HSBC France

Registration document and annual financial report 2018

HSBC

Contents

	Page
Highlights	2
Presentation of activity and strategy	3
Products and services	8
Economic background and outlook	9
Regulatory environment	9
HSBC France Group's Consolidated Results	11
Other information on HSBC France	19
Corporate governance report	20
Statutory Auditors' report on regulated agreements and commitments	50
Sustainability	53
Risk	72
Capital and leverage management	142
Consolidated financial statements	146
Parent company financial statements	225
HSBC France's principal subsidiaries and investment policy	259
Proposed resolutions to the Combined General Meeting to be held on 15 March 2019	263
Information on HSBC France and its share capital	265
Persons responsible for the Registration Document and for auditing the financial statements	268
Cross-reference table	270
Network of offices	272

Presentation of information

This document was filed with the *Autorité des marchés financiers* ('AMF') on 20 February 2019 in accordance with Article 212-13 of the AMF's General Regulation. It may be used in support of a financial transaction when supplemented by a transaction note that has received approval from the AMF. This document has been prepared by the issuer and is binding on its signatories.

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Cautionary statement regarding forward-looking statements

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

These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC France plc makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement.

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

Disclaimer about translation

The translation in English of the registration document and annual financial report 2018, filed with the *Autorité des marchés financiers* ('AMF') on 20 February 2019 under reference number D.19-0065, is an accurate and faithful translation of the French version, with the exception of errors or translation discrepancies that may not constitute significant omissions or inaccuracies within the meaning of Article 212-3 of the AMF General Regulations.

Highlights

	Footnotes	31 Dec 2018	31 Dec 2017	31 Dec 2016
For the year (€m)				
Profit before tax (reported basis)		**45**	219	432
Profit before tax (adjusted basis)	1	**89**	333	663
Net operating income before change in expected credit losses and other credit risk provisions (reported basis)	2	**1,736**	1,907	2,317
Profit/(loss) attributable to shareholders of the parent company (reported basis)		**(17)**	177	310
At year end (€m)				
Total equity attributable to shareholders of the parent company		**6,555**	5,676	5,842
Total assets		**180,946**	167,544	169,423
Risk-weighted assets		**36,248**	35,379	36,016
Loans and advances to customers (net of impairment allowances)		**46,997**	44,856	41,327
Customer accounts		**41,906**	38,277	34,220
Capital ratios (transitional)	3			
Common equity tier 1 (%)		**N/A**	13.1	13.2
Tier 1 (%)		**N/A**	13.5	13.2
Total capital (%)		**N/A**	14.1	13.2
Capital ratios (fully loaded)	3			
Common equity tier 1 (%)		**13.1**	13.2	13.1
Tier 1 (%)		**14.5**	13.8	13.1
Total capital (%)		**15.7**	14.6	13.1
Performance, efficiency and other ratios (annualised %)				
Return on average shareholders' equity (%)	4	**(0.6)**	3.1	5.3
Pre-tax return on average risk-weighted assets (adjusted basis) (%)		**0.3**	1.0	2.0
Cost efficiency ratio (adjusted basis) (%)	5	**95.4**	78.6	67.3
Liquidity Coverage Ratio (%)		**128**	149	122
Net stable Funding Ration (NSFR) (%)		**113**	116	120

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 11 to 13.*
2 *Net operating income before loan impairment charges and other credit risk provisions is also referred to as revenue.*
3 *Capital ratios as detailed on the capital section on pages 144 to 145.*
4 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.*
5 *Adjusted cost efficiency ratio is defined as total operating expenses (adjusted) divided by net operating income before loan impairment charges and other credit risk provisions (adjusted). Net operating income before loan impairment charges and other credit risk provisions is also referred to as revenue.*

Presentation of activity and strategy

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

Mission of HSBC Group

The purpose of the Group is to connect customers to opportunities, enable businesses to thrive and economies to prosper, and ultimately help people to fulfil their hopes and realise their ambitions. In France, HSBC seeks to partner French and international corporates in respect of their international development and retail clients in respect of their wealth management and banking needs.

HSBC worldwide

HSBC France is part of HSBC Group, which has approximately 229,000 employees working around the world to provide more than 37 million customers with a broad range of banking products and services to meet their financial needs.

HSBC values

HSBC values define who we are as an organisation and what makes us distinctive. These values reflect the best aspects of our 150-year heritage. We are determined to ensure that our collaborators can do business in a responsible, sustainable, and ethical way. They are vital to fulfilling our purpose of helping businesses to thrive, economies to prosper and people to realise their ambitions. By operating in accordance with our values we are:

Dependable

- Standing firm for what is right, delivering on commitments, being resilient and trustworthy
- Taking personal accountability, being decisive, using judgment and common sense, empowering others

Open to different ideas and cultures

- Communicating openly, honestly and transparently, welcoming challenges, learning from mistakes
- Listening, treating people fairly, being inclusive, valuing different perspectives

Connected to customers, communities, regulators and each other

- Building connections, being aware of external issues, collaborating across boundaries
- Caring about individuals and their progress, showing respect, being supportive and responsive

Our role in society

How we do business is as important as what we do. Our responsibilities to our customers, employees and shareholders as well as to wider society go beyond simply being profitable.

We seek to build trusting and lasting relationships with our stakeholders to generate value in society.

Strategy of HSBC Group

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

Long-term trends

Increasing global connectivity

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

Distinctive advantages

Unrivalled global presence

We 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

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

Long-term strategy

HSBC Group implemented a long-term based on two pillars:

- develop an international connection to foster international trade and exchange of capital to better serve its customers, from small enterprises to large multinationals;
- invest locally in Retail Banking & Wealth Management in order to leverage on both the increased international mobility and wealth creation of its customers, and on the long-term demographic changes in our priority markets.

Our network is underpinned by our four interconnected, global businesses that share balance sheets and liquidity, in addition to strong commercial links; our businesses allow us to support clients, from retail customers to the world's largest companies.

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

Strategic priorities

In June 2018, HSBC Group outlined eight strategic priorities to favour HSBC back to growth, improved returns and enhanced customer and employee experience. We aim at achieving this through the growth acceleration in areas where HSBC is in good position, embracing new technologies, and simplifying the organisation and investing in capabilities for the future. As a result of these strategic priorities, the Group has defined overall financial targets (see HSBC Group's strategy release in June 2018).

A strategy implemented in France

HSBC France within HSBC Group

HSBC is one of the largest banking and financial services organisations in the world, operating in 66 countries and territories. France is one of the eight markets in which it aspires to be the leading international bank.

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

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

Initiatives to support this strategy in France

HSBC France has a clear and focused strategy that is consistent with the HSBC Group's strategy. It consists in looking for accelerating growth while improving efficiency and implementing the highest standards in terms of compliance. In this context, HSBC France plans to:

- Gain market shares in GB&M, whilst diversifying revenues and enhancing its advisory and transaction capabilities and optimising its balance sheet;
- Drive revenue growth among its priority clients in Commercial Banking, while improving productivity and fostering growth of international revenues;
- Leverage its positioning in Retail Banking by investing in the digital transformation to grow its client base and wealth revenue, while improving customer service;
- Enhance collaboration of Private Banking with Commercial and Retail Banking to reinforce commercial impetus;
- Develop connectivity among the HSBC Group's entities and preserve the strength of its balance sheet;
- Simplify processes and procedures to gain efficiency while improving the customer experience and further developing an omnichannel banking approach.

In 2018, HSBC France has continued to develop its omnichannel and digital functionalities with a view to improve the customer experience on all channels, notably with the launch of the new mobile app "WeTrade" (blockchain platform) from GTRF[1] Lab for Corporate clients, improvements around customers' authentication journeys, and the implementation of digital signature for specific products.

In 2019, HSBC France will continue to develop its omni-channel and digital functionalities, with a focus on our subscription and authentication process, while further enhance our online banking platform for private individuals and firms.

Changes of the organisational structures of HSBC Group in France

As political and regulatory change in Europe continues, it is important that HSBC Group organises its business in a way that supports its pan-European proposition for customers. To achieve this, HSBC France:

- Acquired the Greek branch of HSBC Bank plc on January 1st 2018
- Acquired on August 1st 2018, two European subsidiaries, HSBC Polska Bank SA in Poland and HSBC Institutional Trust Services (Ireland) DAC in Ireland, direct and indirect subsidiaries of HSBC Bank plc respectively;
- Opened or will open seven branches in anticipation of a hard Brexit with the intention to transfer the activities of HSBC Bank plc's current seven European branches (in Belgium, the Czech Republic, Ireland, Italy, Luxembourg, the Netherlands and Spain). The transfer of these activities is expected to be completed March 1st 2019.

In 2018, all entities and activities acquired and to be acquired had a combined profit before tax of EUR 126 million, and a total balance sheet of EUR 17.6 billion.

Within the framework of these operations, HSBC France carried out two capital increases: EUR 100 million on July 25th 2018 and EUR 388.4 million on August 30th 2018.

This restructuring, internal to HSBC Bank plc, will not impact the solvability ratios of HSBC France.

[1] Global Trade and Receivable Finance

HSBC IN FRANCE

OUR AMBITION

Throughout our history we have been where the growth is, connecting customers to opportunities. We conduct our business intent on supporting the sustained success of our people, customers and communities so to help:

1. **Businesses to thrive**
2. **Economies to prosper**
3. **People fulfil their hopes and realize their ambitions**

THE WAY WE DO BUSINESS

OUR VALUES

Dependable | Open | Connected

OUR COMMITMENTS

A. Combat Financial Crime
We have significantly strengthened our ability to combat financial crime through our Global Standards programme.

B. Ensure fair and just treatment of customers and do not disrupt the orderly and transparent operation of financial markets
Our Conduct Charter gives us a framework for making difficult decisions to ensure positive customer outcomes and high ethical standards in the banking industry.

C. Support customers, employees, communities to build a sustainable future
Contribute to a low carbon and sustainable economy and enhance employability and financial skills.

OUR STRATEGY

Leveraging HSBC Group's distinctive advantages...

Our network covers the world's largest and fastest growing trade corridors and economic zones.

We provide products and services enabling our customers to meet their diverse financial needs

To...

A. Develop a **modernised universal banking model**

B. Be the **first international bank in France**

By...

1. **Providing cutting-edge digital experience**, making things simpler, faster and better for customers
2. Making banking more **accessible**, **transparent** and **tackling complexity** out of our day-to-day services
3. Helping clients **trade and invest internationally** through our **transaction banking products**
4. Providing tailored **private banking services** to business owners, entrepreneurs and senior executives

OUR RESOURCES

OUR HUMAN CAPITAL

- **900k+ clients** from individuals to large corporates
- **8k+ employees** contributing to our expertise & savoir-faire

OUR FINANCIAL CAPITAL

- **€1,736m** reported **net banking income**[1]
- **13.1% CET1 ratio**
- **€181bn total assets**

OUR INDUSTRIAL CAPITAL

- **125 years of expertise** in France
- **Strategic platform** in Euro-denominated activities for HSBC Group
- **AA- / Aa3 / AA- top ratings** from the three main rating agencies

OUR CLIMATE SHIFT

- **8 sustainability risk policies** applying to all financing activities
- **>300 employees** trained on sustainable finance related issues
- **50GWh power consumption** in HSBC France

OUR CAPABILITIES

- **66 countries** in HSBC Group facilitating international connectivity
- **300+ branches** in France with strong regional network
- **1 headquarter** in Paris and **1 central office** in La Défense

1. Net Banking Income before loan impairment charges

HSBC | Together we thrive

OUR VALUE PROPOSITION TO THE FRENCH ECONOMY

GB&M

We serve...
Major government, corporate and institutional clients

Through...
Advisory, vanilla and structured financing products, access to debt and equity markets, project finance, GLCM management, GTRF solutions, and financial markets

CMB

We serve...
From local small enterprises to global corporates

Through...
Working capital, term loans, payment services, trade facilitation, advisory, and financial markets

GPB

We serve...
High net worth individuals and families

Through...
Full range of private banking services to protect and preserve wealth for future generations

RBWM

We serve...
Individuals, especially internationally oriented

Through...
Full range of banking products and services, incl. short/long-term financing and insurance and investments products, advising clients to manage and protect their wealth

OUR IMPACT

OUR CONTRIBUTION TO THE REAL ECONOMY

- **€13bn bonds issued** financing French regional authorities
- **#1** in no. of **transactions** financing French regional authorities
- **$669m** **green bonds** issued
- **€151m** **net inflows** of responsible investment
- **635** **social entrepreneurs** & **start-ups** supported
- **€3.9m** invested in **social impact funds** and **microfinance**

SOCIAL

- **30% women** in senior executives positions
- **12% hirings** vs. total FTEs

FINANCIAL EDUCATION

- **26,366 people** benefited from a dedicated programme

ENVIRONMENT

- **0.66teq CO_2** **emissions** by FTE
- **Enhanced assessment of loanbook** to a 2°C scenario
- From **289** to **296 teq CO_2/$m** carbon intensity of bond portfolios

CLIENT SATISFACTION

- **84%** **recommendation rate** from retail clients
- **7.2 /10 score** given by CMB customers on overall assessment
- **8.6 /10 score** given by Private Banking clients to their RM

GOVERNANCE & SECURITY

- **92% employees** trained on Conduct
- **95% employees** trained on Financial Crime Risk
- **0** significant **cyber-security breach**

HSBC | Together we thrive

Products and services

The Group manages its products and services through its four businesses - Retail Banking and Wealth Management ('RBWM'), Commercial Banking ('CMB'), Global Banking and Markets ('GB&M'), Global Private Banking ('GPB') - and the Corporate Centre.

Business lines are responsible for the development, the implementation and the management of business propositions throughout HSBC Group.

Retail Banking and Wealth Management ('RBWM')

Customers

RBWM serves customers worldwide through four main business areas: Retail Banking, Wealth Management, Asset Management and Insurance.

Products and services

RBWM provides services to individuals under the different HSBC Global propositions (Premier, Fusion, and Jade by HSBC Premier) targeting high net worth customers who value international connectivity. For customers who have simpler everyday banking needs, RBWM offers a full range of banking products and services reflecting clients' needs. RBWM offers solutions from day-to-day transaction banking, including short- and long-term financing to insurance and investment products, advising clients to help them manage and secure their financial wealth.

Business synergies

RBWM is a significant contributor to the overall success of the Group. Insurance and Asset Management provide services to clients across all of the global businesses, and the foreign exchange and wealth management needs of RBWM clients create opportunities for GB&M.

Priorities

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

- Grow the customer base, improving digital acquisition and cross-selling capabilities;
- Improve customer experience, delivering IT core banking change, customer-centric approach on processes and a new distribution model based on new customer needs in digital, mobile and telephony
- Grow the wealth business, developing an omnichannel approach on all products and journeys, increasing expertise and productivity;
- Invest in digital and deploy online products and services, while simplifying processes to serve clients who increasingly require mobile and online access to banking services.

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

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

Commercial Banking ('CMB')

Customers

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

Products and services

We support our customers with tailored financial products and services to allow them to operate efficiently and to grow. We provide working capital, term loans, payment services and international trade facilitation. We offer expertise in mergers and acquisitions, and provide access to financial markets.

Business synergies

CMB is at the centre of creating revenue synergies within the Group. For instance CMB provides trade finance, working capital and liquidity management solutions to GB&M clients. CMB also provides complex structured financing expertise and Insurance and Asset Management capabilities from across the Group to benefit CMB clients.

Priorities

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

CMB has priorities to drive growth in France:

- Build on its momentum of growth and international connectivity with Large Corporates and Mid-Market companies thanks to enhanced collaboration with Global Banking;
- Ensure a continued focus on international corridor opportunities and client acquisition, leveraging Belt & Road initiative and Brexit;
- Invest in its digital platforms and test disruptive technologies such as blockchain or Internet of Things to propose tools constantly improved and facilitate its customers' operations and experience;
- Strengthen our digital platform and international proposition for Business Banking.

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

Global Banking and Markets ('GB&M')

Customers

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

Products and services

GB&M is positioned as a key partner to assist customers in their projects and activities in France and globally, thanks to the HSBC Group's local and international capabilities. GB&M's product specialists continue to deliver a comprehensive range of banking solutions, including advisory, vanilla and structured financing products, merger and acquisitions, access to debt and equity markets, project finance, liquidity and cash management, trade and receivable finance solutions, and a wide range of market capabilities (rates and foreign exchange).

Priorities

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

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

- Be positioned as a top bank in key advisory and financing mandates;
- Maintain strong positioning on key products' strengths and leverage new product proposition on our transaction banking activities;
- Help clients seize international growth opportunities, leveraging its expertise and global network, connecting emerging and developed economies;
- Continue to increase collaboration with Commercial Banking ('CMB') and Retail Banking Wealth Management ('RBWM').

Global Private Banking ('GPB')

Customers

GPB serves high net worth individuals and families, including those with international banking needs, to provide solutions to grow, manage and preserve wealth today and for the future.

Products and services

GPB offers tailored products and services, through the expertise of its discretionary and advisory management teams. It provides a full range of private banking services, including Investment Management, which includes advisory and brokerage services, and Private Wealth Solutions, which comprises trusts and estate planning, to protect and preserve wealth for future generations.

Business synergies

Leveraging the HSBC Group's expertise and strongly tailored solutions, the Private Bank teams work closely with clients and other HSBC Global Businesses to provide solutions to our clients. GPB will continue to develop through collaboration with other Global Businesses to enlarge its client base and enrich its proposition in terms of services and products, notably in discretionary management and life insurance.

Priorities

Priorities for GPB in France are the following:

- Continue to leverage collaboration to increase referrals and assets under management from other global businesses;
- Maximise opportunities with existing client base, leveraging momentum with next-Gen and Tech entrepreneurs;
- Leverage Investment & Credit value proposition;
- Improve customer experience thanks to technical infrastructure enhancement and process digitalisation.

The application of the highest international standards, enhanced risk management controls, tax transparency and simpler processes also remain priorities for Private Banking.

Corporate Centre

Corporate Centre comprises Central Treasury, including Balance Sheet Management ('BSM'), certain legacy assets, interests in our associates and joint ventures, and some central stewardship costs that support our businesses.

Macroeconomic environment

The global economic activity in 2018 saw contrasted performances between, on the one hand, an acceleration in the US expansion and, on the other hand, growth rates in China and in Europe less favorable than in 2017.

While the US economy has benefited from a still robust labour market and business investment boosted by the fiscal reform of late 2017, risks have accumulated in China and Europe. Indeed, although the US business cycle started in mid-2009 has continued, even at the price of growing fiscal and current account deficits, China registered a deceleration of its dynamic, led by rising trade tensions with the US and a loss in world trade momentum. Beside these two factors, Europe experienced uncertainty from political factors (in Italy and in the UK notably) and inability of households' consumption to sustain business investment enough so as to maintain the economic activity at the same rhythm. In particular, with 2.1% inflation (up from 1.2% in 2017), France's economic expansion remained in 2018 significantly below 2017's performance, as private spending and exports weakened, despite a still solid business investment.

However, modest inflationary pressures allowed major central banks to stay cautious in their strategies toward a progressive normalisation of their monetary policies. In the US, Fed funds rates rose more than in 2017 (four times in 2018 after three the previous year) and the size of the Fed's balance sheet dropped back below the 20% of GDP mark for the first time since early 2013, but policy rates in other areas remained either unchanged (Eurozone, Switzerland, Australia), or experienced a limited number of hikes (three in Canada, one in the UK and in Sweden). The ECB stopped end December net asset purchases under its programme launched early 2015 and it expected to maintain key interest rates on hold at least through the summer of 2019.

By comparison with 2017 which posted the highest global economic growth since 2010, the 2018 year, slightly less dynamic as a whole, also witnessed heterogeneous performances from emerging countries, accelerating (India, Brazil, Mexico, Russia), decelerating (South Africa, Turkey), entering (Argentina) or exiting (Saudi Arabia) recession. Nevertheless, long term yields at historically low levels were confirmed, alongside with the persistence of monetary and financial conditions still accommodative: over the year, 10-year yields closed 2018 with a moderate increase in the US, but dropped in Germany and stayed stable around 0% in Japan. In France, the 10-year sovereign yield slightly eroded, back from 0.78% end 2017 to 0.71% end 2018.

Also, market fears of a sharper-than-anticipated world economic slowdown contributed to significant corrections on stock markets. The world MSCI index decreased by 10% in 2018, while the European index lost 13% and emerging economies 18%. Regarding the CAC 40 index, it fell by 11%, back from 5313 points end 2017 to 4731 end 2018. As expected, in addition to a differential in policy rates leading investments in USD to be attractive, the environment characterized by risk aversion and a flight to quality reinforced the greenback in its safe haven status: consequently, the euro exchange rate moved over 2018 from 1.20 dollar to 1.15, thus posting a fall close to 5%.

Regulatory environment

Regulatory environment

Since the implementation of the Banking Union by the Eurozone member states in 2014, HSBC France has been primarily supervised by the European Central Bank (ECB), in association with the French Prudential Supervision and Resolution Authority ("Autorité de Contrôle Prudentiel et de Resolution", ACPR). The latter remains responsible for certain areas, such as controls regarding money laundering and terrorism financing as well as ensuring client protection. HSBC France is also supervised by the "Autorité des Marchés Financiers" (AMF) in its area of competence. Finally, as a member of the HSBC Group, HSBC France is subject to certain UK rules laid down by the Prudential Regulation Authority (PRA) and by the Financial Conduct Authority (FCA) regarding prudential and consumer protection matters.

An international political agreement has been reached in early 2019 by the Basel Committee regarding the revision of the market risk assessment framework, the Fundamental review of the trading book (FRTB). The revised text will have a reduced average impact on the banks risk weighted assets (+22% compared to +40% in the version published in 2016). This agreement will be transposed into European law, along with the Basel agreement from December 2017, through a political proposal at the European Commission in summer 2020.

At the European Union level, a political agreement for revised prudential banking rules has been reached between the European Commission and the Parliament at the end of 2018. The publication of the relevant directives and regulations is expected during the second semester of 2019. These measures will introduce in particular new minimum leverage ratio requirements, a new long term minimum liquidity requirement (through the Net Stable Funding Ratio, NSFR) and a more stringent large exposures framework. This new banking package also covers resolution issues and introduces new requirements on eligible liabilities for significant subsidiaries of large banking groups such as HSBC France. Most of These measures will be applicable as of 2022. Finally, the new legislation will require to establish around 2024-2025 a new European intermediate parent undertaking overseeing all HSBC group entities within the European Union.

A political agreement has also been reached in December 2018 on the European non-performing exposure framework. The agreement includes a progressive loss provisioning schedule for these exposures, according to their nature and whether the positions are collaterised.

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

In France, it should be noted that the financial stability council ("Haut Conseil de Stabilité Financière", HCSF) announced the implementation of a 0.25% countercyclical own funds buffer as of the 1st of July 2019, applicable to exposures on entities located in France.

As regards HSBC France specifically, the European Central Bank carried out a Supervisory Review and Evaluation Process (SREP) in 2018, as it has for all major Eurozone institutions every year since the introduction of the Single Supervisory Mechanism (SSM). This process evaluated the business model of the bank, its governance, risk management and its capital and liquidity positions.

As part of the SREP, the European Central Bank notified HSBC France of a minimum total capital ratio of 13.5% from the 1st of January 2019. That figure, which includes both the mandatory minimum capital figure of 8%, a 2.5% capital conservation buffer and the Pillar 2 requirement (P2R) of 3%, was published by HSBC France on 29th of November 2018. The ECB also provided a Pillar 2 guidance (P2G) to HSBC France.

UK withdrawal from the European Union

The United Kingdom is due to formally leave the European Union in March 2019. Before then, the United Kingdom and the European Union have to finalise the Article 50 Withdrawal Agreement, which will need to be approved by their respective parliaments.

On the 19th of December 2018, the European Commission announced the main features of its "no-deal" contingency action plan, which includes, as far as the financial sector is concerned, temporary equivalence for clearinghouses (12 months) and depositories (24 months), as well as provisions to facilitate the continuity of derivative transactions with the United Kingdom. The French parliament has also approved a "no deal" law which includes continued access to United Kingdom interbank and settlement systems, temporary grandfathering provisions for UCITS investment ratios and some provisions to facilitate the novation of over-the-counter derivative contracts moving under French law.

To ensure continuity of service, independent of the outcome of negotiations, our contingency plan is based on the assumption of a scenario whereby the United Kingdom exits the European Union without the existing passporting or regulatory equivalence framework that supports cross-border business. Given the time-frame and the complex negotiations involved, HSBC Group's priorities are to continue to support its customers, take appropriate actions to mitigate risks and maintain stability, and deliver on HSBC Group's strategy.

A programme was set up in 2017 and covers all businesses and functions. It focuses on four main components: legal entity restructuring; product offering; customer migrations; and people moves.

Change of the organisational structures of HSBC Group in France

Group HSBC currently owns branches in seven countries of the European Economic Area (Belgium, Netherlands, Luxembourg, Spain, Italy, Ireland, Czech republic), reporting to HSBC Bank plc. and based on the use of financial passport that the United Kingdom continues to benefit from. In preparation for the United Kingdom withdrawal from the European Union, this set of entities will be transferred by March 1st 2019. The transfer of those entities is scheduled as follows:

i. Establishment of new HSBC France branches in the concerned countries

ii. Transfer of activities to the newly created branches

iii. Deregistration of HSBC Bank plc. branches from local supervisory authorities

After reception of regulatory approval in 2018, HSBC France finalised the establishment of the new branches and plans the transfer of activities by March 1st 2019.

HSBC France is expanding and enhancing its existing product offering, which will include euro clearing capabilities and further product launches during the first quarter of 2019.

HSBC France will continue to build strong business relationships with the clients of these entities and strengthen its position as the first international bank in France in Global Banking and Markets and Commercial Banking activities.

Management report

Environment

Scope of the performance review

Performance is analysed below on the basis of consolidated financial statements for the HSBC France group under IFRS as defined in Note 1 to the consolidated financial statements pages 152 and following. Performance is also presented in brief for the 'France' geographical segment as used by HSBC Holdings plc in its analysis of geographical contributions to the HSBC Group's results.

HSBC France's performance on the basis of its individual financial statements, prepared in accordance with the generally accepted accounting principles applicable to credit institutions in France, is analysed in the note to the parent company financial statements entitled 'Highlights' page 228.

HSBC France Group's Consolidated Results

Consolidated income statement

	Footnotes	31 Dec 2018 €m	31 Dec 2017 €m
Net interest income		**1,011**	1,048
Net fee income		**593**	574
Net income from financial instruments held for trading or managed on a fair value basis	3	**24**	291
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	3	**(638)**	616
Changes in fair value of long-term debt and related derivatives		**(2)**	(1)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss		**113**	N/A
Gains less losses from financial investments		**14**	107
Dividend income		**–**	5
Net insurance premium income		**2,026**	1,861
Other operating income/expense		**70**	8
Total operating income	4	**3,211**	4,509
Net insurance claims and benefits paid and movement in liabilities to policyholders		**(1,475)**	(2,602)
Net operating income before change in expected credit losses and other credit impairment charges	4	**1,736**	1,907
Change in expected credit losses and other credit impairment charges		**10**	(81)
Net operating income		**1,746**	1,826
Total operating expenses	4	**(1,701)**	(1,607)
Operating profit		**45**	219
Share of profit in associates and joint ventures		**–**	–
Profit before tax		**45**	219
Tax expense		**(63)**	(43)
Profit for the period		**(18)**	176
– profit attributable to shareholders of the parent company		**(17)**	177
– profit attributable to non-controlling interests		**(1)**	(1)

1 *The HSBC Group adopted IFRS 9 on 1 January 2018 and certain accounting changes. Comparative information has not been restated apart from the items mentioned in the footnote 3. For further details, refer to 'Standards adopted during the year ended 31 December 2018' and 'Effects of reclassification upon adoption of IFRS 9'.*

2 *Since 1 January 2018, certain structured financial liabilities are classified as "Financial liabilities designated at fair value". These financial liabilities were previously included in the "Trading liabilities". As a result, changes in the fair value of these instruments attributable to changes in own credit risk are recognised in other comprehensive income while they impacted the income statement in 2017. Comparative figures have not been restated. For 2017, a restatement would have resulted in an increase in the "Net result of financial instruments held for trading or managed at fair value" of EUR 86 million and an increase of EUR 30 million in tax with an equivalent decrease in other comprehensive income.*

3 *The presentation of the items "Net income/(expense) from financial instruments held for trading or managed on a fair value basis" and "Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss" has been reviewed. Comparative information has been modified accordingly.*

4 *Total operating income and expenses include significant items as detailed.*

Net interest margin was EUR 1,011 million at end-December 2018, from EUR 1,048 million in the previous year. In an environment of lasting low interest rates, margins on deposits and interest income on bond portfolios of the life insurance subsidiary continued to fall, although this was partly offset by positive volume effects on loans and deposits and the integration of the new European entities. The evolution of net interest margin is also impacted by high levels of early redemptions of loans in the first half 2017.

Net fee income was EUR 593 million in 2018, compared with EUR 574 million in 2017. The change was mainly the result of Global Banking and Markets following favourable origination fee income and expenses from other HSBC Group entities related to capital markets transactions. The positive contribution from the HSBC France European entities is offset by a reclassification from operating expenses to fee expenses and a decrease in fee income on Retail Banking & Wealth Management and Commercial Banking.

Revenues from the trading portfolio managed on a fair value basis fell from EUR 291 million in 2017 to EUR 24 million in 2018. This variation is mainly explained by:

- decreasing trading revenue in fixed income markets, particularly penalised by an unfavourable fourth-quarter performance in a context of weak client demand and margin compression on Eurozone sovereign debt;
- a slight decrease in balance sheet management revenue in 2018;
- a gain in 2017 on a derivative associated with a receivable on a Global Banking and Markets counterparty for EUR 82 million; that hedge enabled HSBC France to recover all of the loss on its receivable, which had been recognised as a loan impairment charge in an amount of EUR -82 million;
- several structured debts were reclassified from trading portfolio to fair value option portfolio from January 1st, 2018 and the related credit spread for the credit risk component is now accounted in comprehensive income and not in profit and loss anymore;
- the variation of Debit Valuation Adjustment reserve totalled EUR 6 million in 2018, compared with EUR -28 million in 2017;
- as regards the insurance company, the change in the market value of derivative instruments hedging its exposures increases by EUR 39 million; the counterpart of that year-on-year increase can be observed in the change in liabilities to policyholders (see below);

Revenue from financial instruments recognised at fair value was EUR -638 million compared with EUR 616 million in 2017.

This variation includes the significant decrease in the market value of assets held by the life insurance company, with respect to unit-linked and euro fund policies. The counterpart of that increase, caused by movements in market indexes, is the change in liabilities to policyholders (see below).

Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss, according to IFRS9 principle, was EUR 113 million, partially offset by the change in fair value of hedges accounted as financial instruments at fair value.

Gains less losses from financial investments were EUR 14 million compared with EUR 107 million the previous year in relation with movements on financial investments, partially offset by positive volume effects on loans and deposits and the reattachment of European branches and subsidiaries.

Insurance premium income for the year was EUR 2,026 million, up by comparison with EUR 1,861 million in 2017, reflecting firm inflows.

Other operating income came to EUR 70 million compared with EUR 8 million the previous year, mainly reflecting the change in life insurance PVIF[2].

Net insurance claims incurred, benefits paid and movement in liabilities to policyholders were EUR -1,475 million in 2018, from EUR -2,602 million in 2017. This change should be seen in the light of the increase in the market value of hedging instruments and assets recognised at fair value by the insurance subsidiary.

Net operating income before change in expected credit losses and other credit impairment charges was EUR 1,736 million for the year, from EUR 1,907 million in the previous year. This decrease mainly reflects the unfavourable variation of capital markets revenues and the lower net interest margin in the banking business in France, caused by ongoing low interest rates.

Change in expected credit losses and other credit impairment charges came to a EUR 10 million credit versus EUR -81 million in 2017. The decrease was mainly due to a loss on a receivable from a Global Banking and Market counterparty in 2017 totalling EUR -82 million, fully offset by the gain recognised on a hedging derivative associated with the receivable. HSBC France cost of risk remained at a very low level and reflected rigorous management of credit risk in a favourable environment.

Operating expenses amounted to EUR -1,701 million in 2018, compared with EUR -1,607 million in 2017. This includes HSBC France European entities for EUR -73 million, and costs associated with the United Kingdom's exit from the European Union. Excluding those items, operating expenses remained under control, reflecting the productivity gains allowing to fund the pursuit of technology and digital investments.

Profit before tax was EUR 45 million, down from EUR 219 million in 2017. Profit variation could be explained by the decrease in revenues from capital markets and the impact of persisting low interest-rate environment, impacting notably Retail Banking & Wealth Management and Commercial Banking, partially offset by lower credit-risk impairment charges and the integration of HSBC France European entities.

Profit attributable to shareholders of the parent company in 2018 was EUR -17 million, from EUR 177 million in the previous year, including provision for income taxes.

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

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	Year ended 31 December 2018					
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Reported revenue	**749**	**514**	**440**	**52**	**(19)**	**1,736**
Significant revenue items	**–**	**–**	**(6)**	**–**	**1**	**(5)**
– debit valuation adjustment	**–**	**–**	**(6)**	**–**	**–**	**(6)**
– fair value movement on non-qualifying hedges	**–**	**–**	**–**	**–**	**1**	**1**
Adjusted revenue	**749**	**514**	**434**	**52**	**(18)**	**1,731**
	Year ended 31 December 2017					
Reported revenue	761	518	629	49	(50)	1,907
Significant revenue items	–	–	28	–	(4)	24
– debit valuation adjustment	–	–	28	–	–	28
– fair value movement on non-qualifying hedges	–	–	–	–	(4)	(4)
Adjusted revenue	761	518	657	49	(54)	1,931

[2] *Present Value of In Force long-term insurance business*

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

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	Year ended 31 December 2018					
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Reported operating expenses	**(804)**	**(371)**	**(422)**	**(44)**	**(60)**	**(1,701)**
Significant cost items	**—**	**2**	**15**	**—**	**32**	**49**
– impairment of goodwill	**—**	**—**	**—**	**—**	**—**	**—**
– cost to establish UK - ring fenced bank (E&M)	**—**	**—**	**—**	**—**	**1**	**1**
– costs to achieve	**—**	**—**	**—**	**—**	**—**	**—**
– costs associated with the UK's exit from the EU	**—**	**2**	**15**	**—**	**31**	**48**
– settlements and provisions in connection with legal and regulatory matters	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted operating expenses	**(804)**	**(369)**	**(407)**	**(44)**	**(28)**	**(1,652)**
	Year ended 31 December 2017					
Reported operating expenses	(758)	(345)	(373)	(43)	(88)	(1,607)
Significant cost items	14	—	9	—	67	90
– impairment of goodwill	—	—	—	—	—	—
– costs to achieve	14	—	5	—	62	81
– costs associated with the UK's exit from the EU	—	—	4	—	5	9
– settlements and provisions in connection with legal and regulatory matters	—	—	—	—	—	—
Adjusted operating expenses	(744)	(345)	(364)	(43)	(21)	(1,517)

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
	Year ended 31 December 2018					
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Reported profit/(loss) before tax	**(55)**	**143**	**21**	**13**	**(77)**	**45**
Significant revenue items	**—**	**—**	**(6)**	**—**	**1**	**(5)**
Significant cost items	**—**	**2**	**15**	**—**	**32**	**49**
Adjusted profit/(loss) before tax	**(55)**	**145**	**30**	**13**	**(44)**	**89**
Net impact on reported profit and loss	**—**	**2**	**9**	**—**	**33**	**44**
	Year ended 31 December 2017					
Reported profit/(loss) before tax	(8)	180	180	5	(138)	219
Significant revenue items	—	—	28	—	(4)	24
Significant cost items	14	—	9	—	67	90
Adjusted profit/(loss) before tax	6	180	217	5	(75)	333
Net impact on reported profit and loss	14	—	37	—	63	114

Adjusted profit/(loss) for the period

	Retail Banking and Wealth Management €m	Commercial Banking €m	Global Banking and Markets €m	Private Banking €m	Corporate Centre €m	Total €m
	Year ended 31 December 2018					
Net operating income before expected credit loss and other credit risk provisions	**749**	**514**	**434**	**52**	**(18)**	**1,731**
Change in expected credit loss and other credit risk provisions	**—**	**—**	**3**	**5**	**2**	**10**
Net operating income	**749**	**514**	**437**	**57**	**(16)**	**1,741**
Total operating expenses	**(804)**	**(369)**	**(407)**	**(44)**	**(28)**	**(1,652)**
Operating profit	**(55)**	**145**	**30**	**13**	**(44)**	**89**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted profit before tax	**(55)**	**145**	**30**	**13**	**(44)**	**89**
	Year ended 31 December 2017					
Net operating income before expected credit loss and other credit risk provisions	761	518	657	49	(54)	1,931
Change in expected credit loss and other credit risk provisions	(11)	7	(76)	(1)	—	(81)
Net operating income	750	525	581	48	(54)	1,850
Total operating expenses	(744)	(345)	(364)	(43)	(21)	(1,517)
Operating profit	6	180	217	5	(75)	333
Share of profit in associates and joint ventures	—	—	—	—	—	—
Adjusted profit before tax	6	180	217	5	(75)	333

Net operating income before change in expected credit losses and other credit impairment charges was EUR 1,731 million, down from EUR 1,931 million in 2017. This decrease could mainly be explained by the fall of capital markets activities with a difficult fourth-quarter in an adverse market environment. The low interest-rate environment continues to penalise the net interest margin of Retail Banking & Wealth Management and Commercial Banking. In 2017, net operating income before change in expected credit losses also included a gain on a derivative associated with a receivable on a Global Banking counterparty for EUR 82 million; that hedge enabled HSBC France to recover all of the loss on its receivable, which had been recognised as a loan impairment charge in an amount of EUR -82 million. The positive contribution from European entities represented EUR 81 million.

Change in expected credit losses and other credit impairment charges totalled EUR 10 million credit compared with EUR -81 million impairment charge in 2017. This situation reflects both an improved companies' financial situation and a rigorous management of credit risk by HSBC France. The previous year was also impacted by a loss on a receivable from a Global Banking counterparty totalling EUR -82 million, fully offset by the gain recognised on a hedging derivative associated with the receivable.

Adjusted operating expenses were EUR -1,652 million in 2018, compared with EUR - 1,517 million in 2017, mainly impacted by the integration of HSBC France European entities for EUR -73 million, the pursuit of transformation projects and the increase of the contribution to the Single Resolution Fund.

Adjusted profit before tax was EUR 89 million, down from EUR 333 million in previous year, penalised by the decrease of capital markets income and lower profit before tax from Retail Banking & Wealth Management.

Retail Banking and Wealth Management

HSBC France Retail Banking and Wealth Management served 811 000 active customers at the end of 2018, 1.9% down from 2017, with Premier customer base increasing by 1%.

Loans and advances to customers, at EUR 19.5 billion, increased by 6% year-on-year. The growth in France was at 3%, in a growing French market, with a strong level of new home loan business at EUR 3.3 billion, and was compounded by the integration of the European entities.

Total Asset Under Management from customers were up at EUR 40.2 billion, increasing by 2% in a very competitive market and impacted by bearish financial markets. Retail Banking and Wealth Management business experienced an increase in customer deposits, with EUR 17.2 billion balances at the end of 2018, increasing by 12%, including 7% increase in current accounts and the integration of the European entities.

HSBC Assurances expertise and product adequacy in life insurance, retirement and protection to individual, professional and corporate clients has been recognised again in 2018 through different awards, notably the Trophée d'Or of Life Insurance contracts (Le Revenu) for HSBC Stratégie Patrimoine for fourth year in a row.

Asset Management expertise was also recognised in 2018, notably with:

- 2nd rank in Corbeille Long-Terme for full offering range performance over 5 years (Mieux Vivre Votre Argent) ;
- Trophée d'Or on Europe Equity offering range (Le Revenu)

Adjusted Profit Before Tax was EUR -55 million in 2018 decreasing by EUR 61 million year-on-year. This is the result of adverse financial market variations and low-rate environment, partly offset by customer balance growth supported by significant investments in marketing, digital et information systems.

Adjusted revenues were EUR 749 million in 2018 versus EUR 761 million in 2017. 2018 revenues included EUR 22 million from the European entities.

Bank net interest margin was adversely impacted by low-rate environment leading to margin compression on deposits and home loans, compounded by a high level of early repayment and refinancing on loans in 2017, and partly offset by the growth of deposits and loans balances. Bank net fees and commissions were impacted by a competitive environment and adverse financial market variations. Customer investment balances remained nevertheless at EUR 23.6 billion supported by increased Net New Money.

Asset Management revenues were in line with 2017, despite a decrease in Asset Under Management in an adverse market environment.

Insurance revenues were up by EUR 26 million year-on-year, supported by an increased Net New Money, by revision of PVIF[3] projection assumptions, which offset the adverse variations of financial markets in 2018.

Loan impairment charges were nil in 2018, decreasing by EUR 11 million year-on-year with improvement of credit portfolio risk profile.

Adjusted operating expenses at EUR -804 million versus EUR -744 million in 2017 included an increase in investments on marketing, information systems and digital. Operating expenses of the European entities amounted to EUR -27 million in 2018.

Commercial Banking

HSBC provides its customers a large range of banking and financial services in order to help commercial companies to manage and develop their activities in France and abroad.

HSBC France is committed to supporting businesses in their development and increased its loan book by 16% to EUR 13.1 billion in 2018. On a comparable perimeter, excluding branches, increase in loan book represented 11%, mainly in medium and long-term loans, which rose by +10%, particularly in the medium-sized and large company segment. Deposits grew 9% to EUR 11.8 billion, and +3% if we exclude European entities.

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

Adjusted revenue before credit-risk impairment charges amounted to EUR 514 million, decreasing by EUR -4 million versus 2017. It was negatively impacted by the prolonged historically low interest rates and the decline in fee income, partially offset by the positive EUR 14 million impact of integration of European entities.

Revenue generated by French customers in other international HSBC Group entities represented over a third of revenues generated by the same companies in France. In 2018, this international revenue rose by +15%. HSBC remains a key partner for French companies seeking to set up abroad and for foreign companies seeking to expand in France.

As regards credit-risk impairment charges in Commercial Banking, there was a net release of EUR 0.3 million, to be compared to EUR 7 million net release in 2017. Credit-risk impairment charges remained at a historically low level reflecting both the improved financial situation of businesses across all sectors of the economy and the rigorous management of credit risk.

Adjusted operating expenses, at EUR -369 million increased by EUR -24 million, including EUR -16 million explained by the integration of European entities. On a comparable perimeter, excluding European entitities, operating expenses grew by +2.7%, including an increase of IT and digital investments.

Commercial Banking's profit before amounted EUR 145 million versus EUR 180 million in 2017.

