 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 2015 and of the results of its operations for the year then ended in accordance with French accounting principles.

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, 1.h 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 litigation related to its activities. We have examined the procedures in your company allowing them identified, measured and accounted for. We ensured that possible uncertainties identified during the implementation of these procedures were properly described in note 31 to the financial statements

These assessments were made as part of our audit of the 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 financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the 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 financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

Neuilly sur Seine and Paris, on the 3 March 2016

The statutory auditors

PricewaterhouseCoopers Audit
Nicolas Montillot
Partner

BDO France – Léger & Associés
Michel Léger
Partner

HSBC France's principal subsidiaries and investment policy

HSBC France group's principal subsidiaries at 31 December 2015

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%) 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	
En France	HSBC Assurances Vie (France) (100%)
Subsidiaries and equity investments	
France	Valeurs Mobilières Elysées (100%) Société Française 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 2015

Commercial Banking
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
HSBC Factoring (France)	**2,088,937**	2,037,425	**86,621**	81,154	**5,467**	9,060	**100.0**	100.0

HSBC Factoring (France)'s activity grew by 10 per cent in 2015, with gross turnover of EUR 13.8 billions at the end of December 2015. Thus the growth of HSBC Factoring France is in line with the market in 2015.
Net operating income before provisions amounted to EUR 26.3 million, slightly decreasing compared to 2014, costs were increasing from December 2014 to December 2015 mainly due to two major IT migrations, the cost of risk has increased with a significant impact of a change in methodology of the collective provision and remained in the standards of the profession.
At 31 December 2015, the cost efficiency ratio amounted to 54 per cent compared with 44 per cent in 2013.

Global Banking and Markets
(in thousands of euros)

HSBC SFH (France)	**5,301,859**	4,447,942	**117,365**	115,726	**1,639**	1,412	**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. On 11 March 2015, the Company completed a bond issue for an amount of EUR 1 billion. On 7 September 2015, one of the two bond issues of CHF 200 million, issued 7 April 2010, matured and so has been repaid.
At 31 December 2015, issues totalled EUR 5,1 billion against a cover pool of EUR 6.7 billion.

HSBC Leasing (France)	**2,136,910**	2,033,283	**231,906**	143,933	**87,973**	(24,653)	**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 2015 totalling EUR 2.04 billion, an increase of 6 per cent compared to 2014.

HSBC Real Estate Leasing (France)	**1,239,922**	1,249,662	**83 610**	82,211	**9,683**	8,740	**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)

HSBC Global Asset Management (France)	**148,046**	158,479	**60,105**	75,926	**41,437**	29,298	**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 76 billion compared with EUR 73 billion at end 2014, an increase of 5 per cent. The increase was due to net inflows of EUR 2.78 billion in fixed-income products, EUR 709 million net inflows in money market products partly offset by EUR 179 million net outflows in equity-based and diversified products, while the total value effect on assets amounted to EUR 2.28 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 2015, 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	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
HSBC Epargne Entreprise (France)	**112,906**	69,562	**28,738**	32,688	**(880)**	(3,950)	**100.0**	100.0

HSBC Epargne Entreprise (France) is an investment company, wholly-owned by HSBC France, specialising in employee savings & pensions accounts administration for the HSBC Group in France. It has a clientele of 7,500 companies and manages 275,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totalling EUR 4.4 billion as of 30 June 2015, making the Group the seventh-largest employee savings manager in France. Its products are distributed via the HSBC Group distribution network in France, covering the needs of companies of all sizes.

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage	
HSBC REIM (France)	**13,665**	14,614	**9,013**	9,267	**5,923**	5,726	**100.0**	100.0

HSBC REIM (France) is the Asset Management subsidiary specialized in real estate management for third parties. At 31 December 2015, the market value of assets under management was EUR 2.44 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 steady annual dividend distribution. Gross inflows amounted to EUR 185 million in 2015. Elysées Pierre's price per share has increased by 15 per cent over the financial year, reflecting the increase in the value of its real estate assets.

