Update to the Registration Document
filed with the *Autorité des Marchés Financiers*
on 1 March 2017 under reference number D.17-0118
and Interim Financial Report

Update filed with the *Autorité des Marchés Financiers*
4 August 2017

HSBC France

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Presentation of information

This document was filed with the *Autorité des marchés financiers* ('AMF') on 4 August 2017 in accordance with Article 212-13 of the AMF's General Regulation. It updates the Registration Document *(Annual Report and Accounts)* filed with the AMF on 1 March 2017 under reference number D.17-0118. It may be used in support of a financial transaction when supplemented by a transaction note that has received approval from the AMF. This document has been prepared by the issuer and is binding on its signatories.

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Cautionary statement regarding forward-looking statements

This *Interim Report 2017* contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group.

Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC France plc makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement.

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

Highlights

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	€m	€m	€m
For the period			
Profit before tax (reported basis)	**196**	372	60
Profit before tax (adjusted basis)[1]	**262**	355	308
Net operating income before loan impairment charges and other credit risk provisions (reported basis)[2]	**1,034**	1,300	1,017
Profit/(loss) attributable to shareholders of the parent company (reported basis)	**126**	282	28
At period end			
Total equity attributable to shareholders of the parent company	**5,687**	5,961	5,842
Total assets	**177,477**	196,194	169,423
Risk-weighted assets	**34,609**	33,297	36,016
Loans and advances to customers (net of impairment allowances)	**42,187**	40,420	41,327
Customer accounts	**37,821**	35,948	34,220

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 6 to 10.*
2 *Net operating income before loan impairment charges and other credit risk provisions is also referred to as revenue.*

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	%	%	%
Capital ratios (fully loaded)			
Common equity tier 1[1]	**13.0**	14.4	13.1
Tier 1[1]	**13.6**	14.4	13.1
Total capital[1]	**14.3**	14.4	13.1
Performance, efficiency and other ratios (annualised)			
Annualised return on average shareholders' equity[2]	**4.4**	9.6	1.0
Pre-tax return on average risk-weighted assets (adjusted basis)	**1.5**	2.2	1.8
Cost efficiency ratio (adjusted basis)[3]	**75**	69	66
Liquidity Coverage Ratio (LCR)[4]	**159**	134	122
Net Stable Funding Ratio (NSFR)[5]	**119**	117	120

1 *Capital ratios as detailed on the capital section on pages 19 to 25.*
2 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.*
3 *Reported cost efficiency ratio is defined as total operating expenses (reported) divided by net operating income before loan impairment charges and other credit risk provisions (reported), while adjusted cost efficiency ratio is defined as total operating expenses (adjusted) divided by net operating income before loan impairment charges and other credit risk provisions (adjusted). Net operating income before loan impairment charges and other credit risk provisions (adjusted) is also referred to as revenue (adjusted).*
4 *Computed in respect of the EU Delegated act.*
5 *Computed in respect of BCBS 295 guidelines.*

Strategy

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

Long-term trends: increasing global connectivity

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

Distinctive advantages

Unrivalled global presence

HSBC enable clients to participate in global growth opportunities and offer leading product capabilities to build deeper and more enduring relationships with businesses and individuals with international needs.

Universal banking model

HSBC serve its banking customers through its four businesses, from individual savers to large multinational corporations. This universal banking model enables HSBC to effectively meet its clients' diverse financial needs, support a strong capital and funding base, reduce risk profile and volatility, and generate stable returns for shareholders.

HSBC in France

HSBC France's strategy and strategic direction is embedded in HSBC's strategy.

HSBC Group affirmed France to be one of HSBC's priority markets and confirmed the relevance of its strategic positioning in this market and its medium-term growth potential. HSBC France will continue to fully play its role as the strategic platform for Euro-denominated rates products and all currencies structured rates derivatives.

In France, HSBC's strategy is to develop a modernised universal banking model, differentiating itself on its unique international network, the quality of wealth management expertise and digital experience while accelerating the pace of transformation and maintaining its objectives on cost and risk-weighted assets control to improve profitability.

HSBC's strategy in France is described in the *Annual Report and Accounts 2016* on pages 2 to 5.

Economic background and outlook

The first semester of 2017 has been characterised in particular by the attention paid by markets to the inauguration of a new US administration and elections scheduled in some European countries, while the economic activity remained dynamic in most of the emerging countries.

The global economic outlook appeared stronger than forecast, sustained by Asian economies mostly, thanks to economic fundamentals which have improved over the recent years and helped also by still largely accommodative monetary policies. Relatively subdued inflation, fuelled by a decrease in oil prices, contributed to this situation.

In Europe, political risk has been an important driver for investors over the period, before indicators of tensions fell to particularly low levels of volatility by the summer. The Euro benefited from significant buying strategies after these electoral events versus the US dollar.

Against a backdrop of Asian economies succeeding in allying sustained economic activity and moderate inflationary pressures, the main central banks continued to adopt a cautious monetary policy stance: in particular, the US Fed raised the federal funds target rate in March and in June 2017, whilst the European central bank took note of the rebalancing of risks surrounding its economic scenario, but admitted inflation expected over the medium-term should remain below its 2% target.

In France, the economic activity entered into 2017 on a firmer footing, in particular thanks to a marked rebound in business investment over the first quarter. Soft data, showing confidence index at a six-year high for companies and at a 10-year high for households, suggested this economic momentum could last. Job creations also accelerated, bringing the unemployment rate mid-2017 back to its lowest level in four years. During the first half of 2017, French government bonds' 10Y interest rate rose 0.32% to 0.80%. The CAC40 index rose by 5% on the semester versus a 9% fall during the comparative period of the previous year.

Last, negotiations on the UK exiting from the European Union opened at a time when signs of a slowdown in the UK economic activity, hit by a rise in inflation, appeared more obvious.

The financial statements commented on below were prepared on the basis of the HSBC France group's consolidated scope, the financial statements of which are prepared in accordance with IFRS as defined in Note 1 (see page 31) to the condensed consolidated financial statements. They were subject to a limited review by the Statutory Auditors.

Financial summary

Summary consolidated income statement

	Half-year to	
	30 Jun 2017	30 Jun 2016
	€m	€m
Net interest income[1]	**532**	627
Net fee income	**291**	334
Net trading income[1]	**209**	352
Net (expense)/income from financial instruments designated at fair value	**310**	(177)
Gains less losses from financial investments	**57**	123
Net insurance premium income	**972**	1,018
Other operating income	**39**	(90)
Total operating income[1, 2]	**2,410**	2,188
Net insurance claims, benefits paid and movement in liabilities to policyholders	**(1,376)**	(888)
Net operating income before loan impairment and other credit risk provisions[2]	**1,034**	1,300
Loan impairment charges and other credit risk provisions	**4**	(24)
Net operating income[1]	**1,038**	1,276
Total operating expenses[2]	**(842)**	(904)
Operating profit[1]	**196**	372
Share of (loss)/profit in associates and joint ventures	**–**	–
Profit before tax[1]	**196**	372
Tax expense[1]	**(71)**	(90)
Profit/(loss) for the year[1]	**125**	282
Profit/(loss) attributable to shareholders of the parent company[1]	**126**	282
Profit attributable to non-controlling interests	**(1)**	–

1 *The comparative numbers are presented after the restatement explained in note 1h, in the section Review of macro hedge accounting.*
2 *Total operating income and expenses includes significant items as detailed on pages 6 and 10.*

Reported performance

Net interest income was EUR 532 million at end-June 2017, from EUR 627 million in the previous year. Against a background of low interest rates and negative ones on short term, the net interest margin on liabilities and mainly sight deposits fell across all business lines, offset in part by the positive volume effects. In the same way, the margin on mortgage lending to individuals was significantly lower due to continued high volumes of early repayments and renegotiations. In this low interest rate climate, the interest margin on repos and reverse repos business and portfolio activities at the insurance company was also lower.

Net fee income was EUR 291 million to end-June 2017, compared to EUR 334 million in the first half of 2016. This reflected the relatively high level of commissions in 2016 at the Global Banking and Markets business line. Fee income rose at the Retail banking on banking transactions and wealth management products.

Trading income fell from EUR 352 million in the first half of 2016 to EUR 209 million. This trend results from:

- significant items, which included:
  - the change in market value of non-qualifying interest rate hedges, which stood at EUR 5 million, compared to EUR -36 million at end-June 2016;
  - the change in the Debit Valuation Adjustment, to EUR -20 million at end-June 2017 compared with EUR 9 million the previous year;
- a significant fall in Balance sheet management revenue which, in 2016, included a gain on the partial discontinuation of macro hedging relationships under IAS 39 for EUR 208 million (see note 1h to the condensed consolidated financial statements);
- trading portfolio revenues at the insurance company, which benefited from favourable market conditions, rising from EUR -23 million in 2016 to EUR 6 million in 2017;
- excluding items listed above, trading revenue increased from EUR 194 million at 30 June 2016 to EUR 218 million at end-June 2017 mainly in rates markets, which benefited from positive levels of client activity.

Revenue from financial instruments designated at fair value was EUR 310 million, from EUR -177 million in 2016. The increase was mainly attributable to the rise in the market value of assets held by the insurance company on behalf of its customers with respect to unit-linked policies and designated as at fair value. As regards the insurance activity, the counterpart of this increase is the change in liabilities to policyholders.

Gain less losses from financial investments came primarily from the sale of securities available for sale and from Private Equity activities. It should be remembered that in 2016 the sale of the Visa Europe share to Visa Inc generated a capital gain of EUR 108 million.

Insurance premium income was EUR 972 million in the first half of the year, compared to EUR 1,018 million in the same period of the previous year. Net new money was at break even over the first half and positive for clients of the HSBC network in France.

Other operating income came to EUR 39 million versus EUR -90 million a year previously, mainly due to changes in the Present Value of In-force insurance long-term business – PVIF (Cf. Note 4 of financial statements, EUR 29 million increase in accounting PVIF in the first half of 2017, as opposed to a EUR 96 million decrease in the first half of 2016). Changes in PVIF were primarily due to change in market conditions.

Net insurance claims and movements in liabilities to policyholders were EUR -1,376 million in the first half of 2017, from EUR -888 million in the first half of 2016. The change was due to an increase in the value of hedging products accounted for in the trading book and the rise in value of fair-valued financial instruments.

Reported net operating income before impairment charges was EUR 1,034 million, from EUR 1,300 million in the first half of 2016. This includes the effect of exceptional items and accounting volatility and reflects the increased revenue from Global Banking and Markets was more than offset by the fall in revenue at the Retail and Commercial Banking business lines, due to the impact on banking in France of the low interest rates environment.

Loan impairment charges showed a net reversal of EUR 4 million, representing a significant fall on the previous year when they were EUR 24 million. This historically low level reflects both the improved financial situation of businesses across all sectors of the economy and the rigorous management of risk over the last three years.

Operating expenses totalled EUR 842 million in the first half of 2017, compared with EUR 904 million in the year-earlier period. The first half of 2016 saw the unfavourable effect of litigation provisions (EUR 32 million). HSBC France is continuing its programme of spending and investment for growth managed through Costs to Achieve ('CtA'). The programme, which totalled EUR 51 million to 30 June 2017, includes provisions for restructuring and strategic project deployment costs. Excluding the elements mentioned above, costs were reduced by 4% relative to the first half of 2016, including a EUR 15 million lower contribution to the Single resolution fund than in the first half of 2016 and illustrating the efforts made to improve productivity and efficiency.

Consolidated Profit before tax was EUR 196 million, lower than the EUR 372 million recorded in the previous year. This result includes the effect of exceptional items and accounting volatility and reflects the good performance in Global Banking and Markets, and a fall in revenue at the Retail Banking and Wealth Management and Commercial Banking activities against a background of low interest rates, historically low cost of risk and good control over operating expenses.

Net profit attributable to shareholders of the parent company was EUR 126 million in the first half of 2017 versus EUR 282 million in the year-earlier period.

Adjusted performance

Non-GAAP financial measures

To make it easier to understand the performance review relating to the Group and its subsidiaries, HSBC has elected to supplement the accounting data published with a presentation of the main lines of business accounts on an 'adjusted' basis. This approach consists of restating published figures for the effect of changes in scope and currency variations between the two periods under review, together with certain 'significant items', which are listed and quantified below where they concern HSBC France.

Change in reportable segments

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

During 2016, HSBC conducted also a number of internal reviews aligning customer requirements to those global businesses best suited to service their respective needs, resulting in the transfer of a portfolio of customers from CMB to GB&M during the year.

Comparative half-year to 30 June 2016 data have been re-presented accordingly.

Basis of preparation

Global businesses are our reportable segments under IFRS 8. The global business results are assessed by the chief operating decision maker on the basis of adjusted performance that removes the effects of significant items from reported results. We therefore present these results on an adjusted basis.

Reconciliations of reported and adjusted performance are presented on pages 7 and 8.

HSBC France's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to global businesses are included in Corporate Centre.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intra-group elimination items are presented in the Corporate Centre.