Global Banking and Markets

In 2018, HSBC improved its market share in the bond issuance market, while confirming its position as the leading international bank in the French market and the leader among European public-sector issuers[4]. HSBC assisted its clients in all major segments of the international markets - hybrid high yield debt, multi-tranche/ multi-currency issues, private placements - and provided services to the widest variety of issuers in terms of profile and credit quality. HSBC won consequent mandates in "green and sustainable" issuances and strengthened its position on that market, ranking second globally[5].

Adjusted revenue fell significantly to EUR 434 million versus EUR 657 million in 2017 which had been impacted by a 82 million gain on a hedge, enabling HSBC France to recover all of a -82 million loss on a receivable recognised as a credit risk impairment charge. Excluding this element, adjusted revenue was EUR 141 million lower than prior year.Global Markets revenue dropped, impacted by a disappointing fourth quarter caused by very difficult market conditions. Global Banking revenues benefited from a good performance in Advisory and Credit & Lending. Private Equity revenues have remained strong.

Revenue generated by French clients in international markets rose by 11% relative to 2017 at constant exchange rates, and continued to account for the majority of revenue generated by French clients within the HSBC Group. Revenue generated in France by clients of other HSBC Group entities increased by 1%.

Loan impairment charges came to EUR 3 million versus a charge of EUR -76 million in 2017, of which the loss totalling EUR -82 million mentioned above, fully hedged by an associated hedging derivative.

Adjusted expenses amounted to EUR -407 million, up 12%, on account of the rise in HSBC France's contribution to the European Single Resolution Fund and of the integration of European entities.

Adjusted profit before tax in Global Banking and Markets was EUR 30 million, as opposed to EUR 217 million in 2017.

[3] Present Value of In-Force long-term insurance business

[4] Source Dealogic

[5] Source Dealogic

Private Banking

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

Adjusted profit before tax is EUR 13 million in 2018 vs EUR 5 million in 2017.

Adjusted revenues stand at EUR 52 million in 2018 vs EUR 49 million in prior year. Net interest income increased, driven by the lending portfolio growth, partly offset by the low rate environment. Fees and other income benefited from strong momentum in Net New Money and were adversely impacted by the financial markets downturn.

Loan impairment charges were a net credit of EUR 5 million vs EUR -1 million charge in 2017, in a context of lending balance sheet growth, supported by proactive credit risk management.

Adjusted operating expenses stand at EUR -44 million EUR aligned with 2017 level, despite the increase of costs related to IT projects and regulatory requirement.

Corporate Centre

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

Adjusted profit before tax was EUR -44 million compared with EUR -75 million the previous year.

Summary consolidated balance sheet [1]

	Footnotes	At 31 Dec 2018 €m	31 Dec 2017 €m
Total assets		**180,946**	167,544
Cash and balances at central banks		**9,018**	14,630
Trading assets		**16,966**	22,401
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		**10,495**	—
Financial assets designated at fair value		**N/A**	8,605
Derivatives		**31,777**	34,407
Loans and advances to banks		**6,197**	4,843
Loans and advances to customers		**46,997**	44,856
Reverse repurchase agreements – non-trading		**32,835**	13,781
Financial investments		**16,502**	20,548
Other Assets	3	**10,159**	3,473
Total liabilities		**174,362**	161,838
Deposits by banks		**10,828**	13,297
Customer accounts		**41,906**	38,277
Repurchase agreements – non-trading		**18,921**	6,586
Trading liabilities	2	**23,145**	32,436
Financial liabilities designated at fair value	2	**14,584**	7,565
Derivatives		**31,298**	33,229
Debt securities in issue		**2,472**	5,159
Liabilities under insurance contracts issued		**21,335**	21,853
Other liabilities	3	**9,873**	3,436
Total equity		**6,584**	5,706
Total shareholders' equity		**6,555**	5,676
Non-controlling interests		**29**	30

1 *The HSBC Group adopted IFRS 9 on 1 January 2018. Comparative information has not been restated. For further details, refer to 'Standards adopted during the year ended 31 December 2018' and 'Effects of reclassification upon adoption of IFRS 9'.*
2 *From 1 January 2018, certain structured financial liabilities are classified as 'Financial liabilities designated at fair value'. These were previously included in 'Trading liabilities'. Comparative data have not been restated. A restatement would have increased 'Financial liabilities designated at fair value' by EUR 2.7 billion at 31 December 2017, with an equivalent decrease in 'Trading liabilities'.*
3 *At 1 January 2018, the HSBC Group adopted certain accounting changes. Comparative data have not been restated. On asset, cash collateral, margin and settlement accounts have been reclassified from 'Trading assets', 'Loans and advances to banks' and 'Loans and advances to customers' to 'Prepayments, accrued income and other assets'. On liabilities, cash collateral, margin and settlement accounts have been reclassified from 'Trading liabilities', 'Deposits by banks' and 'Customer accounts' to 'Accruals, deferred income and other liabilities'.*

The consolidated balance sheet of HSBC France showed total assets of EUR 181 billion at December 31st 2018, increasing by EUR 13 billion versus December 31st 2017.

Assets

HSBC France's deposits with the central bank decreased by EUR 5.6 billion to EUR 9 billion in 2018 and financial investments fell EUR 4 billion to EUR 16.5 billion in connection with the bank's treasury and liquidity management operations. The securities held under repurchase agreements rose by EUR 19 billion to EUR 32.8 billion, in relation with the development of prime brokerage activities. The trading portfolio was reduced by EUR 5.4 billion to EUR 17 billion and derivative instruments were EUR 2.6 billion lower in a context of weak client demand. The client loan book continued to grow by EUR 2.1 billion, due to a good momentum across all businesses and the consolidation of European entities.

Liabilities

Deposits by banking counterparties decreased by EUR 2.5 billion to EUR 10.8 billion. Customer deposits rose from EUR 38.3 billion to EUR 41.9 billion, mainly related to deposits from Retail Banking & Wealth Management and Commercial Banking customers, and the integration of European entities. Repo securities increased by EUR 12.3 billion, while the trading portfolio was reduced by EUR 23.1 billion and derivatives decreased by EUR 1.9 billion. The value of insurance policies taken out by clients is globally steady.

Equity

Shareholders' equity were up to EUR 6.6 billion. In 2018, HSBC France reviewed the structure of its capital and carried out several transactions described in the 'Capital management' chapter on page 142.

The total fully loaded capital ratio was 15.7% at December 31st 2018 versus 14.6% at December 31st 2017. At December 31st 2018, the fully loaded CET1[6] ratio was 13.1% and the fully loaded leverage ratio was 3.6%.

Liquidity and financing

Outstanding medium- and long-term financing and the bank's main financing transactions in 2018 are presented in the liquidity and financing management section on pages 109 to 111.

The short-term ratio (liquidity coverage ratio or LCR), calculated according to the EU's delegated act, was 128% as opposed to the regulatory minimum figure of 80%, and the long-term ratio (net stable funding ratio or NSFR), calculated according to the text of BCBS 295, was 113%.

Balance Sheet Information

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
At 31 December 2018	**45,916**	**15,060**	**105,352**	**2,339**	**12,279**	**180,946**
– *of which*						
Loans and advances to customers	***19,477***	***13,137***	***12,608***	***2,325***	***(550)***	***46,997***
Customers accounts	***17,190***	***11,787***	***12,088***	***828***	***13***	***41,906***
At 31 December 2017	47,052	10,710	105,240	887	3,655	167,544
– *of which*						
Loans and advances to customers	*18,329*	*11,355*	*13,245*	*1,913*	*14*	*44,856*
Customers accounts	*15,396*	*10,862*	*11,250*	*727*	*42*	*38,277*

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

In 2018, France as viewed by the HSBC Group contributed USD 37 million (EUR 33 million) to the Group's profit before tax, as opposed to USD 268 million (EUR 246 million) in 2017.

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

Post-balance sheet events

In a context of political and regulatory evolution in Europe, HSBC adjusts its activities in order to strenghthen its pan-European proposition to customers. To that end, HSBC France acquired or is to acquire assets and liabilities of seven European branches of HSBC Bank plc, in Belgium, Czech Republic, Ireland, Italy, Luxembourg, Netherlands and Spain. All those acquisitions should be effective by March 1st 2019. Those entities deliver services to customers of Global Banking & Markets and Commercial Banking. HSBC in Ireland and Luxembourg entities also provides securities services solutions to investment funds and companies.

Those evolutions were approved by the competent supervisory authorities and the concerned Boards of directors.

All those entities and activities, acquired or to be acquired, represented a total profit before tax of EUR 126 million in 2018 and a total assets of EUR 17.6 billion.

In this context, HSBC France achieved two capital issuances at the beginning of the year 2019: EUR 949.6 million in January 14th and EUR 336.3 million in February 1st. HSBC France also issued Tier2 instruments for EUR 400 million in January 29th 2019.

This reorganisation, internal to HSBC Bank plc, will have no impact on HSBC France solvency ratio.

Furthermore, according to the rule of separation of core retail banking activities from investment banking in United Kingdom, HSBC implemented in France a so-called Service Company entity (ServCo). In compliance with Group organisation, this entity encompasses IT activities of Global Banking & Markets.

Outlook

2019 is expected see the continuation of the slowdown in the global activity which started in 2018. Despite the economic momentum in some emerging countries, China, the US and the Eurozone may see growth below last years' performance. Weaker global trade, impacted by trade tensions notably, and a stronger US dollar are expected to weigh on the global economic outlook. Also, the increase in risk aversion and in market volatility, noticeable at the end of 2018, could add some uncertainties around the size of the expected economic slowdown. Admittedly, the maturity of the US business cycle, prolonged at the expense of higher fiscal and current account deficits, and tepid inflationary pressures, particularly in the Eurozone and in Japan, could lead central banks to show a greater vigilance. Against a backdrop of rising risks, and especially with growing debt ratios in main countries, rate hike decisions could be less than previously anticipated, especially in the US. The Eurozone is expected to post a lower economic growth relative to 2018, although France could record a more resilient activity than that of its main partners over the coming two years.

In this context, HSBC France's results could be impacted by a lasting low rate or negative rate environment, adverse market conditions, significant decrease of businesses activities due to a decline of the economy, exports, lower investments, or regulatory and political context in Europe, as well as a lower household consumption and a potential increase of expected credit losses.

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

[6] Common Equity Tier 1

- driving business by continuing to develop its wealth management business and investing in digital capabilities in Retail and Commercial Banking,
- leveraging strengths of the Group, notably its international footprint to reinforce its positioning in Commercial Banking, Global Banking and Markets, and the Private Bank,
- simplifying processes and procedures to gain efficiency with improvements in the customer experience. HSBC France will pursue the IT infrastructure modernization programme and also has an ambition to digitalise its products and services.

Finally, in an evolving political and regulatory environment in Europe, several HSBC Bank plc European entities will be transferred to HSBC France up to March 1st 2019. HSBC France will continue to build strong business relationships with the clients of these entities and strengthen its position as the first international bank in France in Global Banking and Markets and Commercial Banking activities.

Historical data (unaudited)

	2018	2017	2016	2015	2014
	€m	€m	€m	€m	€m
HSBC France Group					
Profit before tax	**45**	219	432	618	232
Profit attributable to shareholders	**(17)**	177	310	445	198
At 31 December					
Shareholders' equity	**6,555**	5,676	5,842	5,838	5,733
Loans and advances to customers and banks	**53,194**	49,699	44,706	43,184	42,262
Customer accounts and deposits by banks	**52,734**	51,574	46,281	39,897	40,656
Total Balance Sheet	**180,946**	167,544	169,423	168,458	201,018
Number of employees (full-time equivalents)	**8,829**	8,337	8,647	9,217	9,402
Ratios					
– Total capital ratio[1]	**N/A**	14.1%	13.2%	14.9%	14.1%
– Common Equity Tier One Ratio[1]	**N/A**	13.1%	13.2%	14.9%	14.1%
– Cost efficiency ratio[2]	**98.3%**	78.6%	72.7%	68.8%	82.2%

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

Credit ratings

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

	Standard & Poor's	Moody's	FitchRatings
Long term Unsecured Debt	AA -	Aa3	AA -
Outlook	Stable	Stable	Stable
Short term Rating	A-1+	P-1	F1+
Last update	Aug 10th 2018	Sep 27th 2017	Sep 28th 2018

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

HSBC France's ratings have been reviewed during the year by FitchRatings and Standard & Poor'. There is no remaining issue or open discussion point.

Ratings and outlooks remained unchanged during the year 2018,

HSBC France maintains its long-term ratings from Standard & Poors since 2011, Fitchratings since 2012 and Moody's from 2017.

Other information on HSBC France

Information on supplier payable amounts schedule

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

Article D.441 - II : Received invoices subject to late payment delays during the year

	0 day (for information)	1 to 30 days	31 to 60 days	61 to 90 days	over 90 days	Total (1 day and more)
(A) Late payment buckets						
Number of invoices	37,283					11,412
Amount of invoices including VAT (in k€)	490,500	121,929	52,231	17,529	74,921	266,610
Percentage of total purchasing in the year	65%	16%	7%	2%	10%	35%
(B) Invoices excluded from (A) in respect of litigations or not accounted						
Number of invoices excluded	2,486					
Amount of excluded invoices including VAT (in k€)	35,404					
(C) Suppliers' payment terms (contractual or legal terms – article L.441-6 or article L.443-1 of the Commercial code)						
Payment terms used to assess the late payments	Contractual terms: 45 days					

Information on client receivable amounts schedule

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

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

	0 day (for information)	1 to 30 days	31 to 60 days	61 to 90 days	over 90 days	Total (1 day and more)
(A) Late payment buckets						
Number of invoices	122					999
Amount of invoices excluding VAT (in k€)	5,909	12,286	3,601	4,032	10,239	30,158
Percentage of total revenue of the year	0.20%	0.41%	0.12%	0.14%	0.34%	1.01%
(B) Invoices excluded from (A) in respect of litigations or not accounted						
Number of invoices excluded	–					
Amount of excluded invoices excluding VAT (in k€)	–					
(C) Clients' payment terms (contractual or legal terms – article L.441-6 or article L.443-1 of the Commercial code)						
Payment terms used to assess the late payments	Contractual terms: 30 to 45 days					

This information does not include banking transactions and certain related transactions as HSBC France considers that they do not fall within the scope of the information to be produced.

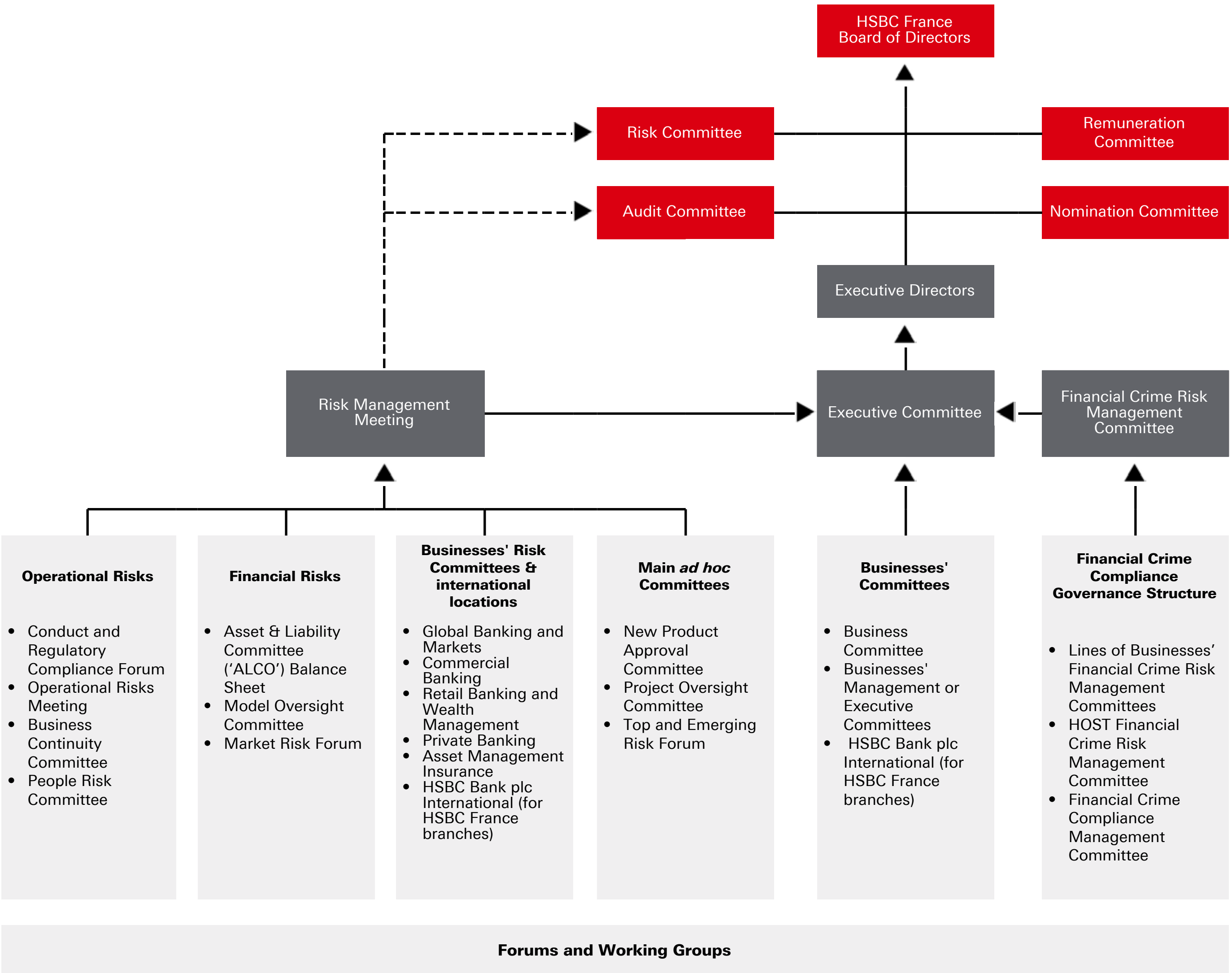
Corporate governance report

Under article L. 225-37 of the French Commercial Code, the Board of Directors presents a report on corporate governance attached to the management report referred to in article L. 225-100 to the shareholders' general meeting.

This report was submitted to the Board Committees at their meetings held on 1 and 5 February 2019.

Corporate governance structure and bodies

Committees' governance and structure



Board composition is detailed and commented on pages 20 and following of this Corporate Governance report.

Membership, missions and work of the Board Committees are presented in relevant sections of this Corporate Governance report (see pages 28 to 33).

Executive Committee membership is detailed on page 28 of this Corporate Governance report.

Risks, issues or other matters requiring attention from the management body may be escalated through line management, or through the committee structure described above.

In particular regarding the information flow on risk, the HSBC France RMM, which is chaired by the Chief Risk Officer and includes the Chief Executive Officer, the Deputy Chief Executive Officer and other members of the Executive Committee, is the overarching Committee overseeing risk management and permanent control. Next to it, the committee in charge of overseeing more specifically the Financial Crime Risk, Sanctions Risk and Fraud Risk, is the Financial Crime Risk Management Committee.

Relevant information, in particular on risk, are shared on a quarterly basis with the Board and its Audit and Risk Committees by the bank's senior management.

Composition of the Board of Directors of HSBC France at 8 February 2019[7]

Chair of the Board

Samir Assaf
Chairman of the Board of Directors

Member of the Nomination Committee and of the Remuneration Committee

First elected: 2012. Last re-elected: 2016. Term ends: 2019[8]

Principal position: Member of the HSBC Group Management Board. Chief Executive Officer Global Banking and Markets, HSBC Group[9]. Head of the Europe, Middle East and Africa regions for the HSBC Group.

Other directorships in the HSBC Group: Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG[9]. Director, The Saudi British Bank[9].

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1960. Master's degree in Bank and Finance from the Panthéon-Sorbonne University and graduated from the Institut d'Etudes Politiques de Paris. Joined CCF in 1994 from Total Group, where he was Head of Treasury. At CCF, he was appointed Head of Markets in 1998. He joined HSBC in 2000 when the bank acquired CCF. Started at HSBC as Head of Global Markets at HSBC France and Head of Fixed Income Trading, Europe. In 2006, promoted to Head of Global Markets, Europe and Middle-East and in 2007 became Deputy Head of HSBC Group Global Markets. In 2008, he became Head of Global Markets and a Group General Manager. He took the managerial direction of the Global Research in 2009 and extended his responsibilities to Securities Services in 2010. In 2011, he was appointed Group Managing Director and a member of the Group Management Board. Since November 2012, he has been the Chairman of the Board of Directors of HSBC France. He was also a founding member of the Association of the Financial Markets in Europe and, since 2012, a member of the Financial Markets Advisory Committee of the International Monetary Fund. He is a member of the Advisory Council of the Fixed Income Currencies and Commodities Markets Standards Board (FMSB).

2017	**Directorships in the HSBC Group:** Chairman of the Board of Directors: HSBC France. Director: The Saudi British Bank. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.
2016	**Directorships in the HSBC Group:** Chairman of the Board of Directors: HSBC France. Director: The Saudi British Bank. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.
2015	**Directorships in the HSBC Group:** Chairman of the Board of Directors: HSBC France. Director: HSBC Bank plc. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG. **Directorship outside of the HSBC Group:** Chairman of the Board of Directors: Global Financial Markets Association.
2014	**Directorships in the HSBC Group:** Chairman of the Board of Directors: HSBC France. Director: HSBC Bank plc. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG. **Directorship outside of the HSBC Group:** Chairman of the Board of Directors: Global Financial Markets Association.

Executive Directors

Jean Beunardeau
Director and Chief Executive Officer

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

Principal position: Chief Executive Officer, HSBC France. Head of Global Banking and Markets, France. Group General Manager, HSBC Group[9].

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

Other directorships outside of the HSBC Group: Director, Institut de la Gestion Déléguée. Member of the Supervisory Board, Société Anonyme des Galeries Lafayette. Member of the Supervisory Board, Fonds de garantie des dépôts et de résolution (permanent representative of HSBC France). Chairman, Académie France-Chine. Director, Fondation de France (permanent representative of HSBC France). Treasurer, Saint-Cloud Country Club (since June 2018).

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1962. Graduated from Ecole Polytechnique, Telecom engineer and Master of Economics, he began his career at the Ministry of Finance, at the Forecasting Department then at the Treasury. He became Technical Advisor to the Prime Minister in 1995. He joined HSBC France in 1997 in Corporate Finance and became Managing Director in 2000. He was appointed Co-Head of Corporate Investment Banking and Markets, mainly in charge of Corporate and Investment Banking in 2004. In 2005, he was appointed Senior Corporate Vice-President. In 2007, he was appointed Head of Global Banking and Markets of HSBC France. In 2010, he was appointed Deputy CEO, in addition to his role as Head of Global Banking and Markets France. The same year, he was appointed Head of Global Banking, Continental Europe, HSBC Group. Since January 2012, he has been CEO of HSBC France and Head of Global Banking and Markets, France.

7 *As far as their directorship at HSBC France is concerned, the address of HSBC France's Directors and Senior Executives is the company's registered office, 103 avenue des Champs-Elysées, 75419 Paris Cedex 08, France.*
8 *Director standing for re-election at the Annual General Meeting to be held on 15 March 2019.*
9 *Listed company.*

2017	**Directorships in the HSBC Group:** Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: Valeurs Mobilières Elysées. Chairman: Fondation HSBC pour l'Education. **Directorships outside of the HSBC Group:** Director: Institut de la Gestion Déléguée. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette, Fonds de garantie des dépôts et de résolution (permanent representative of HSBC France). Chairman: Académie France-Chine. Director, Fondation de France (permanent representative of HSBC France)
2016	**Directorships in the HSBC Group:** Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: Valeurs Mobilières Elysées. Chairman: Fondation HSBC pour l'Education. **Directorships outside of the HSBC Group:** Director: Institut de la Gestion Déléguée. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette, Fonds de garantie des dépôts et de résolution (permanent representative of HSBC France). Chairman: Académie France-Chine.
2015	**Directorships in the HSBC Group:** Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: Valeurs Mobilières Elysées. Chairman: Fondation HSBC pour l'Education. **Directorships outside of the HSBC Group:** Director: Institut de la Gestion Déléguée. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette.
2014	**Directorships in the HSBC Group:** Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France). Director: Valeurs Mobilières Elysées, HSBC Assurances Vie (France). Chairman: Fondation HSBC pour l'Education. **Directorships outside of the HSBC Group:** Director: Institut de la Gestion Déléguée. Director and Treasurer: Fondation ESTP. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette.

Andrew Wild

Director and Deputy Chief Executive Officer

First elected: 2015. Last re-elected: 2016. Term ends: 2019[10]

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

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

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive.

Skills and experience: Born in 1970. British nationality. Graduate of the Business School of the University of Nottingham. He is also qualified as a chartered accountant. He joined the HSBC Group in 2005, after having been, in particular, Senior Manager Transaction Services at KPMG then, Corporate Finance Director at KPMG Corporate Finance. In 2008, he was appointed Deputy Head of Commercial Banking of HSBC France. In 2011, he was appointed Global Head of Corporate, Business Banking and Products of Commercial Banking, HSBC Group, then he became, in 2013, Global Head of Mid-Market and Business Banking of Commercial Banking, HSBC Group. He has been Deputy Chief Executive Officer, Deputy to the CEO of HSBC France since 2015 and was Head of Commercial Banking in France from 2015 to 2018. In 2017, he was appointed Head of Commercial Banking, Europe.

2017	**Directorships in the HSBC Group:** Director and Deputy CEO: HSBC France. **Directorships outside the HSBC Group:** Treasurer: Association Française des Banques. Chairman: Group of Banks under foreign control in France, Fédération Bancaire Française.
2016	**Directorships in the HSBC Group:** Director and Deputy CEO: HSBC France. **Directorships outside the HSBC Group:** Treasurer: Association Française des Banques. Chairman: Group of Banks under foreign control in France, Fédération Bancaire Française.
2015	**Directorships in the HSBC Group:** Director and Deputy CEO: HSBC France.
2014	–

Non-executive Directors

Ibtissam Bara

Director elected by employees

First elected: 2016. Term ends: 2019

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

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1982. Graduated of a DUT in Corporate and Administrative Management. Since she joined HSBC France in 2007, she held positions as reception officer, sales assistant, supervisor and relationship manager within the Retail

[10] *Director stading for re-election at the Annual General Meeting to be held on 15 March 2019.*

network before to join the Pro Proposition Department.

2017	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2016	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2015	–
2014	–

Ludovic Bénard

Director elected by employees

Member of the Remuneration Committee

First elected: 2016. Term ends: 2019

Principal position: Retail Financial Engineer, Retail Banking and Wealth Management, HSBC France.

Other directorships in the HSBC Group: Member of the Supervisory Board, HSBC France Actionnariat. Member of the Supervisory Board, Fonds MOEA.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: a directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1978. Master's degree in Professional Inheritence Law from the University of Paris-Dauphine and a degree in Bank, Finance, Insurance and Wealth Management. Before and since he joined HSBC France in 2009, he held various positions as Wealth Management Advisor before to be appointed as Financial Engineer in the Retail network.

2017	**Directorships in the HSBC Group:** Director elected by employees: HSBC France. Member of the Supervisory Board: HSBC France Actionnariat, Fonds MOEA.
2016	**Directorships in the HSBC Group:** Director elected by employees: HSBC France. Member of the Supervisory Board: HSBC France Actionnariat.
2015	–
2014	–

Xavier Bertrand

Director elected by employees

First elected: 2016. Term ends: 2019

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

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1960. Bachelor degree in Economic and Social Sciences. Joined HSBC France in 1999. During his career in the networks of various banking institutions, he held positions as relationship manager, branch director, project manager, responsible for animation ans development manager before to join Pro Proposition Department.

2017	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2016	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2015	–
2014	–

Paule Cellard

Independent Director

Member of the Audit Committee and of the Risk Committee

First elected: 2017. Term ends: 2019[11]

Other directorships: Director, CA Indosuez Wealth Management (Europe). Member of the Supervisory Board, Damartex[12]. Member of the Supervisory Board; Somfy[12].

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: four directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1955. Graduated from the Ecole Supérieure de Commerce de Paris (ESCP Europe) and the Institut d'Etudes Politiques de Paris. Degree in International Law from the University Paris II-Assas and Corporate Director Certificate from the French Institute of Directors. After having held various operational responsibilities within investment banking and markets activities at Banque Indosuez, The Chase Manhattan Bank and then at Crédit Agricole group, she was Head of the central team of Calyon's Inspection Générale between 2000 and 2005, CEO of Gestion Privée Indosuez between 2006 and 2009, and subsequently Global Head of Compliance for Crédit Agricole Corporate & Investment Bank until 2013, when she retired. Since 2013, she has been holding several directorships in boards and board committees.

2017	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Klefi Conseil. Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex, Somfy.
2016	–
2015	–
2014	–

[11] *Director standing for re-election at the Annual General Meeting to be held on 15 March 2019.*
[12] *Listed company.*

James Emmett
Director

First elected: 2018. Term ends: 2019[11]

Principal position: Group General Manager, HSBC Group[12]. Chief Executive Officer, HSBC Bank plc and Europe.

Other directorship in the HSBC Group: Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG[12] (since November 2018).

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive.

Skills and experience: Born in 1971. British nationality. BSc degree in Financial Services from the Manchester University and BA degree in History from the Cambridge University. He joined HSBC in 1994 and has served in various roles in Commercial and Retail Banking, Trade Finance, Operations and Technology, and Strategy across Europe, Asia, Middle East and the Americas. From 2012 to 2014, he was Global Head of Trade and Receivables Finance. He was the Chief Executive Officer of HSBC Turkey from September 2014 to June 2016 and then was appointed Chief Operating Officer for HSBC Bank plc from 2016 to 2018. Since 2018, Chief Executive Officer of HSBC Bank plc and a Group General Manager at HSBC with the responsibility for Continental Europe and the United Kingdom Non Ring Fenced Bank.

2017	–
2016	–
2015	–
2014	–

Lindsay Gordon
Independent Director

Chairman of the Risk Committee and Member of the Audit Committee

First elected: 2013. Last re-elected: 2016. Term ends: 2019[11]

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

Other directorships outside of the HSBC Group: Chancellor, University of British Columbia. Governor and Co-Founder, C.H.I.L.D. Foundation. Director, Export Development Canada. Directorships expired in 2018: Director, Clear Seas Centre for Responsible Marine Shipping. Director, Canadian Institute for Advanced Research.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1952. British and Canadian nationality. Graduate of an M.B.A. in Finance and International Business at the Sauder School of Business of the University of British Colombia and BA in Economics from the University of British Colombia. He joined HSBC Bank Canada in 1987 and has served in various roles in Toronto and Vancouver including Senior Executive Vice-President, Chief Credit Officer, Senior Vice-President and Head of Special Credit, and Vice-President at Commercial Banking in Toronto. He was appointed Chief Operating Officer in 1999 then President and Chief Executive Officer from 2003 to 2013, date of his retirement.

2017	**Directorships in the HSBC Group:** Independent Director: HSBC France. Director: HSBC Bank Bermuda Limited. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.
2016	**Directorships in the HSBC Group:** Independent Director: HSBC France. Director: HSBC Bank Bermuda Limited. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.
2015	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Co-Chair: University of British Columbia Capital Campaign. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.
2014	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Co-Chair: University of British Columbia Capital Campaign. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.

Philippe Houzé
Independent Director

Chairman of the Nomination Committee and of the Remuneration Committee

First elected: 1999. Last re-elected: 2016. Term ends: 2019[13]

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

Other directorships: Deputy Chairman and Chief Executive Officer, Motier. Chairman, Motier Domaines. Chairman, Guérin Joaillerie. Chairman of the Supervisory Board, La Redoude (since April 2018). Lead Director, Carrefour[14]. Director, Lafayette Anticipation - Fondation d'entreprise Galeries Lafayette (Founders College). Director, Institut Français de la Mode. Member of the Board, INSEAD. Member of the Supervisory Committee, BHV Exploitation. Member of the Steering Committee, Union du Grand Commerce de Centre-Ville (UCV). Elected Member, Chambre de Commerce et d'Industrie de la région Paris Ile de France. Chairman of the France Council, INSEAD. Chairman of the France Board of Governors, ESCP Europe. Deputy Chairman, Association Alliance 46.2 Entreprendre en France pour le Tourisme.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1947. Graduate of a Bachelor degree en Political Science and of an M.B.A. from the Institut Européen d'Administration des Affaires (INSEAD). Director of Galeries Lafayette since 1974. Chairman of Monoprix from 1994 to 2013.

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[13] Director standing for re-election at the Annual General Meeting to be held on 15 March 2019.
[14] Listed company.

2017	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman of the Management Board: Galeries Lafayette Group. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines, Guérin Joaillerie. Lead Director: Carrefour. Director: Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette (Founders College), INSEAD, Expofrance 2025, EESC ESCP, Institut Français de la Mode. Member of the Steering Committee: Union du Grand Commerce de Centre-Ville ('UCV'). Elected member: Chambre de Commerce et d'Industrie de la région Paris Ile de France. Member of the Supervisory Committee: BHV Exploitation. Chairman of the France Council: INSEAD. Deputy Chairman: Association Alliance 46.2 Entreprendre en France pour le Tourisme. Chairman of the France Board of Governors, ESCP Europe. Chairman of the Governing Board, Novancia Business School.
2016	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman of the Management Board: Galeries Lafayette Group. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines, Guérin Joaillerie. Lead Director: Carrefour. Director: Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette (Founders College), INSEAD, Expofrance 2025, EESC ESCP. Member of the Steering Committee: Union du Grand Commerce de Centre-Ville ('UCV'). Elected member: Chambre de Commerce et d'Industrie de la région Paris Ile de France. Member of the Supervisory Committee: BHV Exploitation. President of the Council: France INSEAD. Chairman of the Governing Board: Novancia Business School. Deputy Chairman: Association Alliance 46.2 Entreprendre en France pour le Tourisme.
2015	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman of the Management Board: Galeries Lafayette Group. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines, Didier Guérin. Lead Director: Carrefour. Director: Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Steering Committee: Union du Grand Commerce de Centre-Ville ('UCV'). Elected member: Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee: BHV Exploitation. President of the Council: France INSEAD. Director: INSEAD, Expofrance 2025. Chairman of the Governing Board: Novancia Business School. Deputy Chairman: Association Alliance 46.2 Entreprendre en France pour le Tourisme.
2014	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman of the Management Board: Galeries Lafayette Group. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines. Director: iDbyMe, Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Steering Committee: Union du Grand Commerce de Centre-Ville ('UCV'). Elected member: Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee: Bazar de l'Hôtel de Ville-B.H.V. Censor: Groupe Carrefour. President of the Council: France INSEAD. Chairman of the Governing Board: Novancia Business School. Deputy Chairman: Association Alliance 46.2 Entreprendre en France pour le Tourisme.

Fanny Letier

Independent Director

First elected: 2019. Term ends: 2021[15]

Principal position: Chief Executive Officer, G4partners.

Other directorships: Director, Nexans. Director, Biomérieux. Director, Institut Français des Administrateurs. Director, Amicale du Trésor. Member of the Supervisory Board, Pacte PME.

Skills and experience: Born in 1979. Graduated from the Institut d'Etudes Politiques de Paris, the John Hopkins University, the Ecole Nationale d'Administration and the Institut Français des Administrateurs. After having held various positions at the French Treasury from 2004 to 2012 French Ministry of Economy and been a financial advisor to the Permanent Representation of France to the European Union from 2008 to 2010 and General Secretary of the Interdepartmental Committee for Industrial Restructuring (CIRI) from 2010 to 2012, she was appointed Deputy Head of the Office of the Minister of Productive Recovery in 2012. In 2013, she was appointed Director of Bpifrance France Investissement Régions funds and then in 2015 a member of the Executive Committee of Bpifrance, in charge of direct investments and SME's and mid-cap companies guidance. In September 2018, she cofounded GENEO capital entrepreneur, a private equity company dedicated to growth SMEs and mid-cap companies.

2017	–
2016	–
2015	–
2014	–

Thierry Moulonguet

Independent Director

Chairman of the Audit Committee and member of the Risk Committee

First elected: 2009. Last re-elected: 2016. Term ends: 2019[16]

Other directorships in the HSBC Group: Directorships expired in 2018: Independent Director, HSBC Bank plc.

Other directorships outside of the HSBC Group: Managing Director, Revue Des Deux Mondes[17] (since November 2018). Chairman of the Supervisory Board, Webedia[17]. Director, Fimalac[17,18]. Director, Groupe Lucien Barrière[17]. Director, Valeo[18]. Director, Trois-S Entertainment[17]. Directorships expired in 2018: Chairman and Chief Executive Officer, Revue Des Deux Mondes. Director, Prodways Group.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and two directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1951. Graduated from the Institut d'Etudes Politiques de Paris and Ecole Nationale d'Administration. Degree in Economic Science. After having held several positions in the French public service, he joined the Finance Department of Renault in 1991. From 1999 to 2003, Senior Vice-President, Chief Financial Officer, Member of the Executive Committee and of the Board of Directors of Nissan. Until 2010, Executive Vice-President and Chief Financial Officer of the Renault Group, and then, until 2011, Director and Special Adviser to the President of the Renault-Nissan Alliance.

15 *Subject to the ratification of her co-optation by the General Meeting to be held on 15 March 2019.*
16 *Director standing for re-election at the Annual General Meeting to be held on 15 March 2019.*
17 *Company owned by the Fimalac group.*
18 *Listed company.*

2017	**Directorships in the HSBC Group:** Independent Director: HSBC France, HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, Prodways Group, Valeo, Trois-S Entertainment.
2016	**Directorships in the HSBC Group:** Independent Director: HSBC France, HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, Prodways Group, Valeo, Trois-S Entertainment.
2015	**Directorships in the HSBC Group:** Independent Director: HSBC France, HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, Prodways Group, Valeo.
2014	**Directorships in the HSBC Group:** Independent Director: HSBC France, HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, Valeo.

Dominique Perrier
Independent Director

First elected: 2018. Term ends: 2019[16]

Other directorships: Director, NaturaBuy. Chairman, Moncey Arbitrage et Conseil.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and two directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1954. Graduated from the French Business School ESSEC and Certified Public Accountant. Mediator certified by Ecole Professionnelle de la Médiation et de la Négociation. After practicing as external auditor at Peat Marwick and then, from 1988, as a audit and consulting partner at PricewaterhouseCoopers Audit (PwC), she took over the development of PwC Dispute Analysis and Investigation department from 2001 to 2016. From 2004 to 2008, she also managed the PwC Restructuring activities. Retired since 2017, she intervenes, on the one hand, as an independent director and, on the other hand, as arbitrator, independent expert and mediator.

2017	–
2016	–
2015	–
2014	–

Arnaud Poupart-Lafarge
Independent Director

First elected: 2016. Term ends: 2019[19]

Other directorship: Directorship expired in 2018: Chief Executive Officer, Nexans[20].

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1965. Engineer graduate from Ecole Polytechnique and Ecole Nationale des Ponts et Chaussées. Master of Science in Engineering Management from the University of Stanford. Within the ArcelorMittal group, he managed various operations in Europe, Africa and CIS; he was a member of ArcelorMittal Management Council until 2013. Chief Executive Officer of Nexans from 2014 to 2018, after joining the company in 2013 as Chief Operating Officer.

2017	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorship outside of the HSBC Group:** Chief Executive Officer: Nexans.
2016	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorship outside of the HSBC Group:** Chief Executive Officer: Nexans.
2015	–
2014	–

Philippe Purdy
Director elected by employees

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

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

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1958. French and British nationality. Graduate of a DUT in Marketing Techniques. Professional diploma in banking. Since he joined HSBC France in 1982, he held various positions as financial advisor and sales representative.

2017	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2016	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2015	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2014	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.

19 Director standing for re-election at the Annual General Meeting to be held on 15 March 2019.
20 Listed company.

Lucile Ribot
Independent Director

Member of the Audit Committee and of the Risk Committee

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

Other directorships: Director, SoLocal Group (since March 2018). Director, Imerys (since May 2018). Director, Kaufman & Broad SA (since May 2018).

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: four directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1966. Fraduated from the Ecole des Hautes Etudes Commerciales de Paris (HEC). Senior Audit Manager at Arthur Andersen (audit and consulting) from 1989 to 1994. She joined the Fives Group in 1995 as a Group Financial Controller. From 1996 to 1997, Chief Financial and Administrative Officer of the subsidiary Five Solios. From 1998 to July 2017, Chief Financial Officer of Fives and Member of the Management Board from 2002 to January 2017.

2017	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Member of the Management Board: Fives. Member of the Management Board and Chief Executive Officer: Novafives. Director: Fives DMS, Fives Pillard, FL Metal, Fives Landis Limited, Fives UK Holding Limited.
2016	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Member of the Management Board: Fives. Member of the Management Board and Chief Executive Officer: Novafives. Director: Fives DMS, Fives Pillard, FL Metal, Fives Landis Limited, Fives UK Holding Limited.
2015	–
2014	–

Carola von Schmettow
Director

First elected: 2015. Last re-elected: 2018. Term ends: 2021

Principal position: Chairman of the Management Board, HSBC Trinkaus & Burkhardt AG[21].

Other directorships outside of the HSBC Group: Chairman of the Exchange Council, EUREX. Member of the Exchange Council, Frankfurt Stock Exchange. Member of the Supervisory Board, ThyssenKrupp AG[21]. Directorships expired in 2018: Member of the Advisory Board, L-Bank. Member of the Supervisory Board, BVV.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and one directorship as member of a Board of Directors or a Supervisory Board.

Skills and Experience: Born in 1964. German nationality. Master in Mathematics from the University Heinrich-Heine of Düsseldorf and Master in Music from the University Robert Schumann of Düsseldorf. Joined HSBC Trinkaus & Burkhardt AG in 1992 as Associate Trading. From 1995 to 1997, Head of Treasury then Head of Global Markets Coordination until 1999. From 1999 to 2003, Chief Executive Officer of HSBC Trinkaus Capital Management GmbH (today, HSBC Global Asset Management Deutschland GmbH). She was also Member of the Executive Committee of HSBC Trinkaus & Burkhardt AG from 2001 to 2004, firstly as Responsible for Private Banking and Asset Management then as Responsible for Institutional Clients and Asset Management. From 2004 to 2006, Managing Partner with unlimited liability of HSBC Trinkaus & Burkhardt KGaA, company for which she was Responsible for Institutional Clients and Asset Management. Since 2006, a member of the Management Board of HSBC Trinkaus & Burkhardt AG and Responsible for Global Markets, Global Research and support functions. In 2015, she was appointed Chairman of the Management Board of HSBC Trinkaus & Burkhardt AG.