Net profit of HSBC REIM (France) was up 3.4 per cent compared with 2014, due to increased inflows and cost optimization. Around 70 per cent of its net operating income of EUR 15.3 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)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage	
HSBC Assurances Vie (France)	**22,621,301**	21,721,677	**578,624**	516,636	**62,515**	60,837	**100.0**	100.0

HSBC Assurances Vie (France) manufactures a wide range of products and services to meet HSBC Group customers' needs (individuals, professionals and companies) in terms of life insurance, pension and protection.

For 2015 Insurance business and financial performance have been significantly impacted by PVIF variation mainly due to the change in market assumptions coupled with the improvement of commercial performance on Savings and Protection. The level of sale (Gross written premiums) stands at EUR 1.9 billion in 2015 (an increase of 2 per cent compared to 2014) with a significant increase of the Unit Link share from 16 per cent (2014) to 22 per cent (2015). The net new money is positive and stands at EUR 323 million for HSBC France Retails Network of which 59 per cent on Unit Link. The AUMs look up at EUR 18.9 billion for 2015 YTD (+2 per cent compared to 2014).

The expertise of HSBC Insurance France and the suitability of its products to the needs of individual customers, professionals and companies were recognized in 2015 through various awards of which:

- the Golden trophy of life insurance contracts (magazine Le Revenu) for "HSBC Stratégie Patrimoine" product;
- the Seal of Excellence of Folders Epargne for "HSBC Capital Prévoyance" product;
- the Seal of Excellence of The Savings Records for "HSBC Key Man" product.

Profit before tax amounted to EUR 109 million in French GAAP (+8 per cent compared to 2014) and EUR 237 million in IFRS GAAP (of which EUR 138 million on Economic PVIF variation).

Own investments
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage	
Société Française et Suisse (SFS)	**8,524**	8,337	**8,446**	8,329	**117**	(119)	**100.0**	100.0

In 2015, Société Française et Suisse realised a profit of EUR 116,810 (compared to a loss of EUR-119,411 in 2014). The 2015 result is mainly due to:

- the redemption then the universal transfer of assets of Union pour la Gestion et les Transactions (UGT), which was 60%-owned directly by HSBC France and 40%-owned by SAPC-Ufipro, a 99.98% owned subsidiary of HSBC France;
- the transfer of a Tunisian account (reversal of a provision of EUR 185,703).

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage	
Valeurs Mobilières Elysées	**68,492**	126,586	**55,113**	113,674	**4,986**	13,574	**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 EUR 75 million in January 2015 and account for only EUR 56 million at the end of December 2015.

Capital gains realised amount to EUR 7.5 million on the funds and EUR 1.7 million on the listed values.

* *Before net profit appropriation.*

Investment policy

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 51.7 million.
- Capital decrease of Société de Financement de l'Economie Française.
  Proceeds: EUR 4.7 million.
- Capital decreases of HSBC Trinkhaus Gesellschaft für Kapitalmarketinvestments oHG, owned up to 90 per cent by Société Financière et Mobilière, a wholly-owned subsidiary of HSBC France.
  Proceeds: EUR 299.7 million.

2015

- Subscription by HSBC Leasing (France), a wholly-owned subsidiary of HSBC France, to capital increase made by HSBC Middle East Leasing Partnership.
  Cost: USD 150.5 million.
- Capital decrease of Valeurs Mobilières Elysées.
  Proceeds: EUR 50.0 million.
- Capital decrease of HSBC Services (France).
  Proceeds: EUR 20.9 million.

Other legal documents relating to the Annual General Meeting to be held on 19 April 2016

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 2015

No agreement subject to the provisions of article L. 225-38 of the French Commercial Code was entered into in 2015.

Agreements entered into in prior years and still in force and effect during 2015

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 2015. 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 2015.

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 2015.

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 2015 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 2015.

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 2015.

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 2015.