A description of the Global businesses is provided on pages 3 and 5 of the *Annual Report and Accounts 2016.*

By operating segment

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

	Half-year to 30 Jun 2017					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
Reported revenue	**416**	**260**	**355**	**25**	**(22)**	**1,034**
Significant revenue items	–	–	20	–	(5)	15
– change in credit spread on debt under fair value option[2]	–	–	–	–	–	–
– debit valuation adjustment	–	–	20	–	–	20
– non-qualifying hedges	–	–	–	–	(5)	(5)
– gain on sale of shareholding of Visa Europe	–	–	–	–	–	–
Adjusted revenue	**416**	**260**	**375**	**25**	**(27)**	**1,049**

	Half-year to 30 Jun 2016[1]					
Reported revenue	428	315	346	22	189	1,300
Significant revenue items	(77)	(31)	(9)	–	22	(95)
– change in credit spread on debt under fair value option	–	–	–	–	(14)	(14)
– debit valuation adjustment	–	–	(9)	–	–	(9)
– non-qualifying hedges	–	–	–	–	36	36
– gain on sale of shareholding of Visa Europe	(77)	(31)	–	–	–	(108)
Adjusted revenue	351	284	337	22	211	1,205

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

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

	Half-year to 30 Jun 2017					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
Reported operating expenses	**(386)**	**(175)**	**(207)**	**(21)**	**(53)**	**(842)**
Significant cost items	10	–	4	–	37	51
– costs to achieve	10	–	4	–	37	51
– settlements and provisions in connection with legal and regulatory matters	–	–	–	–	–	–
Adjusted operating expenses	**(376)**	**(175)**	**(203)**	**(21)**	**(16)**	**(791)**

	Half-year to 30 Jun 2016[1]					
Reported operating expenses	(395)	(184)	(245)	(18)	(62)	(904)
Significant cost items	5	5	33	–	35	78
– costs to achieve	5	5	1	–	35	46
– settlements and provisions in connection with legal and regulatory matters	–	–	32	–	–	32
Adjusted operating expenses	(390)	(179)	(212)	(18)	(27)	(826)

1 *The comparative numbers are presented after the restatement explained in note 1g, in the section 'Significant events during the first half-year' – 'Changes in Business Lines segmentation'.*

Net impact on profit before tax by business segment

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	Half-year to 30 Jun 2017					
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Reported profit/(loss) before tax	**25**	**88**	**155**	**3**	**(75)**	**196**
Significant revenue items	**–**	**–**	**20**	**–**	**(5)**	**15**
Significant cost items	**10**	**–**	**4**	**–**	**37**	**51**
Adjusted profit/(loss) before tax	**35**	**88**	**179**	**3**	**(43)**	**262**
Net impact on reported profit and loss	**10**	**–**	**24**	**–**	**32**	**66**
	Half-year to 30 Jun 2016[1]					
Reported profit/(loss) before tax	25	111	105	4	127	372
Significant revenue items	(77)	(31)	(9)	–	22	(95)
Significant cost items	5	5	33	–	35	78
Adjusted profit/(loss) before tax	(47)	85	129	4	184	355
Net impact on reported profit and loss	(72)	(26)	24	–	57	(17)

1 *The comparative numbers are presented after the restatement explained in note 1h, in the section 'Review of macro hedge accounting' and after the restatement explained in note 1g, in the section 'Significant events during the first half-year' – 'Changes in Business Lines segmentation'.*

Adjusted profit/(loss) for the period

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	Half-year to 30 Jun 2017					
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Net interest income	**325**	**158**	**73**	**16**	**(40)**	**532**
Net Fee Income	**139**	**97**	**43**	**12**	**–**	**291**
Trading Income	**6**	**–**	**220**	**2**	**(4)**	**224**
Other income	**(54)**	**5**	**39**	**(5)**	**17**	**2**
Total operating income before loan impairment charges and other credit risk	**416**	**260**	**375**	**25**	**(27)**	**1,049**
– external	**446**	**246**	**351**	**24**	**(19)**	**1,048**
– inter-segment	**(30)**	**14**	**24**	**1**	**(8)**	**1**
Loan impairment charges and other credit risk provisions	**(5)**	**3**	**7**	**(1)**	**–**	**4**
Net operating income	**411**	**263**	**382**	**24**	**(27)**	**1,053**
Total operating expenses	**(376)**	**(175)**	**(203)**	**(21)**	**(16)**	**(791)**
Operating profit	**35**	**88**	**179**	**3**	**(43)**	**262**
Share of loss in associates and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**
Adjusted profit before tax	**35**	**88**	**179**	**3**	**(43)**	**262**
	Half-year to 30 Jun 2016[1]					
Net interest income	384	173	83	14	(26)	628
Net Fee Income	143	103	77	11	–	334
Trading Income	(23)	–	170	2	230	379
Other income	(153)	8	7	(5)	7	(136)
Total operating income before loan impairment charges and other credit risk	351	284	337	22	211	1,205
– external	387	258	333	22	206	1,206
– inter-segment	(36)	26	4	–	5	(1)
Loan impairment charges and other credit risk provisions	(8)	(20)	4	–	–	(24)
Net operating income	343	264	341	22	211	1,181
Total operating expenses	(390)	(179)	(212)	(18)	(27)	(826)
Operating profit	(47)	85	129	4	184	355
Share of profit in associates and joint ventures	–	–	–	–	–	–
Adjusted profit before tax	(47)	85	129	4	184	355

1 *The comparative numbers are presented after the restatement explained in note 1h, in the section Review of macro hedge accounting and after the restatement explained in note 1g, in the section 'Changes in Business Lines segmentation'.*

Adjusted Performance

Adjusted profit before tax for HSBC France was EUR 262 million, lower than the EUR 355 million recorded in the year-earlier period.

Adjusted net operating income before impairment charges was EUR 1,049 million from EUR 1,205 million in the first half of 2016. This fall was due largely to a significant decrease in Balance sheet management revenue which, in 2016, included a gain on the partial discontinuation of macro hedging relationships under IAS 39 for EUR 172 million; this was partially offset by an increase in income from manufacturing life assurance, which was boosted by a positive change in economic PVIF in relation with the change in market conditions (economic PVIF includes accounting PVIF, hedging instruments and technical provisions). This result reflected the good performance in Global Banking and Markets, and a fall in revenue at the Retail Banking and Wealth Management and Commercial Banking activities against a background of low interest rates.

Loan impairment charges showed a net reversal of EUR 4 million, representing a significant fall on the previous year when they were EUR 24 million. This historically low level reflects both the improved financial situation of businesses across all sectors of the economy and the rigorous management of risk over the last three years.

Adjusted operating expenses totalled EUR 791 million in the first half of 2017, compared with EUR 826 million in the year-earlier period. The contribution to the Single Resolution Fund was EUR 15 million lower than in the first half of 2016. The reduction in adjusted operating expenses illustrates the efforts made to improve productivity and efficiency.

Retail Banking and Wealth Management ('RBWM')

Adjusted profit before tax, of EUR 35 million for the first half of 2017, rose strongly compared to the EUR -47 million reported in the first half of 2016.

Adjusted net operating income before impairment charges was EUR 416 million, from EUR 351 million in the first half of 2016. This figure was significantly affected by the change in economic PVIF, which was EUR +24 million from EUR -81 million in 2016. Interest margin was hit, against a background of low interest rates, by pressure on margins on deposits and mortgages, which saw a high level of early repayments and renegotiations, partly offset by a positive volume effect on deposits and lending and an increase in early repayment penalties. Net commissions saw a positive trend in banking transactions and wealth management products.

Loan impairment charges were reduced from EUR 8 million to EUR 5 million.

Adjusted operating expenses were EUR 376 million, a fall of 4%, resulting from a reduction in the Single Resolution Fund contribution and productivity gains in administrative services and support functions.

Commercial Banking ('CMB')

Adjusted profit before tax was EUR 88 million at 30 June 2017, an increase of 4% on the first half of 2016.

Adjusted net operating income before impairment charges was EUR 260 million, from EUR 284 million in the first half of 2016. revenue was affected by the continuation of low interest rates, partly offset by growth in total outstanding loans and strong distribution of medium-term and long-term loans.

Revenue generated by French customers for other international HSBC Group entities rose by 21% over the first six months of the year. Revenue generated by clients of other international HSBC Group entities in France rose by 31%. HSBC remains a key partner for French companies seeking to set up abroad and for foreign companies seeking to expand in France.

Loan impairment charges saw net reversals of EUR 3 million over the first half, compared with a net allowance of EUR 20 million in the first six months of 2016. This historically low level reflects both the improved financial situation of businesses across all sectors of the economy and the rigorous management of risk over the last three years.

Adjusted operating expenses, at EUR 175 million, were 2% lower than in the same period the previous year. The improvement in operational efficiency allowed continued expenditure and investment in compliance and tackling financial crime.

Global Banking and Markets ('GB&M')

Adjusted profit before tax for the first half of 2017 was EUR 179 million, from EUR 129 million in the first half of 2016.

Adjusted net operating income before impairment charges was EUR 375 million (+11%). Revenue was driven in particular by strong client activity in Eurozone sovereign debts, where HSBC rose in the league tables and Private equity business, partly offset by a fall in M&A and financing revenue in comparison to the relatively strong performance in the first half of 2016. Global liquidity and cash management and Global trade and receivable finance all enjoyed a satisfactory first half and saw revenues grow. During the first six months of 2017, HSBC had seen revenues generated by major French clients in international markets grow by 6% compared to the year-earlier period. Revenue generated in France by major French and international clients was stable over the first half of 2017.

Loan impairment charges saw net reversals of EUR 4 million over the first half of 2016, compared with net reversals of EUR 7 million in the first six months of 2017.

Adjusted operating expenses were EUR 203 million, compared to EUR 212 million in the first half of 2016, including a fall in the contribution to the Single Resolution Fund.

Global Private Banking ('GPB')

Adjusted profit before tax for the first half of 2017 was EUR 3 million.

Adjusted net operating income before impairment charges was EUR 25 million, from EUR 22 million in the first half of 2016. Revenue was boosted by the change in economic PVIF. For interest margin, the negative effects of low interest rates were offset by positive trends in lending volumes. Net fees and other income benefited from the rise in equity markets, positive net new money and boosted client activity.

Loan impairment charges increased at the level of collective provisions, in line with the growth in outstanding loans.

Adjusted operating expenses were EUR 21 million, compared to EUR 18 million in the first half of 2016. This increase was due mainly to ongoing projects and programmes relating to compliance and regulatory requirements.

Corporate Centre

Adjusted profit before tax was EUR -43 million from EUR 184 million in the first half of 2016. The 2016 figure included a gain on the partial discontinuation of macro hedging relationships under IAS 39 for EUR 172 million.

Outlook for the second half of 2017

Over the second half of the year, low interest rates are likely to continue to put pressure on intermediation margins in French banking. Early redemptions and renegotiations of loans could rise if interest rates start to fall again, and the Asset Management and Life Insurance businesses could continue to experience adverse market conditions.

However, the prospect of a gradual recovery in French economic growth opens the way to an improvement in conditions for business and a possible upturn in activity levels.

Against this background, HSBC France is implementing its strategy to offset the unfavourable factors listed above by improving the quality of the services provided to clients, through investment in digital banking and maintaining or increasing its market share thanks to the HSBC Group's international reach.

As part of the separation of banking activities in the United Kingdom, the HSBC Group has elected to put the Greek subsidiary of HSBC Bank plc under the control of HSBC France, which is the Group's main operational platform in continental Europe. This change will take effect from 1 January 2018.

The period of uncertainty and market volatility which followed the UK's decision to leave the EU is likely to continue until the UK's future relationship with the EU and the rest of the world is clearer. Given the time-frame and the complex negotiations involved, a clearer picture is not expected to emerge for some time. HSBC is working with customers as they adapt to this new environment and plan for what might follow.

Meeting customers' needs following the UK's departure from the EU will likely require adjustments to HSBC's cross-border banking model. HSBC France is committed to support the HSBC Group in quickly and seamlessly adapting its banking model to this new landscape.

Review of business position

Summary consolidated balance sheet

	30 Jun 2017 €m	31 Dec 2016 €m
Total assets	**177,477**	169,423
– cash and balances at central banks	**6,149**	4,714
– trading assets	**35,756**	23,589
– financial assets designated at fair value	**7,922**	7,305
– derivatives assets	**38,222**	47,367
– loans and advances to banks	**5,359**	3,379
– loans and advances to customers	**42,187**	41,327
– reverse repurchase agreements – non-trading	**16,788**	11,862
– financial investments	**22,124**	26,504
– other	**2,970**	3,376
Total liabilities	**171,759**	163,550
– deposits by banks	**12,936**	12,061
– customer accounts	**37,821**	34,220
– repurchase agreements – non-trading	**10,863**	7,592
– trading liabilities	**35,497**	26,468
– financial liabilities designated at fair value	**7,504**	8,464
– derivative liabilities	**36,106**	44,013
– debt securities in issue	**6,228**	6,616
– liabilities under insurance contracts issued	**21,540**	21,302
– other	**3,264**	2,814
Total equity	**5,718**	5,873
– total shareholders' equity	**5,687**	5,842
– non-controlling interests	**31**	31

Balance Sheet Information by segment

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
As at 30 Jun 2017	**46,201**	**11,327**	**116,279**	**1,024**	**2,646**	**177,477**
– *of which: Loans and advances to customers*	***17,867***	***10,637***	***12,036***	***1,633***	***14***	***42,187***
– *of which: Customers accounts*	***15,369***	***10,824***	***10,678***	***895***	***55***	***37,821***
As at 31 Dec 2016[1]	43,167	10,626	106,350	820	8,460	169,423
– *of which: Loans and advances to customers*	*17,756*	*10,398*	*11,785*	*1,374*	*14*	*41,327*
– *of which: Customers accounts*	*14,593*	*10,248*	*7,138*	*779*	*1,462*	*34,220*

1 *The comparative numbers are presented after the restatement explained in note 1g, in the section 'Significant events during the first half-year' - 'Changes in Business Lines segmentation'.*

HSBC France's consolidated balance sheet had total assets of EUR 177.5 billion at 30 June 2017, versus EUR 169.4 billion at 31 December 2016. The increase was mainly due to capital markets activities.

Assets

- deposits with the Central Bank rose to EUR 6.1 billion, in connection with the bank's liquidity ratios improvement;
- the trading assets amounted to EUR 35.8 billion versus EUR 23.6 billion at end-2016, mainly due to the drop in settlement accounts at year end;
- Financial assets designated as at fair value increased by 8 % to EUR 7.9 billion. These assets are mainly held by clients through life insurance policy units;
- derivatives came from EUR 47.4 billion at end-2016 to EUR 38.2 billion at end-June 2017 mainly because of changing market conditions;
- loans and advances to banks totalled EUR 5.4 billion, up EUR 2.0 billion relative to end-2016;
- loans and advances to customers slightly increased to EUR 42.2 billion across all banking business lines;
- available-for-sale financial assets totalled EUR 22.1 billion as opposed to EUR 26.5 billion at end-December 2016;
- reverse repo transactions rose during the first half of 2017, to EUR 16.8 billion.

Liabilities

- deposits by banks rose from EUR 12.1 billion at end-2016 to EUR 12.9 billion at end-June 2017. The increase was mainly due to HSBC Bank Plc redeploying TLAC resources by lending them to subsidiaries. There were also an increase in drawings on TLTRO II;
- customer accounts rose from EUR 34.2 billion to EUR 37.8 billion during the first half of 2017, with increases across all banking business lines;
- the trading book grew from EUR 26.5 billion to EUR 35.5 billion, mainly due to the decline in settlement accounts at year end and changes in short market positions;
- financial liabilities designated at fair value fell at EUR 7.5 billion, due to the decrease in senior debt outstanding, partially replaced by resources from HSBC bank plc;
- derivatives fell from EUR 44.0 billion at end-June 2016 to EUR 36.1 billion at end-2017, mainly because of changing market conditions;
- debt securities in issue slightly decreased to EUR 6.2 billion;
- liabilities under insurance contracts went from EUR 21.3 billion to EUR 21.5 billion;
- repo transactions rose during the first half of 2016 to EUR 10.9 billion;
- shareholders' equity of the parent company slightly decreased to EUR 5.7 billion in the first half of 2017 due to dividend distribution.