2017	**Directorships in the HSBC Group:** Director: HSBC France. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Member of the Advisory Board: L-Bank. Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp, BVV.
2016	**Directorships in the HSBC Group:** Director: HSBC France. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Member of the Advisory Board: L-Bank. Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp, BVV.
2015	**Directorships in the HSBC Group:** Director: HSBC France. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Member of the Advisory Board: L-Bank. Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp, BVV.
2014	–

Brigitte Taittinger
Independent Director

First elected: 2008. Last re-elected: 2016. Term ends: 2019[22]

Other directorships: Member of the Board of Directors, Centre Georges Pompidou. Director, Fnac Darty[21]. Director, Suez[21] (since May 2018).

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: three directorships as member of a Board of Directors or a Supervisory Board.

Skills and Experience: Born in 1959. Graduated from the Institut d'Etudes Politiques de Paris and degree in History. Advertising Manager for Publicis from 1984 to 1988. Marketing Department of Groupe du Louvre from 1988 to 1991. Chairman and CEO of Annick Goutal from 1991 to 2012. From 2013 to 2017, Director of Strategy and Development at Sciences Po, Paris.

21 Listed company.
22 Director standing for re-election at the Annual General Meeting to be held on 15 March 2019.

2017	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Member of the Board of Directors: Centre Georges Pompidou. Director: Fnac Darty.
2016	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Member of the Board of Directors: Centre Georges Pompidou. Director: Groupe Fnac.
2015	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Vice-President of the Board of Directors: Festival d'Aix-en-Provence. Member of the Board of Directors: Centre Georges Pompidou. Director: Groupe Fnac.
2014	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Vice-President of the Board of Directors: Festival d'Aix-en-Provence. Member of the Board of Directors: Centre Georges Pompidou. Director: Groupe Fnac.

Jacques Veyrat

Independent Director

Member of the Nomination Committee and of the Remuneration Committee

First elected: 2009. Last re-elected: 2016. Term ends: 2019[22]

Principal position: Chairman, Impala SAS.

Other directorships and functions: Chairman, Impala Holding. Chairman of the Board of Directors, Fnac Darty[21]. Director, Nexity[21]. Censor, ID Logistics. Censor, Pacemar. Censor, Sucres et Denrées. Censor, Neoen (since May 2018). Senior Advisor for investments in France, KKR (since January 2018). Directorships expired in 2018: Member of the Board of Directors, Cameron France Holding SAS. Member of the Supervisory Board, Neoen. Censor, Direct Energie.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and three directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1962. Engineer graduate from Ecole Polytechnique and Ecole Nationale des Ponts et Chaussées. M.B.A. from Collège des Ingénieurs. After having held various positions of responsibility in several French ministries, he joined the Louis Dreyfus Group in 1995. In 1998, he set up LDCom, renamed Neuf Telecom in 2004 and Neuf Cegetel in 2005. In 2008, he left Neuf Cegetel when it was sold to SFR. In 2008, he was appointed Chairman of the Louis Dreyfus Group. In 2011, he left the Louis Dreyfus Group and created the Impala Group.

2017	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Impala SAS, Impala Holding. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen. Censor: Direct Energie, ID Logistics, Pacemar, Sucres et Denrées. Chairman of the Board of Directors: Fnac Darty.
2016	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Impala SAS, Impala Holding. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen. Censor: Direct Energie, ID Logistics, Pacemar, Sucres et Denrées.
2015	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Impala SAS, Impala Holding. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen. Censor: Direct Energie, ID Logistics, Pacemar, Sucres et Denrées.
2014	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Impala SAS, Impala Holding. Chairman of the Board of Director: Maison Lejaby SA. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen. Censor: Direct Energie, ID Logistics, Sucres et Denrées.

Executive Committee membership

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

Every year, HSBC France performs succession plans for roles considered as key with clear rules guiding this exercise in order to have robust succession plans, promoting gender balance as well as internal promotion. It is required to have at least four successors per role and a female successor for each of these roles as well as a breakdown of internal recruitments vs. external recruitments of 80 to 20. The succession plans were reviewed in 2018 on these bases, including in respect of the members of the Executive Committee.

Corporate governance regime

Corporate governance code

In accordance with the requirements under article L. 225-37-4 of the French Commercial Code, it is stated that, given the HSBC France's specific situation of 99.9 per cent owned subsidiary of the HSBC Group and which capital securities are not admitted to trading on a regulated market, HSBC France does not refer to any corporate governance code drawn up by business representative organisations, but refers to the Corporate Governance Code for HSBC Group companies (the 'Code'), adopted by HSBC France Board of Directors at its meeting of 14 February 2014. The aim of this code is to provide consistent and high standard corporate governance practices throughout the HSBC Group.

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

Board of Directors' internal rules

The Board of Directors' internal rules were first established in 1996, and have been updated several times since their implementation. In 2018, the Board reviewed and updated these internal rules at its meeting held on 27 April.

The Board's internal rules define the conducting of the Board meetings and the information to the Board of Directors. They indicate the main duties and arrangements for exercising the function of Chairman, and the main duties of the Chief Executive Officer. Furthermore, the Board's internal rules define, in accordance with the HSBC Group rules, the duties and responsibilities of the Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee (as stipulated below in the parts related to each of these Committees' assignments). They also incorporate ethical rules and rules regarding conflicts of interest prevention and management to be followed by the Directors of HSBC France, setting out their rights and duties.

Board Chairmanship and Executive Management

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

Missions of the Chairman of the Board

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

Chief Executive Officer's powers

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

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

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

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

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

Board of Directors

Composition of the Board

At 31 December 2018, the Board of Directors comprised 19 Directors, of which 15 appointed by the Shareholders' General Meeting and four elected by employees. A representative of the Central Works Council attends Board meetings, without voting rights.

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

The Board of Directors approved a policy for the assessment of the suitability of members of the management body and key function holders.

Changes occurred in the Board composition

The Nomination Committee reviewed the position of the Directors whose term of office expired at the AGM on 13 April 2018: Anne Méaux and Carola Gräfin von Schmettow, and recommended that the Board vote to reappoint them, taking into account their performance, skills and active contribution to the work done by the Board. At the AGM held on 13 March 2018, shareholders re-elected those Directors.

On the Nomination Committee's proposal, the Board of Directors, at its meeting on 20 February 2018, co-opted Dominique Perrier as a Director, to replace Martine Gerow who had resigned. The Shareholders' general meeting on 13 March 2018 ratified this co-optation.

On the Nomination Committee's proposal, the Board of Directors, at its meeting on 26 October 2018, co-opted James Emmett as a Director, to replace Antonio Simoes who had resigned. The Shareholders' general meeting on 18 December 2018 ratified this co-optation.

Further to Anne Méaux resignation, the Board co-opted Fanny Letier as a Director at its meeting on 8 February 2019.

Board diversity

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

The profiles of the Directors are diverse and complementary and cover the spectrum of business lines and risks associated with the activities of HSBC France. The Board of Directors has four members elected by the employees.

The Board includes four different nationalities and nearly two-thirds of Directors have international experience. The average age of the Directors in office is 56.8 at 31 December 2018 and their average seniority in the function is six years.

Excluding Directors elected by employees, the Board comprises six women and nine men, i.e. 40 per cent of women and 60 per cent of men.

Independent Directors

With respect to the criteria on independence defined in the guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) on the assessment of the suitability of members of the management body, the Board of Directors determines, on appointment and annually thereafter, whether each non-executive Director may be considered as independent. To do this, it examines whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board should record its reasons if it determines that a Director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination.

Based on the Nomination Committee's report, the Board of Directors reviewed the situation of each of its members as at 31 December 2018 in the light of the criteria detailed in the EBA/ ESMA joint guidelines. It considered that ten Directors can be deemed independent. Nonetheless, one Director has served on the Board for more than twelve years. Nevertheless, the Board of Directors found that this criterion alone did not call into question his independence vis-à-vis the company.

More than half of the Directors are independent; a higher proportion than a third (excluding the Chairman of the Board), as recommended by the Code.

Conflicts of interest and ethical rules

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

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

To the knowledge of HSBC France, there is:

- no family relationship between Board members, including Executive Directors, of HSBC France;
- no arrangement or understanding with a shareholder, a customer, a supplier or other pursuant to which one of the Board members, including Executive Directors, was selected.

The Board policy on conflicts of interest annexed to the Board's internal rules takes into account the corporate governance principles for banks published by the Basel Committee on Banking Supervision in July 2015. It includes in particular a list of questions to assist the Directors in identifying situations of conflict of interest, examples of situations that may give rise to conflicts of interest and situations the Board will generally determine that there are no conflicts of interest, and an application for authorisation and for declaration of a potential conflict of interest. In order to strengthen the conflict of interest avoidance mechanism, Directors must seek authorisation from the Board before accepting a mandate or position in a company or organisation outside the HSBC Group and a process of authorisation, review and possible withdrawal of authorisation by the Board is in place.

To the knowledge of HSBC France, in the last five years, none of the Board members currently in office, including Executive Directors, has been the subject of a conviction for fraud, bankruptcy, receivership, liquidation or put into administration, official public incrimination and/or sanction pronounced by statutory or regulatory authorities, or has been disqualified by a court from acting as a member of an administrative, management or supervisory body of an issuer or from acting in the management or conduct of the affairs of an issuer.

Agreements governed by article L. 225-38 of the French Commercial Code

Article L. 225-38 of the French Commercial Code requires that any agreement entered into directly or indirectly between a company and one of its Directors or Chief Executives or Deputy Chief Executives, or between a company and one of its shareholders owning at least 10 per cent of the voting rights, or, in the case of a corporate shareholder, the company which controls it, must first be authorised by the Board of Directors and subsequently approved at the Annual General Meeting of shareholders. It also prohibits certain types of agreement between those parties, such as loans or guarantees.

During its meeting on 26 October 2018 the Board conducted its annual review of agreements already entered into that it had authorised previously and still in force.

Agreements authorised in 2018

New agreements subject to the provisions of article L. 225-38 of the French Commercial Code were approved by the HSBC France's Board of Directors during 2018:

- an agreement between HSBC France and HSBC Bank plc, concerning the acquisition by HSBC France of HSBC Bank Polska S.A. (meeting on 30 May 2018). This agreement was signed on 1 August 2018.
- an agreement between HSBC France, HSBC Bank plc and HSBC Securities Services Holdings (Ireland) DAC, concerning the acquisition by HSBC France of HSBC Institutional Trust Services (Ireland) DAC (meeting on 26 July 2018). This agreement was signed on 1 August 2018.
- contribution agreements and related documents between HSBC France and HSBC Bank plc, concerning the contribution of certain assets and liabilities of six European branches (Spain, Italy, Ireland, Netherlands, Czech Republic, Belgium) of HSBC Bank plc to HSBC France (meeting on 3 August 2018). The contribution agreements were signed on 12 October 2018.
- a novation agreement regarding the transfer of the European Volume Payment Solution (EVPS) platform from HSBC Bank plc Paris Branch to HSBC France (meeting on 26 October 2018). The novation agreement was signed on 3 December 2018.
- an agreement relating to the transfer of HSBC France HOST IT Global Banking and Markets business to the branch in France of HSBC Global Services (UK) Limited (meeting on 26 October 2018). The agreement was signed on 31 December 2018.

Agreements entered into in prior years and still in force and effect during 2018

Three agreements entered into in 2001 by HSBC France and its direct 99.99 per cent shareholder, HSBC Bank plc Paris Branch, remained in full force and effect during 2018. These were a pooling of resources agreement designed to provide the parties with various services relating to their activities at cost, an agreement for the provision of services covering various activities and a group tax relief agreement.

The agreement entered into in 2017 between HSBC France and HSBC Bank plc concerning the acquisition of the activities of the HSBC Bank plc branch in Greece by HSBC France, remained in full force and effect during 2018.

The agreement renewed in 2007 between HSBC Holdings plc and HSBC France, giving HSBC France and its subsidiaries free use of the HSBC brand, remained in full force and effect during 2018.

The agreement entered into in 2009, and confirming decisions previously adopted by the Board of Directors, concerning the supplementary defined benefit pension scheme for Senior Executives of HSBC France, remained in full force and effect during 2018.

Board evaluation

Pursuant to the Code's recommendations, a Board assessment was conducted internally at the end of 2017, under the responsibility of the Nomination Committee and on the basis of a questionnaire covering five themes: business performance; human resources, customers, conduct and culture; risks and sustainability; leadership of the Board; and effectiveness of the Board. Results of this evaluation and the update on main actions implemented further to the evaluation conducted the year before were discussed by the Nomination Committee and then by the Board of Directors at its meeting of 8 February 2018.

The overall opinion regarding the Board and its operations remains broadly favourable. Directors noted improvements on the matters raised in the prior evaluation, in particular on the strengthening of the composition of the Audit and Risk Committees and the satisfaction of training requests. They also want to pursue the continued increase in time dedicated to topics related to business growth. Requests regarding training were addressed by training sessions proposed during 2018.

Directors' training and information

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

Upon their initial election, new Directors receive an information pack on HSBC France, including, among others, legal information about the company and the role of directors, as well as the latest Registration Document and minutes of Board meetings for the past 12 months. In addition, the Company Secretary organises, to the new Director's intent and depending on his/her needs and priorities, a programme of working meetings with HSBC France's main executives in the business lines and functions. This series of meetings is also offered to Directors in office.

In 2018, the Head of Regulatory Compliance organised, for the Risk Committee members, a training on the Board of Directors obligations resulting from the revised Markets in Financial Instruments Directive (MiFID II), in addition to a specific presentation on this subject made during a meeting of the Board of Directors. Furthermore, an outside audit and consulting firm organised a training on the cyber criminality prevention.

Furthermore, Directors took training in the form of e-learning on the subjects of anti-money laundering, the prevention of bribery and corruption, international sanctions, data confidentiality and cyber security, and 'Embedding Good Conduct' to ensure the fair and equitable treatment of customers.

Meetings of the Board of Directors and of the Board's Committees are also used as an opportunity to provide Directors with information that is essential for them to carry out their duties, and to update their knowledge.

Furthermore, a forum was organised for Audit and Risk Committees Chairs of the principal European entities of the HSBC Group.

Directors' fees

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

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

- each Director is allocated an annual flat fee of EUR 35,000, paid at the conclusion of the Annual General Meeting;
- the additional annual flat fee paid to Board Committees members amounts to:
  - EUR 22,500 for the Chairmen of the Audit Committee and of the Risk Committee;
  - EUR 15,000 for the members of the Audit Committee and of the Risk Committee;
  - EUR 7,000 for the Chairmen of the Nomination Committee and of the Remuneration Committee;
  - EUR 6,000 for the members of the Nomination Committee and of the Remuneration Committee.

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

In 2018, in respect of 2017, Jean Beunardeau, Philippe Pontet, Carola von Schmettow, Antonio Simoes and Andrew Wild renounced the payment of their fees. It has to be noted that, according to this rule, Samir Assaf, Chairman of the Board of HSBC France, does not receive any fee from HSBC France for his office.

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

The total Directors' fees net of social contributions, income tax prepayment and withholding tax to be paid in 2019 in respect of 2018 amount to EUR 0.46 million, to be compared to EUR 0.43 million paid in 2018 in respect of 2017.

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

	Directors' fees paid in 2017 in respect of 2016	**Directors' fees paid in 2018 in respect of 2017**	Other compensation paid in 2017[1]	**Other compensation paid in 2018[1]**
Directors performing executive duties within the HSBC Group				
James Emmett[2,3]	–	**–**	–	**GBP 375,451**
Philippe Pontet[4]	–	**–**	EUR 350,000	**–**
Carola von Schmettow[5]	–	**–**	–	**–**
Antonio Simoes[3, 6]	–	**–**	GBP 3,066,781	**GBP 1,499,259**
Directors elected by the employees				
Ibtissam Bara[7, 8]	EUR 7,394	**EUR 28,980**		
Ludovic Bénard[7, 8]	EUR 7,816	**EUR 33,948**		
Xavier Bertrand[7, 8]	EUR 7,394	**EUR 28,980**		
Véronique Duquesne[8 9]	EUR 22,181	**–**		
Michel Gauduffe[9, 10]	EUR 19,526	**–**		
Guillaume Praud[9, 10]	EUR 16,669	**–**		
Philippe Purdy[8]	EUR 29,575	**EUR 28,980**		
Directors not performing executive duties within the HSBC Group[10]				
Paule Cellard[11]	–	**EUR 32,958**	–	**–**
Martine Gerow[12]	EUR 41,275	**EUR 22,750**	–	**–**
Lindsay Gordon	EUR 50,750	**EUR 63,220**	–	**–**
Philippe Houzé	EUR 31,115	**EUR 34,300**	–	**–**
Alan Keir[13]	EUR 20,417	**–**	–	**–**
Anne Méaux	EUR 22,225	**EUR 24,500**	–	**–**
Thierry Moulonguet	EUR 247,020[14]	**EUR 187,681[15]**	–	**–**
Dominique Perrier[16]	–	**–**	–	**–**
Arnaud Poupart-Lafarge[17]	EUR 5,556	**EUR 24,500**	–	**–**
Lucile Ribot[18]	EUR 16,669	**EUR 35,000**	–	**–**
Brigitte Taittinger	EUR 22,225	**EUR 24,500**	–	**–**
Jacques Veyrat	EUR 29,845	**EUR 32,900**	–	**–**

1 *Fixed and other fixed remuneration, variable remuneration and benefits in kind.*
2 *Co-optation on 26 October 2018.*
3 *Compensation shown are paid by other HSBC Group companies in respect of his/her executive functions within the Group.*
4 *Resignation from his directorship on 24 February 2017.*
5 *Does not receive remuneration from controlled companies by HSBC France nor from companies which control HSBC France.*
6 *Resignation form his directorship on 17 September 2018.*
7 *Director elected by employees on 26 September 2016.*
8 *Directors' fees paid to a trade union organisation, net of social contributions.*
9 *Appointment ended on 26 September 2016.*
10 *Amounts paid net of social contributions, income tax prepayment, and, where applicable, withholding tax.*
11 *Co-optation on 8 February 2017.*
12 *Resignation from his directorship on 21 June 2017.*
13 *Resignation from his directorship on 12 October 2016.*
14 *Of which EUR 46,037.50 paid by HSBC France.*
15 *Of which EUR 50,750 paid by HSBC France.*
16 *Co-optation on 20 February 2018.*
17 *Appointment on 22 September 2016.*
18 *Co-optation on 19 April 2016.*

Missions and procedures of the Board of Directors

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

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

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

Board of Directors' meetings

The Board of Directors met eight times during 2018. The average attendance rate was 73 per cent, compared to 74 per cent in 2017:

- 8 February 2018 (attendance rate: 72 per cent);
- 20 February 2018 (attendance rate: 72 per cent);
- 27 April 2018 (attendance rate: 79 per cent);
- 30 May 2018 (attendance rate: 74 per cent);
- 26 July 2018 (attendance rate: 68 per cent);
- 3 August 2018 (attendance rate: 63 per cent);
- 26 October 2018 (attendance rate: 84 per cent)
- 29 November 2018 (attendance rate: 63 per cent).

The Board's work

Businesses and strategy

At each meeting, the Board was informed of developments in business activity, the group's position, the important stakes for each of its businesses, and execution of transformation projects, in particular as regards IT projects and Retail Banking. At its meeting on 26 July 2018, the Head of Retail Banking and Wealth Management presented to the Board the progress of the implementation of the new distribution model. Furthermore, an update on the modernisation project of the IT infrastructure initiated by HSBC France was made to each of regular Board meeting. The Board also continued to pay particular attention to the impacts of the low interest rate environment on business and financial performance, as well as the measures taken in response.

In 2018, the Board of Directors devoted a significant part of its work to HSBC Group projects, and of their impact on HSBC France, to ensure the continuity of its activities and of the service to customers in the context of the United Kingdom's withdrawal from the European Union. Thus, it examined and authorised the creation of seven branches of HSBC France in Belgium, Spain, Ireland, Italy, Luxembourg, Netherlands and Czech Republic and the proposed acquisition by HSBC France, of certain assets and liabilities of those HSBC Bank plc in those seven countries during the first quarter of 2019 (meeting on 3 August 2018). The Board of Directors also examined and authorised the creation of a Polish branch (meeting on 3 August 2018) and the acquisition by HSBC France of two subsidiairies of HBSC Bank plc in Poland and Ireland (meetings on 30 May and 26 July 2018). At its meeting on 26 July 2018, it also decided to merge these two subsidiaries with HSBC France, with an effective date in the first half of 2019. At its meeting on 26 October 2018, it authorised the creation of a HSBC France branch in Sweeden.

The Board of Directors also reviewed and approved the acquisition of the European Volume Payment Solution (EVPS) platform by HSBC France from HSBC Bank plc's Paris branch and the transfer of its Global Banking and Markets IT division to the French branch of HSBC Global Services (UK) Limited (meeting on 26 October 2018).

In the meeting held on 8 February 2018, the Board of Directors approved the company's strategic directions. It took note of the opinions issued by the Central Works Council on the company's economic and financial situation at its meeting on 26 July 2018 and on strategic directions at its meeting on 26 October 2018.

As regards people, corporate values and culture, the initiatives taken and their results in terms of equal pay between men and women and the results of the annual employee engagement and the action plans decided in response to this survey were presented to the Board (meetings on 27 April and 26 October 2018).

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

Finance

In 2018, the Board of Directors reviewed the quarterly, half-yearly and annual financial statements and signed off the half-yearly and annual financial statements. At each of its meetings, the Board reviewed HSBC France's revenue, costs, results and balance sheet. For each period reviewed, the Board heard the conclusions of the Statutory Auditors, who were invited to attend all Board meetings.

At its meeting on 8 February 2018, the Board reviewed and approved the budget, the capital and liquidity plans and the risk appetite for 2018. At its meeting on 26 October 2018, it reviewed the initial budget guidance and an initial version of the risk appetite for 2019.

The Board of Directors was informed of developments in regulatory capital and regulatory ratios, in particular capital, liquidity, solvency and leverage ratios, as well as the impacts of the various regulatory developments in these areas, particularly on revenue and the balance sheet. At each of its regular meetings, the Board received information on the funding plan, funding position and trends in medium- and long-term debt. It also authorised various transactions in those areas. The Board also reviewed and approved the dividend policy, the Internal Capital Adequacy Assessment Process ('ICAAP') and the Internal Liquidity Adequacy Assessment Process ('ILAAP') reports (meeting on 27 April 2018).

In view of the development of HSBC France's activities, the Board of Directors decided in 2018 to proceed with three capital increases, the first for a total of EUR 99.9 million (meeting on 30 May 2018) completed on 25 July 2018, the second for a total of EUR 388.4 million (meeting on 26 July 2018) carried out on 30 August 2018, and the third for a total of EUR 949.6 million (meeting on 29 November 2018) carried out on 14 January 2019.

Risk management

At each meeting, the Board reviewed the Group's risk position, and in particular financial risks such as stress test, credit, market, model, capital, liquidity and interest rate risk, as well as operational risk, including security and fraud, information systems, litigation, fiscal and people risks. Its review was based mainly on the key risk summary reports (risk control and assessment, top and emerging risks and risk appetite monitoring dashboard), as well as the reports given by the Head of Risk and Chairman of the Risk Committee at the Board meetings. In addition to information given to the Board on a regular basis on this matter, a specific presentation on cybercrime risk was given to the Board at its meeting on 8 February 2018. The climate risk management was also specifically presented to the Board at its meeting on 26 October 2018. The Directors have also access to the Risk Committee's supporting documentation.

As regards Financial Crime Compliance, the Board was informed at each meeting of progress in the deployment of Global Standards programme. At the meeting on 8 February 2018, the report to the Board on Financial Crime Compliance was given by the Head of Financial Crime Compliance.

As regards Regulatory Compliance, the Board monitored developments in the function's organisation and deployment of the 'Conduct' programme. The Head of Regulatory Compliance reported to the Board on Regulatory Compliance at the meeting held on 27 April 2018. The Board also reviewed the Ombudsman's report on his activity in 2017 (meeting on 26 October 2018).

The Board reviewed and approved the annual internal control report, prepared in accordance with the French Government Order of 3 November 2014 (at its meeting on 27 April 2018), which was sent to the ACPR.

The Chairman of the Audit Committee and the Chief Risk Officer, among others, commented on the Internal Audit work, in particular audit reports adverse graded and changes in the number of open recommendations at each Board meeting, except at the meeting held on 26 July 2018. In fact, at this meeting, this report was commented in detail to the Board of Directors by the Head of Internal Audit.

Regulatory environment and supervision

The Board was regularly informed of main regulatory changes and projects, their implementation and impact on HSBC France, in particular as regards IFRS 9 and the revised Markets in Financial Instruments Directive ('MiFID II'). In particular, the Board of Directors was informed of its new responsibilities, introduced by MiFID II, and approved the relevant policies and procedures.

The Board was regularly informed of engagements with the various supervisors and of their missions and investigations, in particular the European Central Bank, the *Autorité de contrôle prudentiel et de résolution* and the *Autorité des marchés financiers*, as well as their findings, follow-up letters received and HSBC France's responses. The Board was also informed of the implementation and results of the Supervisory Review and Evaluation Process ('SREP') performed by the Joint Supervisory Team responsible for supervising HSBC France.

Governance

The work of the Board Committees was set out in regular, detailed reports from their respective Chairmen and was debated during Board meetings. In this regard, the Board was kept informed at each meeting about the main topics discussed and points of action identified by the Audit Committee and by the Risk Committee, particularly with regards to regulatory supervision, Finance function's organisation, accounting projects and matters, IT, risks, control and risk management system, internal audit, regulatory and financial crime compliance and permanent control.

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

Apart from these issues, the Board also discussed various other issues which are its responsibility in accordance with the law and regulations in force, in particular as regards compensation, composition of the Board and of the specialised Board committees, revision of the Board's internal rules, assessment of Board practices and procedures, conflict of interest prevention, and authorisation of non-audit services provided by the Statutory Auditors. In this respect, it approved the Board of Directors' reports to the General Meeting and on corporate governance for 2017 (meeting on 20 February 2018), as well as the Board's interim report at 30 June 2018 (meeting on 3 August 2018). Likewise, the Board authorised new related-party agreements (meetings on 30 May, 26 July, 3 August and 26 October 2018) and reviewed related-party agreements entered into and authorised by the Board in prior years which remained valid in the current year in accordance with the provisions of article L. 225-40-1 of the French Commercial Code (meeting on 26 October 2018).

Board Committees

The Board is assisted by four specialised Committees: Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee, the duties are defined in the Board's internal rules.

Audit Committee

Composition of the Audit Committee

Chairman	
Thierry Moulonguet (independent)	Appointed in 2010 (Member from 2009 to 2010)
Members	
Paule Cellard (independent)	Appointed in 2017
Lindsay Gordon (independent)	Appointed in 2013
Lucile Ribot (independent)	Appointed in 2017

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

The Audit Committee's missions

The Audit Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on matters relating to the budget, financial reporting, control of financial information, capital and liquidity ratios to support the Risk Committee, the dividend and capital allocation policies, management of the Finance function and Internal Audit, in particular:

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

- to review the Statutory Auditors' annual report and management letter together with management's response to it, and to monitor the implementation of recommendations made;
- to ensure compliance of the company and its subsidiaries with directives issued by the supervisory authorities and with regulations applicable to them.

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

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

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

Audit Committee's work in 2018

The Audit Committee met four times in 2018, with an attendance rate of 100 per cent, compared with 91.7 per cent in 2017:

- 6 February 2018 (attendance rate: 100 per cent);
- 26 April 2018 (attendance rate: 100 per cent);
- 19 July 2018 (attendance rate: 100 per cent);
- 23 October 2018 (attendance rate: 100 per cent).

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

The first aspect of the Committee's work involved an in-depth review of the annual, half-yearly and quarterly financial statements prior to their presentation to the Board. The Audit Committee reviewed the parent-company and consolidated accounts. The Committee was informed by the Finance Department of the main accounting points of attention and discussed the choices made by the company in drawing up its financial statements and verified the adequacy of provisions for identified risks. The Committee continued to be regularly informed on the implementation of and of the transition impacts of the new accounting standard IFRS 9 regarding financial instruments, entered into force on 1 January 2018, as well as work required by Sarbanes-Oxley in this area. The Committee was also regularly informed of the progress of implementation and the expected impacts of the new accounting standard IFRS16 on leases, entered into force on 1 January 2019.

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

Once again in 2018, the Committee paid careful attention to monitoring the cost base and cost saving initiatives implemented.

The Committee was also informed of the evolution on the organisation of the Finance Department (meeting 19 July 2018).

The second area of the Committee's work concerned controls. To this end, the Statutory Auditors commented on their management letter and the aspects subject to particular attention at the time of preparing the 2017 financial statements. The Committee discussed the Statutory Auditors' audit programme and independence, approved the fees paid in 2017 by the HSBC France group to the Statutory Auditors. The Committee also recommended to the Board to renew the terms of office of the incumbent statutory auditors (meeting on 6 February 2018).

Statutory Auditors presented their diligences on the financial statements at 31 March 2018, 30 June 2018 and 30 September 2018 (meetings on 26 April, 19 July and 23 October 2018), as well as their annual audit plan (meeting on 19 July 2018). The Committee was informed of the impacts of the audit reform. It also recommended to the Board to authorise Financial Department management, under certain conditions, to arrange provision of non audit services that are pre-approved by nature (meeting on 6 February 2018), to delegate the approval of the non-audit services to the Audit Committee of HSBC Holdings plc and HSBC Bank plc for the respective services provided to these entities (meeting on 26 April 2018). This recommendation was then approved by the Board. At its meetings held on 26 April and 23 October 2018, it previously authorised non-audit services provided by the Statutory Auditors to HSBC France and its subsidiaries, which were not previously authorised by nature.

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

At its meeting on 23 October 2018, the Committee reviewed new related-party agreements and recommended their approval to the Board of Directors. It also reviewed the related-party agreements authorised previously by the Board and still in force.

The third aspect of the Committee work concerned the detailed review, at each meeting, of Internal Audit work. It reviewed the findings of the main audit missions, particularly those calling particular attention. The Committee remained extremely attentive to the proper implementation of the audit recommendations. It has also approved the update of the audit charter and the 2018 annual audit plan (meeting on 6 February 2018).The Chairman of the Audit Committee reported on the key points discussed during Audit Committee meetings at the Board meetings held on 8 February, 27 April, 26 July and 26 October 2018.

Risk Committee

Composition of the Risk Committee

Chairman	
Lindsay Gordon (independent)	Appointed in 2015 (Member from 2013 to 2015)
Members	
Paule Cellard (independent)	Appointed in 2017
Thierry Moulonguet (independent)	Appointed in 2009 (Chairman from 2010 to 2015)
Lucile Ribot (independent)	Appointed in 2017

The Committee members are highly qualified in the banking, financial, risk and internal control areas, as they serve or have in the past served in the capacity of Chairman or Chief Executive Officer of a bank, with operational responsibilities within a Global Banking activities or as Head of internal audit and compliance of a bank, Risk Committee member or Chief Financial Officer.

The Risk Committee's missions

The Risk Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on matters relating to high level risk-related matters and risk governance:

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

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

At the request of the HSBC Bank plc's Risk Committee, the HSBC France's Risk Committee Chairman provides a half-yearly certificate to the Risk Committee Chairman of HSBC Bank plc, confirming, in particular, that the Committee examined the reports on risks and that no subject was brought to its attention other than those described in the supports. The certificate is based on work done by HSBC France's Risk Committee as well as the certificates signed by the Chairmen of the Risk Committees or Audit and Risk Committees of HSBC France's subsidiaries.

Risk Committee's work in 2018

The Risk Committee met five times in 2018, with an attendance rate of 90 per cent, compared with 91.7 per cent in 2017:

- 6 February 2018 (attendance rate: 100 per cent);
- 28 March 2018 (attendance rate: 50 per cent);
- 26 April 2018 (attendance rate: 100 per cent);
- 19 July 2018 (attendance rate: 100 per cent);
- 23 October 2018 (attendance rate: 100 per cent).

Each meeting was also attended by the Statutory Auditors, the Chief Risk Officer, the Chief Financial Officer, the Chief Accounting Officer and the Head of Internal Audit. The Chief Executive Officer and the Deputy Chief Executive Officer attended Committee meetings to answer any questions. HSBC France executives also attend Committee meetings covering any subjects falling under their responsibility.

Again in 2018, the Committee remained extremely attentive to developments in the regulatory and supervisory environment in which HSBC France operates and to the implications of such developments, mainly on:

- the Work of the Basel Committee and of the European Banking Authority, referred to in conjunction as 'Basel IV', especially on risks regarding credit, market (notably the fundamental reviews of trading books) and operational risks and the determination of minimum capital requirements;
- the work relating to the Banking Union;
- implementation of various regulations, such as Packaged Retail and Insurance-based Investments Products ('PRIIPS'),the revised Markets in Financial Instruments Directive ('MiFID' II), or the revised directive on payment services ('PSD 2');
- treatment of non-performing loans;
- liquidity risk management framework and internal capital and liquidity adequacy assessment.

The Committee was kept informed, at each of its meetings, of the progress of the projects related to the exit of the United Kingdom from the European Union, in particular concerning changes in the legal structure of HSBC France or the impacts of new businesses and products on the organisation and governance of the bank. The Committee examined the risk profile of HSBC France's new international scope.

The Committee approved HSBC France's risk appetite in the 2018 financial year (meeting on 6 February 2018) and its subsequent updatings, and then examined, at each of its meetings, the monitoring dashboard, in particular indicators which were not in line with the thresholds that had been set out. It also reviewed and approved the risk tolerance framework. At its meeting on 23 October 2018, it examined a first draft regarding risk appetite for the year 2019. In addition to a summary on risks given by the Chief Risk Officer it reviewed at each of its meetings HSBC France's risk map, top and emerging risks facing it, as well as their assessment and the action plans which had been implemented.

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

- Credit risks, with an individual review of major exposures, changes in outstanding credit and non-performing advances by businesses, changes in risk-weighted assets and the evolution of the cost of risk, and worrying exposures and sectors. In relation to economic and geopolitical developments, the Committee examined the HSBC France's exposures to certain sectors. The Committee was also informed of projects regarding risk credit models, as well as reviews made by the supervisory authorities on these models;
- Market risks, including their trends compared with limits, changes in exposure, the setting of limits, changes in market activities' risk-weighted assets and the results of internal stress tests. The Committee was informed of communications with supervisory bodies, in terms of market risks, in particular as regards of internal model review;
- Liquidity, capital and interest rate in the banking book risks. The Committee approved the Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy

Assessment Process ('ILAAP') reports (meeting on 26 April 2018), after a session dedicated to the examination of these draft reports (meeting on 28 March 2018), as well as the capital and liquidity plans (meeting on 6 February 2018) and their execution afterwards;

- Operational losses and progress in the implementation of the new operational risks management framework deployed within the HSBC Group;
- Legal risks, included emerging risks, and legal disputes;
- Security and fraud risk, including physical security of premises, highly privileged access management, information security and business continuity. In addition the Committee paid particular attention to cybercrime risks;
- Information systems, including the main incidents and risks, as well as progress in the key projects.

In 2018, the Committee continued to devote a considerable part of its work to projects. At each of its quarterly meetings, a specific presentation was given on the IT infrastructure modernisation project initiated by HSBC France, and an update was made on the progress of the other significant projects. Furthermore the Committee reviewed different projects impacting HSBC France and related to the segregation of Retail Banking activities in the UK and to the exit of the UK from the European Union.

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

In relation to permanent control, compliance and relations with regulators, the Committee was informed, at each of its meetings, of the progress made as regards internal control plans and the main areas of weakness identified, as well as the action plans drawn up to deal with them.

The Committee was informed of progress made in the work being carried out by Operational Risk department, notably of progress made in the roll-out of HSBC Group's operational risk management transformation programme, as well as progress in and the results of the control plans. In accordance with the French Government Order of 3 November 2014, the Committee was informed of the essential services governance procedure, whether these services are sub-contracted within HSBC Group or to external suppliers, and likewise of a list of essential services sub-contracted externally, and the results of controls carried out (meeting on 23 October 2018).

Again in 2018 the Committee devoted an important part of its work to the progress in Global Standards programme implementation, one of the HSBC Group strategic priorities, which aims to apply, in a uniform fashion across the whole of HSBC Group, the highest standards in the area of financial crime compliance. The Committee was informed of the developments in works, organisation, tools and implementation of recommendations made by the various control bodies concerning anti-money laundering, international sanctions and anti bribery and corruption, as well as staffing changes and engagement with control and supervisory authorities.

In the area of regulatory compliance, the Committee took note of the quarterly reports, which set out the main new matters and updates on those already detailed in the course of previous meetings. It also examined the progress made in action plans implemented under the HSBC Group's Conduct programme as well as the Ombudsman's annual report (meeting on 23 October 2018). It paid attention to matters regarding projects and staffing of the Regulatory Compliance Department. It was informed of the Regulatory Compliance plan for 2018 (meeting on 6 February 2018) and monitored trends in risk appetite indicators as regards Regulatory Compliance.

The Committee approved the annual report on internal control to the *Autorité de contrôle prudentiel et de résolution* (meeting on 26 April 2018) and took note of other reports intended for the supervisory authorities.

The Committee was informed of communications with supervisory bodies and of the conclusions of various audits and reviews carried out by supervisory and control bodies, such the *Autorité des Marchés Financiers*, the European Central Bank, the *Autorité de Contrôle Prudentiel et de Résolution* or the Prudential Regulation Authority, and received follow-up letters and replies to them in relation to these assignments, as well as action plans initiated to implement their recommendations.

The Chairman of the Risk Committee reported on the key points discussed during Risk Committee meetings at the Board meetings held on 8 February, 27 April, 26 July and 26 October 2018.

Nomination Committee

Composition of the Nomination Committee

Chairman	
Philippe Houzé (independent)	Appointed in 2009 (Member from 1999 to 2009)
Members	
Samir Assaf	Appointed in 2012
Jacques Veyrat (independent)	Appointed in 2010

In accordance with the Governance Code for the companies of the HSBC Group, at least half of the Nomination Committee's membership are independent non-executive, non-employee Directors.

The Nomination Committee's missions

The Nomination Committee reports its activities to the Board and is responsible for leading the processes for Board and Board Committees appointments and for identifying and nominating for the approval of the Board, candidates for appointment to the Board and its Committees. To this end, it:

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

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

Nomination Committee's work in 2018

The Nomination Committee met three times in 2018, with an attendance rate of 100 per cent. Its main work concerned:

- reflections on the Board membership, based, in particular, on considerations regarding skills, knowledge, experience, independence and diversity balance, seeking new independent Directors and the proposal to the Board for the co-optation of two new Directors: Dominique Perrier (meeting on 5 February 2018) and James Emmett (meeting on 18 October 2018);

- proposals to the Board on renewing Directors' term of office at the Annual General Meeting to be held in 2018 and 2019 (meeting on 5 February and 7 December 2018);
- assessment of the individual and collective suitability of Board members, based on the assessment of the knowledge, skills and experience of the Directors and the Board of Directors acquired through education, training and practice, the review of Directors' reputation, honesty and integrity, their time available, the number of directorships held and of their independence, including their independence of mind, on diversity and on other considerations to be taken into account with regard to the criteria defined in the joint guidelines of the EBA and the ESMA (meeting on 7 December 2018);
- the implementation of the joint guidelines of the EBA and ESMA on the assessment of the suitability of members of the management body and key function holders (meeting on 7 December 2018);
- the review of the first part of the new report on corporate governance (meeting on 5 February 2018);
- the review of the results of the Board evaluation conducted at the end of 2017 and actions to implement (meeting on 5 February 2018);
- the review and proposal to the Board to approve the updated register of potential situations of conflict of interest (meeting on 5 February 2018).

The Chairman of the Nomination Committee reported to the Board on its work at the Board meetings on 8 February and 26 October 2018. All of the Committee's work was submitted to the Board for approval.

Remuneration Committee

Composition of the Remuneration Committee

Chairman	
Philippe Houzé (independent)	Appointed in 2009 (Member from 1999 to 2009)
Members	
Samir Assaf	Appointed in 2012
Ludovic Bénard (elected by employees)	Appointed in 2017
Jacques Veyrat (independent)	Appointed in 2010

In accordance with the Governance Code for the companies of the HSBC Group, at least two members of the Remuneration Committee are independent non-executive Directors.

The Remuneration Committee's missions

The Remuneration Committee reports its activities to the Board and is responsible mainly for:

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

The Committee's recommendations on Executive Directors' remuneration are presented to the Board after prior approval by the Remuneration Committee of HSBC Holdings plc or are then submitted for approval. Moreover, in carrying out these duties and responsibilities, the Committee may consult any adviser or expert as it deems appropriate.

The Remuneration Committee's work in 2018

The Remuneration Committee met twice in 2018, with an attendance rate of 100 per cent. Its main work concerned:

- the review HSBC's general remuneration policy in France, in respect of 2017 and 2018 years, taking into account regulations concerning compensation, in particular risk control and the contribution of the Risk and Compliance functions to the process for determining variable compensations, the review of the list of employees, identified as not entirely complying with the risk and compliance rules and impacts on their remuneration, as well as the review of the rules and remuneration for employees defined as risk takers (meetings on 5 February and 7 December 2018);
- the review of the 20 highest remunerations in respect of 2017 and 2018 years (meetings on 5 February and 7 December 2018);
- compensation proposals for the Chief Risk Officer and the Head of Regulatory Compliance (meeting on 7 December 2018);
- proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the remuneration of Jean Beunardeau and Andrew Wild in respect of 2017 and 2018 and setting out the fixed and variable elements of their remuneration and the number of shares to be awarded to them (see section 'Executive Directors' compensation') (meetings on 5 February and 7 December 2018);
- the review of the section of the corporate governance report on remuneration (meeting on 5 February 2018);
- The Chairman of the Remuneration Committee reported to the Board on its work at the Board meetings on 8 February and 26 October 2018. All of the Committee's work was submitted to the Board for approval.

Shareholders' general meeting

Meetings are open to all shareholders. They are convened and transact business in accordance with the provisions of the law and regulations in force. According to article 21 of the Articles of Association, all shareholders, whatever the number of shares they own, are entitled to attend General Meetings and to take part in the deliberations, personally or through a representative, provided their shares are paid up in full for payments that are due and are registered on an account in their own name no later than midnight, Paris time, on the second business day preceding the General Meeting. However, the author of the notice to attend hasthe option at all times to reduce this period of time, as he so sees fit.