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Statutory Auditors' report on regulated agreements and commitments

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

Year ended 31 December 2015

To the shareholders,

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

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

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

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

AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE ANNUAL GENERAL MEETING

Continuing agreements and commitments which were entered in the prior years

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

With HSBC Holdings plc

Under the agreement of the invoicing of Head office costs, HSBC Holdings Plc invoices HSBC France head office expenses corresponding to services rendered by the central services of HSBC Holdings Plc, in accordance with the agreement concluded in 2005.

With respect to this agreement, the invoices represented a charge of GBP 16.2 million in 2015.

Under the ' Software Group ' agreement concluded in 2006, HSBC Holdings Plc invoices HSBC France expenses occurred at Group level in terms of IT development.

With respect to this agreement, a charge of USD 22.9 million has been recorded in 2015.

The renewed agreement in 2007 and ensuring the free use of the HSBC brand by HSBC France and its subsidiaries had no impact in the HSBC France accounts during the financial year 2015.

With HSBC Bank plc

HSBC Bank Plc invoices HSBC France head office expenses corresponding to services rendered by the central services of HSBC Bank Plc, in accordance with the agreement signed in 2005.

Under this agreement, a charge of GBP 7.4 million was recorded in 2015.

Regarding the service level agreement for all market activities of HSBC France, HSBC Bank Plc invoices to HSBC France services covering all market activities in accordance with the agreement concluded in 2003.

This agreement had no financial impact on the year.

Other legal documents relating to the Annual General Meeting to be held on 19 April 2016 (continued)

With HSBC Bank plc Paris Branch

Three agreements concluded in 2001 between HSBC France and HSBC Bank plc Paris Branch also continued their effects in 2015:

– A group wide service agreement for the purpose of rendering services to its members at cost concerning various activities of the two entities;

– Service level agreement issued by HSBC France to HSBC Bank plc Paris Branch concerning various activities.

With respect to these two agreements, the income recorded for 2015 amounted to € 14.7 million.

– Tax integration agreement between HSBC Bank plc Paris Branch and HSBC France. With respect to this agreement, a tax income of € 53,6 million has been recorded in 2015.

With HSBC Global Asset Management (France)

The agreement approved in 2009 and effective from January 1st 2010 concerning 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 € 3.6 million has been recorded in 2015.

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

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

The situation of each of these Senior Executives, under this scheme, is different. Mr. Filippi received a pension since his departure from the company, Mr. Backer has lost the benefit at the time of his departure from the company, Mr. Denoyel continued to acquire new rights until 1 March 2015 end date his term as Deputy to the CEO and finally Mr. Beunardeau continued to acquire new rights of 2015 .

With respect to this agreement, an additional provision for pension commitments has been recorded in HSBC France accounts at December 31st, 2015 for € 0.4 million.

In law enforcement, we inform you that the Board did not conduct the annual review of the agreements and commitments entered into and authorized in prior years which were continued during the last fiscal year (detailed above), provided for by article L. 225-40 of the French Commercial Code (“Code du Commerce”).

Neuilly sur Seine and Paris, on the 3 March 2016

The statutory auditors

PricewaterhouseCoopers Audit
Nicolas Montillot
Partner

BDO France – Léger & Associés
Michel Léger
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 2015, 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	EUR280,890,662.74
Plus retained profits	EUR3,600,644,658.05
Total sum available for distribution	EUR3,881,535,320.79

To be distributed as follows:

Dividend of EUR4.15 per share to be paid	EUR279,866,982.05
Retained earnings	EUR3,601,668,338.74

The dividend will be payable from 19 April 2016, after deduction of the interim dividend of EUR 3.71 per share voted by the Board of Directors at its meeting of 18 December 2015 and paid to shares issued as of that date.

Dividend paid is eligible for the tax deduction referred to in article 158 paragraph 3.2 of the General Tax Code.

The shareholders duly note that dividends paid in respect of the three previous financial years were as follows:

Year	Net dividend per share
2012	EUR3.56
2013	EUR1.78
2014	EUR2.23

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 2015, 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 re-elect Mr Samir Assaf, 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 2018.

Sixth resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mrs Martine Gerow, 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 2018.