Capital

During the first half of 2017, HSBC France has reviewed its capital structure and performed several operations described in the capital management section on page 19.

At 30 June 2017 the 'fully loaded' Common equity tier 1 ('CET1') ratio stands at 13.0% compared to 13.1% at year-end 2016. At end-June 2017,'fully loaded' total capital ratio was 14.3%, and transitional Leverage ratio was 3.5%.

Liquidity and funding

The bank's medium- and long-term debt and the main funding operations performed during the first half of 2017 are presented in the Liquidity and funding section on page 18.

The short-term Liquidity coverage ratio - LCR computed in respect of the EU Delegated act was 159% at 30 June 2017 and the long term Net stable funding ratio - NSFR computed in respect of BCBS 295 guidelines was 119%.

Average number of persons employed by HSBC France

	30 Jun 2017	30 Jun 2016
Retail Banking and Wealth Management	**3,766**	3,828
Commercial Banking	**1,330**	1,397
Global Banking and Markets[1]	**659**	735
Private Banking	**102**	96
Corporate Centre	**10**	11
Support functions and others	**2,965**	3,361
Total	**8,832**	9,428

1 *The comparative numbers are presented after the restatement explained in note 1g, in the section 'Significant events during the first half-year' - 'Changes in Business Lines segmentation'.*

Credit ratings

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

	Standard & Poor's	Moody's	FitchRatings
Long term Unsecured Debt	AA -	A2	AA -
Long term Banking Deposits	AA -	A1	AA -
Outlook	Negative	Negative	Stable
Short Term Rating	A-1+	P-1	F1+
Last update	July 7, 2016	June 28, 2016	October 20, 2016

HSBC France's credit ratings did not change during the first half of 2017.

Risk

Risk overview

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

Our 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 risks related to retirement and insurance.

In addition to these banking risks, we have identified top and emerging risks with the potential to have a material impact on our financial results or reputation and the sustainability of our long-term business model. There have been no new top and emerging risks identified since 31 December 2016.

The exposure to our risks and risk management of these are explained in more detail in the Report of the Directors on page 114 and following of the *Annual Report and Accounts 2016.*

Risk		Mitigants
Externally driven		
Macro economic risks	▼	In the first half of 2017, the macroeconomic environment displayed positive trends across most geographies, with growth gathering impetus in the US, resuming in South America and re-accelerating in China. In the EU, even though inflation remains below target and economies continue to be somewhat artificially protected by the ECB's ongoing 'quantitative easing' policy, most countries are going through a period of modest but continued GDP growth. France has yet to tackle its excessive public debt and to go back within the prescribed maximum 3% public deficit, however companies bankruptcies have massively decreased across almost all sectors and are now back to levels unseen since 2008.
Technology risk	▲	We actively engage with peers and Fintechs to closely track innovation across the market, identify potential partners, and maintain a strong brand visibility. In parallel, we have launched internal projects to ensure compliance with new regulatory requirements and identify future opportunities on the market.
Increasing Regulatory Expectations	▶	The HSBC Group and HSBC France monitor and anticipate regulatory change wherever possible and maintain a permanent and intensive dialogue with their key regulators and policymakers. The impact of regulatory evolution on capital requirements and more generally on their financial results are regularly assessed, presented and discussed by management.
Information Security Cyber Crime and Fraud Risks	▲	We are actively participating in intelligence sharing and continue to improve our governance and controls framework to protect HSBC information and technical infrastructure against ever increasingly sophisticated cyber threats such as Payment Systems compromises and Ransomware attacks.
Tax Transparency	▶	We are continuing to implement the Tax Transparency Global Standards and to develop procedures which help identifying higher risk customers and specify requiring additional information. We are also implementing CRS to exchange information with other adopting countries.
Regulatory Compliance	▲	We are actively working on the implementation of the upcoming significant EU regulatory projects and provide advice to the business to ensure compliance by due date. We also continue to improve the market abuse framework to meet the Regulator's expectations.
Financial Crime Compliance	▶	The main milestones to deploy the compliance systems/processes and support global anti-money laundering ('AML'), Sanctions and Anti-Bribery and Corruption policies have been met. Focus is now put on embedding the changes into our day-to-day operations as well as meeting the next milestones. An assessment against the capabilities of our Financial Crime Risk Framework is also being conducted in liaison with Group to conduct investigations within deadlines.
Legal risks	▶	Please refer to Note 10 for further details.
Internally driven		
IT systems risk	▼	Pursue the Evergreening program (priority given to Personal Internet Banking and to GBM servers migration).
People risk	▶	We have increased our focus on resource management (recruitment of employees or temporary workers where needed, retention); specific learning courses are implemented to adapt/upgrade skills and competencies (technical, management, soft skills) when needed; develop initiatives towards line managers in terms of managing change (ie digital…) and supporting more their employees; more attention is being paid to the social climate through specific surveys.
Heightened Execution and Operational risks	▶	IT – Pursue the processes optimisation and robotisation programs Operational Risk – in 2016-2017, Group has undertaken a number of initiatives to enhance risk management, it goes through the strengthen our risk culture and further embed the use of the operational risk management framework with the roll-out of ORTP (Operational Risk Transformation Programme) and Helios deployment.
Model risk	▼	We maintain a constant recruitment effort across the modeling teams. Robustness of backtesting across Financial Crime Compliance and Regulatory Compliance models is improving. We have redeveloped and submitted to the regulators several key Credit Risk models. HBFR continues to engage with the ECB and participate in consultation papers and industry working groups.
Data Management & Record Management	▶	Reinforce the transversal governance put in place during the first quarter of 2017 (notably the Data Management Committee).

▲ Risk has heightened during first half of 2017
▶ Risk remains at the same level as 31 December 2016
▼ Risk has decreased during first half of 2017

Managing risk

The risk profile of HSBC France is underpinned by its core philosophy of maintaining a strong balance sheet, robust liquidity position and capital strength. The bank continued to have a conservative risk profile during the first half of 2017.

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

The risk management framework promotes a strong risk culture which is reinforced by HSBC Values and Global Standards and ensures that our risk profile remains conservative and aligned to our risk appetite. Further details are set out on pages 119 to 122 of the *Annual Report and Accounts 2016.*

Top and emerging risks

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

Our 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 risks related to retirement and insurance.

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

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

These have been reviewed during the first half of 2017.

Further details are set out in the risk overview table on page 13.

Areas of special interest

Process of UK withdrawal from the European Union

The period of uncertainty and market volatility which followed the UK's decision to leave the EU is likely to continue until the UK's future relationship with the EU and the rest of the world is clearer. Given the time-frame and the complex negotiations involved, a clearer picture is not expected to emerge for some time. HSBC is working with customers as they adapt to this new environment and plan for what might follow.

Meeting customers' needs following the UK's departure from the EU will likely require adjustments to HSBC's cross-border banking model. HSBC France is committed to support the HSBC Group in quickly and seamlessly adapting its banking model to this new landscape.

Through this period of uncertainty, our priorities are to continue to support our customers, take appropriate actions to mitigate risks and maintain stability, and deliver on our strategy. We are actively monitoring our portfolio to identify areas of stress we pay particular attention to vulnerable sectors and we adjust our risk policy or appetite where necessary in consideration of their review. As the UK's key negotiating positions become clearer, we will take actions required to meet our priorities.

Key developments and risk profile

Key developments in 2017

In the first half of 2017, HSBC France has implemented a number of initiatives to continue to enhance its risk management practices. These include:

- Rolling-out its new operational risk monitoring and reporting tool as part of the operational risk transformation programme launched in 2016; this new tool provides an end-to-end vision of the bank's key risks per Business, irrespective of whether these risks and the related controls sit within or outside the Business concerned;
- Implementing its new Value at Risk model, following approval by the ECB, which has improved the accuracy of its risk measurement within Global Markets, allowing better monitoring and forecasting, and a more efficient use of capital;
- Completing the redevelopment of two of its main wholesale models, namely the Probability of Default ('PD') model for small-and medium-size companies and the Loss Given Default ('LGD') model for Companies; these two models have been submitted to the PRA and the ECB for review under the 'joint decision' process;
- Achieving the embedding of the 'Conduct' programme across all Businesses.

Credit risk

Credit risk in the first half of 2017

A summary of our current policies and practices regarding credit risk is set out on pages 122 to 145 of the *Annual Report and Accounts 2016*.

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 holdings of debt securities.

There were no material changes to our policies and practices for the management of credit risk in 2017.

Credit quality of financial instruments

The five credit quality classifications set out and defined on pages 131 to 132 of the *Annual Report and Accounts 2016* describe the credit quality of the Group's lending, debt securities portfolios and derivatives. These classifications each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending businesses, as well as the external ratings attributed by external agencies to debt securities. There is no direct correlation between internal and external ratings at granular level, except to the extent each falls within a single credit quality classification.

The following tables set out the group's distribution of financial instruments by credit quality classification:

Distribution of total financial instruments exposed to credit risk by credit quality

	As at 30 Jun 2017								
	Neither past due nor individually impaired								
	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Total gross amount	Impairment allowances	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Cash and balances at central banks	6,149	–	–	–	–	–	6,149	–	6,149
Items in the course of collection from other banks	221	–	–	–	–	–	221	–	221
Trading assets	17,253	6,602	11,885	16	–	–	35,756	–	35,756
– treasury and other eligible bills	345	727	129	–	–	–	1,201	–	1,201
– debt securities	13,223	4,866	777	–	–	–	18,866	–	18,866
– loans and advances to banks	1,361	938	9,049	16	–	–	11,364	–	11,364
– loans and advances to customers	2,324	71	1,930	–	–	–	4,325	–	4,325
Financial assets designated at fair value	953	58	15	–	–	–	1,026	–	1,026
Derivatives	34,782	2,247	1,187	6	–	–	38,222	–	38,222
Loans and advances to customers held at amortised cost	25,255	9,664	5,875	574	233	1,151	42,752	(569)	42,183
– personal	14,632	610	58	–	144	339	15,783	(82)	15,701
– corporate and commercial	10,118	8,330	5,686	570	89	807	25,600	(482)	25,118
– non-bank financial institutions	505	724	131	4	–	5	1,369	(5)	1,364
Loans and advances to banks held at amortised cost	4,072	442	846	–	–	1	5,361	(1)	5,360
Reverse repurchase agreements – non-trading	12,347	2,555	1,886	–	–	–	16,788	–	16,788
Financial investments	18,817	2,000	988	–	–	–	21,805	–	21,805
Other assets	–	1	874	–	–	–	875	–	875
Total	119,847	23,569	23,556	596	233	1,152	168,953	(570)	168,383
Percentage of total gross amount (%)	70.9%	14.0%	13.9%	0.4%	0.1%	0.7%	100.0%	–	–
	As at 31 Dec 2016								
Cash and balances at central banks	4,714	–	–	–	–	–	4,714	–	4,714
Items in the course of collection from other banks	437	–	–	–	–	–	437	–	437
Trading assets	17,232	4,084	2,256	17	–	–	23,589	–	23,589
– treasury and other eligible bills	62	328	3	–	–	–	393	–	393
– debt securities	12,923	2,343	344	–	–	–	15,610	–	15,610
– loans and advances to banks	1,669	1,359	1,613	17	–	–	4,658	–	4,658
– loans and advances to customers	2,578	54	296	–	–	–	2,928	–	2,928
Financial assets designated at fair value	930	84	19	–	–	–	1,033	–	1,033
Derivatives	43,163	3,684	499	21	–	–	47,367	–	47,367
Loans and advances to customers held at amortised cost	25,234	8,820	5,776	698	223	1,200	41,951	(624)	41,327
– personal	14,501	534	122	–	156	308	15,621	(85)	15,536
– corporate and commercial	10,151	7,512	5,475	690	67	872	24,767	(520)	24,247
– non-bank financial institutions	582	774	179	8	–	20	1,563	(19)	1,544
Loans and advances to banks held at amortised cost	2,470	478	429	2	–	–	3,379	–	3,379
Reverse repurchase agreements – non-trading	7,779	1,922	2,161	–	–	–	11,862	–	11,862
Financial investments	23,258	2,209	1,037	–	–	1	26,505	(1)	26,504
Other assets	–	–	985	–	–	–	985	–	985
Total	125,217	21,281	13,162	738	223	1,201	161,822	(625)	161,197
Percentage of total gross amount (%)	77.4%	13.2%	8.1%	0.5%	0.1%	0.7%	100.0%	–	–

Movement in impairment allowances on loans and advances to customers and banks

	Banks	Customers		
	Individually assessed	Individually assessed	Collectively assessed	Total
	€m	€m	€m	€m
At 1 Jan 2017	**–**	**(560)**	**(64)**	**(624)**
Amounts written off	**–**	**52**	**–**	**52**
Recoveries of amounts previously written off	**–**	**(2)**	**–**	**(2)**
Charge to income statement	**(1)**	**(6)**	**10**	**3**
Foreign exchange and other movements	**–**	**2**	**–**	**2**
At 30 Jun 2017	**(1)**	**(514)**	**(54)**	**(569)**
At 1 Jan 2016	–	(609)	(77)	(686)
Amounts written off	–	58	–	58
Recoveries of amounts previously written off	–	(1)	–	(1)
Charge to income statement	–	(35)	10	(25)
Foreign exchange and other movements	–	4	–	4
At 30 Jun 2016	–	(583)	(67)	(650)

Liquidity and funding risk

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

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

Liquidity Coverage Ratio ('LCR')

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

HSBC France's LCR as at the end of June 2017 was 159%. HSBC France voluntarily increased its liquidity position ahead of the French elections in view of the uncertain outcome.

Net stable funding ratio ('NSFR')

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

The European calibration of NSFR is pending following the Basel Committee's final recommendation in October 2014. HSBC calculates the NSFR in line with the relevant text from the Basel Committee of Banking Supervision ('BCBS 295'), pending its implementation in Europe. This calculation requires various interpretations of the text as it stands, and therefore the HSBC NSFR may not be directly comparable to the ratios of other institutions.