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

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

Delegations given by the Shareholders' meeting to increase the share capital

	With pre-emptive rights
Issue of shares for cash or by capitalising reserves	
Date of authority	26 April 2017
Initial Expiry date	26 June 2019
Anticipated expiry date	10 August 2018
Maximum nominal amount	EUR 100 million
Used amount	EUR 99.9 million

Issue of shares for cash or by capitalising reserves	
Date of authority	10 August 2018
Expiry date	10 October 2020
Maximum nominal amount	EUR 800 million
Used amount	EUR 0

Compensation

Compensation and advantages of Executive Directors

Remuneration policy

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

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

The variable component is determined on the basis of the overall HSBC holdings and HSBC France performance and indicators covering Business Performance & Strategic actions targets (profit before tax, cost savings, comparative growth between revenue and costs (JAW), return on risk-weighted assets, etc.), Global Standards aspects covering risk and compliance areas (implementation of Global Standards, observance of compliance rules, in particular in terms of Financial crime, appropriate application of internal rules, enhancement of Know Your Customer process, closure of Audit points, active operational risk management, relationship quality with regulators, etc.), and, finally, Personal objectives, covering in particular effective implementation of restructuring plans, improvement of internal culture on financial crime, increase of women representation in GCB0-3. These indicators, embedded in a balanced-scorecard, are reviewed in comparison with the objectives set at the beginning of the year. All parameters taken into account result in a performance rating. In addition, from 2016, a specific rating is granted with regard to the Global Standard objectives. The variable component also takes account of market trends and, if necessary, changes in regulations. In accordance with the HSBC Group's deferral rules, this variable component is paid partly in non-deferred and partly in deferred remuneration and partly in cash and partly in shares.

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

Award of shares

In 2018, Executive Directors benefited from the allocation of bonus shares in HSBC Holdings plc in accordance with the HSBC Group's general policy.

The HSBC Group awards various categories of bonus shares:

- Group Performance Shares are awarded, until 2015, to Executives of the HSBC Group and which have the following specific conditions:
  - a five-year vesting period;
  - a restricted period beyond the vesting period, which runs until retirement;
  - a performance condition measured using eight indicators (four financial and four non-financial) from the performance scorecard of the manager concerned;
- Restricted Shares, which are not subject to specific performance criteria but which are definitively awarded to employees still with the HSBC Group at the end either of a two- and three-year period, which is the period in force for France, or a five year period for part of the 'Material risk takers' identified at Group level.

With respect to 2018, HSBC France Executive Directors received Restricted Shares, for which the only criterion is to be with the company after a period of five years.

Supplementary pension scheme

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

At 31 December 2018, Jean Beunardeau had accrued pension rights representing 9.4% of his 2018 fixed remuneration and 4.4% per cent of his 2018 total remuneration. Andrew Wild, is not entitled to this pension scheme, since he takes benefit of UK pension schemes. The provision corresponding to the present value of these HSBC France pension commitments has been recorded in the HSBC France accounts at 31 December 2018, for an amount of EUR 3.4 million.

Remuneration

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

The remuneration of Jean Beunardeau, CEO of HSBC France, and Andrew Wild Deputy CEO of HSBC France is detailed on next page.

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

The following information is published in accordance with the provisions of article L. 225-102-1, paragraphs 1, 2 and 3 and article L. 225-184 of the French Commercial Code. It concerns remuneration paid by HSBC France, the companies it controls and the companies that control it (the HSBC Group). The remuneration of the Executive Directors below is presented in accordance with the *Autorité des marchés* financiers recommendations of December 2009[23].

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

	2015	2016	2017	**2018**
	Compensation paid in 2015	Compensation paid in 2016	Compensation paid in 2017	**Compensation paid in 2018**
	€	€	€	**€**
Jean Beunardeau				
Fixed remuneration	545,826	545,826	545,826	**545,826**
Allowance 'Material Risk Taker[2,3]	564,000	564,000	564,000	**564,000**
Variable remuneration in cash	189,413	178,140	244.033	**272,000**
Variable remuneration in shares[4]	189,413	178,140	244,033	**272,000**
Deferred variable remuneration in cash[5]	284,120	267,210	366,049	**408,000**
Deferred remuneration in shares without performance conditions[6]	284,120	267,210	366,049	**408,000**
Deferred remuneration in shares with performance conditions[7]	105,229	98,967	–	**–**
Directors' fees[8]	–	–	–	**–**
Benefits in kind	–	–	–	**–**
Total	2,162,121	2,099,493	2,329,990	**2,469,826**

	2015	2016	2017	**2018**
	Compensation for 2015	Compensation for 2016	Compensation for 2017	**Compensation for 2018**
	€	€	€	**€**
Jean Beunardeau				
Fixed remuneration	545,826	545,826	545,826	**545,826**
Allowance 'Material Risk Taker [2,3]	564,000	564,000	564,000	**564,000**
Variable remuneration in cash	178,140	244,033	272,000	**251,697**
Variable remuneration in shares[4]	178,140	244,033	272,000	**251,697**
Deferred variable remuneration in cash[5]	267,210	366,049	408,000	**377,546**
Deferred remuneration in shares without performance conditions[6]	267,210	366,049	408,000	**377,546**
Deferred remuneration in shares with performance conditions[7]	98,967	–	–	**–**
Directors' fees[8]	–	–	–	**–**
Benefits in kind	–	–	–	**–**
Total	2,099,493	2,329,990	2,469,826	**2,368,312**

1 *Deputy CEO then Chief Executive Officer since 10 January 2012.*
2 *Allowance awarded to 'Material Risk Takers' identified by Group according to the Prudential Regulatory Authority regulation.*
3 *Allowance awarded in form of shares and subject to a five years holding period (20 per cent available for sale in year n+1 and 80 per cent in year n+5) till 2015. From 2016, the allowance is awarded monthly in form of cash.*
4 *Shares that vest immediately and are subject to a months' retention period for those granted until 2016 and one year for those granted from 2017.*
5 *Variable remuneration in cash deferred over three years (33 per cent will vest in year n+1, 33 per cent in year n+2 et 34 per cent in year n+3) till 2015. From 2016 this variable remuneration is deferred over five years (20 per cent per year will vest from year n+1).*
6 *Variable remuneration in shares without performance conditions deferred over three years (66 per cent will vest in year n+2 and 34 per cent in year n+3) and subject to a six months' retention period till 2015. From 2016, this variable remuneration is deferred over five years (20 per cent per year from year n+1) and subject to a six months' retention period for awards granted until 2016 and one year for those granted from 2017*
7 *Variable remuneration in shares with performance conditions deferred over five years (100 per cent will vest in year n+5) and subject to a retention period up to retirement.*
8 *Renounced the payment of his fees by HSBC France (see page 31).*

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

Deputy Chief Executive Officer[1]

	2015	2016	2017	**2018**
	Compensation paid in 2015	Compensation paid in 2016	Compensation paid in 2017	**Compensation paid in 2018**
	€	€	€	**€**
Andrew Wild				
Fixed remuneration	329,167	395,000	395,000	**395,000**
Allowance 'Material Risk Taker[2,3]	81,667	98,000	98,000	**98,000**
Variable remuneration in cash	–	76,875	93,000	**114,657**
Variable remuneration in shares[4]	–	76,875	93,000	**114,657**
Deferred variable remuneration in cash[5]	–	51,251	62,000	**76,438**
Deferred remuneration in shares without performance conditions[6]	–	51,251	62,000	**76,438**
Directors' fees[7]	–	–	—	**—**
Benefits in kind[8]		4,626	4,626	**4,626**
Total	410,834	753,878	807,626	**879,816**

	2015	2016	2017	**2018**
	Compensation for 2015	Compensation for 2016	Compensation for 2017	**Compensation for 2018**
	€	€	€	**€**
Andrew Wild				
Fixed remuneration	329,167	395,000	395,000	**395,000**
Allowance 'Material Risk Taker[2,3]	81,667	98,000	98,000	**98,000**
Variable remuneration in cash	76,875	93,000	114,657	**135,630**
Variable remuneration in shares[4]	76,875	93,000	114,657	**135,630**
Deferred variable remuneration in cash[5]	51,251	62,000	76,438	**90,420**
Deferred remuneration in shares without performance conditions[6]	51,251	62,000	76,438	**90,420**
Directors' fees[7]	–	–	—	—
Benefits in kind[8]		4,626	4,626	**4,626**
Total	667,085	807,626	879,816	**949,726**

1 Deputy Chief Executive Officer since 1 March 2015.
2 Allowance awarded to 'Material Risk Takers' identified by Group according to the Prudential Regulatory Authority regulation.
3 Allowance awarded in form of cash on a monthly basis.
4 Shares that vest immediately and are subject to a six months' retention period.
5 Variable remuneration in cash deferred over three years (33 per cent will vest in year n+1, 33 per cent in year n+2 and 34 per cent in year n+3) till 2015. From 2016 this variable remuneration is deferred over five years (20 per cent per year will vest from year n+1).
6 Variable remuneration in shares without performance conditions deferred over three years (66 per cent will vest in year n+2 and 34 per cent in year n+3) and subject to a six months' retention period till 2015. From 2016, this variable remuneration is deferred over five years (20 per cent per year from year n+1) and subject to a six months' retention period
7 Renounced the payment of his fees by HSBC France (see page 31).
8 Company car. Is also entitled to an annual accommodation allowance, a travel allowance, a medical cover and a tax assistance.

Shares awarded to each Executive Director in 2019 in respect of 2018

HSBC Holdings plc shares without performance conditions (Table 6)

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date	Date of availability
Jean Beunardeau	March 2019	ND	EUR 377,546	20% on each following dates:	20% on each following dates:
				March 2020	March 2021
				March 2021	March 2022
				March 2022	March 2023
				March 2023	March 2024
				March 2024	March 2025
Jean Beunardeau	March 2019	ND	EUR 251,697	March 2019	March 2020
Andrew Wild	March 2019	ND	EUR 90,420	20% on each following dates:	20% on each following dates:
				March 2020	March 2021
				March 2021	March 2022
				March 2022	March 2023
				March 2023	March 2024
				March 2024	March 2025
Andrew Wild	March 2019	ND	EUR 135,630	March 2019	March 2020

Performance shares which became available for each Executive Director in 2018 (Table 7)

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

HSBC Holdings plc shares, without performance conditions, which vested for each Executive Director in 2018 (Table 8)

	Date of award	Number of shares vested[1]	Vesting conditions (in case of special conditions)
Jean Beunardeau	2/3/2015	12,217	–
Jean Beunardeau	29/2/2016	17,685	–
Jean Beunardeau	27/2/2017	10,017	–
Jean Beunardeau	28/3/2018	330,373	–
Andrew Wild	2/3/2015	3,181	–
Andrew Wild	29/2/2016	4,071	–
Andrew Wild	27/2/2017	1,696	–
Andrew Wild	28/3/2018	13,941	–

1 *The shares awarded under the French sub-plan in 2015 are available two years after the vesting; the shares awarded under the UK plan in 2016 and 2017 are available six or twelve monthsafter the vesting. The immediates shares awarded and vested in 2018 under the UK plan are available for sale six months or twelve months after the vesting.*

The shares awarded in 2015 were vested for 34 per cent in 2018.

The shares awarded in 2016 were vested for 33 per cent in 2018.

The shares granted in 2017 were vested for 33 per cent in 2018.

The shares awarded in 2018 were vested for 100 per cent in 2018.

HSBC Holdings plc free shares, without performance conditions, awarded in 2018 in respect of 2017, to the 10 employees whose number of awarded shares is the highest (Table 10)

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	26/2/2018	376,522	EUR 3,096,604	26.02.2020 for 66% and 26.02.2021 for 34% or 26.02.2018 for 100%	26.02.2020 for 66% and 26.02.2021 for 34% or 26.08.2018 for 100%

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 39 vests immediately and is available for sale after six months of vesting.*

HSBC Holdings plc free shares, without performance conditions, awarded in 2018 in respect of 2017, to the 10 employees whose number of awarded shares is the highest

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	25/2/2019	ND	EUR 3,172,103	March 2021 for 66% and March 2022 for 34%	September 2021 or March 2022 for 66% and September 2022 or March 2023 for 34%

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 39) vests immediately and is available for sale six months or a year after of vesting.*

HSBC Holdings plc free shares, without performance conditions, vested in 2018, for the 10 employees whose number of awarded shares is the highest

	Number of shares vested[1]	Vesting dates
Total value of the 10 highest awards of shares, vested in 2018 (employees or former employees)	409,907	
Of which award 2015	59,974	14/3/2018
Of which award 2016	162,117	13/3/2018
Of which award 2017	12,018	12/3/2018
Of which award 2018	175,798	26/2/2018

1 *The shares awarded under the French sub-plan in 2015 are available for sale two years after the vesting and those granted in 2016 are available for sale six months after the vesting ; those granted in 2017 under the UK plan are available for sale at vesting. The immediates shares awarded and vested in 2018 under the UK plan are available for sale six or twelve months after the vesting.*

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

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

1 *See page 39.*
2 *Deputy CEO since 10 January 2012.*
3 *Date of appointment as Deputy CEO.*

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

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

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

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

The compensation policy in place in France falls within the framework of this global policy, while also ensuring that local regulations, in particular those arisen from European Directive CRD III of July 2010 repealed by the Directive CRD IV of June 2013, since 1 January 2015 from AIFM Directive,since 1 January 2016 from Solvency II Directive and since 1 January 2017 from UCITS Directive are observed.

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

In accordance with the article L 511-74 of the *Code Monétaire et Financier,* the compensation policy is submitted to an independant audit, once a year, performed by the Internal Audit department. The compensation policy is also approved by the local Regulatory Compliance department.

The People Committee, in its limited perimeter, made up of the main Senior Executives of HSBC France (the Chief Executive Officer also in charge of Global Banking and Markets, the Deputy Chief Executive Officer in charge of the Commercial Banking, the Chief Risk Officer, the Chief Operating Officer, the Head of Human Resources and the main Heads of Businesses), reviews the main aspects of the compensation policy proposed by HR function for France and approves it. It ensures that this policy fits in with the general principles of the compensation policy set by the HSBC Group for all of its subsidiaries, and in the light of the specific directives set by the global business lines. Lastly, it gives an opinion on the policy's compliance with local professional standards and the recommendations of banking supervisory bodies in France such as the *Autorité de Contrôle Prudentiel et de Résolution* and the European Central Bank since 4 November 2014, the *Autorité des Marchés Financiers* and the *Fédération Bancaire Française.*

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

Lastly, on an individual basis, after approval of the list, it reviews and validates the consistency of compensation paid to professionals whose activities have a significant impact on the company's risk profile (excluding People Committee's members), before submission to HSBC Group's decision-making bodies. It reviews the 20 highest compensation packages (excluding People Committee's members), in collaboration with the HSBC Group's decision-making bodies and global business lines. It ensures that proposed individual compensation packages take into account any individual breaches with respect to internal rules in term of credit risk, compliance and reputation, and for specific employees, to mandates provided for Volker and SRAB rules.

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

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

Finally, it reviews the remuneration of any Executive Directors, of Head of Risk and Head of Regulattory Compliance and submit its proposals to the Board.

Main characteristics of the compensation policy

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

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

Variable compensation budgets on a global basis and by businesses are reviewed and approved by the Group Chief Risk Officer, the Group CEO, the Group Chief Financial Officer and the Group Remuneration Committee. Once these variable compensation budgets are approved, they are divided, for each business/segment/product/function/Host by regions and countries depending on their respective performance. Local performances are measured on one hand through financial metrics such as evolution of Profit Before Tax, growth in revenue, costs control, comparison of revenue and cost trends (JAWS), trend in provisions for risks ('LICs'), return on risk-weighted assets, completion of Group strategic objectives (in particular increase of cross border revenues, etc.) or regional priorities (customer experience improvement, implementation of local strategic plan if any, etc.) and on the other hand through non-financial metrics such as implementation of regulator or Audit recommendations, continuation in implementing Global Standards, risk management which assessment is based on trends on provision for risks, level of risk-weighted assets and corresponding return, liquidity ratio, operational losses, improvement of risk culture within the company, growth in women representation among GCB0-4. These indicators are included in performance scorecard and are analysed by comparison to the previous year and against the budget.

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

- top performer;
- strong performer;
- good performer;
- inconsistent performer.

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

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

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

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

In compliance with the rules under CRD III and CRD IV directives, some employee categories are subject to specific rules regarding variable compensation award. These employees, considered to have an impact on the entity's risk profile (Material Risk Takers), were identified on the basis of qualitative and quantitative criteria defined by the European Banking Authority in March 2014. Pursuant to these criteria, the HSBC Group, which is itself submitted to this regulation, identified at France level a list of 47 employees coming under this Material Risk Takers category. To be noted that, in addition, 3 employees have been identified by the Group at Greece level, and 1 employee at Poland level.

As these new criteria have to be applied both at a consolidated and an individual basis, an additional list of 48 employees at France level who can have a significant impact on the company's risk profile at a local level was added to this list of Material Risk Takers identified at HSBC Group level. To be noted that for Poland, 16 employees have been identified additionally at local level.

This whole list of 115 employees includes mainly the executive directors, the heads of business lines, the heads of risk functions and the market operators who have an impact on the company's risk profile. It has to be noted that among these 115 employees, 7 of them are employees of HSBC Bank plc branch in France, 3 are employees of HSBC France Athens Branch (Greece) and 17 are employees of HSBC bank Polska S.A.

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

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

For this population as a whole, 43 per cent of variable remuneration is deferred, and variable remuneration represents 45 per cent of total remuneration. The deferred share-based portion is not vested by the employee until after either a period of two years for 66 per cent and after three years for the remaining 34 per cent or a period of two years for 40 per cent, three years for 20 per cent, four years for 20 per cent and five years for the remaining 20 per cent. This is furthermore subject to a six month or one year retention period starting from vesting, and there is a prohibition on hedging it.

With effect from 1 January 2017, management companies under certain conditions are governed by the UCITS Directive. in addition of the Alternative Investment Funds Management ('AIFM') Directive already in place since 1 January 2015. In accordance with these Directive, categories of employees of HSBC Global Asset Management (France) and HSBC REIM (France) are subject to specific rules in term of variable remuneration. The employees concerned, are those whose professional activity has a significant impact on the risk profile of the management company or its alternative investment funds. The list of these risk takers mainly comprises Executive Directors, Heads of Risk functions, Finance function and Legal function, Heads of sales, Heads of Funds management and Head of branches. In 2018, a total of 44 risk takers have been identified. For this population, subject to have a variable remuneration of more than EUR 200,000 and representing more than 30 per cent of fixed pay, variable remuneration is 40 per cent deferred if it is lower than GBP 500,000 and 60 per cent deferred for variable remuneration of more or equal to GBP 500,000. For risk takers with a variable remuneration deferred at 40 per cent, the variable remuneration is composed as follow: 50 per cent in immediate cash,10 per cent in cash variable indexed on the funds' performance, 40 per cent in cash variable deferred one third over three years and indexed on the funds performance. For risk takers with a variable remuneration deferred at 60 per cent, the variable remuneration is composed as follows: 40 per cent in immediate cash,10 per cent in deferred cash that vest in three annual tranches, 50 per cent in cash variable deferred one third over three years and indexed on the funds performance. Risk takers who do not meet the conditions above are subject to Group deferral standard rules.

Finally, with effect from 1 January 2016, HSBC *Assurance Vie* employees identified as risk takers under Solvency II Directive are bound by the remuneration requirements set out in this directive

Eligible employees

In accordance with this Directive, categories of employees of HSBC *Assurances Vie* (France) identified as risk takers are subject to specific rules in term of variable remuneration. The employees concerned are :

- Board of Directors members*
- Executive Directors: Chief Executive Officer and deputy Chief Executive Officer;
- Key functions: Heads of Risk functions, Head of Compliance, Head of Actuarial, Head of Audit;
- Head of Finance: Board committee member of HSBC *Assurances Vie* (France) and under his strategic function in the company.

*except 2 members who have the status of external 'non executive' Director.

In 2018, 18 employees have been identified as risk takers under Solvency II.

Impact on the variable remuneration

For this population, a part of their variable remuneration is deferred. This deferred part comprises shares that totally vest after a three years vesting period and that is applied under specific conditions described below:

- 60 per cent of the variable remuneration is deferred when its total amount is equal or above GBP 500,000;
- 40 per cent of the variable remuneration is deferred when its total amount is under GBP 500,000.

However, risk takers whose variable remuneration is lower than GBP 500,000 (or an equivalent amount in local currency) and whose variable remuneration is under 33 per cent of their total compensation, are considered as 'de minimis'. On this basis, they are subject to Group deferral standard rules.

It should be noted that beyond this Material Risk Takers population, the great majority of the company's senior managers are affected by the minimum deferred compensation rules laid down by the HSBC Group which, for 2018, provide for deferred compensation in the form of shares of between 10 per cent and 50 per cent of variable compensation, and to which the above rules on vesting apply. Nevertheless, deferred shares are no more subject to any retention period.

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

To be also noted that all vested awards are subject to the Group "Clawback" policy.

These two mecanism are subject to local regulation at their application.

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

In accordance with CRD IV Directive

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

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

Remunerations awarded to overall staff

	FTE Headcount[1]	Total Remuneration
		€
Executive members	2	3,313,413
Global Banking and Markets	643	107,638,798
Retail Banking and Private Banking	3,580	188,041,466
Commercial Banking	1,293	76,967,576
Global Functions and Other	2,119	142,041,630
Total (France perimeter)	7,637	518,002,883
HSBC France Athens Branch (Greece)	365	19,986,000
HSBC bank Polska S.A (Poland)	198	11,163,590
HSBC Institutional Trust Services (Ireland)	46	3,445,618
Total (international perimeter)	609	34,595,208
Total (France and International perimeter)	8,246	571,215,172

1 *HSBC Staff in France as of 31 December 2018 excluding trainee, CFCS, and pre-retirements.*

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

Total remuneration: distribution between fixed pay and variable pay

	Number of people concerned	Total Remuneration 2018	Total fixed pay	Total variable pay
		€	€	€
Executive members	2	3,313,413	1,602,826	1,710,587
Global Banking and Markets	46	33,730,265	17,215,247	16,515,018
Retail Banking and Private Banking	13	7,797,144	4,098,480	3,698,664
Commercial Banking	6	2,377,985	1,385,000	992,985
Global Functions and Other	28	7,605,830	5,046,231	2,559,599
Total (France perimeter)	95	54,824,637	29,347,784	25,476,853
HSBC France Athens Branch (Greece)	3	1,733,206	945,056	788,150
HSBC Bank Polska S.A (Poland)	17	2,970,840	2,157,379	813,461
Total (international perimeter)	20	4,704,046	3,102,435	1,601,611
Total (France and International perimeter)	115	59,528,683	32,450,219	27,078,464

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

	Payments in cash	Payments in shares	Total variable pay
	€	€	€
Executive members	855,293	855,293	1,710,587
Global Banking and Markets	8,257,509	8,257,509	16,515,018
Retail Banking and Private Banking	2,820,339	878,327	3,698,664
Commercial Banking	496,493	496,493	992,985
Global Functions and Other	1,681,702	877,897	2,559,599
Total (France perimeter)	14,111,336	11,365,519	25,476,853
HSBC France Athens Branch (Greece)	394,075	394,075	788,150
HSBC Bank Polska S.A (Poland)	406,730	406,730	813,461
Total (international perimeter)	800,806	800,806	1,601,611
Total (France and International perimeter)	14,912,142	12,166,325	27,078,464

Total variable pay: distribution between non deferred and deferred amount

	Non-deferred amount	Deferred amount	Total variable pay
	€	€	€
Executive members	774,654	935,932	1,710,587
Global Banking and Markets	9,142,318	7,372,700	16,515,018
Retail Banking and Private Banking	2,112,547	1,586,119	3,698,664
Commercial Banking	595,792	397,194	992,985
Global Functions and Other	1,846,992	712,607	2,559,599
Total (France perimeter)	14,472,303	11,004,552	25,476,853
HSBC France Athens Branch (Greece)	472,891	315,260	788,150
HSBC Bank Polska S.A (Poland)	488,075	325,386	813,461
Total (international perimeter)	960,966	640,646	1,601,611
Total (France and International perimeter)	15,433,269	11,645,198	27,078,464

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

	Payments in cash	Payments in shares	Total deferred variable pay
	€	€	€
Executive members	467,966	467,966	935,932
Global Banking and Markets	3,686,350	3,686,350	7,372,700
Retail Banking and Private Banking	1,226,500	359,619	1,586,119
Commercial Banking	198,597	198,597	397,194
Global Functions and Other	330,578	382,029	712,607
Total (France perimeter)	5,909,991	5,094,561	11,004,552
HSBC France Athens Branch (Greece)	157,630	157,630	315,260
HSBC Bank Polska S.A (Poland)	162,693	162,693	325,386
Total (international perimeter)	320,323	320,323	640,646
Total (France and International perimeter)	6,230,314	5,414,884	11,645,198

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

	Amount of unvested deferred variable pay in respect of previous financial years
	€
Executive members	2,645,831
Global Banking and Markets	14,420,313
Retail Banking and Private Banking	3,181,702
Commercial Banking	526,634
Global Functions and Other	1,651,677
Total (France perimeter)	22,426,157
HSBC France Athens Branch (Greece)	485,770
HSBC Bank Polska S.A (Poland)	11,318
Total (international perimeter)	497,088
Total (France and International perimeter)	22,923,245

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

Amounts paid in respect of hiring (guaranteed variable)

	Number of people concerned	Amount paid in respect of hiring (guaranteed variable)
		€
Executive members	–	–
Global Banking and Markets	**NC**	**900,000**
Retail Banking and Private Banking	–	–
Commercial Banking		
Global Functions and Other		
Total (France perimeter)	**NC**	**900,000**
HSBC France Athens Branch (Greece)	–	–
HSBC Bank Polska S.A (Poland)	–	–
Total (international perimeter)	–	–
Total (France and International perimeter)	**NC**	**900,000**

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

Amount of severance payments[1]

	Number of people concerned	Amount of severance payments
		€
Executive members	–	–
Global Banking and Markets	–	–
Retail Banking and Private Banking	–	–
Commercial Banking	–	–
Global Functions and Other	**NC**	**326,316**
Total (France perimeter)	**NC**	**326,316**
HSBC France Athens Branch (Greece)	–	–
HSBC Bank Polska S.A (Poland)	–	–
Total (international perimeter)	–	–
Total (France and International perimeter)	**NC**	**326,316**

Contributions to defined benefit plan

	Number of people concerned	Contribution to defined benefit plan
		€
Executive members	**1**	**400,184**
Global Banking and Markets	–	–
Retail Banking and Private Banking	–	–
Commercial Banking		
Global Functions and Other		
Total (France perimeter)	**1**	**400,181**
HSBC France Athens Branch (Greece)	–	–
HSBC Bank Polska S.A (Poland)	–	–
Total (international perimeter)	–	–
Total (France and International perimeter)	**1**	**400,181**

Information on highest remunerations

Total remuneration

	Number of Material Risk Takers
Between 1 million and 1.5 million excluded	**4**
Between 1.5 million and 2 million excluded	**4**
Between 2 million and 2.5 million excluded	**1**
Total	**9**

In accordance with AIFM Directive

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

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

HSBC Global Asset Management and HSBC REIM (France)

	Total fixed pay	Total variable pay	Total Remuneration
	€	€	€
Total of Employees (number: 388)	**27,619,676**	**10,397,579**	**38,017,255**
Including employees who have a significant impact on the risk profile AIFMD (number: 44)[1]	**6,773,934**	**4,822,453**	**11,596,387**
Including Senior Managers (number: 20)	**2,944,741**	**1,872,504**	**4,817,245**

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

In accordance with Solvency II Directive

Consolidated quantitative information about compensation paid to employees identified as Solvency II staff in the entities HSBC *Assurances Vie* (France).

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

	Total fixed pay	Total variable	Total
	€	€	€
Employees identifies as Solvency II staff (number: 18)[1]	**4,349,303**	**3,791,783**	**8,141,086**

1 *Including 12 Executive managers who are already in the CRD IV material risk takers.*

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

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

Statutory Auditors' report on regulated agreements and commitments

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

HSBC FRANCE

103, avenue des Champs-Elysées

75419 Paris Cedex 08

To the shareholders,

In our capacity as Statutory Auditors of HSBC France, we hereby report to you on related-party agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, as well as the reasons given as to why they are beneficial for the Company, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of article R.225-31 of the French Commercial Code (Code de Commerce), it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by article R.225-31 of the French Commercial Code in relation to the implementation during the year of agreements and commitments already approved by the Annual General Meeting.

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

Agreements and commitments submitted for approval by the annual general meeting

Agreements and commitments authorised during the year

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

With HSBC Bank plc, a company controlling a shareholder company of HSBC France and owning more than 10% of the voting rights

Acquisition of HSBC Bank Polska S.A.:

Nature and purpose:

At its meeting on 30 May 2018, the Board of Directors authorised a new agreement between HSBC France and HSBC Bank plc concerning the acquisition by HSBC France of HSBC Bank Polska S.A. This agreement was signed on 29 June 2018 and took effect on 1 August 2018.

Terms and conditions:

The parties agreed on the terms and conditions of the acquisition of the HSBC Bank Polska S.A. subsidiary, specifically the acquisition conditions, acquisition price, guarantees and payment conditions.

Reasons why the agreement is beneficial for the Company:

The subsidiary is being acquired against the backdrop of the political and regulatory developments taking place in Europe related to Brexit.

The agreement had an impact of EUR 88 million on HSBC France's 2018 financial statements.

Acquisition of HSBC Institutional Trust Services:

Nature and purpose:

At its meeting on 26 July 2018, the Board of Directors authorised an agreement with HSBC Bank plc and HSBC Securities Services Holdings (Ireland) DAC concerning the acquisition by HSBC France of HSBC Institutional Trust Services (Ireland) DAC. The agreement was entered into on 1 August 2018.

Terms and conditions:

The parties agreed on the terms and conditions of the acquisition of the HSBC International Trust Services (Ireland) DAC subsidiary, specifically the acquisition conditions, acquisition price, guarantees and payment conditions.

Reasons why the agreement is beneficial for the Company:

The subsidiary is being acquired against the backdrop of the political and regulatory developments taking place in Europe related to Brexit.

The agreement had an impact of EUR 18.8 million on HSBC France's 2018 financial statements.

Acquisition of the business activities of six European branches:

Nature and purpose:

At its meeting on 3 August 2018, the Board of Directors authorised the contribution agreements entered into on 12 October 2018 between HSBC France and HSBC Bank plc concerning the acquisition by HSBC France of the business activities of the six European branches currently that currently report to HSBC Bank plc (Spain, Italy, Ireland, the Netherlands, the Czech Republic and Belgium).

Terms and conditions:

The two parties agreed on the terms and conditions of the contribution of certain assets and liabilities related to the business activities transferred from these six branches.

Reasons why the agreement is beneficial for the Company:

These business activities are being acquired against the backdrop of the political and regulatory developments taking place in Europe related to Brexit.

The acquisition of these business activities' assets and liabilities at 1 February 2019 had no impact on the 2018 financial statements.

With HSBC Bank plc Paris Branch, a shareholder owning more than 10% of the voting rights

Nature and purpose:

At its meeting on 26 October 2018, the Board of Directors authorised the agreement entered into on 3 December 2018 between HSBC France and HSBC Bank plc Paris Branch concerning the transfer of the EVPS (European Volume Payment Solution) platform from HSBC Bank plc Paris Branch to HSBC France.

Terms and conditions:

The two parties agreed on the terms and conditions for the transfer of the platform from HSBC Bank plc Paris Branch to HSBC France.

Reasons why the agreement is beneficial for the Company:

Prior to the transfer, HSBC Bank plc Paris Branch managed the platform used be the HSBC Group's various European entities to carry out and manage SEPA payments. Against the backdrop of Brexit, it has been decided to transfer this activity to HSBC France.

HSBC France recorded an amount of EUR 17.2 million in its financial statements, corresponding to the platform's value excluding taxes.

With HSBC Global Services (UK) Limited, a wholly-owned subsidiary of HSBC Holdings plc

Nature and purpose:

At its meeting on 26 October 2018, the Board of Directors authorised the agreement entered into on 31 December 2018 between HSBC France and HSBC Global Services (UK) Limited through its French branch concerning the transfer of the IT division of HSBC France's Banque de financement, d'investissement et de marchés to HSBC Global Services (UK) Limited's French branch. The agreement came into effect on 1 January 2019.

Terms and conditions:

The two parties agreed on the terms and conditions of the sale of the business, particularly the items included in the sale, the liabilities transferred, the items excluded from the sale, the employees transferred, the applicable fees and conditions, and the sale price.

Reasons why the agreement is beneficial for the Company:

The agreement was entered into in order to comply with the Group's requirements regarding business continuity. Service companies are created where the HSBC Group's banks provide critical shared services to other Group banks operating in different regions. The activities related to these services are thereby transferred to the entities created.

The agreement had no impact on the 2018 financial statements.

Agreements and commitments already approved by the annual general meeting

Agreements and commitments approved in prior years

In accordance with article R.225-30 of the French Commercial Code, we have been informed that the following agreements and commitments, approved by the Annual General Meeting in prior years, remained in force during the year.

With HSBC Holdings plc, a company controlling a shareholder company of HSBC France and owning more than 10% of the voting rights

The agreement renewed in 2007 provides for the free use of the HSBC brand by HSBC France and its subsidiaries. It had no impact on the 2018 financial statements.

With HSBC Bank plc, a company controlling a shareholder company of HSBC France and owning more than 10% of the voting rights

The agreement entered into in 2017 between HSBC France and HSBC Bank plc concerns the acquisition by HSBC France of the business activities of HSBC Bank plc's branch in Greece. For the 2018 financial year, the agreement had an accounting impact of EUR 1.68 billion on HSBC France's opening balance sheet.

With HSBC Bank plc Paris Branch, a shareholder owning more than 10% of the voting rights

Three agreements entered into in 2001 between HSBC France and HSBC Bank plc Paris Branch also remained in effect in 2018:

- A shared services agreement to provide its members, at cost, with various services related to the two companies' business activities.
- An agreement by which HSBC France provides HSBC Bank plc Paris Branch with services related to various business activities.

With respect to these two agreements, the income recorded in 2018 amounted to EUR 2.5 million.

- A tax integration agreement between HSBC Bank plc Paris Branch and HSBC France.

With respect to this agreement, tax income of EUR 37.2 million was recorded in 2018.

Agreement relating to the supplementary defined benefit pension scheme for Senior Executives

The agreement was adopted in 2009 and confirmed the decisions previously adopted by the Board of Directors concerning the update of the rules governing the supplementary defined benefits pension scheme for Senior Executives of HSBC France.

With respect to this agreement, an additional provision for pension commitments was recorded in HSBC France's 2018 financial statements for EUR 0.4 million.

Neuilly-sur-Seine and Paris, on the 20 February 2019

The statutory auditors

PricewaterhouseCoopers Audit
Nicolas Montillot
Partner

BDO France – Léger & Associés
Fabrice Chaffois
Partner

Sustainability

Statement on extra Financial Performance

HSBC in France's business model

Activities and strategy

The business model for HSBC in France, showing its scope, main resources, main business areas and activities, its strategy and its prospects is set out in the Presentation of activity and strategy part page 3.

Sustainability Governance

Through its business activities, HSBC aims to support the long-term success of its clients and employees and of the communities in which it operates. HSBC France is fully committed to the course of action adopted by the Group and presented in its strategy document (http://www.hsbc.com/investor-relations/group-results-and-reporting).

In 2008, in order to deploy and effectively implement this strategy in France, HSBC France created a Sustainability Department, reporting to the Chief Executive Officer and to Global Corporate Sustainability. The department has a seat on the bank's executive committee. Consisting of a team of five, it co-ordinates the definition and implementation of action plans developed in collaboration with representatives of each of the relevant business lines.

These sustainability representatives meet every two months in a Climate Business Council, whose main purpose is to report on progress or constraints in the deployment of this strategy. Additional governance committees have been set up in certain business lines and functions. These committees mirror the global governance process.

This chapter supplements the extra-financial information presented in the strategy document to be published by the Group in February 2019 and in its half-yearly ESG reports, the last of which was published in April 2018 and is available on the Group website (http://www.hsbc.com/our-approach/measuring-our-impact). The Group's next ESG report will be available from the Group website in April 2019.

Identifying material ESG risks for HSBC in France

A responsible business culture

HSBC has set itself the task of bringing together people and opportunities. The goal creates for us a duty of care to our customers, to society in the broad sense of the term and to the integrity of the financial system.

Non Financial risks

HSBC uses a variety of tools to identify and manage its non-financial risks, including its appetite for risk, risk mapping, a list of main and emerging risks and stress testing.

In 2018, HSBC France conducted an analysis of the material nature of its ESG risks over the short, medium and long term, in order to update the mapping of the most significant environmental, social and governance risks for the bank. The bank has identified 15 themes that present a material ESG risk for its business activities:

- Six themes involving sustainability risks in the banking business:
  - Listening to our customers to meet their needs (theme 1)
  - Strengthening financial education among our customers, people and partners and a means of tackling exclusion (theme 2)
  - Contributing to the real economy (theme 3)
  - Managing the environmental risks related to banking activities (theme 4)
  - Contributing to a low carbon economy (theme 5)
  - Improving our environmental footprint (theme 6)
- Three themes involving workforce-related risks:
  - Recruitment (theme 7)
  - Development and employability (theme 8)
  - Diversity, equity and quality of life (theme 9)
- Six themes involving governance risks:
  - Fair business practices and protecting the client's interest (theme 10)
  - Financial crime risk management (theme 11)
  - Anti corruption (theme 12)
  - Tax (theme 13
  - Cybersecurity risk management (theme 14)
  - Human rights (theme 15)

Managing material ESG risks

Environmental risk management policies are detailed in the section "Managing environmental risks from banking activity", page 56.

Social risk management policies are detailed in the section "An inclusive and responsible HR policy", page 59.

Governance risk management policies are set out thematically in the following sections:

Risks of money laundering and financial crime: page 128 ;

Risks of corruption: page 127 ;

Risks relating to tax evasion: page 130 ;

Risks in the areas of cyber-security and IT attacks: page 132.

An active policy of managing environmental and social risks

Developing a sustainable economic system is important for each of us. All members of society have a shared duty to come up with solutions to climate change, technological transformation and globalisation in order to ensure future prosperity.

HSBC is aware that governments, companies, the financial system and civil society are all stakeholders in fighting climate change and addressing the challenges of sustainable development.

It is with this in mind that HSBC manages the risk that the financial services which it provides to customers may not meet their expectations or may have unacceptable impacts on people or the environment. Sustainability risks can also lead to commercial risk for customers, credit risk and significant reputational risk for the bank. As a result, we have established policies to address these risks, as follows:

Listening to our customers to meet their needs (theme 1)

We have made significant improvements to the way we listen to customers and their feedback has helped improve our products and services.

However, there's more we can do to simplify processes, improve the digital experience and ensure we deliver fair outcomes to all our customers. We are working to make things simpler, faster and better for our customers. We conduct research and invest in technology to analyse and anticipate emerging market trends. However, listening to customers and asking their opinion on our service is core to understanding their needs and concerns.

We have clear policies, frameworks and governance in place to protect our customers. These cover the way we behave, design products and services, train and incentivise employees, and interact with customers and each other. Service-quality standards are monitored as closely as possible through indicators that are aligned with performance targets.

Those indicators include:

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

We measure and report on customer data for all of our business lines within our Environmental, Social and Governance ('ESG') Update, which will be next published in April 2019 (http://www.hsbc.com/our-approach/measuring-our-impact).

In France HSBC aims to be the first-choice wealth manager for its customers, and strives for excellence in the service and customer experience it provides. HSBC's customers lie at the heart of its approach, and it works to provide them with a service that is increasingly simple, fast and suited to their needs.

Monitoring customer recommendation and satisfaction rates

In France, in 2018, the bank surveyed more than 12,500 retail customers; 84 per cent of them reported that they would recommend their relationship manager. 88 per cent said that they achieved what they wanted to achieve when visiting a branch. These figures show high levels of customer loyalty and trust and also the commitment of the bank's Relationship and Customer Service teams.

Monitoring retail customer complaint management

The number of complaints fell 19 per cent year-on-year in 2018 for the Retail Banking and Wealth Management network in France. The quality and speed with which complaints are handled are closely monitored. In 2018, 45 per cent of complaints were processed on the same day or the following day; 21 per cent were processed in between 2 and 5 working days; and 34 per cent were processed in more than 5 working days.

The main causes of complaints among retail customers in 2018 remained as follows:

- 32 per cent of complaints related to account operation and pricing: complaints about charges and commissions, and about delays with closing accounts or the handling of transfers in probate;
- 29 per cent related to payment methods: complaints concerning international and SEPA transfers, cheque deposits and delays and errors related to bank cards;
- customer service and support accounted for 12 per cent of the total: complaints about difficulties experienced by customers when contacting the bank;
- 8 per cent related to life assurance and delays in processing;
- internet and mobile banking accounted for 6 per cent of complaints.

The number of complaints involving the ombudsman increased 31 per cent, with referrals rising from 236 to 310.

Monitoring of customer satisfaction in Commercial Banking

In 2018, Commercial Banking introduced a new customer satisfaction survey, HSBC Relation Client 360°. Conducted by Kantar TNS in October 2018 with a sample of more than 1,000 corporate customers, this survey covered all aspects of the client relationship (the products and services offered, relationships with account managers and middle-office teams, prospects for business with HSBC, etc.). Ratings (on a scale of 10) of 7.2 on the question of the level of understanding of their business and their needs demonstrate the close relationship between teams and their clients that serves to meet their day-to-day needs.

Monitoring of customer satisfaction in Private Banking

Customer opinions and feedback are the primary focus at HSBC Private Banking, which constantly works to improve its offering and ensure excellence in the quality of service. To this end, the division reviewed the methodology of its customer satisfaction monitoring programme in 2018. HSBC Private Banking invites its customers to take part in its annual survey to gather their experiences and identify areas of improvement with two main themes:

- Level of satisfaction in the offering of products and services;
- Level of confidence in HSBC Private Banking.

In France in 2018 customers indicated that they were highly satisfied with their key contacts within HSBC Private Banking, particularly with their dedicated private banker (average rating of 8.6/10) but also with teams of specialist advisers (investment, credit, wealth management) and product specialists (average rating of 8.3/10). They also reported that they achieved their financial goals (88 per cent of customers surveyed) thanks to a clear and effective financial strategy (95 per cent of customers surveyed). However, they also indicated that they wanted better digital solutions and a more sophisticated range of online services (average rating of 5.8/10). In addition, customers reported that they entrust the majority of their assets to HSBC Private Banking (67 per cent of total assets of customers surveyed are managed by HSBC Private Banking), thus confirming their trust in the bank's teams.

Strenghening financial education among our customers, people and partners as a source of financial prosperity and a means of tackling exclusion (theme 2)

Financial education is at the heart of individual and social progress. Improving the understanding of money management and economic relationships helps people progress economically, professionally and socially.

With this in mind, HSBC France supports initiatives to enable its clients, its employees and members of the communities in which the bank operates to build awareness and develop skills to give people confidence in managing their budgets and building their savings.

Thus HSBC France offers all of its retail customers the consolidation of all bank accounts and the classification of transactions by type through the 'Personal Economy' app which enables retail customers at HSBC to analyse and monitor their budget on a daily basis.