Seventh resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Lindsay Gordon, 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 2018.

Eighth resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Philippe Houzé, 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 2018.

Other legal documents relating to the Annual General Meeting to be held on 19 April 2016 (continued)

Ninth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Alan Keir, 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 2018.

Tenth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Thierry Moulonguet, 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 2018.

Eleventh resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Antonio Simoes, 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 2018.

Twelfth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mrs Brigitte Taittinger, 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 2018.

Thirteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Jacques Veyrat, 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 2018.

Fourteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Andrew Wild, 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 2018.

Fifteenth 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 2015 to executive members and professionals having a significant impact on risks, which amounts to EUR 47,834,463.

Sixteenth resolution

Voting under the quorum and majority conditions to transact ordinary 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

Information on HSBC France and its share capital (continued)

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.

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 2015, 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	23 April 2015
Expiry date	23 June 2017
Maximum nominal amount	EUR100 million
Used amount	EUR0

Information on HSBC France and its share capital (continued)

Movements in share capital

	Number of shares	Share capital in euros	Share premium in euros
At 1 January 2015	**67,437,827**	**337,189,135**	**–**
Increase (Reduction) during the year	**–**	**–**	**–**
At 31 December 2015	**67,437,827**	**337,189,135**	**–**
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	–	–	–
At 31 December 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	–

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.*

Ownership of share capital and voting rights at 31 December 2015

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

	2015	2014	2013	2012	2011
Number of shares at 31 December	**67,437,827**	67,437,827	67,437,827	67,437,827	67,437,827
Average number of shares outstanding during the year	**67,437,827**	67,437,827	67,437,827	67,437,827	67,437,822
EPS[1]	**EUR6.61**	EUR2.94	EUR5.68	EUR4.75	EUR1.83
Net dividend	**EUR4.15**	EUR2.23	EUR1.78	EUR3.56	EUR1.75
Exceptional dividend	**–**	–	–	–	–
Dividend + tax credit	**–**	–	–	–	–
Payout[2]	**62.8%**	75.9%	31.3%	74.9%	95.6%

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 19 April 2016, the Board will propose a net dividend of EUR 4.15 per EUR 5 nominal share, that will be payable after deduction of the interim dividend voted by the Board on 18 December 2015 and paid to shares issued as of that date.

Dividends which are not claimed within five years of the payment date lapse and become the property of the French Treasury.

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 2015, the date of the last audited and published financial statements.

Main post-balance sheet events

There are no significant post-balance sheet events.

Outlook

There has been no significant deterioration affecting the issuer's or its subsidiaries' outlook since 31 December 2015, 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 by contnuing to develop its wealth management business, investing in digital capabilities, leveraging strenghts of the Group, notably its international footprint and universal model and reinfocing its positioning in Global Banking and Markets as a strategic platform for the Group;

– investing strategically while minimising risks, with the implementation of Global Standards;

– simplifying processes and procedures through the modernisation of its IT systems to gain efficiency 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 of the Registration Document and for auditing the financial statements

Person responsible for the Registration Document

Mr Jean Beunardeau, Chief Executive Officer.

Statement by the person responsible for the Registration Document

I declare, after taking all reasonable measures for this purpose and to the best of my knowledge, that the information contained in this Registration Document is in accordance with the facts and that it makes no omission likely to affect its meaning.

I declare, to the best of my knowledge, that the accounts have been prepared in accordance with applicable accounting standards and are a fair reflection of the assets, liabilities, financial position and profit or loss of the company and all the undertakings included in the consolidation scope, and that the Management Report on pages 2 to 17 and on page 276 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 308 to 309 and on pages 264 to 265, and respectively on pages 278 to 279 and on pages 233 to 234 of the Registration Document 2014 filed with the AMF under the reference number D15-0095.

The Statutory Auditors' reports on the 2014 consolidated financial statements, on pages 233 and 234 of the Registration Document 2014 and report on the 2014 parent company financial statements, on pages 278 and 279 of the Registration Document 2014, contains a remark.