HSBC France's NSFR ratio on a BCBS 295 basis as at 30 June 2017 was 119%.

Medium- and long-term debt

The medium - and long - term debt (debt with an original maturity of greater than one year) was EUR 12.2 billion as at 30 June 2017, an increase of EUR 0.3 billion compared with 31 December 2016.

In March 2017, HSBC France took a further EUR 0.6 billion of funding from the ECB's TLTRO II funding scheme, bringing the total amount of TLTRO II funding taken to EUR 4.1 billion.

In addition to this, a further EUR 0.8 billion of TLAC funding in the form of an unsecured intragroup loan was cascaded from HSBC Bank Plc to HSBC France in February 2017, bringing the total of these unsecured intragroup loans to EUR 2.8 billion. Once the definitive qualifying conditions will be defined, this resource could be converted into eligible debt under the MREL (Minimum requirement for own funds and eligible liabilities) framework.

HSBC France also took an unsecured loan of USD 1.0 billion from HSBC Bank Plc in April 2017.

Market risk

Market risk in the first half of 2017

First quarter of the year in Eurozone has been tense with raising fears mainly on French presidential elections. Spreads between German and French debts particularly reached a peak in February at 80 bps (for a 10 years issue).

In consequence, French elections results have been welcomed by Financial Markets. European Stock indexes reached a yearly high following the election, spreads between German and France debts collapsed ending at 0.34% at end of June.

UK General elections have been disappointing for Theresa May bringing uncertainty around Brexit execution.

At the end of June, interpretations around Mario Draghi potential optimism on inflation caused a regain of volatility with an increase of yield curves mainly on Core Countries (Germany, Belgium, Netherlands and France). The euro gained against the US dollar from 1.06 to 1.14 despite a 0.25% increase by the Federal Open Market Committee ('FOMC') of its benchmark in June.

Eurozone yield curves have slightly increased during the semester with the notable exception of Portugal, for which reliefs around financial perspective drove its yields down.

Exposures remained in line with the HSBC France market risk appetite.

Value at Risk

The new Value at Risk ('VaR') model has been validated by the European Central Bank in the first half of 2017. Comparing to the old one, the new VaR model exhibits a better modelling of market risk shocks, especially in a low and negative rates environment.

Trading portfolios

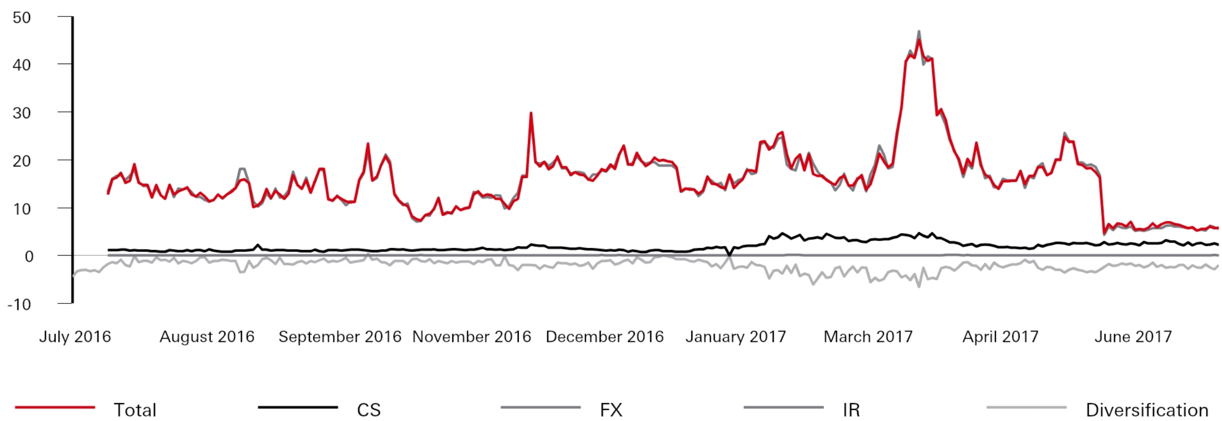
Value at Risk of the trading portfolio

Trading VaR predominantly resides within Global Markets. Despite moderate exposures, the Total VaR in average had increased from last year due to the overestimation of applied shock in the old model. As at the end of June 2017, the VaR level had significantly decreased due to the introduction of the new model.

Total trading VaR by risk type

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Jun 2017	**0.04**	**4.63**	**–**	**2.73**	**(2.35)**	**5.05**
Average	**0.02**	**15.51**	**–**	**1.89**	**(1.88)**	**15.54**
Maximum	**0.14**	**46.86**	**–**	**4.60**	**(6.58)**	**45.14**
Balance at 30 Jun 2016	0.01	12.19	–	1.27	(1.41)	12.21
Average	0.02	8.12	–	2.37	(2.31)	8.29
Maximum	0.26	21.42	–	6.22	(4.85)	22.06

Total trading VaR by risk type



Non-trading portfolios

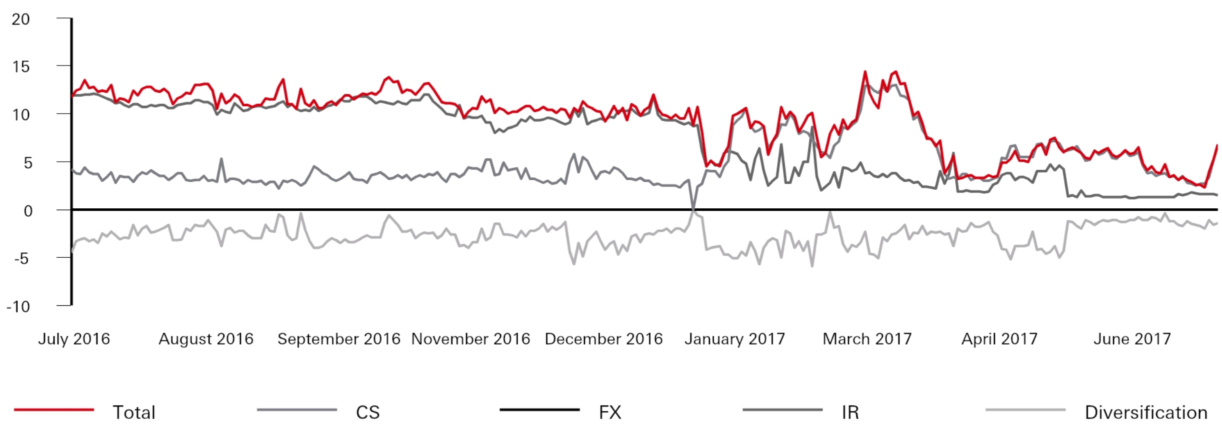
Value at Risk of the non-trading portfolio

The non-trading VAR was lower at 30 June 2017 compared to 30 June 2016 with combined effects of the introduction of the new VaR model and reduction of exposures in the liquidity buffer.

Total non-trading VaR by risk type

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Jun 2017	**–**	**1.53**	**–**	**6.67**	**(1.43)**	**6.77**
Average	**–**	**7.10**	**–**	**4.81**	**(2.59)**	**9.32**
Maximum	**–**	**12.05**	**–**	**13.04**	**(5.90)**	**14.43**
Balance at 30 Jun 2016	–	10.95	–	4.05	(4.16)	10.95
Average	–	4.81	–	6.21	(3.34)	7.72
Maximum	–	10.96	–	12.01	(7.79)	12.99

Total non-trading VaR by risk type



Structural foreign exchange exposures

The structural foreign currency exposure of bank is represented by the net asset value of its foreign currency equity and subordinated debt investments in subsidiary undertakings, branches, joint ventures and associates.

For our policies and procedures for managing structural foreign exchange exposures see page 159 of the *Annual Report and Accounts 2016*.

Capital

Capital overview

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

Throughout the six months to 30 June 2017, the bank complied with the ECB's regulatory capital adequacy requirements.

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

In May 2017 and in line with its capital plan, HSBC France has issued EUR 200 million additional tier 1 instruments and EUR 300 million tier 2 instruments under the form of intragroup loans with HSBC Bank plc, along with the payment of an exceptional dividend of EUR 300 million. These operations were meant to achieve a target capital structure, enabling the bank to diversify its capital instruments and to enhance its return on invested capital.

A summary of HSBC France's policies and practices regarding capital management, measurement and allocation is provided on page 180 of the *Annual Report and Accounts 2016*.

Regulatory developments

Basel Committee

During the first half of 2017, the Basel Committee proposed further revisions to the regulatory capital framework. In particular, it published:

- a second consultation regarding the identification and management of step-in risk;
- the interim regulatory treatment and transitional requirements for International Financial Reporting Standards 9 Financial Instruments ('IFRS 9') provisions; and
- the final Phase 2 Pillar 3 standards.

In addition, the Basel Committee confirmed that it has largely completed the technical work needed to revise the Basel III regulatory capital framework, including the approaches to credit risk, operational risk and the leverage ratio. The only outstanding area is the proposal to implement a capital floor for modelled risk-weighted assets ('RWAs'), where the final calibration and associated transitional provisions are expected. In all instances, the final standards will have to be transposed into the relevant local law before coming into effect.

Financial Stability Board

In July 2017, the Financial Stability Board ('FSB') expanded its resolution reform policy framework with the publication of its 'Guiding Principles on the Internal Total Loss-absorbing Capacity of G-SIBs ('Internal TLAC')'. These guidelines supplement the FSB's TLAC standard published in November 2015. Again, this needs to be incorporated into the relevant local law before coming into effect.

European Union

In the EU, elements of the Basel Committee's and FSB's reforms are being implemented through revisions to the CRD IV and the EU resolution framework. The key components include changes to the market risk and counterparty credit risk frameworks, a binding leverage ratio and the regulatory recognition of IFRS 9.

It also includes details of the minimum requirements for TLAC, which in the EU is known as the Minimum Requirements for own funds and Eligible Liabilities ('MREL'). These changes are expected to be finalised by 2019 and apply from 1 January 2021, with the exception of the rules on MREL and the transitional capital provisions for IFRS 9, which are expected to apply from 1 January 2019 and 1 January 2018, respectively.

In June, the EU reached a political agreement on the new securitisation capital rules. This is expected to be implemented on 1 January 2019 for new transactions and on 1 January 2020 for existing positions.

In February 2017 The ECB has released the 2017 Single Supervisory Mechanism ('SSM') guides on Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Assessment Process ('ILAAP') in the context of a banking sector consultation. The consultative documents bring in high-level guidance on the content that shall appear in banks' yearly ICAAP and ILAAP reports.

Key capital numbers

	At	
	30 Jun 2017 €m	31 Dec 2016 €m
Capital resources		
Common equity tier 1 capital	**4,639**	4,739
Tier 1 capital	**4,789**	4,739
Total regulatory capital	**4,983**	4,739
Risk-Weighted Assets		
Non-Counterparty Credit Risk [1]	**21,555**	20,865
Counterparty Credit Risk	**3,669**	3,707
Market Risk	**5,848**	7,907
Operational Risk	**3,537**	3,537
Basel 1 floor impact	**—**	—
Total Risk Weighted Assets	**34,609**	36,016
Capital Ratios – transitional (%)		
Common equity tier 1	**13.4%**	13.2%
Total tier 1	**13.8%**	13.2%
Total capital	**14.4%**	13.2%
Capital Ratios - fully-loaded (%)		
Common equity tier 1	**13.0%**	13.1%
Total tier 1	**13.6%**	13.1%
Total capital	**14.3%**	13.1%

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

Regulatory balance sheet

Basis of consolidation

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

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

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

	Accounting balance sheet €m	De-consolidation of insurance/ other entities €m	Consolidation of banking associates €m	Regulatory balance sheet €m
Assets				
Cash and balances at central banks	**6,149**	–	–	**6,149**
Items in the course of collection from other banks	**221**	–	–	**221**
Trading assets	**35,756**	**(9)**	–	**35,747**
Financial assets designated at fair value	**7 922**	**(7,893)**	–	**29**
Derivatives	**38,222**	**(131)**	–	**38,091**
Loans and advances to banks	**5,359**	**(20)**	–	**5,339**
Loans and advances to customers	**42,187**	–	–	**42,187**
– *of which:*				–
impairment allowances on IRB portfolios	***(553)***	–	–	***(553)***
impairment allowances on standardised portfolios	***(15)***	–	–	***(15)***
Reverse repurchase agreements – non-trading	**16,788**	–	–	**16,788**
Financial investments	**22,124**	**(13,464)**	–	**8,660**
Current tax assets	**27**	**(12)**	–	**15**
Prepayments, accrued income and other assets	**1,709**	**(260)**	–	**1,449**
Interests in associates and joint ventures	**2**	–	–	**2**
– *of which: positive goodwill on acquisition*	–	–	–	–
Goodwill and intangible assets	**777**	**(489)**	–	**288**
Deferred tax assets	**234**	–	–	**234**
Total assets at 30 Jun 2017	**177,477**	**(22,278)**	–	**155,199**
Liabilities and equity				
Deposits by banks	**12,936**	**(23)**	–	**12,913**
Customer accounts	**37,821**	–	–	**37,821**
Repurchase agreements – non-trading	**10,863**	–	–	**10,863**
Items in the course of transmission to other banks	**442**	–	–	**442**
Trading liabilities	**35,497**	**700**	–	**36,197**
Financial liabilities designated at fair value	**7,504**	**(7)**	–	**7,497**
Derivatives	**36,106**	**(17)**	–	**36,089**
Debt securities in issue	**6,228**	–	–	**6,228**
Current tax liabilities	**23**	**(12)**	–	**11**
Liabilities under insurance contracts	**21,540**	**(21,540)**	–	–
Accruals, deferred income and other liabilities	**1,927**	**(735)**	–	**1,192**
– *of which: retirement benefit liabilities*	***168***	***(2)***	–	***166***
Provisions	**105**	**(1)**	–	**104**
– *of which:*				
credit-related provisions on IRB portfolios	***4***	–	–	***4***
credit-related provisions on standardised portfolios	–	–	–	–
Deferred tax liabilities	**191**	**(182)**	–	**9**
Subordinated liabilities	**576**	–	–	**576**
– *of which:*				
preferred securities included in tier 1 capital	–	–	–	–
perpetual subordinated debt included in tier 2 capital	***16***	–	–	***16***
term subordinated debt included in tier 2 capital	***560***	–	–	***560***
Total liabilities at 30 Jun 2017	**171,759**	**(21,817)**	–	**149,942**
Called up share capital	**337**	–	–	**337**
Share premium account	**16**	–	–	**16**
Other equity instruments	**200**	–	–	**200**
Other reserves	**1,579**	**(24)**	–	**1,555**
Retained earnings	**3,555**	**(437)**	–	**3,118**
Total shareholders' equity	**5,687**	**(461)**	–	**5,226**
Non-controlling interests	**31**	–	–	**31**
– *of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital*	–	–	–	–
Total equity at 30 Jun 2017	**5,718**	**(461)**	–	**5,257**
Total liabilities and equity at 30 Jun 2017	**177,477**	**(22,278)**	–	**155,199**