In 2018, HSBC France incorporated into its "Your Financierge by HSBC" service a series of conferences on key life events, such as "buying your own home"; "protecting your loved ones"; "preparing for retirement"; "managing and building savings"; and, inspired by the HSBC Group, "Parents: how to talk to your children about money".

The HSBC Foundation for Education supports the Crésus charity whose goal is to prevent financial, economic and social exclusion through intervention, training and high-level educational programmes. Support for the charity covers two programmes:

- The first, launched in 2013, is a platform of support and mediation for individuals, including employees, in difficult situations;
- The second, launched in 2018, covers financial education through 'Dilemma', a board game examining budgeting and financial issues. In this first year of support, around thirty young beneficiaries of the charity and 76 employees took part in sessions led by 22 employees trained in its deployment.

In 2018, 26,366 people were sensitised to financial education or supported through our programs and actions, about 44 per cent of the 2020 target of 60,000 people.

More on financial capabilities actions at https://www.hsbc.com/our-approach/building-a-sustainable-future/employability-and-financial-capability

Contributing to the real economy (theme 3)

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

HSBC France - Breakdown of main operating income items

	2018	2017	2016
	€m	€m	€m
Levies and taxes	**514**	448	526
Dividend payment	**–**	412	270
Salaries and employee benefits (net of payroll tax)	**614**	620	790

Local authority financing

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

In 2018, French local authorities' use of the bond markets remained at historically high levels with issuance of EUR 1.88 billion, which alone represented 10-11 per cent of total annual local authority funding in 2018. In this market segment HSBC France is strengthening its leading position, ranking number one among lead managers for French local authority issuances, well ahead of its rivals, due to its experience with these clients. It handled 13 transactions out of a total 48 in 2018 and has handled 155 out of a total of 527 since 2000. In terms of volume, these issuances to local authorities represent approximately USD 422 billion, which ranks HSBC France in 4th position.

In 2018, HSBC France remained the top-ranked arranger of EMTN (Euro Medium Term Note) programmes for French local authorities, handling 20 out of a total of 26 in the market, including arrangement of a new programme for *Ile-de-France Mobilités.*

HSBC France is also directly involved in diversifying the financing of social housing in France, a sector currently seeing significant changes. For example HSBC managed the first private placing for Vilogia.

In addition, hospitals and public-sector healthcare establishments are still increasingly seeking to diversify and optimise their financing arrangements. HSBC France is working to support the development of this market segment. In 2018, HSBC France led the first private placement for *Assistance-Publique Hôpitaux de Paris* ('AP-HP'), of EUR 80 million of 30-year bonds. HSBC France is also the arranger of AP-HP's EMTN programme.

Financing business and supporting entrepreneurship

The Commercial Banking division supports companies around the world and has the financial capacity to support them in the transition to sustainability. Its geographical reach, its range of products and its knowledge of its customers all allow it to focus on the development of small, medium-sized and large businesses, supporting and financing their projects both in France and abroad. Outstanding customer loans, all lines of business combined, went from EUR 45 billion at 31 December 2017 to EUR 47 billion at the end of 2018.

HSBC Assurances in France maintained its commitment to the Novi investment funds, which encourage growth and innovation among small- and medium-sized businesses. In 2018, a total of EUR 17 million was called up under commitments made in prior years. The Novi funds provide funding to growing French SMEs with revenue of between EUR 30 million and EUR 200 million.

In line with the HSBC Group's sustainability strategy*, support for companies also focuses on job creation through entrepreneurship and sustainable performance at companies, including social and community enterprises. 635 entrepreneurs were supported in 2018, through 9 dedicated programs, which represents 42% of our target of 1,500 entrepreneurs supported by 2020.

- A survey commissioned by HSBC, "The CMB HSBC survey", conducted between June and September 2018, showed that 54 per cent of the French business leaders surveyed indicated that sustainability is at the heart of their strategy and their business. 64 per cent of them had introduced or initiated Environmental strategies, 54 per cent Social strategies and 75 per cent strategies relating to Governance.
- HSBC France has maintained its investment in two social enterprise venture capital funds: Impact *Partenaires*, for a total of EUR 0.5 million since 2010, and Citizen Capital, for a total of EUR 1 million since 2011.
- HSBC also supports the Positive Innovation Club launched by Sparknews to promote leadership in positive innovation and change in companies.
- In the area of microfinance, the bank, through a partnership with ADIE (Association pour le droit à l'initiative), launched in 2007, makes available an annual budget of EUR 2.4 million (the same level as in 2017), which has enabled 469 people in financial difficulties to return to work and 87 micro-entrepreneurs to start a business.
- In order to provide the closest possible support to entrepreneurs involved in ADIE, employees from the Commercial Banking division in Île de France, Marseille and Lyon sit on the jury for the final stage of the "Je deviens Entrepreneur" ("Becoming an Entrepreneur") certification programme.

HSBC France also supports initiatives to foster change leadership and positive business innovation, including the *Club de l'innovation positive* launched by Sparknews. Other support programmes designed to tackle inequality and barriers to access to entrepreneurship are now being rolled out.

**https://www.hsbc.com/our-approach/building-a-sustainable-future*
***Kantar HSBC Survey*

Investing in digital

Customers increasingly prefer to conduct their bank transactions on line. HSBC France wants to ensure that customers get the best of both worlds, offering constant improvements in usability via online technologies whilst simultaneously building on the core value of its role as a bank: knowledge of customers so that they can be given personalised advice. Thus:

- on the digital offer:
  - 45 per cent* of retail customers are active on digital channels;
  - The proportion of retail customers active on mobile devices is rising, and increased by 17 per cent in 2018;

– The rating and classification of the mobile app are rising fast: 4.4/5 on AppStore and 2nd in the D-Rating classification.

- Tailored advice and support:
  – all of our clients have a dedicated relationship manager, whom they can contact by telephone using his/her phone number and with whom they can book appointments directly using an online diary
  – clients have access to a "Financial Planning Strategy" service, in which they work with their relationship manager to devise the most suitable solutions for their plans.

For more information on the contribution of digital technology to financial education see page 55.

** as of 31 July 2018.*

Managing the environmental risks related to banking activity (theme 4)

HSBC supports the Paris Agreement and has published its own climate change policy*. Prior to this, in 2003 it became a signatory to the Equator Principles, which form a voluntary framework to be used by financial institutions in assessing and managing the social and environmental impact of infrastructure projects. HSBC has voluntarily extended the Equator Principles to company loans, export financing and other project financing tools.

In addition, for over 14 years, HSBC has developed a risk management framework based on an approach to working with business customers that uses formal processes and trained and responsible employees to understand and manage environmental and social issues in relation to sensitive sectors and themes.

As a result, an assessment of the environmental and social impact of financing granted to the bank's customers has been embedded in the Group's risk management procedures, which are applied by all teams worldwide. To ensure consistency in analysis and approval procedures, a system of environmental and social risk assessment has been established to record and monitor client companies operating in sensitive sectors throughout the world, and to obtain more precise information on the Group's exposure in the management of sustainability risk.

Potential environmental and social impacts of customers conducting business in one of the sectors related to HSBC's policies are assessed by executives from Global Banking and Markets and Commercial Banking and by HSBC's designated Sustainability Risk Managers from Risk for high risks transactions in project finance and lending.

The sectors identified as priorities, and for which an internal policy has been developed in order to determine the manner in which they are supported, are forestry and its derivative products, agricultural commodities, freshwater infrastructure, mining and metals, chemicals, energy, defence, world heritage sites and Ramsar wetlands.

To improve its risk management, HSBC regularly reviews its internal sector policies. The most recent update, in April 2018, covered energy sector policy. HSBC has announced its withdrawal from the coal sector by discontinuing financing of all new coal-fired power stations in all countries of the world with the targeted and time-limited exceptions of Bangladesh, Indonesia and Vietnam. This reflects the Group's desire to balance support for local humanitarian needs and the development of a low-carbon economy.

This strengthening of energy policy has also resulted in HSBC's commitment not to provide financial services for:

- Any new projects involving drilling in the Arctic;
- Any new projects for the extraction of tar sands;
- Any major new dams for hydroelectric projects that are not compatible with the World Commission on Dams framework;
- Any new nuclear projects that are not compatible with International Energy Agency standards.

HSBC's business dealings in these sensitive sectors always involve dialogue with the client, to help it comply with international standards. However, as a last resort, the Group will cease all relations with a client that does not meet its requirements or which has not made significant progress.

The correct implementation of sector policies by HSBC France is monitored monthly using the Group's risk mapping tool and a Red-Amber-Green (RAG) scale. In 2018, HSBC France was Green for 10 of the 12 months.

For more details, visit the Group website: http://www.hsbc.com/our-approach/risk-and responsibility/sustainability-risk.

**161102-hsbc-statement-on-climate-change-oct16.pdf.*

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

Under the provisions of Article 173 of act no. 2015-992 of 17 August 2015 on energy transition and green growth, HSBC France has assessed its risks relating to climate change with reference to regulatory requirements. Also, climate risk is now included in the Top & Emerging risks for the Group.

HSBC France has carried out a top-down analysis of the exposure of its lending portfolio to climate risk, starting with the most exposed sectors: Energy & Transport in 2016; and Real Estate & Industry in 2017, representing one-third of the loan portfolio. To carry out this analysis, HSBC France worked with Carbone 4, a consultancy advising on energy transition and climate adaptation. The main conclusions, based on the Carbone 4 methodology, suggest that HSBC France's exposure to transition risks is low. However, the energy mix and the exposure to the transport sector are not in line with the International Energy Agency's 2°C scenario for Europe. In 2018, Commercial Banking decided to analyse its entire loan portfolio. This process confirmed that the real estate, transport and equipment for carbon-intense industries sectors represent challenges for HSBC France.

This on-going assessment of the HSBC France portfolio is gradually being complemented by a company-by-company approach, designed by the Group for 6 priority sectors (oil & gas, energy, construction, chemicals, automotive, and mines and metals). Its purpose is to evaluate the level of each customer's sensitivity to the challenges of climate change. A pilot phase began in the first half of 2018 and, for HSBC France, included 40 customers and 12 account managers. This process has been validated and will be deployed more widely in the first half of 2019. It is part of HSBC strategy to engage with customers to understand how a transition to a lower-carbon economy could affect their business and support them on their transition toward the low carbon economy.

More information on this transition risk assessment in the 2019 Group ARA available on hsbc.com.

Managing climate risk in asset management

HSBC Global Asset Management recognises that without concerted action to tackle climate change, the assets, portfolios and asset values of investors will be affected in the short term and even more so over the medium to long term. With this in mind, HSBC Global Asset Management is one of the founding signatories to the Climate Action 100+ initiative launched at the "One planet Summit" for the second anniversary of the Paris Agreement.

This global initiative initially focuses on 100 of the world biggest corporate emitters of greenhouse gases, with the aim of receiving commitments from Boards of Directors and management teams regarding a solid governance framework, the setting of emission reduction targets across the value chain, and the improvement of the financial communication in line with the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures.

As a forthright supporter of increased transparency and a signatory to the Montreal Carbon Pledge, HSBC Global Asset Management has undertaken to measure and publish annually the consolidated carbon footprint of its investments. In 2018, HSBC Global Asset Management published for the first time the consolidated carbon intensity data for its bond portfolios. The weighted-average carbon intensity of equity portfolios (scopes 1 and 2) is between 280 and 291 tonnes equivalent of $C0_2$/\$m depending on the data used. The weighted-average carbon intensity of bond portfolios (scopes 1 and 2) is between 289 and 296 tonnes equivalent of $C0_2$/\$m depending on the data used. HSBC Global Asset Management drew on two suppliers of carbon data with strong reputations in the sector: S&P Trucost and ISS-Ethix Climate Solutions, and whilst noting the differences between them, elected to use both sources of data in order to provide a more robust analysis. The analysis was based on investment portfolios at 31 December 2017. The 2018 report will concentrate on equity and bond portfolios managed in the USA, UK, France, Hong Kong and Germany. This represents some 80 per cent of total investment in equities and bonds.

For more information about HSBC Global Asset Management's approach, visit www.assetmanagement.hsbc.fr

Building expertise around sustainability challenges

In order to support these analyses and ensure the necessary expertise building to these challenges, the Sustainability Department, the ESG analysis team and the sustainability champions in each business line organised around twenty different events in 2018, attended by more than 300 employees, including:

- five training sessions for managers and teams from Credit, focusing on transition risks for each sector;
- compulsory training in sustainable finance and the Group's strategy in this area for all account managers in the Corporate Business Centre;
- "ESG Master Classes" and "Energy and Environment Climate Transition Master Classes" for all asset management staff, adapted to the participants and their expectations for the various segments of the internal client base in France;
- dedicated themed training for business lines and the risk management function.

In addition, a dialogue with external stakeholders was organised in the fourth quarter in order to help HSBC France make progress on the themes of carbon neutrality and the protection of biodiversity.

Contributing to a low-carbon economy (theme 5)

More than ever, we need to support the innovation and low-carbon solutions required to ensure long-term prosperity for all. For HSBC, these are the key elements of sustainable growth that it can influence.

The Bank's network covers the world's largest and fastest-growing trade corridors and economic zones. This enables the Group to play a strategic role in promoting sustainable growth in all of these regions.

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

HSBC's commitment to sustainable finance

- USD 100 billion of low-carbon investments by 2025;
- 100 per cent of electricity consumption from renewable sources by 2030; (see page 58 for details on HSBC France's contribution to reducing the Group's environmental footprint);
- Withdrawal from investments in coal, and a more comprehensive and transparent assessment of climate risks;
- Application of recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD) regarding reporting on climate-change risks and opportunities;
- A Centre for Sustainable Finance, aiming to develop HSBC's own intellectual resources in order to strengthen its network of influence.

Progress report on https://www.hsbc.com/our-approach/building-a-sustainable-future/sustainable-finance.

Green bonds

HSBC France is heavily involved in developing the Green Bond market. In the French local authority segment in 2018, HSBC France was Joint Manager for the Green and Responsible issue from the *Île-de-France* Region (EUR 500 million, 15 years) and the inaugural Green issue for the Pays de la Loire Region (EUR 100 million, 12, 15 and 22 years). For other public sector issuers in France, HSBC France was Joint Manager for the inaugural Green Bond issue from Société du Grand Paris (EUR 1.75 billion, 10 years) and the third Climate issue from *Agence Française de Développement* (EUR 500 million, 7 years).

More information available at https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds.

Green lending and lending on ESG criteria

HSBC France has contributed to the development of this new field in transition financing and was involved in most syndicated deals completed in 2018: loans of EUR 2.0 billion to Danone, EUR 1.2 billion to Accor Hotels, EUR 270 million to *Séché Environnement*, EUR 4.0 billion to EDF and EUR 5.0 billion to Engie.

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

ESG approach

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

ESG integration is applied consistently all over the world, including in emerging-market countries and in most asset classes (equities, corporate bonds, money market and diversified). Management teams also examine and analyse carbon intensity at a portfolio level in order better to understand and address the climate risk (see 'Managing climate risk in asset management', page 56).

ESG research

In 2018, HSBC Global Asset Management stepped up its ESG integration efforts: the ESG research team produced a series of 24 sectoral check lists which detail the ESG indicators to be included in the evaluation of companies according to the specific features of their sector, as well as the questions on undertakings and commitments to be covered in dialogue with companies. This operational tool enables management teams effectively to incorporate the ESG issues specific to each sector.

Principles for Responsible Investment (PRI)

The quality of this approach to ESG criteria integration is underscored by the latest PRI evaluation. The annual PRI evaluation rates and ranks signatories by the quality of their implementation of the six principles for responsible investment. HSBC Global Asset Management received its best score, A+, both for its ESG strategy and governance and for the quality of its ESG integration in its equity management. In bonds, the A rating received places HSBC well above the average for its peers.

Shareholder engagement

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

In 2018, efforts were stepped up both in the exercise of voting rights and in shareholder dialogue, particularly on ESG issues. Meanwhile, HSBC Global Asset Management has published its first shareholder engagement report.

Responsible Investment Offering

At the end of September 2018, seven HSBC Global Management (France) funds specialising in Socially Responsible Investment received the government's 'ISR' Label. Thanks to this certification, HSBC Global Asset Management's SRI fund offering for retail investors is now fully certified. This SRI range is integrated in the responsible finance proposition for retail customers from HSBC France, bearing in mind that all investment processes at HSBC Global Asset Management form part of a broader process which fully integrates questions of sustainability with a systematic analysis and recognition of ESG criteria in investment decisions.

In addition, in keeping with this vision of climate challenges and our desire to play a role in energy and environmental transition, HSBC Global Asset Management (France) launched the HSBC Europe Equity Green Transition fund in November 2018. This fund focuses on companies that promote and enable the transformation of the energy and environmental model over the long term and energy transition more generally. The evaluation of companies is carried out on criteria in accordance with the objectives of the TEEC* – *Transition Energétique et Ecologique pour le Climat* – Label, which seeks to assess environmental impacts of investments under several headings such as climate change, biodiversity, water management and natural resources.

In 2018, HSBC Global Asset Management (France)'s net inflows** grew very strongly in Sustainable Finance funds and socially responsible employee savings funds, rising 188% year-on-year to nearly EUR 150 million***. Inflows in the low-carbon range launched in September 2017 also got off to a very good start.

* *Launched in late 2015, following the COP21 conference, the TEEC label guarantees that the fund contributes to the financing of energy transition. Managed by the Ministry for the Ecological and Inclusive Transition of France, it meets the requirements set out in laws relating to energy transition and green growth.*

** *Annual net inflows of HSBC Global Asset Management (France) in open-end Sustainable Finance and socially responsible employee savings funds distributed in markets covered by HSBC Global Asset Management (France): France, Benelux, Spain, Italy, Nordic countries, Greece and Malta.*

*** *Data at 31 December 2018. This figure includes assets under management in the HSBC Europe Equity Green Transition fund, which resulted from the conversion of the HSBC Special Situations fund on 16 November 2018.*

Building awareness of SRI

In addition to the ESG Master Class (see page 57) addressing an internal audience, awareness building efforts for investors have been increased. HSBC Global Asset Management (France) has published its first extra-financial reports for its socially responsible funds. These twice-yearly publications will give a better picture of the impact of SRI investments on a selection of ESG criteria: carbon footprint, women's access to positions of responsibility, exposure to controversial companies, level of Board independence and respect for the 10 principles of the United Nations Global Compact. A series of educational videos 'A 2-minute explanation of... responsible finance' has also been produced for retail customers.

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

In 2018, HSBC Assurances maintained its strong focus on environmental quality as part of its real-estate policy. That involves acquiring properties that meet the highest environmental standards and retrofitting vacant buildings in order to enhance their quality (particularly by seeking accreditation such as *Bâtiment basse consommation ('BBC')* for low energy consumption). 78 per cent of HSBC Assurances' buildings now have 'green' accreditation or are undergoing works in order to secure such accreditation. In the area of bond investing, HSBC Assurances has continued to increase its exposure to Green Bonds, with some 12 per cent of total bond investments, or approximately EUR 150 million, now invested in this segment.

ESG research for asset management customers

The 'Equity Research and Sales' team at HSBC France places considerable emphasis on SRI. It organises regular ESG breakfast meetings, at which it invites a company to present its sustainability strategy to the bank's SRI investment customers. This year, these meetings were attended by sustainability directors from several major listed French companies. Meetings were also organised at which financial analysts from HSBC France presented particular ESG themes (pollution and plastics, the use of antibiotics in agriculture, governance in the telecoms sector, etc.). Also in 2018, the first ESG Symposium was held in Paris on the theme of Smart Cities, a subject that was of particular interest to customers. The day was designed specifically for SRI investors and aimed to give them new investment ideas.

Improving our environmental footprint (theme 6)

As part of the REDUCE strategy to reduce annual CO_2 emissions per employee by one tonne between 2012 and 2020, HSBC is reducing its energy consumption and increasing the proportion of energy coming from renewable sources to 100 per cent by 2030. HSBC Group publishes its annual carbon emission results in its annual report, available on its website (http://www.hsbc.com/our-approach/measuring-our-impact).

To help fulfil HSBC's strategy, HSBC France focuses its attention on four objectives:

- improving energy efficiency;
- reducing CO_2 emissions, notably those related to business travel;
- reducing paper consumption;
- reducing production of non-recycled waste.

Reducing CO_2 emissions

In 2018, the main areas of action involved the on-going policy of buildings renovation, actively seeking to reduce energy consumed in the management of HSBC sites and promoting remote working and reduced business travel.

Carrying on from the HQE certification it obtained for Coeur Défense (46,000m² of office space) in 2011 and the 'NFHQE™ Bâtiments Tertiaires en Exploitation' energy efficiency certification, under which it achieved an 'excellent' rating for 14 new criteria in 2016, HSBC France continued the work needed to maintain these certifications in 2018.

HSBC France also leased 1,500m² of office space in Reims in a building rated Effinergie Plus, which is 40 per cent more efficient than the RT 2012 standard, thus contributing to its goal of improving energy efficiency in the buildings it occupies.

Progress in increasing remote working is discussed on page 61 (HR Section),

Lastly, business travel by employees in France in 2018 was 4.4 per cent lower than in 2017 in terms of kilometres travelled, with CO_2 emissions increased by nearly 4 per cent. This is the result of the closure of the Grasshopper programme (Procurement Group) in 2018, despite the numerous trips made as a result of Brexit and the repositioning in France of certain banking activities, and also the reductions in travel budgets. However, an increase in DEFRA emissions factors and a shift from train to air travel because of SNCF strike action during the year pushed up CO_2 emissions in 2018.

In total, CO_2 emissions per employee per year amount to about 0.66 tonnes eq CO_2, up 3 per cent from 2017.

In accordance with French decree no. 2011-829 of 11 July 2011 on greenhouse gas emission footprints and the local climate energy plan, HSBC France has compiled and published its carbon report for 2017, showing a slight increase in tonnes of CO_2 equivalent produced. Information on the company's 2018 greenhouse gas emission footprint will be available at http://www.about.hsbc.fr/fr-fr/hsbc-in-france/community.

Mobility plan

The French energy transition act (act no. 2015-992 of 17 August 2015) requires companies with more than 100 employees on a single site located in an 'urban travel plan' area to prepare a mobility plan.

HSBC France's mobility plans cover more than 5,600 employees across three sites in the Paris region - Courbevoie, Paris 8th arrondissement and Paris 9th arrondissement - and two sites elsewhere in France - Lyon and Fussy, near Bourges. In 2018, HSBC France carried out an initial analysis for the Courbevoie site, examining site accessibility and employee practice and expectations in their commute to work. Analysis of the results will help identify the issues involved and the first action areas to support change. At the end of November, HSBC France signed the 'Charter of reciprocal undertakings to reduce rush hour travel' promoted by Île-de-France Mobilités and Paris La Défense, the aim of which is to improve travel conditions on public transport for staff travelling at peak times.

Circular economy

HSBC France continues to seek to reduce waste production in general and a reduction in non-recycled waste in particular. In 2018 the bank continued to install recycling bins for plastic bottles and metal cans in the sites in central Paris and in branches. Production of waste went from 973 tonnes in 2017 to 899 tonnes in 2018, a nearly 8 percent decrease. It represents on average 105 kg per employee and per year in 2018.

HSBC France is also committed to reducing paper use. The move to paperless statements by a number of business customers has reduced statement printing by nearly 20 per cent since July 2018, the equivalent of some 445,000 pages per month. However, consumption increased slightly in 2018 because of a change in scope to include the paper consumption of buildings since 2017. This represents about 93 kg per employee and per year for 2018.

Despite their importance on an environmental and social level, food waste, fight against food poverty, equitable, sustainable and responsible food and the respect for animal welfare are not material matters within the framework of the bank's business.

For more detailed information HSBC France's undertakings under its environmental policy visit hsbc.fr or hsbc.com

Inclusive and responsible HR strategy

HSBC is a leading global employer and its HR policy is designed to allow all its employees to develop their employability whilst giving their best to the Bank.

HSBC places a particular emphasis on diversity, so that it may be fully expressed in all its aspects within the bank: gender, age, skin colour, background, religion, disability, sexual orientation, appearance and opinions in particular. All employees should be able to be themselves, in an organisation that places value on a diversity of profiles and opinions.

Recruitment (theme 7)

As a Universal Bank, HSBC France recruits staff from a variety of backgrounds and outlooks to contribute to the Bank's various business lines and functions. The goal is to attract and incorporate the best profiles to accompany HSBC's development in France

Key recruitment figures

Gender	Recruitment Permanent Staff	Recruitment Apprentices, Replacement Temporary Contract, Additional Workload Fixed-term contract	Mobility Joiners from different society	Mobility Joiners from Foreign Country	Total Hiring	%
Women	378	135	10	10	533	52%
Men	341	121	6	19	487	48%
Total	719	256 (*)	16	29	1 020	100%

Business lines	Permanent contract	Recruitment Apprentices, Replacement Temporary Contract, Additional Workload Fixed-term contract	Mobility Joiners from different society	Mobility Joiners from Foreign Country	Total Hiring	%
Retail Banking and Wealth Management	407	96	9	3	515	50%
Commercial Banking	112	20		6	138	14%
Global Banking and Markets	63	24		9	96	9%
Private Banking	10	9	1		20	2%
Central functions	127	107	6	11	251	25%
Total	719	256 (*)	16	29	1 020	100%

(*) of which 230 apprentices, 15 Additional Workload Fixed-term contract, 11 Replacement Temporary Contract.

By posting all our job adverts on our careers website we make sure that internal mobility remains our favored channel. Employees can then grow within HSBC France, its divisions and internationally. More than 700 such movements occurred in 2018.

Targeted employer communication

HSBC is a prestigious commercial brand which spontaneously attracts a number of applicants. The employer brand is reinforced by an increased presence on social media such as LinkedIn and

Facebook, via which we relay the Human Resources news such as our attendance at educational forums or internal events.

The 2018 investment in a communication campaign dedicated to Retail Banking business areas developed the pool of targeted applications in these business areas.

Events aiming to promote HSBC as an employer amongst young graduates are held throughout the year by our Campus Managers Team. In 2018 HSBC France took part in more than 40 events in targeted schools using a variety of formats (forums, recruitment interview coaching, recruitment sessions, presentations on themes such as "Women in Finance" and "Fintech").

Two programmes in particular were highly appreciated by students:

- VIE international professional assignment programme: young graduates have assignments of between 6 and 24 months, mainly in London, New York, Hong Kong in areas such as Global Market Operations, IT, Risk and Finance.
- Global Graduate: an HSBC Group programme for young graduates with a carousel of placements at the beginning of their contract in Global Banking and Markets and Commercial Banking. This programme allows for the discovery of different business areas within a division as well as the acquisition of cutting-edge skills which allowed us to enrich our talent pool.

In concrete terms, over the course of 2018, HSBC recruited 230 apprentices, 574 postgraduate interns, 15 people on the VIE programme and 18 graduates.

A variety of channels to attract a wide range of candidates

HSBC aims to attract the best candidates, in a market seeing some pressure and in some cases scarcity. With the aim of reducing the number of vacancies on "pressurised" jobs, HSBC has diversified its recruitment strategy, by adapting and multiplying the channels through which it operates.

Vacancies are also posted on specialist and generalist employment websites or job-boards.

Recruitment agencies sometimes support us in identifying candidates. Agencies are approved on the basis of their expertise and the quality of their services. They also undertake to respect our diversity charter, and must make sure that they present "senior" candidates and respect the gender balance.

A co-opting programme program has been launched, as we believe that HSBC employees are the best ambassadors of the company.

Development and employability (theme 8)

Within HSBC, employees are the main driver of their own career. Over and above this principle, we seek to make available to them the resources needed to ensure that this can be a concrete reality, knowing that the size of the company and the variety of its business areas allows for evolutions in France and internationally.

The goal is to develop all kinds of Talents and to reinforce employability.

Developing an effective training ecosystem will allow employees to become the key actors in their own employability and the development of their skills. The challenge for training is to offer innovative content in suitable and varied formats alongside bespoke training.

More information and HSBC Group actions are available here https://www.hsbc.com/our-approach/building-a-sustainable-future/employability-and-financial-capability.

Promoting internal mobility

HSBC France publishes all internal mobility openings and they are directly accessible through the unique HR portal, HR Direct. Employees can update their online CVs by filling the sections on internal and external professional experience, language proficiency levels and specific areas of expertise. They can define their geographic mobility wishes, in France and internationally. These informations are fed into the HR database and allows searches to be carried out in order to find the talent needed with corresponding skills.

A '*#RencontresCarrières*' (#CareerMeetings) forum, open to permanent staff in the Paris area, was organised in December 2018. 470 staff (5.7 per cent of the permanent staff workforce), 60 managers and 50 HR employees took part in this initiative. Building on the success of this initial experience, there are plans in 2019 to develop similar forums in other regions and/or other formats.

Organised by the HR Division working with various business areas, the forum aimed to give greater visibility to:

- employees, on the business areas that were recruiting and on job vacancies, with the option of communicating directly with those business areas. It also helped them understand career development opportunities through the various roles within HSBC;
- business lines, by allowing them to publicise their posts and communicate directly, in an informal manner, with employees.

This event also offered employees the chance to take part in various HR workshops: CV coaching, mobility within HSBC, international mobility, training, HR Direct.

This initiative formed part of our career development and GPEC (career and skills development planning) processes.

Promoting complementary learning formats: 70/20/10

HSBC France is continuing its actions to encourage uptake and recognition by managers and employees of the so-called 70/20/10 model, which combines three complementary training approaches:

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

HSBC University: a platform available for all

The group training platform, HSBC University, is accessible to all Group employees on the HR portal and on smartphones. It is a vast library organised by business area themes, covering online training, classroom-based training, videos, articles and first-person accounts. All training materials can be consulted by category, and users can sign up to available sessions directly.

External training resources covering themes such as Big Data, Artificial Intelligence and Leadership are also available to employees:

- LinkedIn Learning: a French-language platform to help develop a range of interpersonal skills;
- Get Abstract: a French-language platform providing abstracts of hundreds of works;
- Fitforbanking: online modules, datasheets and videos providing detailed coverage of technical themes;
- Degreed: a French-language platform for aggregators of training content, with video, articles and books.

HSBC University is meant for all employees who want to learn, inform themselves and enrich their knowledge and skills set. To facilitate a process of permanent learning, employees have to be encouraged to take an independent approach to the educational content available to them.

These new solutions offer short-format training which help develop the curiosity needed to learn and strengthen the training culture at HSBC and encourage new methods of learning.

Our training strategy aims to promote learning connected to the skills of the future and digital technologies, against the background of a banking sector that is changing rapidly. Development initiatives have been created based on priority themes such as financial crime compliance and strengthening personal, interpersonal, intercultural, linguistic, multi-generational and digital knowledge and skills. To support managerial staff, various leadership development programmes are offered.

The guiding principle is to build an ecosystem that facilitates continuous learning, internally and externally, and helps increase the adaptability, agility and multi-disciplinary talents of employees.

Providing individual and collective Coaching

To help support employees in their personal development, HSBC France has been developing its coaching offering over a number of years. This support may be provided both to individuals and groups.

The individual coaching programme meets a growing range of needs (taking on a managerial role, professional development, developing employability, etc.) and is increasingly digital. HSBC plans to expand and modernise its coaching offering to better fit the needs of employees and provide them with the most flexible solutions possible. Coaching can take two forms: classroom-based and distance learning. 47 individual coaching programmes were started in 2018, 9 of which made use of the new digital resources.

The group coaching supports teams or employees sharing common development goals, specifically in terms of change management. 40 individuals were supported in 2018.

Finally, a personal and career plan development workshop is available to the staff of some business lines (Boost my Career). It aims to help employees take charge of their career development, in order to increase their potential to achieve the maximum level of professional satisfaction.

Topics discussed include:

- Developing awareness of oneself, strengths and motivations;
- Acquiring a better view and understanding of the tools made available by HSBC, and discovering how others have managed their careers;
- Creating a personal strategy to progress efficiently towards one's career goals.

Since it was launched in 2017, 43 per cent of the employees taking part have changed jobs after completing the programme.

Providing development opportunities within targeted programs

Programs were set up to allow employees to experiment to learn.

For instance, HSBC France renewed in 2018 its program that support talented women in their intrapreneurship ambitions. Three women from HSBC France benefited from the program "66 Miles" which is a training and coaching program, and an immersive support within a stimulating ecosystem, drawing on 40 experts and mentors from the world of start-ups. After four immersive months in this ecosystem of innovation, the female intrapreneurs presented their respective projects.

In order to develop talent, Commercial Banking has launched an innovative initiative - Shadow Comex - to help identify a pool of creative and courageous talents and accelerate the transformation of Commercial Banking through a fresh perspective. This Shadow Comex consists of 8 to 10 employees recruited after a call for applications. Each month, the Commercial Banking Comex selected a business topic and transmitted it to the Shadow Comex to obtain concrete proposals.

Within the Operations department, another initiative combining innovation and collaboration has been created with a group of 'influencers'. The 'influencers', a group of 80 volunteer employees, contribute to the transformation of the bank through concrete and innovative solutions. These solutions will be officially presented to a panel in mid-June.

The "builders" program aims to give employees from all areas the opportunity to meet and become engaged in the transformation of HOST. For participants, this also represented a real career development opportunity. They will consider solutions to continue the transformation of HOST, on the largest possible, whole-bank scale.

This type of program will be implemented again in other business areas in 2019.

Preparing the future: from the identification of talent to the identification of talents

HSBC is modernising its talent management policy and working in particular on new methods of talents identification. The aim is to move, in 2019, from the identification of talent through the line management structure to an identification that requires collaboration with employees. Talent identification will become a more concerted and uniform process.

Every year, HSBC develops succession plans for positions considered as key. A role is considered to be key when it is essential to achieving commercial targets and/or where the pool of skills required to fill it is particularly limited (internally or externally). Regulatory considerations may also lead to the classification of a role as key.

There are clear guidelines for this exercise in order to ensure that solid succession plans are in place and that they promote gender balance and favour internal promotion. There is a requirement to have at least 4 potential successors for each post, with at least one female successor for each key post and an 80/20 split of internal versus external recruitment.

A succession plan was established on this basis in 2018, including that of EXCO-France. It is updated regularly.

Promotion and retention

Key figures

Gender	Number of promoted	%
Women	350	59
Men	248	41
Total	598	100

Business lines	Number of promoted permanent contract	%
Retail Banking and Wealth Management	267	45
Commercial Banking	76	13
Global Banking and Markets	67	11
Private Banking	9	2
Central functions	179	30
Total	598	100

The retention rate among the best-performing staff was 98.5%.

Diversity, Equity and life quality in the workplace (theme 9)

The motivation of our employees comes through an understanding of the sources of the engagement that contribute to the economic performance and attractiveness of the HSBC Group in France.

In 2018, HSBC France set itself the target of continuing to improve life quality at work and developing a shared culture of well-being at work.

An agreement on professional equality and quality of life at work was signed on 8 March 2018 for a 4-year period.

This agreement has two priority themes:

- diversity, equality and inclusion;
- quality of life at work, flexibility of working arrangements and the challenges relating to disconnection.

Diversity, equality and inclusion

Tackling discrimination and promoting diversity

Diversity and Inclusion have always been part of HSBC's identity. In 2018, HSBC France continued to act on its business culture, notably through awareness building and training activities.

The continued deployment of the training programme launched in 2017 on 'subconscious bias' saw more than 200 HR managers and professionals take part over the year.

HSBC is also a partner in the PHENIX programme which allows Masters' students in human or physical sciences to work in the banking sector (three students on permanent contracts and one on work placement).

HSBC also took part, in association with the AFB, in the inclusion of three highly-qualified political refugees on an integration internship. One of them is on one a year-long work apprenticeship contract in one of our branches.

HSBC France recruited 40 summer jobs, in relation with its partner associations working towards equal opportunities: *Sciences Po, Fondation Egalité des Chances* and *Tremplin*. This approach aims to favour diversity in the origin of summer jobs candidates.

The employability of employees and communities within which HSBC is present is a dynamic economic challenge, both in terms of competitiveness and social inclusion, and is reinforced by the digital disruption, such as the blockchain or artificial intelligence.

In order to prepare anyone to beneficiate from these mutations and to avoid new barriers to professional development, HSBC endeavours to favour the acquisition of key skills through diverse initiatives.

Thus, many tutoring programs - internal and external - are proposed to volunteering employees so that they may step out of their "usual" setting and hence develop new expertise. In 2018, two mentoring programs were running within HSBC, with 41 mentors for Global Banking and Markets and 13 for Commercial Banking along with 117 employees supporting young talents from disadvantaged backgrounds through structures (*Convention Prioritaire de Sciences Po, Fondation Egalité des chances,* Article 1) funded by the HSBC Foundation for Education.

Also, through the HSBC Foundation for Education, HSBC supports:

- The learning, specifically actions that favour the acquisition of new skills leading to a better integration on the job market such as the the implementation of the "*Attestation de Compétences Acquises*" from the *Réseau des Ecoles de la 2e chance*, a passport for personal and professional insertion;
- Digital training such as those proposed by the '*Musique et Culture Digitales*', MCD, branded Paris Code' association.

Gender Equality

With women making up 52 per cent of executives at HSBC (46 per cent in the banking sector), HSBC continued its actions to promote gender equality in 2018.

The HSBC Group has set itself clear and transparent targets for the proportion of women in senior executive positions. The targets have two end dates: 30 per cent of senior executives to be women by 2020, rising to 35 per cent by 2025. HSBC France is well on track to meet these goals. At the end of 2018, women held 30.1 per cent of these posts.

A monitoring dashboard for progress in increasing the proportion of women in positions of responsibility is reviewed twice a year by the HSBC France Management Committee.

Finally, the monitoring of these goals will be available in the 2019 Group report on hsbc.com.

Inclusion of employees with disabilities

With an employment rate of 4.5 per cent, having doubled over 8 years, and 42 new disability recognitions this year, HSBC in France continued in 2018 its actions in favour of the recruitment and inclusion of employees with disabilities. A new measure has been included to enrich the structures rolled over into 2018: the introduction of 80 per cent part-time working, paid at 82.5 per cent, for employees with a child of any age with disabilities.

The 'Handicap HSBC' team took part in three virtual forums organised by *'Talents Handicap', 'Tremplin' and 'Sciences Po Accessibilité'*. HSBC recruited 14 new disabled employees (4 on permanent contracts, 2 apprentices and eight disabled young people on summer assistant contracts).

The disability team also invested in coaching students with disabilities.

Internal initiatives, such as first-person accounts from employees published on our intranet, events during Diversity Week, training on psychological disabilities and increased communication on social media helped boost the profile of the disability team and change perceptions of disabilities. A video of a hearing-impaired employee on YouTube has been viewed more than 800 times. Lastly, a meeting on disability in June 2018 helped raise awareness of disability issues for more than 160 employees.

Awareness initiatives are also proposed through projects supported by the HSBC Foundation for Education. Tutor employees support students with disabilities from the Sciences Po accessible program or act as a mock exam jury for candidates registered in *Pessac* (33) on the *"Plateforme métier pour travailleurs Handicapés"*.

To improve day-to-day living standards, more than 500 disabled employees or employees with a disabled close relative received 'CESU' cheques (enabling them to pay for domestic help) financed entirely by HSBC, while 40 employees received support for buying individual equipment to alleviate their disability, such as hearing aids and other devices.

Improve the quality of life at work to create engagement

Awareness building and training on quality of life at work

Quality of life at work is a source of engagement in which the management team of HSBC France chose to invest significantly in 2018.

Having trained our managers on developing quality of life at work, we deployed a new training programme for employees in September 2018, "action for well-being at work".

Giving employees more flexibility

HSBC in France is attentive to offering employees more flexible working arrangements to help improve work-life balance.

The signature of a Group agreement on remote working on 27 July 2018 expanded the options for working at home by building on the fixed day remote working system already in place in our companies and opening up new options for one-off remote working for managerial staff with contracts for a fixed number of days' work per year, to allow them to work at home on occasions.

Ensuring the correct use of digital tools

In a highly-connected environment, the correct use of professional communication tools is a key challenge for quality of life at work. The production of a charter of commitments signed by the Management Committee is one of the undertakings of the Equality and Quality of Life at Work agreement, which also provides for regular communication on disconnecting from work and the regulation of the use of digital tools.

Strengthening the collective ability to manage change

Against the background of continuous change specific to the banking sector, new working parties were deployed in 2018, drawing on the participative working method developed by the *Agence Nationale pour l'Amélioration des Conditions de Travail*.

These working parties informed the considerations of the management team on various initiatives or experiments under way in the company, such as remote working and the establishment of Connect branches (remote banking).

They helped determine the various challenges relating to quality of life at work, such as:

- Organisational performance and improvement in working conditions;
- Work-life balance;
- The development of engagement within the company.

Regular measurement of employee satisfaction and well-being at work

Employee consultation involves various arrangements, including the HSBC Exchange programme that has been in place at the HSBC Group level since 2012.

For managers, this system consists of organising agenda-free consultation meetings, in which managers take part without taking any hierarchical stance. This innovative approach allows staff members to discuss any subject freely, and the resulting feedback is sent to the HSBC Group. Since the programme was first introduced, it has been clear that employees who have taken part in an HSBC Exchange meeting have a more positive approach to their work and the bank's strategy as well as a better understanding of the changes affecting HSBC.

HSBC also regularly consults its staff all over the world via a brief 'Snapshot' survey. The survey aims to assess the understanding of the bank's strategic priorities and measure perceptions of current changes through various themes: strategy, Global Standards, communication, customer experience, culture and working methods.

Results showed progress in:

- Indices of confidence in the group's strategy and future, in local management and in the ability to discuss topics;
- Indices of engagement.

These indices have risen faster than for the Group as a whole. The survey also identified areas of improvement in pride in belonging to HSBC, in our employees' willingness to recommend HSBC, in consideration and career development.

These Group initiatives are supplemented in France by a stress-monitoring system (since 2004) and a framework for preventing work-related stress (since 2012). Although the results of these two initiatives are not yet known for 2018, results for 2017 confirmed previous trends of a reduction in stress risk factors experienced by employees in most business lines. This is particularly true for levels of stress and anxiety, supported by improvements in the quality of working relationships between colleagues, work-life balance and level of independence.

Healthiest Human System: Boost Ta Banque

HSBC believes that performance is the result of the work of engaged teams. John Flint, CEO of the HSBC Group, has launched a major review to make HSBC the healthiest organisation possible and invited employees from all over the world to contribute.

In France, this review took the form of around 30 interactive workshops involving more than 300 employees from all business lines and all regions.

This process, called 'Boost Ta Banque', allowed participants to work on themes as varied as recognition, independence and the complexity of the organisation. They brought forward concrete solutions to improve operations and strengthen employee engagement.

The action plan that flowed from this work will be implemented in 2019 and will be the subject of regular communication with employees.

An attractive and fair remuneration policy

Our remuneration policy recognises and rewards the efforts made, engagement, involvement, contribution and the collective and individual performance of each of our employees through an annual budget for selective and collective wage adjustments, individual variable remuneration and collective remuneration in the form of bonuses and profit sharing.