Paris, 4 March 2016

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

	Date first appointed	Date re-appointed	Date term ends
Incumbents			
PricewaterhouseCoopers Audit [1] Represented by Nicolas Montillot 63, rue de Villiers 92200 Neuilly-sur-Seine	2015	–	2018
BDO France – Léger & Associés [2] Represented by Fabrice Chaffois [3] 113, rue de l'Université 75007 Paris	2007	2012	2018
Alternates			
Jean-Baptiste Deschryver [1] 63, rue de Villiers 92200 Neuilly-sur-Seine	2015	–	2018
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 *Member of the Compagnie Régionale des Commissaires aux comptes of Paris.*
3 *BDO represented by Fabrice Chaffois as of financial year 2013.*

Statutory Auditors' fees paid in 2015 within the HSBC France group are available in Note 43 to the consolidated financial statements on page 263.

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".

Sections of Annex XI of the EU Regulation 809/2004	Pages in this Registration Document
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2. Statutory Auditors	325
3. Risk factors	15 to 16 and 97 to 148
4. Information about the issuer	
4.1. History and development of the company	321
5. Business overview	
5.1. Principal activities	2 to 17 and 276
5.2. Principal markets	2 to 17 and 276
6. Organisational structure	
6.1. Brief description of the group	Inside cover, 2 to 17 2 to 17 and 270 to 273
6.2. Issuer's relationship with other group entities	–
7. Trend information	323
8. Profit forecasts or estimates	–
9. Administrative, management and supervisory bodies and senior management	
9.1. Administrative and management bodies	18 to 32
9.2. Administrative and management bodies - conflicts of interest	36
10. Major shareholders	
10.1. Control of the issuer	34 and 322
10.2. Arrangements known to the issuer which could entail a change in control at a subsequent date	–
11. Financial information concerning the issuer's assets and liabilities, financial position and profits and losses	
11.1. Historical financial information	156
11.2. Financial statements	158 to 263 and 266 to 307
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11.4. Age of latest financial information	164
11.5. Interim and other financial information	–
11.6. Legal and arbitration proceedings	137 to 139
11.7. Significant change in the issuer's financial or trading position	323
12. Material contracts	321
13. Third party information and statement by experts and declarations of any interest	–
14. Documents on display	319

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 2014 and the Statutory Auditors' report on the financial consolidated statements, presented on pages 112 to 232 and 233 to 234 of the Registration Document filed with the AMF on 2 March 2015 under reference number D15-0095; and
- the parent company financial statements for the year ended 31 December 2014 and the Statutory Auditors' report on the parent company financial statements, presented on pages 235 to 277 and 278 to 279 of the Registration Document filed with the AMF on 2 March 2015 under reference number D15-0095.

This Registration Document includes the annual financial report:

- Parent company financial statements pages 266 to 307
- Consolidated financial statements pages 158 to 263
- Management report pages 2 to 17 and 276
- Corporate, social and environmental responsibility pages 70 to 96
- Statement by person responsible page 324
- Statutory Auditors' report pages 264 to 265 and 308 to 309

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

HSBC France
350 locations
103 avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40
www.hsbc.fr

HSBC FRANCE SUBSIDIARIES

DISTRIBUTION

HSBC Factoring (France)
103 avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 72 00

ASSET MANAGEMENT

HSBC Global Asset Management (France)
4 place de la Pyramide – La Défense 9
92800 Puteaux
Mail address: 75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40

HSBC Epargne Entreprise (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 27 17

HSBC REIM (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 39 44

ASSURANCE

HSBC Assurances Vie (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 41 02 40 40

OTHER LOCATIONS OF THE HSBC GROUP IN FRANCE

HSBC Bank plc Paris Branch
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40

OTHER LOCATIONS OF THE HSBC FRANCE GROUP

SPAIN
HSBC Global Asset Management (France), Spanish branch
Plazza Pablo Ruiz Picasso, 1
Torre Picasso
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Telephone: 34 914 566 979

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HSBC Global Asset Management (France), Italian branch
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Birger Jarlsgatan 25
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