Own funds

Ref*		At 30 Jun 2017 €m
	Common equity tier 1 (‘CET1’) capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	**353**
	– ordinary shares	**16**
2	Retained earnings	**3,436**
3	Accumulated other comprehensive income (and other reserves)	**1,548**
5	Transitional adjustments due to additional minority interests	**6**
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**61**
6	**Common equity tier 1 capital before regulatory adjustments**	**5,404**
	Common equity tier 1 capital: regulatory adjustments	
	Additional value adjustments	**35**
8	Intangible assets (net of related deferred tax liability)	**(288)**
11	Fair value reserves related to gains or losses on cash flow hedges	**95**
12	Negative amounts resulting from the calculation of expected loss amounts	**(112)**
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**70**
19	CET1 instruments of financial sector entities where the institution has a significant investment	**(499)**
22	Amount exceeding the 15% threshold	**(67)**
28	**Total regulatory adjustments to common equity tier 1**	**(763)**
29	**Common equity tier 1 capital**	**4,639**
	Additional tier 1 (‘AT1’) capital: instruments	
30	Capital instruments and the related share premium accounts	**200**
36	**Additional tier 1 capital before regulatory adjustments**	**200**
	Additional tier 1 capital: regulatory adjustments	
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 (‘T2’) capital during the transitional period	**(50)**
43	**Total regulatory adjustments to additional tier 1 capital**	**(50)**
44	**Additional tier 1 capital**	**150**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,789**
	Tier 2 capital: instruments and provisions	
46	Capital instruments and the related share premium accounts	**576**
51	**Tier 2 capital before regulatory adjustments**	**576**
	Tier 2 capital: regulatory adjustments	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	**(382)**
57	**Total regulatory adjustments to tier 2 capital**	**(382)**
58	**Tier 2 capital**	**194**
59	**Total capital (TC = T1 + T2)**	**4,983**
60	**Total risk-weighted assets**	**34,609**
	Capital ratios and buffers (transitional)	
61	Common equity tier 1	**13.4%**
62	Tier 1	**13.8%**
63	Total capital	**14.4%**
64	Institution specific buffer requirement	**1.25%**
65	– capital conservation buffer requirement	**1.25%**
68	Common equity tier 1 available to meet buffers1	**5.75%**
	Amounts below the threshold for deduction (before risk weighting)	
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**11**
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**1,003**
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**235**

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements.

It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors.

The Basel III leverage ratio is a volume-based measure calculated as tier 1 capital divided by total on- and off-balance sheet exposures.

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. Although there is currently no binding leverage ratio requirement on HSBC France, the risk of excess leverage is managed as part of HSBC France's risk appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

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

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

The leverage exposure and the leverage ratio are also calculated and presented to the Asset and Liability Management Committee every month.

HSBC France's leverage ratio, calculated on a 'transitional basis' under CRD IV was 3.5% at 30 June 2017.

Summary reconciliation of accounting assets and leverage ratio exposures

		At	
		30 Jun	31 Dec
		2017	2016
Ref*		**€m**	€m
1	Total assets as per published financial statements	**177,477**	169,423
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(22,278)**	(23,485)
4	– derivative financial instruments	**(31,325)**	(41,504)
5	– securities financing transactions ('SFT')	**(2,026)**	(1,849)
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**15,577**	14,594
7	– other adjustments	**(223)**	1,042
8	**Total leverage ratio exposure**	**137,203**	118,221

Leverage ratio common disclosure

		At	
		30 Jun	31 Dec
		2017	2016
Ref*		**€m**	€m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**100,628**	88,763
2	(Asset amounts deducted in determining Tier 1 capital)	**(763)**	(1,227)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**99,865**	87,536
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**1,649**	3,399
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**10,097**	8,806
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(4,941)**	(6,273)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives	**94**	44
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivative exposures**	**6,899**	5,976
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**16,888**	11,963
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(2,320)**	(2,091)
14	Counterparty credit risk exposure for SFT assets	**294**	242
16	**Total securities financing transaction exposures**	**14,862**	10,114
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**15,577**	14,594
18	(Adjustments for conversion to credit equivalent amounts)		
19	**Total off-balance sheet exposures**	**15,577**	14,594
	Capital and total exposures		
20	**Tier 1 capital**	**4,789**	4,739
21	**Total leverage ratio exposure**	**137,203**	118,221
22	**Leverage ratio % – transitional**	**3.5%**	4.0%

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

Risk-weighted assets ('RWAs')

Credit risk RWA by exposure class

	Exposure value	RWAs	Capital required
	€m	€m	€m
IRB advanced approach	**52,577**	**15,946**	**1,276**
– central governments and central banks	**1,574**	**194**	**15**
– institutions	**1,593**	**598**	**48**
– corporates	**27,742**	**12,516**	**1,001**
– total retail	**21,668**	**2,639**	**211**
– *of which:*	—	—	—
secured by mortgages on immovable property – small/medium-sized enterprises ('SME')	***564***	***169***	***14***
secured by mortgages on immovable property non-SME	***3,166***	***559***	***45***
qualifying revolving retail	***1***	—	—
other SME	***2,151***	***620***	***50***
other non-SME	***15,786***	***1,290***	***103***
IRB securitisation positions	**2,201**	**181**	**14**
IRB non-credit obligation assets			
IRB foundation approach	**279**	**232**	**19**
– central governments and central banks	—	—	—
– institutions	—	—	—
– corporates	**279**	**232**	**19**
Standardised approach	**23,540**	**5,195**	**416**
– central governments and central banks	**16,105**	—	—
– public sector entities	—	—	—
– international organisations	**1,963**	—	—
– institutions	**672**	**252**	**20**
– corporates	**1,420**	**1,008**	**81**
– retail	**752**	**479**	**38**
– secured by mortgages on immovable property	**299**	**104**	**8**
– exposures in default	**130**	**182**	**15**
– items associated with particularly high risk	**380**	**571**	**46**
– claims in the form of collective investments undertakings	—	—	—
– equity	**134**	**134**	**11**
– other items	**1,684**	**2,466**	**197**
At 30 June 2017	**78,596**	**21,555**	**1,724**
IRB advanced approach	50,612	15,469	1,238
– central governments and central banks	1,692	234	19
– institutions	1,500	523	42
– corporates	25,854	12,049	964
– total retail	21,566	2,663	213
– *of which:*	—	—	—
secured by mortgages on immovable property – small/medium-sized enterprises ('SME')	*582*	*171*	*14*
secured by mortgages on immovable property non-SME	*3,313*	*591*	*47*
qualifying revolving retail	*1*	—	—
other SME	*2,150*	*631*	*50*
other non-SME	*15,520*	*1,270*	*102*
IRB securitisation positions	2,724	227	18
IRB non-credit obligation assets			
IRB foundation approach	254	198	16
– central governments and central banks	—	—	—
– institutions	—	—	—
– corporates	254	198	16
Standardised approach	24,167	4,971	398
– central governments and central banks	16,351	—	—
– public sector entities	—	—	—
– international organisations	2,607	—	—
– institutions	316	65	5
– corporates	1,436	1,075	86
– retail	771	504	40
– secured by mortgages on immovable property	312	109	9
– exposures in default	50	65	5
– items associated with particularly high risk	322	483	39
– claims in the form of collective investments undertakings	—	—	—
– equity	141	141	11
– other items	1,861	2,529	202
At 31 December 2016	77,757	20,865	1,669

Counterparty credit risk – RWAs by exposure class and product

	At			
	30 Jun 2017		31 Dec 2016	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
By exposure class				
IRB advanced approach	**986**	**79**	866	69
– central governments and central banks	**—**	**—**	—	—
– institutions	**986**	**79**	866	69
– corporates		**—**	—	—
IRB foundation approach	**745**	**60**	1,068	85
– corporates	**745**	**60**	1,068	85
Standardised approach	**521**	**41**	450	36
– central governments and central banks	**—**	**—**	—	—
– institutions	**518**	**41**	449	36
– corporates	**3**	**—**	1	—
CVA advanced	**—**	**—**	—	—
CVA standardised	**1,257**	**101**	1,191	95
CCP standardised	**160**	**13**	131	10
Total	**3,669**	**294**	3,706	296
By product				
– derivatives (OTC and Exchange traded derivatives)	**2,259**	**181**	2,328	186
– SFTs	**93**	**7**	124	10
– other	**—**	**—**	—	—
– CVA advanced	**—**	**—**	—	—
– CVA standardised	**1,257**	**101**	1,191	95
– CCP default funds	**60**	**5**	63	5
Total	**3,669**	**294**	3,706	296

Market risk – RWA by approach

	At			
	30 Jun 2017		31 Dec 2016	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
Internal model based	**5,477**	**438**	7,603	608
– VaR	**1,904**	**152**	2,358	188
– stressed VaR	**3,573**	**286**	5,245	420
– incremental risk charge	**—**	**—**	—	—
– other VaR and stressed VaR	**—**	**—**	—	—
Standardised approach	**371**	**30**	304	25
– interest rate position risk[1]	**341**	**28**	269	22
– foreign exchange position risk	**—**	**—**	—	—
– equity position risk	**—**	**—**	—	—
– commodity position risk	**—**	**—**	—	—
– securitisations	**—**	**—**	—	—
– options	**30**	**2**	35	3
Total	**5,848**	**468**	7,907	633

1 *Includes the general rate risk and the specific interest rate risk.*

Operational risk RWAs

	At			
	30 Jun 2017		31 Dec 2016	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
Own funds requirement for operational risk	**3,537**	**283**	3,537	283

Condensed Financial Statements

Consolidated income statement

	Notes	30 Jun 2017 €m	30 Jun 2016 €m
– interest income[1]		**789**	805
– interest expense		**(257)**	(178)
Net interest income[1]		**532**	627
– fee income		**456**	470
– fee expense		**(165)**	(136)
Net fee income		**291**	334
Trading income excluding net interest income[1]		**240**	309
Net interest income on trading activities		**(31)**	43
Net trading income[1]		**209**	352
– changes in fair value of long-term debt issued and related derivatives		**(1)**	17
– net income/(expense) from other financial instruments designated at fair value		**311**	(194)
Net income/(expense) from financial instruments designated at fair value		**310**	(177)
Gains less losses from financial investments		**57**	123
Dividend income		**5**	1
Net earned insurance premiums		**972**	1,018
Other operating income		**34**	(90)
Total operating income[1]		**2,410**	2,188
Net insurance claims incurred,benefits paid and movement in liabilities to policyholders		**(1,376)**	(888)
Total operating income before loan impairment (charges)/release and other credit risk provisions[1]		**1,034**	1,300
Loan impairment charges and other credit risk provisions	*3*	**4**	(24)
Net operating income[1]		**1,038**	1,276
– employee compensation and benefits		**(459)**	(464)
– general and administrative expenses		**(362)**	(417)
– depreciation and impairment of property, plant and equipment		**(19)**	(19)
– amortisation and impairment of intangible assets		**(2)**	(4)
Total operating expenses		**(842)**	(904)
Operating profit[1]		**196**	372
Share of profit in associates and joint ventures		**–**	–
Profit before tax[1]		**196**	372
Tax expense[1]		**(71)**	(90)
Profit for the year[1]		**125**	282
Profit attributable to shareholders of the parent company[1]		**126**	282
Profit attributable to non-controlling interests		**(1)**	–

1 The comparative numbers are presented after the restatement explained in note 1h, in the section 'Review of macro hedge accounting'.

Consolidated statement of comprehensive income

	30 Jun 2017 €m	30 Jun 2016 €m
Profit/(loss) for the period (a)[1]	**125**	282
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments (b)	**(47)**	(57)
– fair value gains/(losses)	**(15)**	73
– fair value gains/(losses) transferred to income statement on disposal	**(57)**	(120)
– amounts transferred to/(from) the income statement in respect of impairment losses	**–**	–
– income taxes	**25**	(10)
Cash flow hedges (c)[1]	**10**	(63)
– fair value gains/(losses)[1]	**(32)**	26
– fair value gains/(losses) transferred to income statement[1]	**47**	(123)
– income taxes[1]	**(5)**	34
Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk (d)[2]	**(4)**	–
Exchange differences and other (e)	**(2)**	(8)
Other comprehensive income for the period, reclassified in income statement on certain conditions (b)+(c)+(d)+(e)=(f)[1]	**(43)**	(128)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on defined benefit plans	**(2)**	(9)
– before income taxes	**(2)**	(13)
– income taxes	**–**	4
Total variation of assets and liabilities that cannot be reclassified in income statement (g)	**(2)**	(9)
Total comprehensive income for the period (a)+(f)+(g)	**80**	145
Total comprehensive income for the year attributable to:	**80**	145
– shareholders of the parent company	**81**	146
– non-controlling interests	**(1)**	(1)

1 *The comparative numbers are presented after the restatement explained in note 1h, in the section 'Review of macro hedge accounting'.*
2 *From 1 January 2017, the requirements of IFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value were adopted. As a result, the effect of changes in those liabilities credit risk is presented in other comprehensive income.*