It helps finance employees' day-to-day lives through the payment of various contributions, such as for childcare, the new academic year, holidays (through holiday voucher top-ups) and in the event of mobility within the company. Lastly, it provides guarantees that will last throughout an employee's career at HSBC and beyond. These include continuation of salary and health cover in the event of illness, provident services in the event of incapacity and the supplementary pension scheme that has been in place for several years to help our employees boost their income in retirement.

This policy forms part of an approach that seeks to treat all our employees fairly. This approach is best illustrated with a few examples.

For more than 10 years, our collective agreements have included an automatic salary review for people returning from maternity or adoption leave. Specific budgets allocated to wage equity over the last 10 years (EUR 8 million) have helped establish wage equity in several areas. Women's pay, over virtually the whole of the employment grade scale, was between 98.2 per cent and 101.2 per cent of that of men in 2018.

Status	Convention Level	Ratio theoretical wage W/M 2016	2017	2018
Technician	C	110.1%	–	–
	D	98.7%	96.0%	**98.2%**
	E	96.9%	98.1%	**98.4%**
	F	100.6%	101.1%	**101.2%**
	G	101.7%	101.7%	**100.1%**
Executive	H	99.3%	99.4%	**99.1%**
	I	97.4%	97.6%	**98.6%**
	J	98.8%	98.6%	**99.6%**
	K	99.5%	99.6%	**99.8%**

Pay for employees working part-time, across different employment grades, was between 97.2 per cent and 104.5 per cent of that full-time employees.

Status	Convention Level	Ratio theoretical wage Part Time W/M 2016	2017	2018
Technician	C	–	–	–
	D	96.9%	–	–
	E	105.8%	103.1%	**102.9%**
	F	104.7%	105.0%	**104.5%**
	G	101.8%	102.3%	**100.4%**
Executive	H	100.8%	100.7%	**100.5%**
	I	98.2%	97.9%	**98.3%**
	J	100.3%	100.6%	**100.2%**
	K	96.8%	98.0%	**97.2%**

The salary of disabled workers was between 97.5 per cent and 107.7 per cent of that of all workers. Personal service vouchers (CESU) financed in full by the company were introduced in 2015 to assist employees with disabilities or their relatives.

Status	Convention Level	Ratio theoretical waged disabled employees / other employees 2016	2017	2018
Technician	C	–	–	–
	D	89.6%	–	–
	E	105.4%	104.8%	**107.7%**
	F	103.3%	105%	**103.8%**
	G	101.2%	102%	**101.4%**
Executive	H	99.3%	99.7%	**100.5%**
	I	96.7%	97.1%	**97.5%**
	J	99.2%	99.6%	**98.7%**
	K	97%	97.9%	**98.6%**

Table of social performance indicators of the HSBC France group in France

INDICATORS	Change 2018	2017	2016
1 - Workforce split by status, gender and contract of employment (number):			
Total workforce	**8580**	8647	8956
- of which unlimited term contracts	**8266**	8380	8706
of which women managers	**3257**	3184	3242
of which men managers	**3053**	3052	3144
of which women clerical staff	**1520**	1652	1774
of which men clerical staff	**436**	492	546
of which fixed-term contracts	**314**	267	250
of which women managers	**8**	10	10
of which men managers	**8**	11	6
of which women clerical staff	**2**	4	9
of which men clerical staff	**0**	3	5
of which women in apprenticeship	**149**	118	114
of which men in apprenticeship	**147**	121	106
Total female workforce	**4936**	4968	5149
% women	**57.5%**	57.5%	57.5%
Total male workforce	**3644**	3679	3807
% men	**42.5%**	42.5%	42.5%
2- Hires and dismissals			
recruitments	**1 020**	846	553
% recruitments	**11,9%**	9,8%	6,2%
dismissals	**104**	126	109
% dismissals	**1,2%**	1,5%	1,2%
3- Equality of treatment			
% of women in management	**30,1%**	27,4%	27,3%
Number of persons with disabilities	**458**	431	379
% employees with disabilities	**5,3%**	5,0%	4,2%
% of employees less than 30 years	**13,1%**	11,2%	10,5%
% of employees over 50 years old	**29,5%**	29,8%	30,0%

Governance policies adapted to social evolutions

Risks relating to laws, regulations, standards, rules, internal policies and best practice in tackling money laundering and the financing of terrorism, the respect of international sanctions and tackling corruption are subject to heightened monitoring through the use of a system of appropriate checks and the implementation of measures to evaluate these risks.

Fair business practices and protecting the client's interests (theme 10)

For HSBC, best practice consists of making decisions that are fair for its customers and not disrupting the proper and transparent operation of financial markets. These principles are essential to ensure long-term success and provide the best service to customers. To achieve this, the bank has clear directives, frameworks and governance principles covering its behaviour, the design of products and services, training and remuneration of employees, interaction with customers and internal communication. Its Conduct programme is the central reference, which consolidates its activities and allows an understanding of the consequences of decisions for customers and other stakeholders.

92 per cent of HSBC France employees participated in training on this topic in 2018.

For more details, see Risks, Regulatory Compliance Risk Management page 126.

Financial crime risk management (theme 11)

HSBC has a responsibility to help protect the integrity of the global financial system. In order to fulfil that responsibility, we have made, and continue to make, significant investments in our ability to detect, deter, and prevent financial crime. We have exited customers, products, and countries where we deemed the financial crime risk too high to manage. We are also working with governments and other banks to advance our collective interests in this area. These steps are enabling us to much more effectively reduce the risk of financial crime. Thus, 95 per cent of HSBC France employees took part in a training on the prevention of financial crime, money laundering and the fight against corruption in 2018.

For more details, see Risks Financial Crime Risk Management, page 128.

More information about HSBC financial crime policies at https://www.hsbc.com/our-approach/risk-and-responsibility/financial-crime-risk/financial-crime-risk-policies

Anti-corruption (theme 12)

HSBC is committed to high standards of ethical behaviour and operates a zero tolerance approach to bribery and corruption. We consider such activity to be unethical and contrary to good corporate governance and require compliance with all anti-bribery and corruption laws in all markets and jurisdictions in which we operate. We have a global Anti-Bribery & Corruption Policy which gives practical effect to global initiatives such as the Organisation of Economic Co-Operation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and Principle 10 of the United Nations Global Compact.

For more details, see Risks, page 127.

More information about HSBC anti-bribery and corruption policies at https://www.hsbc.com/our-approach/risk-and-responsibility/financial-crime-risk/financial-crime-risk-policies

Tax (theme 13)

HSBC is committed to applying both the letter and spirit of the law in all territories in which it operates. We aim to have open and transparent relationships with all tax authorities, ensuring that any areas of uncertainty or dispute are agreed and resolved in a timely manner. As a consequence, we believe that we pay our fair share of tax in the jurisdictions in which we operate.

Certain clients of HSBC France could seek to use its services for tax evasion purposes, exposing the bank to accusations of complicity which, if confirmed, could lead to severe financial, legal and reputational consequences.

HSBC has adopted the Code of Practice on Taxation for Banks[1] which was introduced in 2009 and manage tax risk in accordance with a formal tax risk management framework. We apply a number of tax initiatives which were introduced after the global financial crisis with the aim of increasing transparency. These initiatives address both the tax positions of companies and of their customers. These include:

- The US Foreign Account Tax Compliance Act ('FATCA').
- The OECD Standard for Automatic Exchange of Financial Account Information (the 'Common Reporting Standard').
- The Capital Requirements Directive IV ('CRD IV') Country by Country Reporting[2].
- The OECD Base Erosion and Profit Shifting ('BEPS') initiative.
- The UK legislation on the corporate criminal offence ('CCO') of failing to prevent the facilitation of tax evasion.

96 per cent of HSBC France employees took part in a training on the fight against tax evasion in 2018.

For more details, see Tax Risks, page 130.

1 See the UK Government's code of practice on taxation for banks
2 See hsbc.com for our approach to tax transparency

Cybersecurity risk management (theme 14)

HSBC France, in common with other organisations, is subject to a growing number of increasingly sophisticated cyber-attacks that can in some instances affect its operations, including the availability of digital facilities for customers.

The bank's IT security system is crucial for the proper functioning of its banking services, the protection of its customers and of the HSBC brand. With the aim of maintaining it at its best possible level, HSBC France continues to strengthen its technical resources, its monitoring systems and its governance to prevent and withstand the growing threat from cyber-attacks.

The cyber threat is a top priority for the management team and is the subject of regular communication and discussion in order to ensure the appropriate visibility, governance and support for our cyber-security programme. HSBC has not reported any significant security incidents in the last 12 months.

For more details, see Security Risks, page 133.

Human Rights (theme 15)

HSBC's commitment to respecting human rights, principally as they apply to our employees, our suppliers and through our lending, is set out in our 2015 Statement on Human Rights. This statement, along with our ESG Updates and our statements under the UK's Modern Slavery Act ('MSA'), which include further information, is available on www.hsbc.com. Our next MSA statement will be published in April 2019.

HSBC also has an ethical and environmental code of conduct that the bank imposes on its suppliers and which takes into account modern slavery legislation and human rights.

HSBC France is fully aligned with these Group commitments and policies. As part of the renewal process of the contracts initiated in July 2017, nearly 40 per cent of HSBC France 's suppliers signed this code as of 31 december 2018.

HSBC France operates a vigilance plan to meet the requirements of France's new duty of care act. Given the legislative and regulatory framework, the scope of its businesses and the procedures in force within the HSBC Group, risks relating to a failure to respect human rights are not material for HSBC France.

Whistleblowing system

HSBC strives to create a working environment in which all staff members feel able to share their concerns. However, it is aware that certain circumstances require particular discretion, and so it simplified its whistleblowing system in 2015 by setting up HSBC Confidential. This platform enables employees to share any concerns they may have about any incident or breach of legislation, regulations or internal policies or procedures, in cases where the usual channels for expressing concern are unavailable or inappropriate, without fear of reprisal. HSBC Confidential is supervised by the Conduct and Values Committee and the Audit Committee. In-depth whistleblowing investigations are carried out independently by experts from the various departments including compliance, human resources, legal, fraud, information security and audit. Whistleblowing investigations are carried out within three months of the alert being received.

There were 40 whistleblowing instances in 2018, a 33 per cent increase versus 2017. 78 per cent had been resolved by 31 December 2018. 6 per cent of instances concerned justified allegations by staff members versus 14 per cent in 2017. Staff behaviour in the working environment was the main theme of whistleblowing instances in 2018.

For more details on the "Duty of Care" act, see page 71.

Methodological details on corporate social and environmental information

Scope of reporting

The Statement of Extra-Financial Performance was based on the HSBC Group's scope in France. Staff numbers at subsidiaries integrated during 2018 are not material compared with the HSBC Group's staff numbers in France.

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

Workforce-related indicators concern HSBC in France (excluding HSBC Bank PLC Paris Branch): HSBC France, HSBC Assurances Vie (France), HSBC Global Asset Management (France).

Environmental indicators concern the HSBC Group in France or HSBC France excluding the Reims offices, which accounts for less than 1 per cent of total floorspace.

Change in scope

For environmental indicators, entities consolidated or deconsolidated during the year are accounted for in the data reported on the date they enter the Group and until the date they exit.

Reporting period

The annual reporting period is the calendar year (from 1 January to 31 December). In 2018, for environmental indicators, the reporting period is from 1 October 2017 to 30 September 2018.

Reporting tools and processes

For environmental indicators

The reporting tool is Metrix, developed by Enablon, which is used by the HSBC Group. Its main functions include the collection of data on energy (kWh), CO_2 emissions, water (m^3), paper (tonnes), waste (tonnes), km travelled and other data: comments, operational surface areas (m^2), number of sites, workforce (FTE), initiatives, dual validation at country level, then at regional and global levels and, finally, dashboards.

For social indicators

The information that appears in reporting documents is the result of queries from ADP Link.

Details on the definition of certain indicators

Environmental indicators

CO2 emissions result from the consumption of electricity, gas, fuel oil, urban heating and air conditioning. Transport-related CO2 emissions correspond to journeys made by train and plane (which are purchased through travel agencies), by taxi, and by hired cars or the group car fleet. Energy consumption is partly estimated as invoicing and reporting periods do not overlap precisely.

Social indicators

The total workforce comprises employees under permanent and fixed-term employment contracts. Internship, temporary and suspended contracts, employees taking early retirement, employees on long-term sick leave, permanently disabled employees and expatriates are included. Holiday auxiliary staff are excluded. Recruitment and redundancy figures include employees under permanent and fixed-term employment contracts. An employee whose contract changes from a fixed-term contract to a permanent contract will be recorded as a hire.

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Workforce-related indicators concern HSBC in France (excluding HSBC Bank PLC Paris Branch): HSBC France, HSBC Assurances Vie (France), HSBC Global Asset Management (France).

Environmental indicators concern the HSBC Group in France or HSBC France excluding the Reims offices, which accounts for less than 1 per cent of total floorspace.

Change in scope

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Table of sustainability performance indicators of the HSBC Group in France

Policies of managing environmental and social risks			
Indicator as of 31 December 2018	**2018**	2017	2016
Customers' satisfaction (theme 1)			
RBWM 's customers recommendation rate	**84%**	NA	NA
Number of RBWM's customers complaints receiving a response on same day or within 48 hours'	**45%**	NA	NA
Score of private bank customers on their private banker	**8.6**	9.2	NA
Strenghening financial education among our customers, people and partners (theme 2)			
Number of beneficiaries involved in the programmes supported by HSBC France	**26,366**	NA	NA
Progress towards 2020 objective (%)	**44%**	NA	NA
Contributing to the real economy (theme 3)			
Number of financing for regional authorities (including AFL and Public-sector Healthcare Establishments)	**13**	22	10
Bloomberg ranking among lead managers for French local authority issuers by number of transactions	**1**	1	2
Volume of financing for regional authorities (including AFL and Public-sector Healthcare Establishments) (mUSD)	**422**	811	509
Bloomberg ranking among lead managers for French local authority issuers by volume of transactions	**4**	1	2
Number of entrepreneurs supported	**635**	NA	NA
Progress towards 2020 objective (%)	**42%**	NA	NA
Managing the environmental risks related to banking activity (theme 4)			
Number of months in Green status in the Global Risk tool over last 12 months	**10**	3	12
Contributing to a low carbon economy (theme 5)			
PRI score Strategy & Governance	**A+**	A+	A
PRI score Listed Equity - Incorporation	**A+**	A	A
PRI score - Fixed Income Corporate Non-Financial	**A**	A	A
Net new money in responsible investment funds (m€) (2)	**151**	52	13
Number of Green Bonds	**6**	14	2
Ranking in the Dealogic League table by number	**4**	2	3
Green Bonds in volume (m€)	**669**	2,600	417
Ranking in the Dealogic League table by volume	**6**	4	5
Improving our environmental footprint (theme 6)			
CO_2 emissions (3) (thousands of tonnes equiv CO_2) per employee (4)	**0.66**	0.64	0.66
Evolution year on year (%)	**3%**	(3.0)%	NA
Paper consumption (kg) per employee (4)	**93**	89	97
Evolution year on year (%)	**4%**	(8.0)%	NA
Waste production (kg) per employee (4)	**105**	104	162
Evolution year on year (%)	**1%**	(36.0)%	NA
People KPI			
Recruitment (theme 7)			
Number of recruitments versus to total workforce	**11.9%**	9.8%	6.2%
Development and employability (theme 8)			
Share of permanent employees who took part in the #CareerCounter forums	**6%**	NA	NA
Diversity, equity, quality of life (theme 9)			
Share of women in senior executives positions	**30.1%**	27.4%	27.3%
Governance KPI			
Fair business practices and protecting the client's interests (theme 10)			
Share of staff members trained on theme 10	**92%**	NA	NA
Financial crime risk management (theme 11)			
Anti-corruption (theme 12)			
Share of staff members trained on themes 11 and 12	**95%**	NA	NA
Tax evasion risk management (theme 13)			
Share of staff members trained on theme 13	**96%**	NA	NA
Cybersecurity (theme 14)			
Number of significant security incidents over last 12 months	**0**	NA	NA
Human rights (theme 15)			
Share of suppliers who signed the Code of Conduct in the renewal process	**38%**	NA	NA

(2) Annual net inflows of HSBC Global Asset Management (France) in open-end Sustainable Finance and socially responsible employee savings funds distributed in markets covered by HSBC Global Asset Management (France): France, Benelux, Spain, Italy, Nordic countries, Greece and Malta. Data at 31 December 2018. This figure includes assets under management in the HSBC Europe Equity Green Transition fund, which resulted from the conversion of the HSBC Special Situations fund on 16 November 2018.
(3) CO2 emissions energy and transports
(4) Base: subject workforce

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

For the year ended December 31st, 2018

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

To the Shareholders,

HSBC France

103, Avenue des Champs Elysées

75419 Paris Cedex 08

In our capacity as Statutory Auditor of HSBC France appointed as an independent third party and certified by COFRAC under number 3-1060 rév.2 (whose scope is available at www.cofrac.fr), we hereby report to you on the consolidated non-financial information statement for the year ended December 2018 (hereinafter the "Statement"), included in the Group management report pursuant to the legal and regulatory provisions of articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (Code de commerce).

The entity's responsibility

Pursuant to legal and regulatory requirements, the Board of Directors is responsible for preparing the Statement, which must include a presentation of the business model, a description of the principal non-financial risks, a presentation of the policies implemented considering those risks and the outcomes of said policies, including key performance indicators.

The Statement has been prepared in accordance with the entity's procedures (hereinafter the "Guidelines"), the main elements of which are available on request from the Sustainable Finance Direction.

Independence and quality control

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

Responsibility of the Statutory Auditor, appointed as an independent third party

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- the compliance of the Statement with the provisions of article R. 225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article R. 225-105 I, 3 and II of the French Commercial Code, i.e., the outcomes of the policies, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the "Information").

However, it is not our responsibility to comment on:

- The entity's compliance with other applicable legal and regulatory provisions, in particular the French duty of care law and anti-corruption and tax evasion legislation;
- The consistency of products and services with the applicable regulations.

Nature and scope of our work

The work described below was performed in accordance with the provisions of articles A. 225-1 et seq. of the French Commercial Code determining the conditions in which the independent third party performs its engagement and with the professional guidance of the French Institute of Statutory Auditors (CNCC) applicable to such engagements, as well as with ISAE 3000 - Assurance engagements other than audits or reviews of historical financial information.

Our procedures allowed us to assess the compliance of the Statement with regulatory provisions and the fairness of the Information:

- we obtained an understanding of all the consolidated entities' activities, the description of the social and environmental risks associated with their activities and, where applicable, the impact of those risks on compliance with human rights and anti-corruption and tax evasion legislation, as well as the resulting policies and their outcomes;
- we assessed the suitability of the Guidelines with respect to their relevance, completeness, reliability, objectivity and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of social and environmental information set out in article L. 225-102-1 III as well as information regarding compliance with human rights and anti-corruption and tax evasion legislation;
- we verified that the Statement includes an explanation for the absence of the information required under article L. 225-102-1 III, 2;
- we verified that the Statement presents the business model and the principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships and products or services, as well as their policies, measures and the outcomes thereof, including key performance indicators;
- we verified, where relevant with respect to the principal risks or the policies presented, that the Statement provides the information required under article R. 225-105 II;
- we assessed the process used to identify and confirm the principal risks;
- we asked what internal control and risk management procedures the entity has put in place;
- we assessed the consistency of the outcomes and the key performance indicators used with respect to the principal risks and the policies presented;

- we verified that the Statement covers the scope of consolidation, i.e., all the companies included in the scope of consolidation in accordance with article L. 233-16 within the limitations set out in the Statement;
- we assessed the data collection process implemented by the entity to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative results List quantitative information (key performance indicators and outcomes) in a footnote or in an appendix that we considered to be the most important, we implemented:
  - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data,
  - tests of details, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on a selection of contributing entities List the contributing entities in the report or in a footnote and covers between X% and Y% of the consolidated data relating to the key performance indicators and outcomes selected for these tests;
- we referred to documentary sources and conducted interviews to corroborate the qualitative information (measures and outcomes) that we considered to be the most important List qualitative information (measures and outcomes) in a footnote or in an appendix;
- we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

We believe that the work carried out, based on our professional judgement, is sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures.

Means and ressources

Our work was carried out by a team of 6 people between January and February 2019 and took a total of 6 weeks.

We were assisted in our work by our specialists in sustainable development and corporate social responsibility. We conducted about fifteen interviews with about twenty people responsible for preparing the Statement, representing strategic management, sustainable development, human resources, marketing, supply chain and purchasing departments.

Conclusion

Unqualified conclusion

Based on our work, nothing has come to our attention that causes us to believe that the non-financial information consolidated statement is not in accordance with the applicable regulatory provisions and that the Information, taken as a whole, is not presented fairly and in accordance with the Guidelines.

Comments

Without qualifying our conclusion and in accordance with article A. 225-3 of the French Commercial Code, we have the following comments:

Regarding main governance risks, policies do not always mention objectives nor results (except Key Performance Indicators).

Neuilly-sur-Seine, February 20, 2019

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Nicolas Montillot	Pascal Baranger
Partner	Sustainable Development Director

Appendix: List of the information we considered most important

Key performance indicators and other quantitative results:

- Individual customers recommendations rate;
- Number of individual customers complaints handled the same day or the next day;
- Rating attributed by Private banking customers to their private banker;
- Percentage of dedicated program beneficiaries and supported entrepreneurs regarding 2020 objective;
- Number and volume of investments allocated to territorial collectivities;
- Lead table ranking on territorial collectivities emissions by number and by volume;
- Number and volume of green bonds;
- Ranking on green loans by number and by volume;
- PRI rating attributed to HSBC Global Asset Management ;
- Net inflows in responsible investments;
- Growth percentage of CO2 emissions (in tons eq CO2) and paper consumption (in kg) by employee regarding the previous year;
- Part of hiring on the total staff over the last 3 years ;
- Share of employees under permanent contracts who participated in a “#RencontresCarrières” forum;
- Number of employees who participated in trainings of acculturation in the sustainable development’ stakes (example: "Master's degree Class ESG");
- Percentage of women on executive levels over the past 3 years;
- Monitoring of male/female, partial times and employees with disabilities wages proportions over the past 3 years;
- Share of trained staff on the topic of loyalty of practices;
- Share of trained staff on financial crime, money laundering and anti-corruption issues;
- Share of trained staff on the topic of combating tax evasion;
- Number of significant security incidents over the past 12 months;
- Share of suppliers who have returned the signed Code of Conduct to December 31 as part of contract renewal.

Qualitative information (actions and results):

- Contribution to the financial education through support actions in partnership with the association Cresus;
- Contribution to the financing of companies and entrepreneurship through support in partnership with the ADIE (Association for the right on the Economic Initiative);
- Commitment in NOVI funds and investment funds for the growth and the innovation of the SME ETI;
- Contribution to develop the environmental, social and governmental transition’s financing segment by the participation in syndicated operations on the market of the "green loans and other loans linked to ESG criteria";
- State labelling of HSBC Global Asset Management funds dedicated to the Socially Responsible Investment;
- Distribution of a shareholder engagement report by HSBC Global Asset Management;
- Follow the environmental quality approach supported by HSBC Assurances in its real estate policy (acquisition of properties meeting the highest environmental standards, restructuring of vacant buildings to improve their quality);
- HQE (High Environmental Quality) certification of the Cœur Défense site;
- Implementation of a training programme in line with the 70/20/10 development model;
- Collaborative development programs (example: 66 Miles);
- Sign an agreement on equal employment and quality of life at work with trade union organizations;
- Diversity clause put in place by recruitment officers involving presenting for each short-list of candidates at least one male profile, one female profile and for each management position or expert with more than 10 years’ experience a senior profile application.

France ‘Duty of Care’ act

HSBC France has implemented a vigilance plan in accordance with France’s act no. 2017-399 of 27 March 2017 on the duty of care of parent companies and ordering companies.

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

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

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

Risks relating to the duty of care are managed within the risk maps of the various business lines and functions affected. Risk mapping covers all operational risks to which HSBC France is exposed, and reflects the permanent system of monitoring established to control these risks. Based on the Group’s classification of risks and library of control procedures, detailed analysis allows the identification, evaluation and prioritisation of risks and key controls relating to the duty of care. The control system in place enables regular and adequate coverage of duty of care related risks, over a cycle lasting a maximum of 2 years.

In order to address the continuous development of this area, HSBC regularly updates its ethical and environmental code of conduct. In France, as in the Group as a whole, since March 2017, when forming new contracts or renewing existing ones, HSBC France's suppliers are required to accept these principles by signing this code of conduct. Signature attests to the fact that the supplier respects fundamental laws on human rights, health and safety and environmental protection.

In addition, HSBC works with Sedex to assess the ethical and environmental risks associated with strategic suppliers, that is to say those with billings of more than EUR 0.5 million. Sedex considers the risks associated with each supplier as a function of its location, its regions of production, its business sectors and the responses to a self-assessment questionnaire designed to identify the risks associated with workers’ rights, health and safety, the environment and business ethics. This process produces a risk rating. Where suppliers receive a “high risk” rating the relevant buyer will be notified so that they may take a fully-informed decision about whether or not to continue working with the supplier. HSBC is currently preparing the introduction of an audit of specific risks highlighted in the Sedex questionnaire. The outcome of the audit will result in a corrective action plan which will be managed and monitored until the risks have been reduced.

Regarding the impact of bank financing on potential breaches of human rights and environmental protection, the sustainability risk management policy adopted by the HSBC Group for more than 12 years provides a solid risk management framework. An annual review is carried out regarding Global Banking and Markets and Commercial Banking clients operating in sectors covered by the Group’s sector policies, and all transactions in these sectors are also reviewed. HSBC’s sector policies cover agricultural commodities, chemicals, defence, energy, forestry, freshwater infrastructure, mining and metals, World Heritage Sites and Ramsar wetlands. HSBC regularly reviews and refines these policies, including through constructive dialogue with NGOs and action groups, alongside which it regularly addresses matters of common interest. The HSBC Group has applied the Equator Principles since they were first developed in 2003, including the latest version (EP3) since 2014.

Risk

	Page
Key Highlights	**72**
Our risk appetite	**73**
Areas of special interest	**73**
Top and emerging risks	**73**
Key developments and risk profile	**84**
Key developments in 2018	**84**
Risk management	**84**
Credit Risk	**89**
Counterparty Credit Risk	**106**
Liquidity and funding risk management	**109**
Market risk	**112**
Interest-rate risk of the banking book	**117**
Balance sheet management	**118**
Operational risks	**119**
Regulatory and Financial Crime Compliance	**125**
Structural foreign exchange risk	**129**
Legal risks and litigation management	**129**
Tax risk	**130**
Accounting risk	**131**
IT Systems Risk	**132**
Security risk	**133**
Information & Cyber Security Risk	**133**
Periodic control	**134**
Human Resources	**135**
Insurable Risk Coverage	**137**
Sustainability and climate change risk	**137**
Risk management of Insurance operations	**137**
Reputational risk management	**141**
Capital & Leverage Management	**142**

All Pillar 3 and regulatory documentation is available on the Internet websites www.hsbc.com and www.hsbc.fr.

Key Highlights

Principal Regulatory Ratios

	At	
	31 Dec 2018	31 Dec 2017
	%	%
Capital Ratios – transitional		
Common equity tier 1	**N/A**	13.1
Total tier 1	**N/A**	13.5
Total capital	**N/A**	14.1
Leverage Ratio - transitional	**N/A**	3.7
Capital Ratios – fully-loaded		
Common equity tier 1	**13.1**	13.2
Total tier 1	**14.5**	13.8
Total capital	**15.7**	14.6
Leverage Ratio - fully-loaded	**3.6**	3.6
Liquidity Ratios		
Liquidity Coverage Ratio	**128**	149
Net Stable Funding Ratio[1]	**113**	116

1 *Computed in respect of BCBS 295 guidelines*

Risk-Weighted Assets – by Risk Type

	At	
	31 Dec 2018	31 Dec 2017
	€m	€m
Risk Weighted Assets		
Credit Risk	**25,972**	22,446
Counterparty Credit Risk	**3,627**	3,036
Market Risk	**3,455**	5,188
Operational Risk	**3,194**	3,385
Basel 1 floor impact	**–**	1,324
Total Risk-Weighted Assets	**36,248**	35,379

Loan Impairment Charges/Impaired Loans

	At	
	31 Dec 2018	31 Dec 2017
(in million of euros / %)	**€m**	€m
Total Gross loans	**53,788**	50,234
Total Impaired loans (B)[1]	**990**	971
Impaired loans %	**1.84%**	1.93%
Total loan impairment charge at 31 December	**10**	(81)
Impairment allowances (A)[1]	**(522)**	(535)
Impairment ratio: A/B	**52.73%**	55.10%

1 *Including only stage 3.*

Our risk appetite

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

Enterprise-wide application

- Our risk appetite encapsulates consideration of financial and non-financial risks and is expressed in both quantitative and qualitative terms.
- It is applied at the global business level, at the regional level, and to material operating entities.

Financial position

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

Operating model

- Returns generated in line with risk taken.
- Sustainable and diversified earnings mix, delivering consistent return for shareholders.

Business practice

- Zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage to the Group has not been considered and/or mitigated.
- No appetite for deliberately or knowingly causing detriment to consumers arising from our products and services or incurring a breach of the letter or spirit of regulatory requirements.
- No appetite for inappropriate market conduct by a member of staff or by any group business.

Areas of special interest

Brexit risk – Process of UK withdrawal from the European Union

Uncertainty regarding the terms of the United Kingdom's exit agreement and its future relationship (including trading) with both the European Union and the rest of the world is ongoing. The United Kingdom is due to formally leave the European Union in March 2019. Before then, the United Kingdom and the European Union have to finalise the Article 50 Withdrawal Agreement, which will need to be approved by their respective Parliaments. A comprehensive trade deal will not be concluded within this time frame. A period of transition until 31 December 2020 has been agreed between the United Kingdom and the European Union. However, there will be no legal certainty until this is enshrined in the Withdrawal Agreement, which is unlikely before the end of the first quarter 2019. Uncertainty therefore continues and with it the risk of significant market volatility.

Mitigating actions

Throughout this period, HSBC Group will continually update its assessment of potential consequences for its customers, products and banking model and re-evaluate the mitigating actions accordingly. HSBC Group's objective in all scenarios is to continue to meet customers' needs and minimise disruption. The scale and nature of the impact on HSBC Group will depend on the precise terms on which HSBC Group and its customers will be able to conduct cross-border business following the United Kingdom's departure from the European Union.

As described in Report of the Board of Directors on page 8, HSBC Group has put in place a robust contingency plan. It is based on a scenario whereby the UK exits the EU in March 2019, without access to the single market or customs union, and without a transitional arrangement. HSBC Group and HSBC France have made good progress in terms of ensuring HSBC Group is prepared for the UK leaving the EU in first quarter 2019 under the terms described above, but there remain execution risks, many of them linked to the uncertain outcome of negotiations and potentially tight timelines to implement significant changes to our UK and European operating models. Risks are monitored continuously, with vulnerable industry sectors reviewed by management to determine if adjustments to HSBC Group and HSBC France's risk policy or appetite are required.

Top and emerging risks

Our approach to identifying and monitoring top and emerging risks is described on page 86. During 2018, we made a number of changes to our top and emerging risks to reflect our assessment of the issues facing HSBC. Our current top and emerging risks are as follows.

Externally Driven

Macroeconomic risks

Economic growth in the Eurozone has been disappointing in 2018 and notably in France. In addition to a less dynamic external environment, idiosyncratic factors in some European countries and sectors (the automotive industry in Q3 and Q4) contributed to weak readings in domestic demand, with consumer spending unexpectedly tepid in France in particular.

In France, the consequences of the "yellow vests" crisis on consumption in the 4th quarter has not been fully assessed yet. The government measures to give back purchasing power in particular to low-income families in 2019 will weigh on public deficit this year and their potential impact on GDP growth are uncertain, at a time where investments are slowing down and support to consumption will be welcome.

In this context, the evolution of companies' demand for financing remains uncertain and interest income from sigh deposits should not show any significant increase. The banking intermediation business will therefore need to look for other sources of growth.

In addition, externally driven factors could impact growth in France, including notably a no-deal Brexit, which would impact companies operating in crossborder business with the UK. The commercial dispute between the United States and China could also result in a global slowdown in international trade. Other political factors, including the European elections in May, could generate additional risks to the economic prospects.

Also, although a compromise has been reached with the EU authorities on the Italian budget, the weaknesses of the Italian bank sector remain a cause of concern, which prevents dismissing altogether the risk of a renewed financial crisis in Europe, even though systemic risk in the Eurozone is now moderate.

Lastly, the low level of interest rates, which pushes investors to look for yield, potentially against a relaxation of risk criteria, continues to expose the financial system to the building-up of "bubbles" in certain asset classes.

Since the ending of the ECB's quantitative easing programme, the ECB has continued to renew its stock of financial assets, bought over the past several years, without increasing it; the forecast of a slowdown in the economic outlook in the Eurozone has resulted in the ECB differing the scheduled increases in interest rates which are necessary for a progressive return to normality.

Mitigating actions

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

In addition to the continuation of the extremely strict cost control it has been exercising for years, HSBC France has started to benefit in 2017, and even more so in 2018, from important costs savings from the IT modernisation programme launched in the beginning of 2016. This programme should also provide additional efficiency benefits to the Retail and CMB operations.

In Retail banking, HSBC transformed in 2018 its sales organisation, which resulted in providing its customers with better performing remote and internet banking services, while maintaining its physical branch network. Relationship management teams specialised in specific lending products or dedicated to customers with specific needs, as well as the development of numerous digital services, are intended to provide a quicker and enhanced quality service and to free up time for relationship managers to entertain a deeper dialogue with their clients. Regarding its global banking and markets operations, HSBC France is expecting and is actively preparing itself for capturing a share of the transfer to France of part of the businesses that have been so far provided from London to EEA companies. The end of the quantitative easing could also restore liquidity in the sovereign and corporate debt markets and support greater volumes and improve the bank's profitability is these markets.

Beside, HSBC France will focus on further developing commercial relationships established with the corporate clients of the various branches and subsidiaries of the Eurozone whose activities have been transferred or will be transferred to it in 2019 by its UK parent. HSBC France thereby intends to reinforce its position as the main international bank in France in the global banking and markets businesses.

Confronted itself to the payment of negative interest rates on its own deposits, and in accordance with market practices now established in France, HSBC France applies negative interest rates on overnight deposits to customers which have a status of bank or of financial institution.

In terms of life insurance activities, HSBC France continues to apply a long term management strategy of its assets and hedging which have for effect to mitigate the impact of the decline in yields. It is worth noting in this respect that HSBC Assurances Vie (France) is the only insurance company in France that integrates in its profit and loss account the variations in Present Value In Force (‘PVIF’), which is the net present value of the profits expected to be generated by its current portfolio of investment assets.

As concerns industry sector risks, HSBC France has long established procedures and a control framework which includes the review, in detail, of all significant exposures to customers operating in a higher risk sector, the establishment of sector ‘Caps’ and a programme of stress tests designed to regularly evaluate the effect of an exceptional deterioration occurring in certain sectors which the bank is particularly exposed to. The lending guidelines are updated as necessary in the event of any material change observed in particular sectors as well as in consideration of any conclusions that could be drawn from these ‘stress tests’. Bank wide stress tests are undertaken annually to measure the impact of a major economic downturn on the bank’s results and its balance sheet.

Lastly, in consideration of persistent imbalances in economic situations across countries in the EU and of the uncertainties generated by Brexit, HSBC France continues to maintain limited market risk positions in its trading book portfolio. These are subject to frequent stress tests based on a number of different scenarios which the bank modifies according to the observed trends and possible evolutions of the economic environment. Also, risk calculations and the limits set to the ‘front office’ teams take into account the relative illiquidity of certain markets.

Competition risk

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

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

This challenge is made steeper by several regulations and market evolutions, both in the payment (PSD2, Instant Payment, NFC payment, blockchain) and data management landscape (General Data Protection Regulation - "GDPR"), Open Banking, Artificial Intelligence).

Payments: The adoption and the extension of the legal perimeter of the European payment services ‘PSD2’ regulation will open up access to the bank’s electronic payment platforms to two new types of entrants such as Account Information Service Provider (‘AISP’, aggregators of data relating to a user’s accounts held across different banks) and Payment Initiation Service Provider (‘PISP’, receive and handle payment requests of clients once authorised by the clients to do so).Yet, two of the most contentious measures in the rule-book, relating to more stringent security measures for payments transactions and the abolition of 'screen-scraping', will only be considered actionable in September 2019, 18-months after the relevant Regulatory Technical Standards (RTS) are published in the Official Journal of the EU. Banks will need to find secure solutions to open access to their customers’ information to third parties, while remaining central players for customer transactions. The Payments landscape is also evolving with the increasing use of blockchain representing a strong risk of disintermediation despite being in its early stages.

Data Management: GDPR, Open Banking and AI will also trigger a change in the way bank will use customer data and will establish a new paradigm in data management.

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

Mitigating actions

HSBC Group is fully aware of these technology innovations and maintains high level contacts with the ‘Fintech ecosystem’. The PSD2 project is well structured in France and Europe to ensure the bank will comply with its obligations and is also looking at key business opportunities. GDPR is now applied in a structured manner within HSBC France. Open Banking projects in the UK can also be leveraged in France. The bank is looking into strategic Fintech partnerships to ensure that value is appropriately captured for each of HSBC France’s businesses, especially in the area of mobile payment and data management. HOST with its IT Modernisation programme and HSBC France Labs are also looking at strategic solutions and technologies to accelerate readiness and ‘digitalise’ its products and services.

As an example, the bank already offers its clients the ability to consult their accounts at other banks via a contract entered by HSBC France with an AISP, and is currently working on improving data analysis on our Personal Economy app to offer personalised, best-in-class products and services to our customers. HSBC France is also considering developing APIs with third-party providers to extend the reach of its products and services and enhance its offer. In addition to that, several projects at the Group, Region, and France level are implemented to adapt HSBC's payment strategy in a post-PSD2 and Instant Payment environment, and identify related growth opportunities.

Cyber threats and unauthorised access to systems

The threat from cyber-attacks remains a concern for our organisation, and failure to protect our operations from internet crime or cyber attacks may result in financial loss, business disruption and/or loss of customer services and data or other sensitive information that could undermine our reputation and our ability to attract and keep customers.

Ransomware and Distributed Denial of Service ('DDOS') attacks are an increasingly dominant threat across the industry. The phishing technique remains the most effective way to spread malware and other viruses. As such, many tests are conducted internally to raise awareness of HSBC employees.

Mitigating actions

The security of our information and technology infrastructure is crucial for maintaining our banking applications, processes, protecting our customers and the HSBC brand. We continue to strengthen and significantly invest in our ability to prevent, detect and respond to the ever-increasing and sophisticated threat of cyber attacks.

Cyber risk is a top priority of the Board and is regularly reported to ensure appropriate visibility, governance and executive support for our ongoing cyber security programme.

Tax Transparency Risks

In common with all companies, HSBC France is potentially exposed to the risk that tax rules could be misinterpreted or incorrect application of the increasingly complex tax rules that apply. In particular, the tax authorities are increasingly attentive to the transfer pricing that apply between member companies of large international groups such as HSBC. HSBC France runs the risk of a tax adjustment or penalties in the event that the bank does not respect these rules and in particular the requirement to transact with its parent company at normal commercial conditions.

Moreover, certain clients of HSBC France could use some of its services with the objective of tax evasion which could expose the bank to charges of collusion and which, if confirmed, could also lead to severe financial, legal and reputational risks.

Mitigating actions

HSBC France Tax department works closely with other central Functions and the various Global Businesses as well as with other Group entities to verify that the transactions undertaken for the bank's own account or by our clients are consistent with the spirit and letter of the tax laws (tax transparency principles). Furthermore, it also monitors that the transfer pricing conditions applied by other Group entities is properly justified and documented.

Regulatory Compliance including Conduct

Following a number of conduct-related incidents and subsequent financial penalties in the industry, there is an increased focus by regulators on Conduct matters, such as the fair treatment of customers and the adequate conduct on financial markets (thus covering the market abuse framework).

The regulatory change environment also continues to be challenging in 2018, with significant EU projects coming into force and setting high standards for the industry. Following the UK's decision to withdraw from the EU, HSBC adjusted its European strategy to ensure the smoothest transition for our customers, as well as our organisation. Compliance with regulatory standards must be ensured in every step, both towards our internal and external stakeholders (including HSBC's regulators).

Mitigating actions

In line with Group initiatives, and the Global Conduct Policy, HSBC France has implemented the Conduct framework: the Conduct risk is now managed in all Lines of Business as any other risk.

Regulatory Compliance provides oversight of the implementation actions, with a focus on employee training, to address any item for attention or possible delay in the application of the regulatory requirements. We engage with internal and external stakeholders, including our Regulators, as part of our role as Risk Stewards in achieving HSBC's strategic priorities.

Financial crime risks

HSBC has no appetite to see its products being used to transform the profits of crime and corruption into legitimate assets, to finance terrorism or to transfer money to sanctioned countries or individuals. The risk of financial crime remains a top risk for HSBC which continuously reinforce their framework to detect and defer all suspicious activities.

Mitigating actions

The framework is built to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice. These include those relating to financial crime compliance such as Anti-Money Laundering ('AML'), Counter Terrorist and Proliferation Financing, Sanctions, Anti-Bribery and Corruption ('AB&C') and Fraud Prevention, with the following top priorities:

- A suitable Customer Due Diligence ('CDD') framework, which incorporates Customer Identification and Verification ('ID&V') and Know Your Customer ('KYC') principles, as well as Enhanced Due Diligence ('EDD') on customers assessed as higher risk, such as Politically Exposed Persons ('PEPs') in senior positions, their relatives and close associates;
- A good Financial Crime Risk culture from the top management to each single staff member, with regular training of employees and contractors;
- A suitable Transaction Monitoring framework, designed to monitor customer transactions for the purpose of identifying suspicious activity to be reported to Tracfin;
- The suitable screening of customers, third parties and transactions globally against the sanctions lists, with the associated investigations being conducted in a reasonable timeframe;

- Ensure prohibition of business activity that HSBC believes may violate applicable sanctions laws or HSBC's Global Sanctions Policy;
- A suitable 'AB&C' framework compliant with the HBSC Group policy and the requirements of the law Sapin 2 and the AFA;
- Appropriate Fraud prevention systems to deter and detect all fraud attempts.

Climate change

HSBC is aware that climate change and transition to a low carbon economy will generate climate risks in the short, medium and long term. HSBC France also meets French regulatory requirements by assessing its exposure to climate change risks.

Climate-related risks are divided into two major categories: (1) risks related to the transition to a lower-carbon economy and (2) risks related to the physical impacts of climate change, and will materialise over different time horizons depending on the country and the sector considered.