Consolidated statement of financial position

	Notes	30 Jun 2017 €m	31 Dec 2016 €m
Assets			
Cash and balances at central banks		**6,149**	4,714
Items in the course of collection from other banks		**221**	437
Trading assets	5	**35,756**	23,589
Financial assets designated at fair value	5	**7,922**	7,305
Derivatives	5	**38,222**	47,367
Loans and advances to banks	6	**5,359**	3,379
Loans and advances to customers	6	**42,187**	41,327
Reverse repurchase agreements – non-trading	6	**16,788**	11,862
Financial investments	5	**22,124**	26,504
Other assets		**204**	214
Current tax assets		**27**	156
Prepayments and accrued income		**699**	779
Interests in associates and joint ventures		**2**	2
Goodwill and intangible assets	7	**777**	725
Property, plant and equipment		**806**	814
Deferred tax assets		**234**	249
Total assets		**177,477**	169,423
Liabilities			
Deposits by banks	6	**12,936**	12,061
Customer accounts	6	**37,821**	34,220
Repurchase agreements – non-trading	6	**10,863**	7,592
Items in the course of transmission to other banks		**442**	416
Trading liabilities	5	**35,497**	26,468
Financial liabilities designated at fair value	5	**7,504**	8,464
Derivatives	5	**36,106**	44,013
Debt securities in issue	6	**6,228**	6,616
Other liabilities		**983**	734
Current tax liabilities		**23**	11
Liabilities under insurance contracts issued		**21,540**	21,302
Accruals and deferred income		**776**	828
Provisions	8	**105**	183
Deferred tax liabilities		**191**	201
Retirement benefit liabilities		**168**	165
Subordinated liabilities	6	**576**	276
Total liabilities		**171,759**	163,550
Equity			
Called up share capital		**337**	337
Share premium account		**16**	16
Other equity instruments[1]	2	**200**	—
Other reserves		**1,579**	1,618
Retained earnings		**3,555**	3,871
Total Shareholders' equity		**5,687**	5,842
Non-controlling interests		**31**	31
Total equity		**5,718**	5,873
Total liabilities and equity		**177,477**	169,423

1 *Please refer note 1g, in the section 'Significant events during the first half-year' – 'Additional Tier 1 issuance (Other Equity Instrument)'.*

Consolidated statement of cash flows[1]

	Notes	30 Jun 2017 €m	30 Jun 2016 €m
Profit before tax[2]		**196**	372
Adjustments for non-cash items		**1**	(93)
– depreciation, amortisation and impairment		**21**	22
– net gain from investing activities		**(57)**	(123)
– share of profits in associates and joint ventures		**–**	–
– (gain)/loss on disposal of subsidiaries, businesses, associates and joint ventures		**–**	–
– loan impairment losses gross of recoveries and other credit risk provisions		**(4)**	21
– provisions including pensions		**7**	57
– share-based payment expense		**5**	8
– other non-cash items included in profit before tax[2]		**15**	(96)
– elimination of exchange differences		**14**	18
Changes in operating assets and liabilities		**8,151**	9,703
– change in net trading securities and derivatives		**(1,853)**	3,861
– change in loans and advances to banks and customers		**5,089**	4,481
– change in reverse repurchase agreements – non-trading		**(1,737)**	(1,821)
– change in financial assets designated at fair value		**(617)**	260
– change in other assets		**124**	24
– change in deposits by banks and customer accounts		**4,476**	4,608
– change in repurchase agreements – non-trading		**3,271**	2,575
– change in debt securities in issue		**(388)**	(4,185)
– change in financial liabilities designated at fair value		**(960)**	141
– change in other liabilities		**666**	(162)
– dividends received from associates		**–**	–
– contributions paid to defined benefit plans		**–**	–
– tax paid		**80**	(79)
Net cash (used in)/generated from operating activities		**8,348**	9,982
Purchase of financial investments		**(899)**	(4,177)
Net cash flow on financial investments		**4,895**	3,051
Net cash flows from the purchase and sale of property, plant and equipment		**(12)**	(18)
Net cash flow on disposal/purchase of goodwill and intangible assets		**(26)**	(3)
Net cash flow on disposal of subsidiaries, businesses, associates and joint ventures		**–**	–
Net cash flows from financing activities		**3,958**	(1,147)
Issue of ordinary share capital and other equity instruments[3]	2	**200**	–
Net sales/(purchases) of own shares for market-making and investment purposes		**–**	–
Redemption of preference shares and other equity instruments		**–**	–
Subordinated loan capital issued[4]		**300**	–
Subordinated loan capital repaid		**–**	–
Dividends paid to shareholders of the parent company	2	**(435)**	(30)
Net cash inflow from change in stake of subsidiaries		**–**	–
Dividends paid to non-controlling interests		**–**	–
Net cash (used in)/from financing activities		**65**	(30)
Net increase/(decrease) in cash and cash equivalents		**12,371**	8,805
Cash and cash equivalents at 1 January[5]		**9,807**	5,638
Exchange differences in respect of cash and cash equivalents		**(15)**	(8)
Cash and cash equivalents at 30 June[5]		**22,163**	14,435
Cash and cash equivalents comprise of:			
– cash and balances at central banks		**6,149**	3,190
– items in the course of collection from other banks		**221**	311
– loans and advances to banks of one month or less		**9,526**	7,910
– reverse repurchase agreement with banks of one month or less		**6,530**	3,233
– treasury bills, other bills and certificates of deposit less than three months		**179**	219
– less: items in the course of transmission to other banks		**(442)**	(428)

1 *The format has been changed in 2016 to align with the HSBC Group format.*
2 *The comparative numbers are presented after the restatement explained in note 1h, in the section 'Review of macro hedge accounting'.*
3 *New Additional Tier 1 issuance explained in note 1g, in the section 'Significant events during the first half-year' – 'Additional Tier 1 issuance (Other Equity Instrument)'.*
4 *New Tier 2 issuance explained in note 1g, in the section 'Significant events during the first half-year' – 'Tier 2 issuance (Subordinated loan)'.*
5 *Reverse repurchase agreement with banks of one month or less were not included in the presentation in 2016. Cash and cash equivalents as of 30 June 2016 include now reverse repurchase agreement with banks of one month or less amounting to €3,233m.*

Consolidated statement of changes in equity

					Other reserves						
	Called up share capital	Share premium	Other equity instruments[2]	Retained earnings[1,3]	Available for-sale fair value reserve	Cash flow hedging reserve[3]	Foreign exchange reserve and Own credit risk reserve[4]	Merger reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2017	**337**	**16**	**—**	**3,871**	**161**	**(105)**	**(25)**	**1,587**	**5,842**	**31**	**5,873**
Profit for the period[1]	**—**	**—**	**—**	**126**	**—**	**—**	**—**	**—**	**126**	**(1)**	**125**
Other comprehensive income (net of tax)	**—**	**—**	**—**	**(6)**	**(47)**	**10**	**(2)**	**—**	**(45)**	**—**	**(45)**
– available-for-sale investments	**—**	**—**	**—**	**—**	**(47)**	**—**	**—**	**—**	**(47)**	**—**	**(47)**
– cash flow hedges	**—**	**—**	**—**	**—**	**—**	**10**	**—**	**—**	**10**	**—**	**10**
– actuarial gains/(losses) on defined benefit plans	**—**	**—**	**—**	**(2)**	**—**	**—**	**—**	**—**	**(2)**	**—**	**(2)**
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	**—**	**—**	**—**	**(4)**	**—**	**—**	**—**	**—**	**(4)**	**—**	**(4)**
– exchange differences and Other	**—**	**—**	**—**	**—**	**—**	**—**	**(2)**	**—**	**(2)**	**—**	**(2)**
Total comprehensive income for the period[1]	**—**	**—**	**—**	**120**	**(47)**	**10**	**(2)**	**—**	**81**	**(1)**	**80**
– capital securities issued[2]	**—**	**—**	**200**	**—**	**—**	**—**	**—**	**—**	**200**	**—**	**200**
– dividends to shareholders	**—**	**—**	**—**	**(435)**	**—**	**—**	**—**	**—**	**(435)**		**(435)**
– exercise and lapse of share option and vesting of share awards	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– cost of share - based payment arrangements	**—**	**—**	**—**	**2**	**—**	**—**	**—**	**—**	**2**	**—**	**2**
– other movements	**—**	**—**	**—**	**(3)**	**—**	**—**	**—**	**—**	**(3)**	**1**	**(2)**
– transfers	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– change in ownership interest in subsidiaries that did not result in loss of control	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total Other	**—**	**—**	**200**	**(436)**	**—**	**—**	**—**	**—**	**(236)**	**1**	**(235)**
At 30 Jun 2017	**337**	**16**	**200**	**3,555**	**114**	**(95)**	**(27)**	**1,587**	**5,687**	**31**	**5,718**
At 1 Jan 2016	337	16	—	3,720	208	(44)	14	1,587	5,838	100	5,938
Profit for the period[3]	—	—	—	282	—	—	—	—	282	—	282
Other comprehensive income (net of tax)	—	—	—	(9)	(57)	(63)	(7)	—	(136)	(1)	(137)
– available-for-sale investments	—	—	—	—	(57)		—	—	(57)	—	(57)
– cash flow hedges[3]	—	—	—	—	—	(63)	—	—	(63)	—	(63)
– actuarial gains/(losses) on defined benefit plans	—	—	—	(9)	—	—	—	—	(9)	—	(9)
– exchange differences and Other	—	—	—	—	—	—	(7)	—	(7)	(1)	(8)
Total comprehensive income for the period[3]	—	—	—	273	(57)	(63)	(7)	—	146	(1)	145
– dividends to shareholders	—	—	—	(30)	—	—	—	—	(30)	—	(30)
– exercise and lapse of share option and vesting of share awards	—	—	—	(11)	—	—	—	—	(11)	—	(11)
– cost of share - based payment arrangements	—	—	—	4	—	—	—	—	4	—	4
– other movements	—	—	—	15	(1)	—	—	—	14	(2)	12
– transfers	—	—	—	—	—	—	—	—	—	—	—
– change in ownership interest in subsidiaries that did not result in loss of control	—	—	—	—	—	—	—	—	—	—	—
Total Other	—	—	—	(22)	(1)	—	—	—	(23)	(2)	(25)
At 30 Jun 2016[3]	337	16	—	3,971	150	(107)	7	1,587	5,961	97	6,058

1 *From 1 January 2017, the requirements of IFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value were adopted. As a result, the effect of changes in those liabilities credit risk is presented in other comprehensive income.*
2 *Cf. note 1g 'Significant events during the first half-year' – 'Additional Tier 1 issuance (Other Equity Instrument)'.*
3 *The comparative numbers are presented after the restatement explained in note 1h, in the section 'Review of macro hedge accounting'.*
4 *This column includes account the revaluation of the HBME Limited Partnership investment which the functional currency is US Dollar.*

Notes on the Condensed Financial Statements

1 Basis of preparation

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

HSBC France is a domiciled entity in France. The HSBC France condensed consolidated financial statements for the half-year up to 30 June 2017 contain the financial statements of HSBC France, its subsidiaries and HSBC France's interests in jointly controlled entities and associates.

The interim consolidated financial statements of HSBC France have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). They do not include all the information disclosed in the annual financial statements and have to be consulted within the HSBC France consolidated financial statements for the year ending 31 December 2016.

At 30 June 2017, there were no unendorsed standards effective for the period ending 30 June 2017 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC France.

The consolidated financial statements of HSBC France for the financial year 2016 are available upon request from the HSBC France registered office at 103 avenue des Champs-Elysées – 75419 Paris Cedex 08 or on the website www.hsbc.fr.

These interim consolidated financial statements were established by the Board of Directors on 31 July 2017.

(b) Standards applied during the half-year to 30 June 2017

During the half-year to 30 June 2017, the HSBC Group has adopted the requirements related to the presentation of gains and losses on financial liabilities designated at fair value. The effects of changes in those liabilities' credit risk are presented from 1 January 2017 in other comprehensive income instead of in profit or loss.

(c) Use of estimates and judgements

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

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

The significant judgements made by management in applying the group accounting policies and the key sources of uncertainty in the estimates are the same as those on the financial statements ending 31 December 2016.

(d) Composition of HSBC France's group

There were no material changes in the composition of the group in the half-year to 30 June 2017. The changes in the first half-year of 2017 are described in Note 12 of this document.

(e) Accounting policies

The accounting policies adopted by HSBC France for the interim consolidated financial statements are consistent with those described in Note 1 of the *Annual Report and Accounts 2016*.

The description of accounting changes for the next exercises is given in Note 1b of the *Annual Report and Accounts 2016*.

The IFRS 9 'Financial Instruments' programme's focus is on the preparation for the parallel run which will commence during the second half of 2017 in accordance with the project plan. Until this work is sufficiently advanced, we will not have a reliable understanding of the potential impact on the financial statements and any consequential effects on regulatory capital requirements.

IFRS 17 'Insurance contracts' was issued in May 2017 and sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2021 and HSBC is considering its impact.

(f) 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.

(g) Significant events during the first half-year

Single Resolution Fund ('SRF')

HSBC France contribution amounted to EUR 49 million for 2017 and EUR 7 million has been recorded under security deposits. Total of the contribution to Single Resolution Fund amounted to EUR 34 million in balance sheet.

Targeted Long-Term Refinancing Operation ('TLTRO')

HSBC France took part to the fourth session of long-term refinancing operation ('TLTRO II') for an amount of EUR 600 million in March 2017. Total contribution amounted to EUR 4.1 billion.

Tier 2 issuance (Subordinated loan)

HSBC France has issued New Tier 2 Capital (Tier 2 instrument) subscribed by HSBC Bank plc for EUR 300 million. The new Tier 2 Capital is Subordinated Instrument with a maturity of 10 years and with a floating rate.

Additional Tier 1 issuance (Other Equity Instrument)

HSBC France has issued New Tier1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 200 million. The new AT1 Capital Instrument is undated perpetual instrument callable by HSBC France on any interest payment dates falling five years after the date of issue and will form part of Equity (Cf. Note 2).

Dividends related to 2017

The Board of Directors held on 26 April 2017 proposed at the Shareholders' General Meeting held on 15 May 2017 to distribute an exceptional dividend amounting for EUR 300,098,330.15, or EUR 4.45 per share. This exceptional dividend, approved by shareholders, was distributed from retained earnings and was paid to the 67,437,827 outstanding shares on 30 May 2017 (Cf. Note 2).

Changes in Business lines segmentation

The HSBC Group has directed a strategic change in the composition of Global Businesses in 2016. The most significant change is the introduction of a newly established 'Corporate Centre' segment which is comprised of the current 'Other Activities' heading, the Inter-segment and Balance Sheet Management ('BSM) activities. Certain costs previously retained in the 'Other Activities' are now allocated back to the business lines to which they relate.

This change has been implemented on 1 January 2017, HSBC France's reporting segments are now Retail Banking and Wealth Management ('RBWM'), Global Banking and Markets ('GB&M'), Commercial Banking ('CMB'), Global Private Banking ('GPB') and the Corporate Centre.

The changes in Business lines segmentation are detailed in the management report in page 6.

(h) Review of macro hedge accounting

During the final quarter of 2016, in a context of decreasing interest rates, it appeared that some macro cash flow hedge relationships had become ineffective according to IAS 39 policy. Hedge accounting for these items should have been partially discontinued from 30 September 2015. Because the impact on 2015 financial statement has been considered as non-significant this impact has been recognised in the income statement in 2016, according to IAS 8. During 2016, the persistence of negative interest rates required additional partial de-designations of the hedge relationship that are now accounted in Trading. The partial de-designation generated an impact of EUR 122 million (gain) in the income statement as of 31 December 2016. If this situation had been identified in the first half of 2016, the impact on the first half of 2016 would have been EUR 172 million (income), and the impact on the second half of 2016 would have been EUR -50 million (loss).

Because the impact on 30 June 2016 financial statement became significant, the following accounting headings have been restated to reflect the profit after-tax of EUR 111 million (namely a pre-tax gain of EUR 172 million), transferred from the cash flow hedge reserve to the income statement: 'Net interest income' (EUR -36 million), 'Net trading income' (EUR +208 million) and 'Tax expense' (EUR -61 million). This impact has been booked in Balance Sheet Management activity which is now reported under Corporate Centre business line.

During the half-year to 30 June 2017, HSBC France has proceeded to modification of hypotheses of behaviouralisation of assets and liabilities at fixed rate in the framework of macro hedge management. This has led to proceed to de-designation of derivatives previously qualified and to termination of hedged derivatives portfolios not qualified as hedging (Non Qualifying Hedge – NQH).

(i) Presentation of information

Information related to results by activity (IFRS 8) are now disclosed in the Report of the Board of Directors to the Annual General Meeting on pages 6 to 12.

The following sections, are presented in the Risks and Capital sections:

- Credit risks: page 15
- Market risks: page 17
- Liquidity risks: page 17
- Capital management and allocation: page 19

2 Dividends

(a) Dividends related to 2017

The Board of Directors held on 26 April 2017 proposed at the Shareholders' General Meeting held on 15 May 2017 to distribute an exceptional dividend amounting for EUR 300,098,330.15 or EUR 4.45 per share. This exceptional dividend, approved by shareholders, was distributed from retained earnings and was paid to the 67,437,827 outstanding shares on 30 May 2017.

(b) Dividends related to 2016

The Board of Directors held on 8 February 2017 proposed at the Annual General Meeting, held on 26 April 2017, to distribute a dividend amounting for EUR 269,751,308 in respect of the 2016 results. This dividend, approved by the shareholders, was paid on 9 May 2017 after deduction of the interim dividend of EUR 2 per share already paid.

(c) Earnings and dividends per share

Earnings and dividends per share

	Six months ended		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	€ per share	€ per share	€ per share
Basic earnings per share	**1.87**	4.18	0.42
Diluted earnings per share	**1.87**	4.18	0.42
Dividends per share	**4.45**	2.00	2.00

1 *The comparative numbers are presented after the restatement explained in note 1h, in the section 'Review of macro hedge accounting'.*

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 126 million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 67,437,827 (first half of 2016: earnings of EUR 282 million (after the restatement explained in note 1h, in the section Review of macro hedge accounting) and 67,437,827 weighted average number of shares; second half of 2016: earnings of EUR 28 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 effects of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 67,437,827 (first half of 2016: 67,437,827 shares; second half of 2016: 67,437,827 shares).

(d) Other Equity instruments

HSBC France has issued new Tier1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 200 million. The new AT1 Capital Instrument, included into the other equity instruments, is undated perpetual instrument callable by HSBC France on any interest payment dates falling five years after the date of issue.

Other equity instruments

		Six months ended
		30 Jun 2017
	First call	**€m**
Total coupons on capital securities classified as equity		
Undated Subordinated additional Tier 1 instruments		
– EUR 200 million		–

3 Loan impairment charges and other credit risk provisions

Evolution of loan impairment charges

	Half-year to	
	30 Jun 2017	30 Jun 2016
	€m	€m
Loan impairment charges and other credit risk provisions		
Net impairment charge on loans and advances	**3**	(25)
Other credit risk provisions	**1**	1
Total	**4**	(24)

4 PVIF

HSBC France's life insurance business, reported through its subsidiary HSBC Assurances Vie (France), accounts for the present value of future profits from existing insurance policies as an asset.

The calculation of the PVIF (Present Value of In-Force long-term insurance business) is based upon assumptions that take into account risk and uncertainty. To project these cash flows, a variety of assumptions regarding future experience are made by each insurance operation, which reflect local market conditions and management's judgement of local future trends.

(a) Movements in PVIF

	Movement of first semester 2017	Movement on full year 2016
	€m	€m
At 1 Jan	**460**	486
Addition from current year new business	**21**	41
Movement from in-force business (including investment return variances and changes in investment assumptions)	**6**	(77)
Exchange differences and other movements	**2**	10
At the end of the period	**489**	460

The PVIF moves from EUR 460 million as of 31 December 2016 to EUR 489 million as of 30 June 2017. The positive movement of EUR 29 million is mainly due to favourable economic conditions over the first half of 2017 (combined rise of rates and equity markets).

(b) Key assumptions modification impacts over PVIF

	At	
	30 Jun	31 Dec
	2017	2016
	%	%
Average weighted risk free rate	**1.53**	0.99
Average weighted risk discount rate	**2.44**	1.84
Expenses inflation	**1.66**	1.66

For the first-half of 2017, the averaged discounting rate used for the PVIF is of 2.44%, to which a risk margin of EUR 39 million is added. In 2016, the averaged discounting rate were of 1.84%, to which a risk margin of EUR 96 million. The risk margins over the discounting rate are:

	At	
	30 Jun	31 Dec
	2017	2016
	€m	€m
Operational risk	**13**	13
Model risk	**15**	15
Volatility risk	**11**	68
Total	**39**	96

(c) Sensitivity of PVIF to changes in economic assumptions

The following table shows the effects of the risk-free rate movements and the discount rate movements on the value of PVIF before tax for HSBC Assurances Vie.

	At	
	30 Jun	31 Dec
	2017	2016
	€m	€m
+100 basis points shift in risk-free rate	**30**	94
- 100 basis points shift in risk-free rate[1]	**(142)**	(191)
+ 100 basis points shift in risk-discount rate	**(32)**	(20)
- 100 basis points shift in risk-discount rate	**40**	24

1 *Where a -100 basis point parallel shift in the risk-free rate would result in a negative rate, the effect on PVIF value has been calculated using a minimum rate of 0%.*

Due to certain characteristics of the contracts, the sensitivities may be non-linear and so the results of the sensitivity-testing should not be extrapolated to higher levels of stress. In analysing 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.

(d) 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 following table shows the sensitivity of total equity as of 30 June 2017 to reasonably realistic 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 subscribed to.

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 table below presents the PVIF sensitivity after tax.

PVIF sensitivity after tax

	At	
	30 Jun 2017	31 Dec 2016
	€m	€m
10% increase in mortality and/or morbidity rates	**(11)**	(6)
10% decrease in mortality and/or morbidity rates	**12**	7
10% increase in lapse rates	**(28)**	(17)
10% decrease in lapse rates	**31**	22
10% increase in expense rates	**(27)**	(30)
10% decrease in expense rates	**27**	30

The impact of variations in redemption rates is mainly explained by savings activity. For example, an increase in redemptions generates a decrease of the contract management, and therefore, a negative impact on the insurer's profits.

5 Fair values of financial instruments carried at fair value

Fair values of financial instruments, the control system and the hierarchy description are determined in accordance with the methodology described in the *Annual Report and Accounts 2016* in Note 9 – Fair value of financial instruments carried at fair value. There has been no change in accounting policy, control system or hierarchy level since 31 December 2016.

Financial instruments carried at fair value and bases of valuation

	Level 1 – quoted market price	Level 2 – using observable inputs	Level 3 – with significant non-observable inputs	Third-party total	Amounts with HSBC entities	Of which Level 3	Total
	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2017							
Assets							
Trading assets	**20,064**	**8,794**	**2**	**28,860**	**6,896**	**—**	**35,756**
Financial assets designated at fair value	**7,421**	**197**	**30**	**7,648**	**274**	**—**	**7,922**
Derivatives	**12**	**22,132**	**320**	**22,464**	**15,758**	**264**	**38,222**
Financial investments available-for-sale	**21,300**	**14**	**254**	**21,568**	**556**	**—**	**22,124**
Liabilities							
Trading liabilities	**17,483**	**10,217**	**267**	**27,967**	**7,530**	**—**	**35,497**
Financial liabilities at fair value	**2,546**	**4,958**	**—**	**7,504**	**—**	**—**	**7,504**
Derivatives	**3**	**22,168**	**40**	**22,211**	**13,895**	**391**	**36,106**
At 31 Dec 2016							
Assets							
Trading assets	16,001	7,055	2	23,058	531	—	23,589
Financial assets designated at fair value	6,807	199	19	7,025	280	—	7,305
Derivatives	17	28,228	363	28,608	18,759	307	47,367
Financial investments available-for-sale	25,689	14	251	25,954	550	—	26,504
Liabilities							
Trading liabilities	14,389	8,694	246	23,329	3,139	—	26,468
Financial liabilities at fair value	2,562	5,902	—	8,464	—	—	8,464
Derivatives	3	27,827	37	27,867	16,146	455	44,013

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

Fair value valuation bases

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

	Assets				Liabilities		
	Available-for-sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2017							
Private equity investments	**254**	**—**	**30**	**—**	**—**	**—**	**—**
Asset-backed securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Structured notes	**—**	**2**	**—**	**—**	**267**	**—**	**—**
Derivatives	**—**	**—**	**—**	**320**	**—**	**—**	**40**
Other portfolios	**—**	**—**	**—**	**—**	**—**	**—**	**—**
HSBC subsidiaries	**—**	**—**	**—**	**264**	**—**	**—**	**391**
Total	**254**	**2**	**30**	**584**	**267**	**—**	**431**
At 31 Dec 2016							
Private equity investments	251	—	19	—	—	—	—
Asset-backed securities	—	—	—	—	—	—	—
Structured notes	—	2	—	—	246	—	—
Derivatives	—	—	—	363	—	—	37
Other portfolios	—	—	—	—	—	—	—
HSBC subsidiaries	—	—	—	307	—	—	455
Total	251	2	19	670	246	–	492

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Available-for-sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2017	**251**	**2**	**19**	**670**	**246**	**–**	**492**
Total gains/(losses) recognised in profit or loss	**–**	**–**	**–**	**(60)**	**24**	**–**	**(76)**
– trading income/(expense) excluding net interest income	**–**	**–**	**–**	**(60)**	**25**	**–**	**(76)**
– gains less losses from financial investments	**–**	**–**	**–**	**–**	**(1)**	**–**	**–**
Total gains or losses recognised in other comprehensive income	**4**	**–**	**(1)**	**–**	**–**	**–**	**–**
– available-for-sale investments fair value gains/(losses)	**6**	**–**	**(1)**	**–**	**–**	**–**	**–**
– cash flow hedges: fair value gains/(losses)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**(2)**	**–**	**–**	**–**	**–**	**–**	**–**
Purchases	**10**	**–**	**12**	**–**	**–**	**–**	**–**
New Issuances	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sales	**(11)**	**–**	**–**	**–**	**–**	**–**	**–**
Settlements	**–**	**–**	**–**	**(26)**	**(3)**	**–**	**15**
Transfer out	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer in	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 30 Jun 2017	**254**	**2**	**30**	**584**	**267**	**–**	**431**
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 30 Jun	**6**	**–**	**(1)**	**(55)**	**25**	**–**	**(76)**
– trading income excluding net interest income	**6**	**–**	**(1)**	**(55)**	**25**	**–**	**(76)**
– net income/(expense) from other financial instruments designated at fair value	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– loan impairment charges and other credit risk provisions	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 1 Jan 2016	313	4	–	524	149	–	326
Total gains/(losses) recognised in profit or loss	(2)	(2)	(1)	156	99	–	154
– trading income/(expense) excluding net interest income	–	(2)	(1)	156	99	–	154
– gains less losses from financial investments	(2)	–	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income	25	–	–	4	–	–	(3)
– available-for-sale investments fair value gains/(losses)	25	–	–	–	–	–	–
– cash flow hedges: fair value gains/(losses)	–	–	–	–	–	–	–
– exchange differences	–	–	–	4		–	(3)
Purchases	27	–	20	–	–	–	–
New issuances	–	–	–	–	–	–	–
Sales	(115)	–	–	–	–	–	–
Settlements	–	–	–	(14)	1	–	13
Transfer out	–	–	–	(3)	(4)	–	(1)
Transfer in	3	–	–	3	1	–	3
At 31 Dec 2016	251	2	19	670	246	–	492
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 Dec	5	(2)	(1)	113	130	–	8
– trading income excluding net interest income	5	(2)	(1)	113	130	–	8
– net income/(expense) from other financial instruments designated at fair value	–	–	–	–	–	–	–
– loan impairment charges and other credit risk provisions	–	–	–	–	–	–	–

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

	At 30 Jun 2017				At 31 Dec 2016			
	Reflected in profit or loss		Reflected in other comprehensive Income		Reflected in profit or loss		Reflected in other comprehensive Income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m	€m	€m	€m	€m
Derivatives/trading assets/ trading liabilities[1]	**4**	**(4)**	**—**	**—**	4	(4)	—	—
Financial assets and liabilities designated at fair value	**3**	**(3)**	**—**	**—**	1	(1)	—	—
Financial investments: available-for-sale	**—**	**—**	**23**	**(19)**	—	—	26	(21)

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

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

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m
At 30 Jun 2017				
Private equity investments	**3**	**(3)**	**23**	**(19)**
Asset-backed securities	**—**	**—**	**—**	**—**
Structured notes	**—**	**—**	**—**	**—**
Derivatives	**4**	**(4)**	**—**	**—**
Other portfolios	**—**	**—**	**—**	**—**
At 31 Dec 2016				
Private equity investments	1	(1)	26	(21)
Asset-backed securities	—	—	—	—
Structured notes	—	—	—	—
Derivatives	4	(4)	—	—
Other portfolios	—	—	—	—

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

Quantitative information about significant unobservable input in level 3 valuations

The following table lists key unobservable inputs to level 3 financial instruments, and provides the range of those inputs as at 30 June 2017. The categories of key unobservable inputs are described in the note 9 of the *Annual Report and Accounts 2016*.