Transition risk, in the context of climate change, is the risk that the ability of a customer/counterparty to meet its financial obligations deteriorates as a consequence of the transition from a high-carbon to a low-carbon economy. This transition could be driven by policies and regulations, adoption of energy efficient technologies and market changes.

Transition risk could manifest itself as lost revenues, declining asset values, increased costs (including higher inputs cost, investment in new technology, CO2 tax, regulatory related costs/ fines, legal claims) and by reputational risk.

HSBC may assume exposure to material climate-related risks through lending or market dealing activities with companies which have direct exposure to climate-related risks (e.g., fossil fuel producers, intensive fossil fuel users, real estate owners, or agricultural/food companies). The bank could also become subject to reputational risk and litigation related to its financing activities to CO2 intensive businesses. At the same time, as the markets for low-carbon and energy-efficient alternatives grow, HSBC may pursue opportunities with firms making investments in 'green assets'.

Mitigating actions

HSBC is developing risk policies and procedures consistent with Group Risk Appetite to (1) protect the Group from climate change risk and (2) enable business supporting a transition to a low carbon economy.

It is developing processes to measure and report exposure (defined as Cat A limits/outstanding) to (1) carbon intensive and (2) low carbon business activities. Transition risk will be measured and monitored by the client facing teams and the credit teams, and exposure to Transition Risk will be reported to the RMM including regular review of sensitive sectors/clients.

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

Internally driven

IT & Operational risk resilience risks

Apart from malicious activities, the bank's IT systems are also exposed to malfunction or breakdown risk, which would affect HSBC France's clients, operations or its ability to comply with regulatory obligations.

Mitigating actions

HSBC France is implementing a regular data and software migration programme onto new servers. In some instances, the Bank decided to outsource some IT services to third party companies whenever it is safer and more efficient. Finally, it must be stressed that HSBC France is implementing a major programme of IT systems upgrade, which is leading to the complete overhaul and replacement of its current banking IT infrastructure. The new system is being developed by a third party undertaking.

People risks

The various transformation programs at HSBC France impact a significant proportion of the bank's staff which could create an environment that certain staff may feel as complex and uncertain. At a time where HSBC France's financial results may be deteriorated compare to previous years due to low interest rates and challenging times in Markets, this situation could potentially lead to a decrease in staff engagement, increased sick leave and unwanted staff turnover. In addition the current transformation and increasing complexity of the bank industry make the skills and competencies evolving in all Businesses and Functions. Staff have to adapt themselves and to develop new competencies, which could create a feeling of unsuitability for some of them.

Mitigating actions

In order to mitigate the above risks, HSBC France is making regular and clear communications to all staff concerning the re-organisations and projects in progress. The bank also monitors with attention the workload and stress levels of its employees via bi-annual surveys and adapted questionnaires for its executives *('Cadres à forfait jours')*. Line managers are equally made aware of this risk regularly and are encouraged to take appropriate action when necessary. HSBC strategy focused on a 'Healthiest Human System' and an efficient way of working in order to reduce the risk; HSBC France has declined this strategy in a series of collaborative workshops *("Boost ta bank")* to collect feedbacks and concrete action plans. In addition, HSBC France has deployed specific learning courses (technical, management, soft skills) for staff to develop new competencies and adapt themselves.

Execution risks

In order to deliver our strategic objectives and meet mandatory regulatory requirements, it is important for HSBC to maintain a strong focus on execution risk.

The different projects in progress at HSBC France could generate conflicting priorities and conflicts vis-à-vis the allocation of resources. This could impact on the management of each project, its correct and timely completion and on the running of the bank with possible consequences such as financial losses, reputational damage or also regulatory sanctions.

Mitigating actions

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

Finally, to strengthen the governance related to project a monthly Oversight Project committee has been launched in the first trimester of 2018.

Model risks

Within regulatory risks, model risk, a risk linked to the model calculation of risk-weighted assets ('RWA'), constitutes a specific issue. First and foremost, regulatory requirements linked to developing, validating and monitoring RWA models including compliance issues, have substantially increased and require a significant amount of upgrading with respect to data quality and statistical work (in particular around the new requirement to assess the performance of global models on the HSBC France subset portfolio). Secondly, in the Eurozone, the ECB launched in 2017 a comprehensive programme to review, assess and, as far as possible, harmonise both RWA models and theoretical approaches and practical implantation for all banks under its direct supervision. This programme, called Targeted Review of Internal Models ('TRIM'), will not conclude before 2019. Until then, it is possible that many uncertainties will remain with respect to HSBC France's capacity to keep some of its internal models over the long run or to have required or even necessary model upgrades validated by the regulator. HSBC France is also subject to the supervision of the UK regulator, the Prudential Regulation Authority ('PRA') and the validation of its models requires coordination, untested as yet, between the PRA, the ACPR and the ECB, which certainly contributes to further uncertainty. A lack of visibility on the future existence of the Joint Decision process (between ECB and PRA) in the Brexit context is also to be noted.

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

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

Mitigating actions

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

In addition, HSBC France is actively cooperating with the PRA and the ECB on prioritisation of model submissions and is sharing the submission stocktake regularly. A new policy covering model notification requirements has been finalised to ensure alignment with regulatory requirements. Finally, resources are being mobilised to address additional regulatory requests (e.g. a project has been set up to address the new EBA definition of default and analysis is well underway).

Data management risks

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

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

HSBC France constantly promotes the development of better data management systems, which forms part of HSBC Group's global data quality improvement programme.

Mitigating actions

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

A Data Committee is also held on a monthly basis, co-chaired by the COO, the Chief Financial Officer ('CFO'), and the Chief Risk Officer ('CRO').

Lastly, HSBC is compliant with the General Data Protection Regulation ('GDPR') entered in force in May 2018.

Risk Factors

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

Macroeconomic risk

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

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

- the demand for borrowing from creditworthy customers may diminish if economic activity slows or remains subdued;
- if capital flows are disrupted, some markets may impose protectionist measures that could affect financial institutions and their clients;

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

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

Geopolitical risk

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

The UK electorate's vote and the exit agreement to leave the European Union may have a significant impact on general macroeconomic conditions in the United Kingdom, the European Union and globally. Negotiations of the UK's exit agreement, its future relationship with the EU and its trading relationships with the rest of the world have yet to be clarified, just a few weeks before the official withdrawal date.

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

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

Macro-prudential, regulatory and legal risks

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

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

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

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

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

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

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

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

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in particular markets in which we operate;
- the structural separation of certain banking and other activities proposed or enacted in a number of jurisdictions;
- the implementation of extra-territorial laws, including initiatives to share tax information;
- the implementation in January 2018 of Directive 2014/65/EU and Regulation 600/2014/EU (collectively referred to as 'MiFID II'), which impose (among others) enhanced transparency requirements and related restrictions in relation to dealings with clients, markets and regulators;

- the transposition into EU law of the international agreement within the Basel Committee on the revision of the market risk framework ("Fundamental Review of the Trading Book" FRTB) reached in January 2019 and the more comprehensive post-crisis reform package agreed upon in December 2017;
- the entry into force of the new "banking package" (i.e. the Capital Requirements Regulation, the Capital Requirements Directive, the Bank Recovery and Resolution Directive and the Single Supervisory Mechanism Regulation), expected to be published in the first semester of 2019, with a large number of changes including inter alia a binding leverage ratio, the mandatory establishment of a EU Intermediate Parent Undertaking and a more stringent large exposures cap. Most of the measures will progressively enter into force from 2022 onwards;
- revised minimum requirement for own funds and eligible liabilities (MREL), with new rules for eligible instruments, binding subordination requirements and new requirements at the levels of significant subsidiaries;
- the corporate governance, business conduct, capital, margin, reporting, clearing, execution and other regulatory requirements to which HSBC France is or may become subject to in their role as a swap dealer;
- the increasing focus by regulators on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers and orderly/transparent markets, promoting effective competition in the interests of consumers and ensuring the orderly and transparent operation of global financial markets;
- restrictions on the structure of remuneration and increasing requirements to detail management accountability within the Group (e.g. the requirements of the Senior Managers and Certification Regime in the UK and elsewhere that are under consideration/implementation);
- the implementation of any conduct measures as a result of regulators' increased focus on institutional culture, employee behaviour and whistleblowing;
- the focus globally on data (including on data processing and subject rights / transfer of information) and financial technology risks and cybersecurity and the introduction of new and/or enhanced standards in this area;
- changes in national or supra-national requirements regarding the ability to offshore or outsource the provision of services and resources or transfer material risk to financial services companies located in other countries, that impact our ability to implement globally consistent and efficient operating models; and
- further requirements relating to financial reporting, corporate governance and employee compensation.

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

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

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

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

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

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

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

The delivery of our strategic actions is subject to execution risk

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

There also remains heightened risk around the execution of a number of acquisitions in line with HSBC Group's Brexit strategy. The potential risks of acquisitions include regulatory breaches, onboarding of key personnel and clients, and connection to systems and processes during business transformation.

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

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

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

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

HSBC France's ability to execute its strategy may be limited by its operational capacity and the increasing complexity of the regulatory environment in which HSBC France operates. HSBC France continues to pursue its cost management initiatives, though they may not be as effective as expected, and HSBC France may be unable to meet its cost saving targets.

HSBC France operate in markets that are highly competitive

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

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

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

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

Technology. The banking industry is beginning to find itself confronted in some of its traditional banking products and services by the arrival of mobile banks, GAFAs and new non-banking entrants ('Fintechs', 'Insurtech', 'Supply Chain Specialists'…) which have superior, innovative and customer centric technologies. These potential competitors are capable of capturing a part of the 'value chain' of the services and products offered by the banking sector by offering to their customers potentially more flexible and innovative services, greater reactivity leveraging new technologies (e.g. automated customer risk assessment using algorithms), or services better adapted to an online banking world via smartphones or tablets. New entrants to the market or new technologies could require us to spend more to modify or adapt our products to attract and retain customers.

The HSBC France risk management measures may not be successful

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

Operational risks are inherent in our business

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

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

Fraudsters may target any of our products, services and delivery channels, including lending, internet banking, payments, bank accounts and cards. This may result in financial loss to HSHC France, an adverse customer experience, reputational damage and potential regulatory action depending on the circumstances of the event, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

HSBC France's operations have inherent reputational risk

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

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

HSBC France may suffer losses due to employee misconduct

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

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

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

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

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

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

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

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

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

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

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

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

This focus is reflected in part by our agreements with US and UK authorities relating to various investigations regarding past inadequate compliance with AML and sanctions laws. These consent orders do not preclude additional enforcement actions by bank regulators, governmental or law enforcement agencies or private litigation.

Our local French regulator remains strongly focus on AML-CTF matters within the French Banking industry.

A number of the remedial actions have been taken as a result of the matters to which the US DPA related, which are intended to ensure that the Group's businesses are better protected in respect of these risks. In recent years, we have experienced a substantial rise in the volume of new regulation impacting our operational processes, along with increasing levels of compliance risk as regulators and other authorities pursued reviews and investigations into the bank's activities.

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

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

We have significant exposure to counterparty risk

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

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

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

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

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

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

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

Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict our ability to change interest rates applying to customers in response to changes in official and wholesale market rates. Our insurance businesses are also exposed to the risk that market fluctuations will cause mismatches to occur between product liabilities and the investment assets that back them. It is difficult to predict with any degree of accuracy changes in market conditions, and such changes may have a material adverse effect on our business, prospects, financial condition and results of operations.

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

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

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

We also access wholesale markets in order to provide funding to align asset and liability maturities and currencies. In 2018, HSBC France issued EUR 4.75 billion of secured and unsecured mid and long term senior debt securities in the public capital markets in a range of maturities.

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

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

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

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

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

Risks concerning borrower credit quality are inherent in our businesses

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

ESG Risk

In 2018, HSBC France conducted an analysis of the material nature of its ESG risks over the short, medium and long term in order to update the mapping of the most significant environmental, social and governance risks for the bank. To do this, HSBC France's Executive Committee was asked to prioritise 61 themes comprising the 41 themes listed in the decree implementing the ordinance transposing the European directive, supplemented in particular by complementary themes identified by HSBC and dealt with in the Group's annual ESG Reporting report.

The members of the Executive Committee thus prioritised the most material ESG issues for HSBC France, taking into account the bank's business model in France as well as its business relations related to its activities.

As a result of this analysis, the following 15 themes have been identified as the most material for HSBC France and are dealt with in the Non Financial Performance Statement.

Six themes involving sustainability risks in the banking business:

- Listening to our customers to meet their needs (theme 1)
- Strengthening financial education among our customers, people and partners and a means of tackling exclusion (theme 2)
- Contributing to the real economy (theme 3)
- Managing the environmental risks related to banking activities (theme 4)
- Contributing to a low carbon economy (theme 5)
- Improving our environmental footprint (theme 6)

Three themes involving workforce-related risks:

- Recruitment (theme 7)
- Development and employability (theme 8)
- Diversity, equity and quality of life (theme 9)

Six themes involving governance risks:

- Fair business practices and protecting the client's interest (theme 10)
- Financial crime risk management (theme 11)
- Anti corruption (theme 12)
- Tax (theme 13)
- Cybersecurity risk management (theme 14)
- Human rights (theme 15)

Environmental risk management policies are detailed in the section “Managing environmental risks from banking activity”, page 56.

Social risk management policies are detailed in the section “An inclusive and responsible HR policy”, page 59.

Governance risk management policies are set out thematically in the following sections:

Risks of money laundering and financial crime: page 128

Risks of corruption: page 127

Risks relating to tax evasion: page 131

Risks in the areas of cyber-security and IT attacks: page 133

Key developments and risk profile

Key developments in 2018

In 2018, HSBC France has continued to deploy initiatives to enhance its approach to the management of risk. These included:

- The finalisation of the implementation of the new HSBC Group risk management framework Operational Risk Management Framework (‘ORMF’) and the system of recording and monitoring of operational risks, as described in the Operational risk section;
- The continued reinforcement of our risk culture and better embed the approach, with a particular focus on the first and second lines of defence role and responsibilities for managing operational risk on a daily basis;
- The transfer to the Operations function (within the wider HOST -HSBC Operations, Systems and Technology- department), at the end of the year, of the oversight of security risk (premises and people security, business continuity and crisis management), which were so far part of the Risk Function;
- The integration of the new foreign HSBC France branches and subsidiaries, in Greece, Poland and Ireland, into the bank's risk management framework.

Risk Management

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

Managing Risk

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

Risk management framework

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

The HSBC France risk management framework is designed to provide appropriate risk monitoring and assessment.

The Risk Committee is composed of independent members of the Board and has responsibility for oversight and advice to the Board on, inter alia, the bank’s risk appetite, tolerance and strategy, systems of risk management, internal control and compliance.

The Risk Committee maintains and develops a supportive culture in relation to the management of risk, appropriately embedded by executive management through procedures, training and leadership actions.

In compliance with the requirements of the French order of 3 November 2014 and the demands of the HSBC Group, the HSBC France group has established a permanent control and risk management system as set out in this document on the internal control procedures and risk management procedure.

In carrying out its responsibilities, the Risk Committee is closely supported by the Chief Risk Officer, the Chief Financial Officer, the Head of Internal Audit and the Head of FCR and RC Compliance, together with other business functions on risks within their respective areas of responsibility.

Risk governance

HSBC France Risk Management Meeting ('RMM'), is the main committee of risk management, next to the committee in charge of overseeing more specifically the Financial Crime Risk and Sanctions Risk: the Financial Crime Risk Management Committee. Roles and responsibilities of the RMM is detailed in the section entitled "Operational Risk".

The control framework

The Chief Risk Officer is responsible for the permanent control within the HSBC France Risk function.

The key responsibility for control falls to the managers of the various businesses, functions and HOST who must ensure that primary controls are conducted in a proper manner and covered by a second-level independent controls process. They are supported by Business Risk and Control Management ('BRCM') teams whose role is detailed on the section entitled "Operational Risk Management Framework ('ORMF')" of the report. Since 2012, HSBC adopted a risk management and internal control framework called the Three Lines of Defence as described below.

Financial risks

HSBC Group has established standards, policies and control procedures dedicated to monitoring and management of risk linked to its activities.

All the HSBC France group's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of different types of risks.

In compliance with the requirements of the French Order of 3 November 2014 and the demands of the HSBC Group, the HSBC France Group has established a permanent control and risk management framework.

Tools

In compliance with the French Order of 3 November 2014 related to bank permanent control, each entity has set up a framework to cover all risks: inherent and residual risks are listed in the businesses risk maps specific to each business (Commercial Banking, Global Banking and Markets, Retail Banking and Wealth Management and Private Banking). These maps summarise the risk assessment by business and the related controls on a risk-based approach.

This organisation is supported by a permanent control framework for Regulatory Compliance risks (RC MAT) and Financial Crime risk (FCRA), the central coordination of Basel II credit models, related to data quality and the follow up of these models design.

The update of the internal control framework and in particular the risks and controls assessments is undertaken on an ongoing basis and follow trigger events, which lead to reassess the related risks and controls linked to it. A full review is performed at least annually. These ongoing changes as well as the annual review are validated by the responsible of permanent control, the first and second lines of defence stakeholders.

Three lines of defence

We use an activity-based three lines of defence model to delineate management accountabilities and responsibilities for risk management. This model delineates the control environment for risk management.

The model underpins our approach to risk management by clarifying responsibility, encouraging collaboration and enabling efficient coordination of risk and control activities.

The three lines are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them;
- The second line of defence is responsible for ensuring that all risks it oversees are effectively managed and provides advice, guidance and challenge to the first line of defence;
- The third line of defence is the Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the group's risk management framework and internal control governance process.

Risk culture

HSBC has long recognised the importance of a strong risk culture, the fostering of which is a key responsibility of senior executives.

All employees are required to identify, assess and manage risk within the scope of their assigned responsibilities. Global Standards set the tone from the top and are central to the group's approach to balancing risk and reward. The aim is to implement common Financial Crime Compliance ('FCC') standards within HSBC, based on the strictest worldwide standards, and to follow the consistent implementation across the Group.

The dedicated Embedding FCC Culture programme launched in 2016 has participated in improving awareness across the 1st Line of Defence across 4 LoBs and the effectiveness of the framework to fight financial crime and terrorist finance related risks.

HSBC France continued to support the 'Conduct' outcomes which sets forth the commitments made by HSBC with respect to the fair treatment of customers and the financial market integrity. Personal accountability is reinforced by the HSBC Values, with employees expected to act with courageous integrity in conducting their duties.

Disclosure line (HSBC Confidential) which enables employees to raise concerns in a confidential manner (which is outside of the normal management reporting lines) is also in place. Mandatory trainings are also deployed to promote these values.

Employees may also rely on the local Code of Conduct which helps promote HSBC purpose and values to life in the decision-making process.

Performance management is measured against objectives which are fixed every year by the manager for each employee. These objectives integrate qualitative targets (respect of compliance and internal control procedures, adherence to Global Standards, quality of sales or service, management of risk notably in terms of operational risk, closure of audit points, client recommendations, intra Global Business synergies, client acquisition etc.) and either collective or individual financial criteria (increase in revenues, control of costs, increase in profit before tax etc.).

The performance indicators, which underpin these objectives, are in line with the job position, the level of responsibility and are analysed in comparison with the previous year or versus the current annual plan.

The objectives, as a whole, are established at the beginning of the year in the annual scorecards of the employees.

Risk function

We have a Risk function, headed by the Chief Risk Officer, which is responsible for the risk management framework. This responsibility includes establishing policy, monitoring risk profiles, and forward-looking risk identification and management. Risk is made up of sub-functions covering all risks to our operations. Risk forms part of the second line of defence. It is independent from the global businesses.

Enterprise-wide risk management tools

HSBC France uses a range of tools to identify, monitor and manage risk. The key enterprise-wide risk management tools are as follows:

Risk appetite

HSBC France's risk appetite is set out in the Risk Appetite Statement, which describes the types and levels of risk that HSBC France is prepared to accept in executing its strategy. The HSBC France's Risk Appetite Statement covers the following 18 key areas of risk, with detailed measures for each category: Financial Crime Compliance, Regulatory Compliance, Operational Risk, Reputational Risk, System Infrastructure, Asset Management, Insurance, People Risk, Security Risk, Cost of Risk, Risk Diversification, Market Risk, RWAs by Risk Category and by Global Business, Capital, Liquidity and Funding, Interest Rate Risk on the banking book portfolio, Earnings and Costs.

Quantitative statements and qualitative metrics are assigned to the above risk categories. Measurement against the metrics:

- guides underlying business activity, ensuring it is aligned to risk appetite statements;
- informs risk-adjusted return;
- enables the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and
- promptly identifies business decisions needed to mitigate risk.

The Risk Appetite Statement is approved by the HSBC France Board following advice from the Risk Committee, and is a key component of the risk management framework. It is central to the annual planning process and seeks to be aligned with the strategy.

The business performance against these risk appetite metrics is reviewed on a monthly basis in the Risk Management Meeting and quarterly in the Risk Committee and Board. Details of metrics that have fallen outside of the appetite/tolerance are provided, along with remediating actions.

Risk map

The risk map provides a point-in-time view of the risk profile across HSBC's risk taxonomy based on the accountable Risk Stewards judgemental assessment of the First LOD activities. It assesses the potential for these risks to have a material impact on the Group's financial results, reputation and the sustainability of its business. Risk stewards assign 'current' and 'projected' risk ratings, supported by commentary. Risks that have an 'amber' or 'red' risk rating require monitoring and mitigating action plans to be either in place or initiated to manage the risk down to acceptable levels.

Top and emerging risks

We use a top and emerging risks process to provide a forward looking view of issues with the potential to threaten the execution of our strategy or operations over the medium to long term.

We proactively assess the internal and external risk environment updating our top and emerging risks as necessary.

We define a 'top risk' as a thematic issue that may form and crystallise in between six months and one year, and that has the potential to materially affect the Group's financial results, reputation or business model. It may arise across any combination of risk types or global businesses. The impact may be well understood by senior management and some mitigating actions may already be in place.

An 'emerging risk' is a thematic issue with large unknown components that may form and crystallise beyond a one-year time horizon. If it were to materialise, it could have a material effect on the Group's long-term strategy, profitability and/or reputation. Existing mitigation plans are likely to be minimal, reflecting the uncertain nature of these risks at this stage.

Stress testing

HSBC France operates a comprehensive stress testing programme that supports our risk management and capital planning. It includes execution of stress tests mandated by our regulators. Our stress testing is supported by dedicated teams and infrastructure, and is overseen at the most senior levels of the bank. Our stress testing programme assesses our capital strength through a rigorous examination of our resilience to external shocks. It also helps us understand and mitigate risks and informs our decisions about capital levels. As well as undertaking regulatory-driven stress tests, we conduct our own internal stress tests (e.g. concentration risk stress tests on specific portfolios, market risk stress tests and capital sensitivity analysis from several risk factors). Stress test impacts are measured on the profit and loss account, the risk-weighted assets and capital. The stress test outcomes are submitted to the HSBC France Risk Committee and Board.

In 2018, HSBC France completed a stress test programme, including the contribution to the Bank of England's 2018 stress test. These included scenarios specific to France with macroeconomic shocks and a significant deterioration in certain sectors or activities or scenarios which also sought to identify the risk of concentration in the credit portfolios. These were reported to the senior management and to the other governance committees of the bank.

HSBC France also contributed to the HSBC Group stress testing programme, including Internal Stress Test and Reverse Stress Test. Reverse stress tests require a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities.

In stress testing exercises, the scenarios usually rely upon a set of macroeconomic and financial variables (e.g. GDP, consumer price index, interest and exchange rates, unemployment, stock index) projected upon a pre-determined period. Several scenarios are usually defined:

- a base scenario considered as the most likely scenario over the projected period, taking into consideration the economic and financial environments and their forward-looking evolution;
- one or several adverse scenarios describing one or several potential shocks affecting the economic and financial environments, like the materialisation of one or several risks weighting on the base scenario.

For macroeconomic stress tests, the base and adverse scenarios are usually centrally coordinated by HSBC Risk and Finance teams, and broken down into regional and country scenarios to ensure global consistency.

Scenarios specific to France may also be developed by HSBC France's risk and finance teams, with the support of expert panels.

Regulatory stress tests

Stress testing is an important prudential regulatory tool to assess the resilience of the banking sector and of individual banks to adverse economic or financial developments.

The results inform the regulators and the bank senior management of the capital adequacy of individual institutions and could have a significant effect on minimum capital requirements and planned capital actions, including the payment of dividends, going forward.

HSBC France, HSBC Bank plc and HSBC Group took part in the Bank of England's 2018 stress test programme, involving all major UK banks. The Annual Cyclical Scenario ('ACS') used was similar to the one used in 2017, with a synchronised global downturn with a significant rise in unemployment rates, a contraction in private consumption, a general fall in property prices. 2018 PRA Stress Test results for the Group were published by the Bank of England in the fourth quarter of 2018, confirming the absence of capital inadequacy.

Our material banking and insurance risks

The material risk types associated with our banking and insurance manufacturing operations are described in the following tables.

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk		
The risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and derivatives.	Credit risk is: • **measured** as the amount that could be lost if a customer or counterparty fails to make repayments; • **monitored** within limits approved by individuals within a framework of delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance for risk managers and risk owners.
Liquidity and funding risk		
Liquidity Risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due or that we can only do so at an excessive cost. Funding Risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time.	Liquidity risk arises from mismatches in the timing of cash flows. Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.	Liquidity and funding risk is: • **measured** using a range of different metrics including the liquidity coverage ratio and net stable funding ratio; • **monitored** against the group's liquidity and funding risk framework; and • **managed** on a stand-alone basis with no reliance on any group entity (unless pre-committed) or central bank unless this represents routine established business-as-usual market practice.
Market risk		
The risk that movements in market factors will reduce our income or the value of our portfolios.	Exposure to market risk is separated into two portfolios: • trading portfolios; and • non-trading portfolios.	Market risk is: • **measured and monitored** using VaR, stress testing and other measures, including the sensitivities of the portfolio value to the different market data; and • **managed** using risk limits approved by the Risk Management Meeting ('RMM').
Operational risk		
The operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events.	Operational risk arises from day-to-day operations or external events, and is relevant to every aspect of our business. Regulatory compliance risk and financial crime compliance risk are detailed below.	Operational risk is: • **measured** using the risk and control assessment process, which assesses the level of risk and the effectiveness of controls; • **monitored** using key indicators and other internal control activities; and • **managed** primarily by global business and functional managers that identify and assess risks, implement controls to manage them and monitor the effectiveness of these controls by using the operational risk management framework.

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Regulatory compliance risk The risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations, internal and external standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence.	Regulatory compliance risk is part of operational risk, and arises from the risks associated with breaching our duties to customers and other counterparties, inappropriate market conduct and breaching other regulatory and good conduct standards.	Regulatory compliance risk is: • **measured** by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our Regulatory Compliance teams; • **monitored** against our regulatory compliance risk assessments and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • **managed** by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.
Financial crime risk The risk that the letter and spirit of all relevant laws, codes, rules, regulations, internal and external standards related to Anti-Money Laundering, Sanctions and/or Bribery & Corruption activities are not observed.	Financial Crime risk may arise when: • our services are used to transform the profits of crime and corruption into legitimate assets, or to finance terrorism; • the bank services are used to try and transfer money to sanctioned countries or individuals.	Financial Crime Risks are measured through a set of controls and metrics reflecting the effectiveness of the different processes and solutions in place to fight financial crime risks. These risks are monitored and managed by the Financial Crime Risk Management Committee ('FCRMC'), chaired by the CEO and attended by all business Heads, the COO and Head of FCR. Following the completion of the Global Standards Program, HBFR has carried out FCC transformation and organisation's setting programs in 2018, particularly focusing on Transaction Monitoring framework.

Other material risks

Risks	Arising from	Measurement, monitoring and management of risk
Reputational risk The risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by the bank itself, our employees or those with whom we are associated, that might cause stakeholders to form a negative view of HSBC France.	Primary reputational risks arise directly from an action or inaction by HSBC France, its employees or associated parties that are not the consequence of another type of risk. Secondary reputational risks are those arising indirectly and are a result of a failure to control any other risks.	Reputational risk is: • **measured** by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees; • **monitored** through a reputational risk management framework that is integrated into the bank's broader risk management framework; and • **managed** by every member of staff, and covered by a number of policies and guidelines. There is a clear structure of committees and individuals charged with mitigating reputational risk.

Our insurance manufacturing subsidiaries are regulated separately from our banking operations. Risks in our insurance entities are managed using methodologies and processes that are subject to Group oversight. Our insurance operations are also subject to some of the same risks as our banking operations, which are covered by the group's risk management processes.

Description of risks – insurance manufacturing operations

Risks	Arising from	Measurement, monitoring and management of risk
Financial risks Our ability to effectively match liabilities arising under insurance contracts with the asset portfolios that back them is contingent on the management of financial risks and the extent to which these are borne by policyholders.	Exposure to financial risks arises from: • market risk affecting the fair values of financial assets or their future cash flows; • credit risk; and • liquidity risk of entities not being able to make payments to policyholders as they fall due.	Financial risk is: • **measured** (i) for credit risk, in terms of economic capital and the amount that could be lost if a counterparty fails to make repayments; (ii) for market risk, in terms of economic capital, internal metrics and fluctuations in key financial variables; and (iii) for liquidity, in terms of internal metrics, including stressed operational cash flow projections; • **monitored** through a framework of approved limits and delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design and asset liability matching and bonus rates.
Insurance Risk The risk that, over time, the cost of the contract, including claims and benefits may exceed the total amount of premiums and investment income received.	The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapse and surrender rates.	Insurance risk is: • **measured** in terms of life insurance liabilities and economic capital allocated to insurance underwriting risk; • **monitored** though a framework of approved limits and delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design, underwriting, reinsurance and claims-handling procedures.

Credit Risk

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

Credit Risk Management

Of the risks in which we engage, credit risk generates the largest regulatory capital requirements.

The principal objectives of our credit risk management are:

- to maintain across the group a strong culture of responsible lending and a robust risk policy and control framework;
- to both partner and challenge Global Businesses in defining, implementing, and continually re-evaluating our risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and mitigation.

Within the bank, the Credit Risk function is headed by the Chief Risk Officer who reports to the Chief Executive Officer, with a functional reporting line to the Regional Chief Risk Officer. Its responsibilities include:

- formulating the local credit policy aligned where possible with group policies;
- validating HSBC France's appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;
- undertaking an independent review and objective assessment of risk. Credit risk assesses each request except for the certain modest level proposals (for the Retail and Commercial bank) where detailed credit approval delegations have been established;
- monitoring the performance and management of portfolios across HSBC France;
- vetting and controlling exposure to sovereign entities, banks and other financial institutions, as well as debt securities which are not held solely for the purpose of trading;
- setting HSBC France's policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the HSBC France's capital base, and remain within internal and regulatory limits;
- maintaining and developing HSBC France's risk rating framework and systems via the local Model Oversight Committees, which oversees the local risk rating model management for both wholesale and retail businesses;
- reporting on retail and wholesale portfolio performance, high risk portfolios, risk concentrations, large impaired accounts, impairment allowances and stress testing results and recommendations to HSBC France's Risk Committee and the Board; and
- acting on behalf of HSBC France as the primary interface, for credit-related issues, with the ACPR, the ECB and rating agencies.

Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or are engaged in similar activities, or operate in the same geographical areas/industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions.

The group uses a number of controls and measures to minimise undue concentration of exposure in the group's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Large Credit Exposure Policy – LCEP

The LCEP sets out the policy of HSBC France on controlling large risks, and it also forms part of the policy of HSBC Bank plc, HSBC Holdings plc and meets the requirements of the French banking regulator, the *Autorité de Contrôle Prudentiel et de Résolution ('ACPR')* and the European Central Bank ('ECB'). The purpose of the LCEP is to ensure that:

- HSBC France adhere to the French regulatory requirements on large lending commitments;
- there is an appropriate framework procedure to monitor and control large commitments and concentrations of risk;
- the commitments by a bank to one individual borrower, or to a group of connected borrowers, should not become excessive in comparison to its capital base;
- excessive concentration and/or the combining of major exposures are excluded;
- commitments to geographical areas or specific business sectors are strictly monitored to ensure that risky assets are diversified;

Concentration risk by counterparty

Risk exposure limits are classified into three categories:

- category A: all financing recognised on the balance sheet and all commitments such as guarantees, documentary credits and standby letters of credit;
- category B: off-balance sheet market risks such as currency and interest rate swaps taken at their maximum expected risk during the life of the exposure;
- category S (settlement risk): principally intraday settlement risk on payment commitments and foreign exchange business with customers or for their account.

Commitments to a single counterparty or group of counterparties, excluding central governments/central banks

The approved commitments (total of category A and B limits on one side and category S limits on the other) for any single counterparty or group of connected counterparties, after taking into account any risk mitigation/deduction techniques permitted under the regulations may not exceed 25 per cent of the HSBC France consolidated capital.

It should be noted that all commitments, as defined above, which exceed 10 per cent of the HSBC France consolidated capital require the approval by HSBC Bank plc independently of the credit approval authorities in place.

Furthermore, commitments (categories A and B) to financial institutions with:

- exposures with a maturity of more than one year;
- exposures to subsidiaries of financial institutions that are not financial institutions themselves; should not exceed 10 per cent of HSBC France's consolidated capital.

A quarterly report on all single counterparty or groups of connected counterparties for which the HSBC France commitments (the total of categories A and B on one hand, and category S on the other) exceed 10 per cent of its consolidated capital are submitted to the Risk Management Meeting, to the Risk Committee and to the Board of HSBC France and to the various Risk committees in HSBC bank plc.

As at 31 December 2018, for HSBC France, 8 groups individually exceeded 10 per cent of the net capital (31 December 2017: 12 groups).

Sectorial concentration risk

It is an HSBC France principle to avoid excessive concentration in any business sector, and to take corrective measures if necessary. The Wholesale Credit Risk Department is responsible for supervising the compliance with this principle. To do so, the Wholesale portfolio split by industry sector is monitored on a quarterly basis during the Risk Committee, the risk appetite by sector being limited to 10 per cent of HSBC France's total exposure ('EAD').

In addition, some business sectors, such as Commercial Real Estate ('CRE') and Leveraged Buy Outs ('LBOs'), are governed by their own specific caps and business sector directives laid down by HSBC France and/or the HSBC Group. The caps are monitored quarterly.

In addition, and depending on the macroeconomic environment, ad-hoc sector analysis can be undertaken to determine whether mitigating actions are required or not.

Geographical area concentration risk

The overall risk limits for countries and central governments/ central banks are determined by experience, current events and local knowledge as well as by the latest political, economic and market information.

For these types of counterparties, exposures (defined as the aggregate of Categories A and B limits) are not permitted to exceed 25 per cent of HSBC France's Eligible Capital except in the following circumstances:

- exposures to central governments/central banks located in countries which qualify for a zero per cent risk weighting under the Standardised Approach;
- exposures to specific multilateral development banks (as quoted in the FCA and PRA Handbook Glossary) and specific international organisations (as quoted in CRR Art. 117 and 118) which qualify for zero per cent risk weighting;
- exposures to EEA States' central government and central banks denominated and funded in their domestic currency which also attract a zero per cent risk weighting (CRR Art. 114 (4)).

However, it should be noted that regardless of how the country with zero weighting is qualified, all requests are submitted for risk approval and the corresponding authorisations are recorded in the normal manner.

The exposure risk on countries, central governments and central banks is monitored by the HSBC Group Risk Department, which establishes all overall limits on the basis of the recommendations made by the Head of Wholesale Credit and Market Risk and relationship Managers in charge of central governments and central banks. Overall limits for single countries are revised at least annually or more frequently depending on circumstances. These limits are monitored continuously and adjustments may be made at any time.

A quarterly report on country cross-border risk exposure (total of limits to categories A and B) in excess of 10 per cent of HSBC France's capital is given to Senior Management, the Risk Committee and the Board of Directors of HSBC France.

Concerning 2018 and in accordance with its credit guidelines, HSBC France's exposures to countries other than France was limited. Only two countries had commitments (category A and B) in excess of EUR 2 billion: Germany, and the Netherlands.

The exposures for Germany and the Netherlands were principally comprised of 0 per cent weighted counterparties (articles 115 to 118 of the CRR).

Brexit risk – Process of UK withdrawal from the European Union is covered in Areas of Special Interest (see page 73). Given the tight time frame and the complexity of the negotiations, HSBC has put in place a robust contingency plan. It is based on a scenario whereby the UK exits the EU in March 2019, without access to the single market or customs union, and without a transitional arrangement. When negotiation positions and timelines become clearer, HSBC will update its contingency plan. Risks are monitored continuously, with vulnerable industry sectors reviewed by management to determine if adjustments to HSBC's risk policy or appetite are required.

The exposure to other countries, notably China, Italy or Turkey are not significant for HSBC France.

Credit Risk Mitigation Techniques

Credit risk mitigants are taken into account in conformity with the regulations derived from the Basel agreements. They fall into two main categories:

- collateral pledged, in favour of the Bank, is used to secure timely performance of a borrowers financial obligations;
- a guarantee is the commitment by a third party to substitute for the primary obligor in the event of default. By extension, credit insurance and credit derivatives (purchased protection) also fall into this category.

For the perimeter under the Internal Ratings Based ('IRB'), guarantees and collaterals are taken into account, provided they are eligible, by decreasing the Loss Given Default ('LGD') parameter corresponding to an increase in the recovery rate that applies to the transactions in the banking book. The value, taken into consideration, takes into account a haircut depending on the enforceable nature of the commitment and the anticipated fall in the market value of the pledged asset.

For the perimeter under the standardised approach, guarantees are taken into account, provided they are eligible, by applying the more favourable risk weight of the guarantor to a portion of the secured exposure adjusted for currency and maturity mismatches. Collateral is taken into account as a decrease in the exposure, after adjustment for any currency and maturity mismatches.

The assessment of credit risk mitigation effects, follow a methodology for each activity which is common to the entire HSBC Group.

Collateral

Collateral is divided into two categories: financial collateral and other collateral:

- financial collateral consists of cash amounts, life insurance contracts, mutual fund units, equities (listed or unlisted) and bonds;
- other diverse forms of collateral include real estate mortgages or ship mortgages, pledge of equipment or inventories, transfer of commercial receivables or any other rights to an asset of the counterparty.

To be eligible as part of the credit risk analysis, collateral must fulfil the following conditions:

- the pledge must be documented;
- the pledged asset should be able to be sold rapidly on a liquid secondary market;
- the Bank should have a regularly updated value of the pledged asset;
- the Bank should have reasonable comfort in the potential appropriation and realisation of the asset concerned.

Guarantee

Guarantors are subject to the same credit risk assessment process as primary obligors.

Guarantees could be granted by the borrower's parent company or by other entities such as financial institutions. Hedging via credit derivatives, guarantees from public insurers for export financing or private insurers are other examples of guarantees.

The consideration of a guarantee consists of determining the average amount the Bank can expect to recover if a guarantee is called in following the default of a borrower. It will depend on the amount of the guarantee and on the enforceable nature of the commitment.

Optimising Credit Risk Mitigation via CDS

As part of its mandate of optimising credit risk management for Global Banking and Markets Portfolio Management ('PM') sets up hedges using credit derivatives, and primarily credit default swaps ('CDS'). These CDS are used as part of an active management policy, the main aim being to hedge migration and concentration risks and manage significant exposures. The underlying assets are loans made to large corporates provided by Global Banking and Markets (Banking).

Considered as guarantees and treated under the Internal Ratings Based Approach, CDS hedges totalled EUR 199 million at 31 December 2018 and subject to eligibility, they have for effect of decreasing the risk-weighted assets of the bank.

Credit quality of financial instruments

The HSBC Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of losses. For individually significant exposures, risk ratings are reviewed regularly and amendments are implemented promptly when necessary. Within the HSBC Group's retail portfolios, risk is assessed and managed using a wide range of risk and pricing models.

This risk rating system is based on the probability of default and loss estimates, in accordance with the internal rating methods required by the Basel II framework for calculating regulatory capital.

The five credit quality classifications defined below encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external rating, attributed by external agencies to debt securities.

There is no direct correlation between the internal and external ratings at granular level. Insofar as both fall within one of the five classifications.

All distinct HSBC customers are rated using the PD scale, except for those still under the Standard Basel II method.

Each customer risk rating (CRR) band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications.

Credit quality classification

	Sovereign debt securities and bills	Other debt securities and bills	Wholesale lending and derivatives		Retail lending	
	External credit rating	External credit rating	Internal credit rating [1]	12-month Basel probability of default %	PD Band [2]	12 month probability of default %
Quality classification						
Strong	**BBB and above**	**A- and above**	**CRR 1 to CRR 2**	**0 – 0.169**	**band 1 to band 2**	**0.000 - 0.500**
Good	**BBB- to BB**	**BBB+ to BBB-**	**CRR 3**	**0.170 – 0.740**	**band 3**	**0.501 - 1.500**
Satisfactory	**BB- to B and unrated**	**BB+ to B and unrated**	**CRR 4 to CRR 5**	**0.741 – 4.914**	**band 4 to band 5**	**1.501 - 20.000**
Sub-standard	**B- to C**	**B- to C**	**CRR 6 to CRR 8**	**4.915 – 99.999**	**band 6 to band 8**	**20.001 - 99.999**
Credit-impaired	**Default**	**Default**	**CRR 9 to CRR 10**	**100**	**band 9 to band 10**	**100+ or defaulted**

1 *Customer risk rating ('CRR').*
2 *12-month point-in-time ('PIT') probability weighted probability of default ('PD').*

Quality classification definitions

- 'Strong': exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Retail accounts operate within applicable product parameters and only exceptionally show any period of delinquency.
- 'Good': exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk. Retail accounts typically showing only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.
- 'Satisfactory': exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. Retail accounts typically showing only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.
- 'Sub-standard': exposures require varying degrees of special attention and default risk is of greater concern. Retail portfolio segments showing longer delinquency periods of generally up to 90 days; past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.
- 'Impaired': exposures have been assessed, individually or collectively, as impaired.