	Fair value[1]				Full range of inputs		Core range of inputs	
	Assets	Liabilities		Key unobservable	Lower	Higher	Lower	Higher
At 30 Jun 2017	€m	€m	Valuation technique	inputs	%	%	%	%
Private equity including strategic investments	**284**	**–**	**See notes below**	**See notes below**	**n/a**	**n/a**	**n/a**	**n/a**
Asset-backed securities	**–**	**–**						
– CLO/CDO[2]	**–**	**–**	**Market proxy**	**Bid quotes**	**–**	**–**	**–**	**–**
– other ABSs	**–**	**–**						
Structured notes	**2**	**267**						
– equity-linked notes	**–**	**–**	**Model – Option model**	**Equity volatility**	**–**	**–**	**–**	**–**
– fund-linked notes	**–**	**–**	**Model – Option model**	**Equity correlation**	**–**	**–**	**–**	**–**
– FX-linked notes	**–**	**–**	**Model – Option model**	**Fund volatility**	**–**	**–**	**–**	**–**
– other	**2**	**267**	**Model – Option model**	**FX volatility**	**–**	**–**	**–**	**–**
Derivatives	**584**	**431**						
Interest rate derivatives	**573**	**420**						
– securitisation swaps	**132**	**5**	**Model – DCF[3]**	**Prepayment rate**	**50%**	**50%**	**50%**	**50%**
– long-dated swaptions	**381**	**326**	**Model – Option model**	**IR volatility**	**13%**	**35%**	**14%**	**32%**
– other	**60**	**89**						
Foreign exchange derivatives	**11**	**11**						
– foreign exchange options	**11**	**11**	**Model – Option model**	**FX volatility**	**7%**	**18%**	**7%**	**18%**
Equity derivatives	**–**	**–**						
– long-dated single stock options	**–**	**–**	**Model – Option model**	**Equity volatility**	**–**	**–**	**–**	**–**
– other	**–**	**–**						
Credit derivatives	**–**	**–**						
– other	**–**	**–**						
Other portfolios	**–**	**–**						
Total Level 3	**870**	**698**						
At 31 Dec 2016								
Private equity including strategic investments	270	–	See notes below	See notes below	n/a	n/a	n/a	n/a
Asset-backed securities	–	–						
– CLO/CDO[2]	–	–	Market proxy	Bid quotes	–	–	–	–
– other ABSs	–	–						
Structured notes	2	246						
– equity-linked notes	–	–	Model – Option model	Equity volatility	–	–	–	–
– fund-linked notes	–	–	Model – Option model	Equity correlation	–	–	–	–
– FX-linked notes	–	–	Model – Option model	Fund volatility	–	–	–	–
– other	2	246	Model – Option model	FX volatility	–	–	–	–
Derivatives	670	492						
Interest rate derivatives	670	492						
– securitisation swaps	161	4	Model – DCF[3]	Prepayment rate	50%	50%	50%	50%
– long-dated swaptions	439	389	Model – Option model	IR volatility	9%	24%	10%	23%
– other	70	99						
Foreign exchange derivatives	–	–						
– foreign exchange options	–	–	Model – Option model	FX volatility	10%	14%	10%	14%
Equity derivatives	–	–						
– long-dated single stock options	–	–	Model – Option model	Equity volatility	–	–	–	–
– other	–	–						
Credit derivatives								
– other	–	–						
Other portfolios	–	–						
Total Level 3	942	738						

1 *Including Level 3 amounts with HSBC Group subsidiaries.*
2 *Collateralised Loan Obligation/Collateralised Debt Obligation.*
3 *Discounted Cash Flow.*

6 Fair values of financial instruments not carried at fair value

	Carrying value	Fair value			
		Level 1 – quoted market price	Level 2 – using observable inputs	Level 3 – with significant unobservable inputs	Total
	€m	€m	€m	€m	€m
At 30 Jun 2017					
Assets					
Loans and advances to banks	**5,359**	**–**	**5,359**	**–**	**5,359**
Loans and advances to customers	**42,187**	**–**	**–**	**42,613**	**42,613**
Reverse repurchase agreements – non-trading	**16,788**	**–**	**16,788**	**–**	**16,788**
Liabilities					
Deposits by banks	**12,936**	**–**	**12,936**	**–**	**12,936**
Customer accounts	**37,821**	**–**	**37,844**	**–**	**37,844**
Reverse repurchase agreements – non-trading	**10,863**	**–**	**10,863**	**–**	**10,863**
Debt securities in issue	**6,228**	**–**	**6,231**	**–**	**6,231**
Subordinated liabilities	**576**	**–**	**576**	**–**	**576**
At 31 Dec 2016					
Assets					
Loans and advances to banks	3,379	–	3,380	–	3,380
Loans and advances to customers	41,327	–	–	41,900	41,900
Reverse repurchase agreements – non-trading	11,862	–	11,862	–	11,862
Liabilities					
Deposits by banks	12,061	–	12,061	–	12,061
Customer accounts	34,220	–	34,245	–	34,245
Reverse repurchase agreements – non-trading	7,592	–	7,592	–	7,592
Debt securities in issue	6,616	–	6,621	–	6,621
Subordinated liabilities	276	–	276	–	276

The 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 will not be possible to immediately achieve 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.

7 Goodwill and intangible assets

Impairment testing

Impairment testing as described on pages 256–257 of the *Annual Report and Accounts 2016*, HSBC France tests Goodwill for impairment as at 31 December each year and whenever there is an indication that Goodwill may be impaired. At 30 June 2017, there is no indication that Goodwill may be impaired.

8 Provisions

	Legal proceedings and regulatory matters	Restructuring costs	Contingent liabilities and contractual commitments	Other provisions	Total
	€m	€m	€m	€m	€m
At 1 Jan 2017	**96**	**64**	**6**	**17**	**183**
Additions	**2**	**9**	**3**	**5**	**19**
Amounts utilised	**(69)**	**(4)**	**–**	**(9)**	**(82)**
Unused amounts reversed	**–**	**(7)**	**(4)**	**(4)**	**(15)**
Exchange and other movements	**–**	**–**	**–**	**–**	**–**
At 30 Jun 2017	**29**	**62**	**5**	**9**	**105**
At 1 Jan 2016	82	19	5	26	132
Additions	41	68	4	25	138
Amounts utilised	(3)	(10)	–	(23)	(36)
Unused amounts reversed	(25)	(13)	(3)	(11)	(52)
Exchange and other movements	1	–	–	–	1
At 31 Dec 2016	96	64	6	17	183

Information relating to legal proceedings and regulatory matters related to HSBC Group entities can be found in Note 10.

9 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2017	31 Dec 2016
	€m	€m
Guarantees and other contingent liabilities		
– Financial guarantees and similar contracts	**3,706**	3,210
– Other guarantees	**1,092**	1,163
Total	**4,798**	4,373
Commitments		
– Documentary credits and short-term trade-related transactions	**753**	752
– Standby facilities, credit lines and other commitments to lend[1]	**26,275**	24,664
Total	**27,028**	25,416

1 *Based on original contractual maturity.*

The above table discloses the nominal principal amounts of third-party off-balance sheet transactions. Nominal principal amounts of potential liabilities and commitments represent the amounts at risk in a case where contracts would be fully drawn upon and client defaulted.

As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of these nominal principal amounts is not representative of future liquidity requirements.

10 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 166 and the following ones of the 2016 Registration Document, HSBC France considers that none of these matters is significant. HSBC France recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 30 June 2017.

Anti-money laundering and sanctions-related

In December 2012, HSBC Holdings plc ("HSBC Holdings" or "HSBC"), the bank's ultimate parent company, HSBC North America Holdings ("HNAH") and HSBC Bank USA, N.A. ("HBUS") entered into agreements with US and UK government and regulatory agencies regarding past inadequate compliance with the US Bank Secrecy Act ("BSA"), Anti-Money Laundering ("AML") and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year Deferred Prosecution Agreement with, amongst others, the US Department of Justice ("DoJ") (the "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").

HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ("OFAC") regarding historical transactions involving parties subject to OFAC sanctions, as well as an undertaking with the UK Financial Conduct Authority ("FCA") to comply with certain forward-looking AML- and sanctions-related obligations. In addition, HSBC Bank USA entered into a civil money penalty consent order with the Financial Crimes Enforcement Network ("FinCEN") of the US Treasury Department and a separate civil money penalty order with the Office of the Comptroller of the Currency ("OCC")

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totaling USD 1.9 billion to US authorities, and undertook various further obligations, including, among others, to continue to cooperate fully with the DoJ in any and all investigations, not to commit any crime under US federal law subsequent to the signing of the agreement, and to retain an independent compliance monitor (the 'Monitor'). Under these agreements, HSBC Holdings has also certain obligations to ensure that the entities in the HSBC Group, including HSBC Bank plc and its subsidiaries (including HSBC France), comply with certain requirements. In February 2017, the Monitor delivered its third annual follow-up review report. Through his country-level reviews, the Monitor identified potential anti-money laundering and sanctions issues that HSBC are reviewing further with the DoJ, FRB and/or FCA.

HSBC Bank USA also entered into two consent orders with the OCC. These required HSBC Bank USA to correct the circumstances noted in the OCC's then most recent report and to adopt an enterprise-wide compliance programme, and imposed restrictions on acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary without the OCC's prior approval.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation relating to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

European interbank offered rates investigations and litigation

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America (US), the European Union, Italy, Switzerland, and elsewhere are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of European interbank offered rates ("Euribor").

HSBC and/or its subsidiaries (including HSBC France as a member of the Euribor panel) have been the subject of regulatory demands for information and are cooperating with those investigations and reviews.

In December 2016, the European Commission (the 'Commission') issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine against HSBC based on a one-month infringement, which has been paid by HSBC France. HSBC has appealed the decision.

In November 2013, HSBC (HSBC Holdings plc and HSBC Bank plc, but not HSBC France) and other banking groups which contribute to the fixing of the Euribor, banks were named as defendants in a putative class action filed in the US District Court for the Southern District of New York on behalf of persons who transacted in euro futures contracts and other financial instruments allegedly related to Euribor. The complaint alleges, amongst other things, misconduct related to the contribution to the fixing of the Euribor in violation of US antitrust laws, the US CEA, and state law of New York. In December 2016, HSBC reached an agreement with plaintiffs to resolve this action, subject to court approval. The charge corresponding to the amount of this settlement was apportioned between the HSBC entities concerned by the underlying facts, including HSBC France. The court issued an order granting preliminary approval in January 2017, and has scheduled the final approval hearing in May 2018.

11 Related party transactions

In accordance with the resources redeployment strategy, HSBC France received from HSBC Banks plc interbank loans of USD 1 billion and EUR 800 million, a EUR 300 million subordinated instrument (Tier 2) and a EUR 200 million undated perpetual instrument callable (Additional Tier 1). Excluding these operations, there were no changes in the related party transactions described in the *Annual Report and Accounts 2016* that have had a material effect on the financial position or performance of the HSBC France's group in the six months leading up to 30 June 2017. All related party transactions which took place in the period ending 30 June 2017 were similar in nature to those disclosed in the *Annual Report and Accounts 2016*.

12 Changes in consolidation perimeter during the first half-year of 2017

The table below shows the changes, in the first half-year of 2017, within the legal perimeter published in the *Annual Report and Accounts 2016*, Note 33.

Removals:	Additions:
SAF Chang jiang shi'er	HSBC GIF EMERG.WEALTH A C.3DEC
SAF Chang jiang shiyi	HSBC ACTIONS EUR.C FCP 3DEC
DEM 25	HSBC SELECT EQUITY A FCP 4DEC
HSBC Horizon 2016-2018 FCP	
HSBC Horizon 2034-2036 A FCP 3 DEC	
HSBC MUL.AS.DYN.EUR.AD FCP4DEC	

Those changes have not generated a material impact on the accounts.

13 Events after the balance sheet date

There have been no material events after the balance sheet date which would require disclosure or adjustment to financial statements of 30 June 2017.

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

There has been no significant change affecting the financial or sales situation of HSBC France or its subsidiaries since 30 June 2017, date of the most recent published financial statements reviewed by the auditors.

Statutory Auditor's Review Report on the 2017 half-year financial information

PricewaterhouseCoopers Audit

63 rue de Villiers
92200 Neuilly-sur-Seine

BDO France – Léger Et Associés

113, rue de l'Université
75007 Paris

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

(For the six-month period ended 30 June 2017).

To the Shareholders,

HSBC FRANCE

103, avenue des Champs-Elysées
75419 Paris Cedex 08

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

- the review of the accompanying condensed half-year consolidated financial statements of HSBC France, for the six months ended June 30, 2017;
- the verification of the information contained in the half year management report.

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

1 Conclusion on the financial statements

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

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

Without qualifying our conclusion, we draw your attention to note 1.h which sets out the impact on comparative information as at June 30, 2016 of the hedge accounting correction.

2 Specific verification

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

Neuilly sur Seine and Paris, 3 August 2017

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

Person responsible for the registration document

Mr Jean Beunardeau, Chief Executive Officer.

Statement by person responsible

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

I certify, to the best of my knowledge, that the condensed accounts for the first half of the financial year have been prepared in accordance with the relevant accounting standards and give a fair view of assets and liabilities, financial position and result of the company and of all the entities included in the consolidation, and that the interim management report on pages 4 to 12 presents a fair review of the significant events that occurred during the first six months of the financial year, their impact on the accounts and the major related party transactions, as well as a description of the principal risks and uncertainties for the remaining six months of the financial year.

I have obtained a completion letter from the Company's Statutory Auditors in which they confirm that they have verified the information presented in this update on the financial position and the financial statements, and also that they also have read the entire update.

Paris, 4 August 2017

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

	Date		
	First appointed	Re-appointed	Term ends
Incumbents			
PricewaterhouseCoopers Audit[1] Représenté par 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 France – Léger & Associés represented by Fabrice Chaffois as of financial year 2013.*

Cross-reference tables

The cross-reference table refers to the main headings required by the European regulation 809/2004 (Annex XI) implementing the directive known as 'Prospectus' and to the pages of the *Annual Report and Accounts 2016* D.17-0118 updated by this document.

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

- Management report
  - Main events occurring during the first six months of 2017 — pages 2 to 5
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  - Principal related party transactions — page 42
- Condensed consolidated financial statements — pages 26 to 42
- Report of the Statutory Auditors on the interim financial information at 30 June 2017 — page 43
- Statement by person responsible — page 44

The following items are incorporated by reference:

- the consolidated financial statements for the year ended 31 December 2016 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 190 to 287 and 288 to 289 of reference document D.17-0118 filed with the AMF on 1 March 2017.

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

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

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