Distribution of financial instruments by credit quality

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	22,714	9,439	12,668	1,780	990	47,591	(594)	46,997
– personal[1,4]	15,340	2,962	1,651	163	478	20,594	(206)	20,388
– corporate and commercial[4]	6,568	6,019	10,217	1,616	512	24,932	(387)	24,545
– non-bank financial institutions	806	458	800	1	–	2,065	(1)	2,064
Loans and advances to banks held at amortised cost	5,935	33	228	1	–	6,197	–	6,197
Cash and balances at central banks	9,003	–	–	16		9,019	(1)	9,018
Items in the course of collection from other banks	437	–	–	–		437	–	437
Reverse repurchase agreements – non-trading	28,557	1,240	3,038	–	–	32,835	–	32,835
Other financial assets held at amortised cost	6	–	–	–	–	6	–	6
Other assets	6,930	251	318	3	1	7,503	–	7,503
– endorsements and acceptances	19	–	–	–	–	19	–	19
– accrued income and other	6,911	251	318	3	1	7,484	–	7,484
Debt instruments measured at fair value through other comprehensive income[2]	12,840	1,627	267	369	1	15,104	(6)	15,098
Out-of-scope for IFRS 9								
Trading assets	14,099	2,802	30	35	–	16,966	–	16,966
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,783	382	272	–	–	3,437	–	3,437
Derivatives	28,405	3,031	316	24	1	31,777	–	31,777
Assets held for sale	30	–	–	–	–	30	–	30
Total gross amount on balance sheet	**131,739**	**18,805**	**17,137**	**2,228**	**993**	**170,902**	**(601)**	**170,301**
Percentage of total credit quality	77.1%	11.0%	10.0%	1.3%	0.6%	100%		
In-scope for IFRS 9: Irrecoverable loan commitments and financial guarantees	72,859	12,450	1,290	279	46	86,924	(14)	86,910
Loan and other credit related commitments	72,091	12,261	1,244	201	41	85,838	(12)	85,826
– loan and other credit related commitments for loans and advances to customers	31,563	12,005	1,232	201	41	45,042	(12)	45,030
– loan and other credit related commitments for loans and advances to banks	40,528	256	12	–	–	40,796	–	40,796
Financial guarantee and similar contracts	768	189	46	78	5	1,086	(2)	1,084
Out-of-scope for IFRS 9: Non-financial guarantees and Revocable loan commitments	4,389	3,038	329	226	38	8,020	(10)	8,010
Loan and other credit related commitments[3]	317	–	–	–	–	317	–	317
Financial guarantee and similar contracts	4,072	3,038	329	226	38	7,703	(10)	7,693
Total nominal amount off-balance sheet	**77,248**	**15,488**	**1,619**	**505**	**84**	**94,944**	**(24)**	**94,920**
At 31 Dec 2018	**208,987**	**34,293**	**18,756**	**2,733**	**1,077**	**265,846**	**(625)**	**265,221**

1 Of which EUR 11 347 million EUR garantees loan by Crédit Logement as at 31 December 2018 (2017 : EUR 11 022 million).
2 Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.
3 Revocable loan and other commitments of EUR 317 million which are out-of-scope of IFRS 9 are presented within the strong credit quality classification.
4 The distribution of the portfolio by credit quality is not directly comparable between 2017 and 2018 mainly due to the reclassification of loans an advances to Self Employees which were previously classified as 'corporate and commercial' and which from now are classified as 'personal'.

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
Loans and advances to customers at amortised cost	22,714	9,439	12,668	1,780	990	47,591	(594)	46,997
– stage 1	22,711	9,385	10,692	841	–	43,629	(28)	43,601
– stage 2	3	54	1,976	939	–	2,972	(44)	2,928
– stage 3	–	–	–	–	975	975	(519)	456
– POCI[3]	–	–	–	–	15	15	(3)	12
Loans and advances to banks at amortised cost	5,935	33	228	1	–	6,197	–	6,197
– stage 1	5,928	33	228	1	–	6,190	–	6,190
– stage 2	7	–	–	–	–	7	–	7
– stage 3	–	–	–	–	–	–	–	–
– POCI[3]	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	45,071	1,491	3,356	18	1	49,937	(1)	49,936
– stage 1	45,071	1,489	3,356	15	–	49,931	(1)	49,930
– stage 2	–	2	–	3	–	5	–	5
– stage 3	–	–	–	–	1	1	–	1
– POCI[3]	–	–	–	–	–	–	–	–
Total on balance sheet excluding debt instrument at FVOCI	73,720	10,963	16,252	1,799	991	103,725	(595)	103,130
Loan and other credit-related commitments	72,091	12,261	1,244	201	41	85,838	(12)	85,826
– stage 1	72,091	12,261	224	6	–	84,582	(2)	84,580
– stage 2	–	–	1,020	195	–	1,215	(2)	1,213
– stage 3	–	–	–	–	41	41	(8)	33
– POCI[3]	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[1]	768	189	46	78	5	1,086	(2)	1,084
– stage 1	768	189	40	10	–	1,007	(1)	1,006
– stage 2	–	–	6	68	–	74	(1)	73
– stage 3	–	–	–	–	2	2	–	2
– POCI[3]	–	–	–	–	3	3	–	3
Total off balance sheet	72,859	12,450	1,290	279	46	86,924	(14)	86,910
Total on balance sheet and off balance sheet excluding debt instrument at FVOCI	146,579	23,413	17,542	2,078	1,037	190,649	(609)	190,040
Debt instruments at FVOCI[2]	12,840	1,627	267	369	1	15,104	(6)	15,098
– stage 1	12,840	1,548	267	369	–	15,024	(6)	15,018
– stage 2	–	79	–	–	–	79	–	79
– stage 3	–	–	–	–	–	–	–	–
– POCI[3]	–	–	–	–	1	1	–	1
At 31 Dec 2018	159,419	25,040	17,809	2,447	1,038	205,753	(615)	205,138

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*
3 *POCI "Purchased or originated credit-impaired".*

Impairment assessment

Management regularly evaluates the adequacy of the established allowances for impaired loans by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

Impaired loans – identification of loss events

The criteria used by HSBC France to determine that a loan is impaired include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial distress procedure;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees; and
- a deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

Impairment of loans and advances

For details of HSBC France's policy concerning impairments of loans and advances, please refer to notes in the Consolidated Financial Statements.

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39.

The following tables show the allocation of loans and ECL allowance according to the kind of loans and nature of counterparties.

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

	31 Dec 2018		1 Jan 2018[1]	
	Gross carrying/ nominal amount	**Allowance/ provision for ECL**	Gross carrying/ nominal amount	Allowance/ provision for ECL
	€m	**€m**	€m	€m
Loans and advances to customers at amortised cost:	**47,591**	**(594)**	45,299	(576)
– personal[2,6]	**20,594**	**(206)**	16,293	(142)
– corporate and commercial[2]	**24,932**	**(387)**	27,305	(432)
– non-bank financial institutions	**2,065**	**(1)**	1,701	(2)
Loans and advances to banks at amortised cost	**6,197**	**—**	4,622	(2)
Other financial assets measured at amortised costs:	**49,961**	**(1)**	35,765	—
– cash and balances at central banks	**9,019**	**(1)**	14,630	—
– items in the course of collection from other banks	**437**	**—**	435	—
– reverse repurchase agreements – non trading	**32,835**	**—**	13,781	—
– financial investment[3]	**6**	**—**	7	—
– prepayments, accrued income and other assets	**7,664**	**—**	6,912	—
Total gross carrying amount on balance sheet	**103,749**	**(595)**	85,686	(578)
Loans and other credit related commitments:	**85,838**	**(12)**	63,526	(9)
– personal	**1,180**	**—**	893	—
– corporate and commercial	**25,902**	**(12)**	22,292	(9)
– financial	**58,756**	**—**	40,341	—
Financial guarantee and similar contracts[4]:	**1,086**	**(2)**	1,245	(1)
– personal	**36**	**—**	42	—
– corporate and commercial	**982**	**(2)**	1,203	(1)
– financial	**68**	**—**	—	—
Total nominal amount off-balance sheet[5]	**86,924**	**(14)**	64,771	(10)
Total nominal amount on balance sheet and off-balance sheet	**190,673**	**(609)**	150,457	(588)

	Fair value	**Memorandum allowance for ECL**	Fair value	Allowance for ECL
	€m	**€m**	€m	€m
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')	**16,485**	**(6)**	18,412	(6)

1 *The amounts at 1 January 2018 do not include the transfer of Group HSBC activities in Greece to the Greek branch of HSBC France at 1 January 2018.*
2 *A reclassification of loans an advances to Self Employees has been done as at 31 December 2018 which were préviously classified as 'corporate and commercial' and which from now are classified as 'personal'. Comparative information has not been reprocessed. The reclassification impact as at 31 december 2017 is EUR 3 billion.*
3 *Includes only financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 16 includes financial assets measured at amortised cost and debt and equity instruments measured at fair value through other comprehensive income.*
4 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
5 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
6 *Of which EUR 11 347 million guaranteed by Crédit Logement as at 31 December 2018 (2017 : EUR 11 022 million).*

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

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost :	43,629	2,972	975	15	47,591	(28)	(44)	(519)	(3)	(594)	–	1	53	20	1
– personal[3]	18,960	1,156	478	–	20,594	(5)	(24)	(177)	–	(206)	–	2	37	–	1
– corporate and commercial	22,604	1,816	497	15	24,932	(22)	(20)	(342)	(3)	(387)	–	1	69	20	2
– non-bank financial institutions	2,065	–	–	–	2,065	(1)	–	–	–	(1)	–	–	–	–	–
Loans and advances to banks at amortised cost	6,190	7	–	–	6,197	–	–	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	49,931	5	1	–	49,937	(1)	–	–	–	(1)	–	–	–	–	–
Loan and other credit-related commitments	84,581	1,216	41	–	85,838	(2)	(2)	(8)	–	(12)	–	–	20	–	–
– personal	1,143	34	3	–	1,180	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	24,708	1,156	38	–	25,902	(2)	(2)	(8)	–	(12)	–	–	21	–	–
– financial	58,730	26	–	–	58,756	–	–	–	–	–	–	–	–	–	–
Financial guarantee and similar contracts[4] :	1,007	74	2	3	1,086	(1)	(1)	–	–	(2)	–	1	–	–	–
– personal	35	–	1	–	36	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	904	74	1	3	982	(1)	(1)	–	–	(2)	–	1	–	–	–
– financial	68	–	–	–	68	–	–	–	–	–	–	–	–	–	–
At 31 Dec 2018	**185,338**	**4,274**	**1,019**	**18**	**190,649**	**(32)**	**(47)**	**(527)**	**(3)**	**(609)**	**–**	**1**	**52**	**17**	**–**

1 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
2 Purchased or originated credit-impaired ('POCI').
3 Of which EUR 11 347 million guaranteed by Crédit Logement as at 31 December 2018 (2017 : EUR 11 022 million).
4 Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.

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

Stage 2 days past due analysis at 31 December 2018

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 1 January 2018[1]

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost:	42,020	2,312	967	—	45,299	(32)	(43)	(501)	—	(576)	—	2	52	—	1
– personal[3]	15,212	775	306	—	16,293	(5)	(16)	(121)	—	(142)	—	2	40	—	1
– corporate and commercial	25,114	1,530	661	—	27,305	(26)	(26)	(380)	—	(432)	—	2	58	—	2
– non-bank financial institutions	1,694	7	—	—	1,701	(1)	(1)	—	—	(2)	—	14	—	—	—
Loans and advances to banks at amortised cost	4,596	13	13	—	4,622	(1)	—	(1)	—	(2)	—	—	8	—	—
Other financial assets measured at amortised cost	35,765	—	—	—	35,765	—	—	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	62,307	1,129	90	—	63,526	(4)	(3)	(2)	—	(9)	—	—	2	—	—
– personal	880	8	5	—	893	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	21,086	1,121	85	—	22,292	(4)	(3)	(2)	—	(9)	—	—	2	—	—
– financial	40,341	—	—	—	40,341	—	—	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts:	1,227	15	3	—	1,245	(1)	—	—	—	(1)	—	—	—	—	—
– personal	41	—	1	—	42	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	1,186	15	2	—	1,203	(1)	—	—	—	(1)	—	—	—	—	—
– financial	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
At 1 Jan 2018	145,915	3,469	1,073	—	150,457	(38)	(46)	(504)	—	(588)	—	1	47	—	—

1 *The amounts at 1 January 2018 do not include the transfer of Group HSBC activities in Greece to the Greek branch of HSBC France at 1 January 2018.*
2 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
3 *Of which EUR 11 022 million guarantees loans by Crédit Logement.*

Stage 2 days past due analysis at 1 January 2018[1]

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	*Of which: 1 to 29 DPD*	*Of which: 30 and > DPD*	Stage 2	*Of which: 1 to 29 DPD*	*Of which: 30 and > DPD*	Stage 2	*Of which: 1 to 29 DPD*	*Of which: 30 and > DPD*
	€m	€m	€m	€m	€m	€m	%	%	%
Loans and advances to customers at amortised cost	2,312	6	40	(43)	—	(3)	2	—	8
– personal	775	5	28	(16)	—	(2)	2	—	7
– corporate and commercial	1,530	1	12	(26)	—	(1)	2	—	8
– non-bank financial institutions	7	—	—	(1)	—	—	14	—	—
Loans and advances to banks at amortised cost	13	—	2	—	—	—	—	—	—
Other financial assets measured at amortised cost	—	—	—	—	—	—	—	—	—

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

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk with respect to financial instruments, before taking account of any collateral held or other credit enhancements, unless such credit enhancements meet offsetting requirements defined in the accounting policies and principles. For financial assets policies and principles. For financial assets recognised in the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the group would have to pay if the guarantee were called upon. For loan commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the maximum amount of the committed facilities.

Maximum exposure to credit risk

	31 Dec 2018		
	Maximum exposure	Offset	Net
	€m	€m	€m
Loans and advances to customers held at amortised cost	46,997	–	46,997
– personal[1]	20,388	–	20,388
– corporate and commercial	24,545	–	24,545
– non-bank financial institutions	2,064	–	2,064
Loans and advances to banks at amortised cost	6,197	(34)	6,163
Other financial assets held at amortised cost	49,823	(4,400)	45,423
– cash and balances at central banks	9,018	–	9,018
– items in the course of collection from other banks	437	–	437
– reverse repurchase agreements – non-trading	32,835	(4,400)	28,435
– financial investments	6	–	6
– prepayments, accrued income and other assets	7,527	–	7,527
Assets held for sale	30	–	30
Derivatives	31,777	(29,121)	2,656
Total on-balance sheet exposure to credit risk	134,824	(33,555)	101,269
Total off-balance sheet	94,920	–	94,920
– financial guarantees and similar contracts	8,777	–	8,777
– loan and other credit-related commitments	86,143	–	86,143
Total on and off-balance sheet amount	229,744	(33,555)	196,189

1 *Of which EUR 11 347 million guaranteed by Crédit Logement as at 31 December 2018 (2017 : EUR 11 022 million).*

Measurement uncertainty and sensitivity analysis of ECL estimates

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

Methodology

HSBC has adopted the use of 3 economic scenarios representative of HSBC's view of forecast economic conditions, sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome', (the Central scenario) and two, less likely, 'Outer' scenarios on either sides of the Central one, referred to as an Upside and a Downside scenario respectively. Each outer scenario is consistent with a probability of 10% while the Central scenario is assigned the remaining 80%, according to the decision of HSBC's senior management. This weighting scheme is a global choice, deemed appropriate for the computation of unbiased ECL in most economic environments. Setting key scenario assumptions using the average of forecasts of external economists helps ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

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

We apply the following to generate the three economic scenarios:

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

At each review of the economic scenarios, HSBC France is involved in order to provide local insights into the development of the globally consistent economic scenarios. In addition, HSBC recognises that the Consensus Economic Scenario approach using 3 scenarios may be insufficient in certain economic environments. As a consequence, additional analysis may be requested at management's discretion, and management overlays may be required if the ECL outcome calculated using the three scenarios does not fully reflect the high degree of uncertainty in estimating the distribution of ECL in certain circumstances.

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

The following disclosure provides a reconciliation of the Group's gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees.
The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. The net remeasurement of ECL arising from stage transfers represents the variation in ECL due to these transfers.

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

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

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

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

Credit impaired loans

HSBC determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and

The loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that Stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Renegotiated loans and forbearance

A range of forbearance strategies is employed in order to improve the management of customer relationships by avoiding default, of the customer where possible or the calling of guarantees obtained whilst maximising the recoveries of the amounts due. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures and other forms of loan modifications and re-ageing.

HSBC France's policies and practices are based on criteria which seek to enable wherever possible that the repayment is likely to continue. These typically involve the granting of revised loan terms and conditions. Loan forbearance is only granted in situations where the customer has showed a willingness to repay his loan and is expected to be able to meet the revised obligations.

The contractual terms of a loan may be modified for a number of reasons, including changes in market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. 'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. We classify and report loans on which such concessions have been granted as 'renegotiated loans' when their contractual payment terms have been modified as a result of serious concerns on the capacity of the borrower to repay their contractual outstandings.

Identifying renegotiated loans

Concessions, on loans made to customers, which do not affect the payment structure or basis of repayment, such as temporary or permanent waivers granted by the bank to take advantage of the non-respect of financial or security covenants, do not directly provide concessionary relief to customers in terms of their ability to service obligations as they fall due and are therefore not included in this classification.

For retail lending, our credit risk management policy sets out restrictions on the number and frequency of renegotiations, the minimum period an account must have been opened before any renegotiation can be considered and the number of qualifying payments that must be received. The application of this policy varies according to the nature of the market, the product and the management of customer relationships through the occurrence of exceptional events.

Credit quality classification of renegotiated loans

Under IFRSs, an entity is required to assess whether there is objective evidence that financial assets are impaired at the end of each reporting period. A loan is impaired and an impairment allowance is recognised when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated.

A renegotiated loan is presented as impaired when:

- there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider; and
- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

This presentation applies unless the concession is insignificant and there are no other indicators of impairment.

The renegotiated loan will continue to be disclosed as impaired, for at least one year and until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. For loans that are assessed for impairment on a collective basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

For retail lending the minimum period of payment performance required depends on the nature of loans in the portfolio, but is typically not less than 12 months. Where portfolios have more significant levels of forbearance activity, such as that undertaken by HSBC Finance, the minimum repayment performance period required may be substantially more.

Renegotiated loans and recognition of impairment allowances

For retail lending, renegotiated loans are segregated from other parts of the loan portfolio for collective impairment assessment to reflect the higher rates of losses often encountered in these segments.

In the corporate and commercial sectors, Renegotiated loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessment. A distressed restructuring is classified as an impaired loan. The individual impairment assessment takes into account the higher risk of the non-payment of future cash flows inherent in renegotiated loans.

Renegotiated loans and advances to customers at amortised costs by stage allocation

	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Gross carrying amount					
Personal	–	–	42	–	42
– first lien residential mortgages	–	–	29	–	29
– other personal lending	–	–	13	–	13
Wholesale	5	99	42	15	161
– corporate and commercial	5	99	42	15	161
– non-bank financial institutions	–	–	–	–	–
At 31 Dec 2018	5	99	84	15	203
Allowance for ECL					
Personal	–	–	(12)	–	(12)
– first lien residential mortgages	–	–	(8)	–	(8)
– other personal lending	–	–	(4)	–	(4)
Wholesale	–	(2)	(26)	(4)	(32)
– corporate and commercial	–	(2)	(26)	(4)	(32)
– non-bank financial institutions	–	–	–	–	–
At 31 Dec 2018	–	(2)	(38)	(4)	(44)

Wholesale lending

These sections provides further detail on wholesale loans and advances to customers and banks.

Total wholesale lending for loans and advances to banks and customers by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Corporate and commercial	22,604	1,816	497	15	24,932	(22)	(20)	(342)	(3)	(387)
– Industrial	2,963	265	108	7	3,343	(4)	(3)	(69)	(1)	(77)
– Commercial, international trade	11,586	729	286	7	12,608	(11)	(10)	(215)	(2)	(238)
– Commercial real estate	4,481	306	61	1	4,849	(6)	(6)	(26)	–	(38)
– Other property-related	352	9	22	–	383	–	–	(19)	–	(19)
– Governments	1,221	1	–	–	1,222	–	–	–	–	–
– Others	2,001	506	20	–	2,527	(1)	(1)	(13)	–	(15)
Non-bank financial institutions	2,065	–	–	–	2,065	(1)	–	–	–	(1)
Loans and advances to banks	6,190	7	–	–	6,197	–	–	–	–	–
At 31 Dec 2018	30,859	1,823	497	15	33,194	(23)	(20)	(342)	(3)	(388)

Total wholesale lending for loans and other credit-related commitments and financial guarantees[1] and similar contracts by stage distribution

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Corporate and commercial	25,611	1,229	39	3	26,882	(5)	(8)	(11)	–	(24)
Financial	58,516	26	–	–	58,542	(1)	–	–	–	(1)
At 31 Dec 2018	84,127	1,255	39	3	85,424	(6)	(8)	(11)	–	(25)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Personal lending

Total personal lending

We provide a broad range of secured and unsecured personal lending products to meet individual customer needs. Personal lending includes advances to individual customers for asset purchases such as residential property where the loans are secured by *Crédit Logement Guarantee* or by the assets being acquired. We also offer consumer lending products such as overdrafts and personal loans which are mainly unsecured.

Total personal lending for loans and advances to customers at amortised costs by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
First lien residential mortgages	2,907	284	221	–	3,412	(1)	(7)	(84)	–	(92)
Other personal lending	16,053	872	257	–	17,182	(4)	(17)	(93)	–	(114)
– other[1]	15,633	840	239	–	16,712	(3)	(15)	(93)	–	(111)
– credit cards	290	32	18	–	340	(1)	(2)	–	–	(3)
– second lien residential mortgages	130	–	–	–	130	–	–	–	–	–
At 31 Dec 2018	18,960	1,156	478	–	20,594	(5)	(24)	(177)	–	(206)

1 *Of which EUR 11 347 million guaranteed by Crédit Logement as at 31 December 2018 (2017 : EUR 11 022 million).*

Mortgage lending

We offer a wide range of mortgage products designed to meet customer needs, including capital repayment, bridge loans and regulated loans. HSBC France has specific LTV thresholds and debt-to-income ratios in place for this type of lending, which are compliant with the overall Group policy, strategy and risk appetite.

Collateral and other credit enhancements held

The most common method of mitigating credit risk for personal lending is to take collateral. For HSBC France Retail a mortgage over the property is often taken to help secure claims. Another common form of security is guarantees provided by a third-party company; *Crédit Logement (a Société de Financement* regulated by the French Regulator ACPR). *Crédit Logement* guarantees 100 per cent of the amount of the residential real estate loan in case of default. Loans may also be made against a pledge of eligible marketable securities or cash.

The tables below show residential mortgage lending including off-balance sheet loan commitments by level of collateral. They provide a quantification of the value of fixed charges we hold over borrowers' specific assets in the event of the borrower failing to meet its contractual obligations.

The LTV ratio is calculated as the gross on-balance sheet carrying amount of the loan and any off-balance sheet loan commitment at the balance sheet date divided by the value of collateral.

The value of collateral is updated on a monthly basis using the notary price index ('INSEE'). In addition professional valuations are obtained for high value mortgage loans (>3m) annually. The collateral valuation excludes any cost adjustments linked to obtaining and selling the collateral and, in particular, loans shown as not collateralised or partly collateralised may also benefit from other forms of credit mitigants.

Personal lending: residential mortgage loans including loan commitments by level of collateral

	Total	
	Gross carrying/ nominal amount	ECL coverage
	€m	%
Stage 1		
Fully collateralised	2,769	–
LTV ratio:		
– less than 50%	1,133	–
– 51% to 60%	542	–
– 61% to 70%	509	–
– 71% to 80%	372	–
– 81% to 90%	144	–
– 91% to 100%	69	–
Partially collateralised (A):	140	–
LTV ratio:		
– 101% to 110%	37	–
– 111% to 120%	26	–
– greater than 120%	77	–
– collateral value on A	137	
Total	2,909	–
Stage 2		
Fully collateralised	263	(2.3)
LTV ratio:		
– less than 50%	115	(0.9)
– 51% to 60%	43	(2.3)
– 61% to 70%	42	(2.4)
– 71% to 80%	41	(2.4)
– 81% to 90%	18	–
– 91% to 100%	4	–
Partially collateralised (B):	21	–
LTV ratio:		
– 101% to 110%	6	(16.7)
– 111% to 120%	5	(20.0)
– greater than 120%	10	(10.0)
– collateral value on B	20	
Total	284	(2.8)
Stage 3		
Fully collateralised	159	(30.2)
LTV ratio:		
– less than 50%	65	(16.9)
– 51% to 60%	21	(23.8)
– 61% to 70%	27	(37.0)
– 71% to 80%	16	(43.8)
– 81% to 90%	7	(28.6)
– 91% to 100%	23	(56.5)
Partially collateralised (C):	60	(75.0)
LTV ratio:		
– 101% to 110%	10	(40.0)
– 111% to 120%	13	(53.8)
– greater than 120%	37	(91.9)
– collateral value on C	50	
Total	219	(42.5)
At 31 Dec 2018	3,412	(3.0)

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied – by global business

	Gross carrying/nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Loans and advances to customers at amortised cost	43,629	2,972	975	15	47,591	(28)	(44)	(519)	(3)	(594)
– RBWM	17,969	1,246	467	–	19,682	(8)	(15)	(181)	–	(204)
– CMB	12,256	884	347	12	13,499	(16)	(26)	(319)	(3)	(364)
– GB&M	11,806	697	118	2	12,623	(3)	(2)	(9)	–	(14)
– GPB	2,148	145	43	1	2,337	(1)	(1)	(10)	–	(12)
– Corporate Centre[1]	(550)	–	–	–	(550)	–	–	–	–	–
Loans and advances to banks at amortised cost	6,190	7	–	–	6,197	–	–	–	–	–
– RBWM	3,115	4	–	–	3,119	–	–	–	–	–
– CMB	448	–	–	–	448	–	–	–	–	–
– GB&M	3,102	2	–	–	3,104	–	–	–	–	–
– GPB	–	–	–	–	–	–	–	–	–	–
– Corporate Centre[1]	(475)	1	–	–	(474)	–	–	–	–	–
Other financial assets measured at amortised cost	49,931	5	1	–	49,937	(1)	–	–	–	(1)
– RBWM	649	1	–	–	650	–	–	–	–	–
– CMB	200	–	1	–	201	–	–	–	–	–
– GB&M	39,914	4	–	–	39,918	–	–	–	–	–
– GPB	10	–	–	–	10	–	–	–	–	–
– Corporate Centre	9,158	–	–	–	9,158	(1)	–	–	–	(1)
Total gross carrying amount on balance sheet at 31 Dec 2018	99,750	2,984	976	15	103,725	(29)	(44)	(519)	(3)	(595)
Loans and other credit related commitments	84,581	1,216	41	–	85,838	(2)	(2)	(8)	–	(12)
– RBWM	1,008	35	3	–	1,046	–	–	–	–	–
– CMB	7,426	404	38	–	7,868	–	(1)	(8)	–	(9)
– GB&M	74,357	765	–	–	75,122	(2)	(1)	–	–	(3)
– GPB	214	12	–	–	226	–	–	–	–	–
– Corporate Centre	1,576	–	–	–	1,576	–	–	–	–	–
Financial guarantee and similar contracts[2]	1,007	74	2	3	1,086	(1)	(1)	–	–	(2)
– RBWM	14	–	–	–	14	–	–	–	–	–
– CMB	146	9	2	3	160	(1)	–	–	–	(1)
– GB&M	838	65	–	–	903	–	(1)	–	–	(1)
– GPB	3	–	–	–	3	–	–	–	–	–
– Corporate Centre	6	–	–	–	6	–	–	–	–	–
Total nominal amount off balance sheet at 31 Dec 2018	85,588	1,290	43	3	86,924	(3)	(3)	(8)	–	(14)
Debt instruments measured at FVOCI at 31 Dec 2018	16,350	134	–	1	16,485	(6)	–	–	–	(6)
– RBWM	11,153	134	–	–	11,287	(6)	–	–	–	(6)
– CMB	–	–	–	1	1	–	–	–	–	–
– GB&M	369	–	–	–	369	–	–	–	–	–
– GPB	–	–	–	–	–	–	–	–	–	–
– Corporate Centre	4,828	–	–	–	4,828	–	–	–	–	–

1 Including intersegment elimination between global business line of the Group HSBC France.
2 Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.

Analysis of Asset-Backed Securities ('ABS')

This section contains information about our exposure to asset-backed securities ('ABSs'), some of which are held through consolidated structured entities and summarised in the table below.

Overall Exposure

	2018	2017
	€m	€m
– Fair value through profit and loss	–	–
– Financial investments	–	–
– Held to maturity	–	–
– Loans and receivables	–	–
Total of Asset-Backed Securities	–	–

Selected 2017 credit risk disclosures

The below disclosures were included in our 2017 external reports and do not reflect the adoption of IFRS 9. As these tables are not directly comparable to the current 2018 credit risk tables which are disclosed on an IFRS 9 basis, these 2017 disclosures have been shown below and not adjacent to 2018 tables.

Credit exposure

Maximum exposure to Credit Risk

	31 Dec 2017		
	Maximum exposure[2]	Offset[1]	Net exposure to credit risk
	€m	€m	€m
Cash and balances at central banks	14,630	—	14,630
Items in the course of collection from other banks	435	—	435
Trading assets	22,401	—	22,401
– treasury and other eligible bills	641	—	641
– debt securities	15,784	—	15,784
– loans and advances	5,976	—	5,976
– to banks	3,948	—	3,948
– to customers	2,028	—	2,028
Financial assets designated at fair value	1,084	—	1,084
– treasury and other eligible bills	—	—	—
– debt securities	1,081	—	1,081
– loans and advances	3	—	3
Derivatives	34,407	(33,094)	1,313
Loans and advances held at amortised cost	49,699	—	49,699
– loans and advances to banks	4,843	—	4,843
– loans and advances to customers	44,856	—	44,856
– personal	16,234	—	16,234
– corporate and commercial	26,914	—	26,914
– financial (non-bank financial institutions)	1,708	—	1,708
Reverse repurchase agreements – non-trading	13,781	(3,030)	10,751
Financial investments[3]	20,331	—	20,331
– treasury and other eligible bills	—	—	—
– debt securities	20,331	—	20,331
Other assets	1,004	—	1,004
– endorsements and acceptance	—	—	—
– accrued income and other	1,004	—	1,004
Off-balance sheet	69,531	—	69,531
– financial guarantees and other credit-related guarantees[4]	6,283	—	6,283
– loan commitments and other credit-related commitments[4]	63,248	—	63,248
Total	227,303	(36,124)	191,179

1 *The loans and advances offset adjustment primarily relates to customer loans and deposits, and balances arising from repo and reverse repo transactions. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default but where all IAS 32 requirements are not met; and as a result there is a net exposure for credit risk management purposes.*
2 *The outstandings are presented after offsetting; when legally enforceable right of offset in the event of counterparty default is not compliant with IAS 32 requirements (refer to the Note 26 of the consolidated financial statements).*
3 *Reported amounts exclude equity instruments.*
4 *31 December 2017 balances have been restated to include EUR 37 billion of loan commitments given (unsettled reverse repurchase agreements) and EUR 3 billion of financial guarantees and similar contracts not previously identified for disclosure.*

Distribution of financial instruments by credit quality

	31 Dec 2017							
	Neither past due nor impaired							
	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Impairment allowances	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Cash and balances at central banks	14,630	—	—	—	—	—	—	14,630
Items in the course of collection from other banks	435	—	—	—	—	—	—	435
Trading assets	18,267	1,200	2,934	—	—	—	—	22,401
– treasury and other eligible bills	356	284	1	—	—	—	—	641
– debt securities	14,388	209	1,187	—	—	—	—	15,784
– loans and advances to banks	1,522	696	1,730	—	—	—	—	3,948
– loans and advances to customers	2,001	11	16	—	—	—	—	2,028
Financial assets designated at fair value	996	81	7	—	—	—	—	1,084
– treasury and other eligible bills	—	—	—	—	—	—	—	—
– debt securities	996	81	4	—	—	—	—	1,081
– loans and advances to banks	—	—	3	—	—	—	—	3
– loans and advances to customers	—	—	—	—	—	—	—	—
Derivatives	32,202	2,022	166	17	—	—	—	34,407
Loans and advances held at amortised cost	31,427	9,862	7,316	507	151	971	(535)	49,699
Loans and advances to banks	4,047	240	555	1	—	1	(1)	4,843
Loans and advances to customers	27,380	9,622	6,761	506	151	970	(534)	44,856
– personal	15,519	343	54	1	97	302	(82)	16,234
– corporate and commercial	11,357	8,487	6,301	499	54	668	(452)	26,914
– financials (non-bank financial institutions)	504	792	406	6	—	—	—	1,708
Reverse repurchase agreements – non-trading	10,332	1,858	1,591	—	—	—	—	13,781
Financial investments	17,775	1,712	844	—	—	—	—	20,331
– treasury and other eligible bills	—	—	—	—	—	—	—	—
– debt securities	17,775	1,712	844	—	—	—	—	20,331
Assets held for sale	—	—	—	—	—	—	—	—
– disposal groups	—	—	—	—	—	—	—	—
– non current assets held for sale	—	—	—	—	—	—	—	—
Other assets	—	—	1,003	—	—	1	—	1,004
– endorsements and acceptances	—	—	—	—	—	—	—	—
– accrued income and other	—	—	1,003	—	—	1	—	1,004
Total	126,064	16,735	13,861	524	151	972	(535)	157,772
Off Balance sheet[1]	52,362	10,996	5,324	439	—	113	(4)	69,230
Financial guarantees and similar contracts	4,139	1,313	558	250	—	23	—	6,283
Loan and other credit-related commitments – endorsements and acceptances	48,524	9,683	4,766	189	—	90	(4)	63,248
Total	178,727	27,731	19,185	963	151	1,085	(539)	227,303

1 *31 December 2017 balances have been restated to include EUR 37 billion of loan commitments given (unsettled reverse repurchase agreements) and EUR 3 billion of financial guarantees and similar contracts not previously identified for disclosure.*

Ageing analysis of past due but not impaired gross financial instruments

	Up to 29 days	30-59 days	60-89 days	90-179 days	Over 180 days	Total
	€m	€m	€m	€m	€m	€m
At 31 December 2017						
Loans and advances to customers held at amortised cost	111	28	12	—	—	151
– personal	69	20	8	—	—	97
– corporate and commercial	42	8	4	—	—	54
– financial (non-bank financial institutions)	—	—	—	—	—	—
Other assets	—	—	—	—	—	—

Impaired loans

Movement in impaired loans by industry sector

	2017			
	Personal	Corporate and commercial	Financial	Total
	€m	€m	€m	€m
At 1 Jan	308	872	20	1,200
Classified as impaired during the year	115	185	1	301
Transferred from impaired to unimpaired during the year	(83)	(211)	—	(294)
Amounts written off	(12)	(157)	—	(169)
Net repayments and other	(27)	(20)	(20)	(67)
At 31 Dec	301	669	1	971

Renegotiated loans and advances to customers by industry sector

	First lien residential mortgages	Other personal lending	Corporate and commercial	Non-bank financial institutions	Total
	€m	€m	€m	€m	€m
Neither past due nor impaired	1	2	79	—	82
Past due but not impaired	—	—	—	—	—
Impaired	2	9	31	—	42
At 31 Dec 2017	3	11	110	—	124
Impairment allowances on renegotiated loans	—	(1)	(14)	—	(15)

Renegotiated loans and advances to customers

	31 Dec 2017			
	Not past due nor impaired	Past due but not impaired	Impaired	Total
	€m		€m	€m
Residential Mortgages	1	—	2	3
Credit Logement	—	—	8	8
Other personal lending	2	—	9	11
Commercial real estate	2	—	3	5
Corporate and commercial	77	—	21	98
Financial	—	—	—	—
Total renegotiated loans and advances	82	—	43	125
Impairment allowance on renegotiated loans and advances as a % of total gross loans	—	—	—	0.28%

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

	2017			
	Banks	Customers		
	Individually assessed	Individually assessed	Collectively assessed	Total
	€m	€m	€m	€m
At 1 Jan	—	(560)	(64)	(624)
Amounts written off	—	170	—	170
Recoveries of loans and advances previously written off	—	3	—	3
Charge to income statement	(1)	(94)	11	(84)
Exchange and other movements	—	—	—	—
At 31 Dec	(1)	(481)	(53)	(535)
Impairment allowance on loans and advances				
– Personal	—	(76)	(6)	(82)
– Corporate and commercial	—	(405)	(47)	(452)
– Financial	—	—	—	—
– Banks	(1)	—	—	(1)
as a percentage of gross loans and advances	0.02%	1.06%	0.12%	1.06%

Residential mortgage loans including loan commitments by level of collaterals

	31 Dec 2017
	€m
Non-impaired loans and advances	
Fully collateralised	2,198
– Less than 50% loan to value ('LTV')	759
– 51% to 60% LTV	449
– 61% to 70% LTV	419
– 71% to 80% LTV	339
– 81% to 90% LTV	156
– 91% to 100% LTV	76
Partially collateralised	
Greater than 100% LTV (A)	96
– 101% to 110% LTV	22
– 111% to 120% LTV	21
– greater than 120% LTV	53
Collateral value	96
Not collateralised	—
Total non-impaired loans and advances	2,294
Impaired loans and advances	
Fully collateralised	92
– Less than 50% loan to value ('LTV')	42
– 51% to 60% LTV	20
– 61% to 70% LTV	8
– 71% to 80% LTV	12
– 81% to 90% LTV	4
– 91% to 100% LTV	6
Partially collateralised	41
– 101% to 110% LTV	28
– 111% to 120% LTV	2
– greater than 120% LTV	11
Collateral value	16
Not collateralised	—
At 31 December	2,427

Wholesale lending

	Gross loans	Impaired loans	Impaired loans	Impairment allowance	Impairment allowance/ impaired loans	Loans impairment charge	Loan loss rate
	€m	€m	%	€m	%	€m	%
At 31 December 2017							
Corporate and commercial	27,366	668	2.44	452	67.66	80	0.29
– Manufacturing	2,159	107	4.96	70	65.42	9	0.42
– International trade and services	12,104	410	3.39	270	65.85	25	0.21
– Commercial Real Estate	4,762	72	1.51	27	37.00	4	0.09
– Other Property Related	456	27	5.92	26	97.00	2	0.40
– Governments	1,642	—	—	—	—	—	—
– Other commercial	6,243	52	0.83	59	114.00	40	0.63
Non-bank financial	1,708	—	—	—	—	—	0.01
Banks	4,844	—	—	1	—	1	0.02
Total wholesale lending	33,918	668	1.97	453	67.81	81	0.24

Counterparty Credit Risk

Counterparty Credit Risk exposure

Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before satisfactorily settling it. It arises principally from over-the-counter ('OTC') derivatives and securities financing transactions and is calculated in both the trading and non-trading books. Transactions vary in value by reference to a market factor such as an interest rate, exchange rate or asset price.

The Calculation of the Counterparty Credit Risk Exposure

HSBC France applies the mark-to-market method to determine the CCR exposures ('EAD'). The mark-to-market evaluation method consists of the aggregation of the positive market values of all the transactions, supplemented by an 'add on'.

This majoration factor (future potential risk) is established according to directive CRD IV, and corresponds to a fixed percentage applied to the nominal of the transaction (according to the residual period and the type of the transaction).

The impacts of the netting agreements are also taken into account by applying the netting rules as defined in the mark-to-market methodology and by removing the guarantees.

As regards the securities financing transactions and collaterals, the exposure values are determined under the Financial Collateral Comprehensive Method. This method provides in the regulation CRD IV the supervisory volatility adjustment to be applied. For the banking book, the eligible collateral has more restrictive criteria than the trading book portfolio.

These exposure values are used to determine the counterparty credit risk capital requirements and weighted depending on the IRB approaches or standard approach.

Framework/Limits and Monitoring

Counterparty Credit Risk ('CCR') management in HSBC France is performed through different levels:

Credit authority is held by Wholesale Credit Risk ('WCR') which is part of the Wholesale Credit and Market Risk ('WMR') sub-function, within the Risk function, either at local level or regional level or even Group level.

Credit exposure monitoring is performed by Traded Credit Risk ('TCR'), inside Traded Risk which is part of the WMR sub-function. TCR is split into two teams: Traded Credit Risk Management ('TCRM') and Traded Credit Risk Control ('TCRC').

Credit authority for CCR

HSBC France WCR has a delegated approval authority for Corporates, funds, Insurers and Asset Managers. Depending on the level of the credit limit, credit approval might require concurrence from HSBC Bank plc WCMR and Group WCMR if above HSBC France delegated approval authority.

Sovereigns, Intra-Group and Banks limits require HSBC Bank plc/ Group WCR concurrence whatever the amount of the limit.

HSBC France TCRM, within HSBC France Traded Risk, has no delegated credit approval authority.

All credit limits are reviewed at least once a year with :

- Traded risk portfolio and market environment analysis and recommendation performed by TCR.
- Risk profile assessment (internal rating), risk appetite update with limits validation performed by HSBC France WCR (HSBC Bank plc WCR and Group WCR if required).

With the support of the local Relationship Manager and the Global Relationship Manager, HSBC France TCRM might recommend credit limit application to the relevant credit authority, in the context of Global Annual Review and for specific limit requests.

TCRM's recommendation highlights the main risk drivers and is based on the existing portfolio deep analysis, including a contingent market risk view, stress exposure and eventually mitigant improvements.

Credit limit set up for CCR management

Credit Limits are granted at Counterparty & Portfolio level.

There are also additional concentration limits, such as Wrong Way Risk limits which aim to frame the adverse correlation between the counterparty default and market risk factor.

Counterparty-level limits are divided into 4 main categories:

- Category A limits ('Cat A'):

It includes on-balance sheet assets such as i) loans, covered by Money Market limit and quantified in term of cash lent and ii) bond investments lines, quantified in term of exposure at default ('EAD', ie. notional * price of the bond)

- Category B limits ('Cat B'):

It covers key counterparty credit exposure arising from Off-balance-sheet products. It quantifies derivative price positive drift risk, and is calculated by aggregating current exposure (e.g. MtM - collateral if there is a CSA) and Future Fluctuation of Risk ('FFR'). FFR is quantified through either an advanced method based on a 95 per cent Monte Carlo VaR at portfolio level or a default method at trade level (add on basis). Both of these methods takes into account risk mitigants such as a master agreement and CSA's.

- Category S limits ('Cat S'): known as Treasury Settlement Limit

Cat S limits cover the risk that counterparties will fail to meet their delivery obligations, either through payment systems ('PSL'), or through settlement processes for treasury and securities transactions ('TSL'). Where possible and where systems allow, to mitigate settlement risk, settlement are made DVP through settlement service providers such as Euroclear or CLS.

- Loan Look Alike sub-limit:

Aims to cap amount of collateral cash exchanged through repo/ reverse repo and funding amount through bond forward. Exposure is followed up in term of cash out and notional for bond forwards.

- Portfolio level:

Traded Credit Risk Team monitors also risk at a more aggregated, portfolio-level.

These are formalised through a mandate shared with the Trading Heads of GBM (Global Banking & Markets) and BSM (Balance Sheet Management), subject to annual review and ongoing monitoring routines.

Mitigating actions for counterparty credit risk

In order to reduce its counterparty credit risk, HSBC France has signed with the majority of its counterparties, collateral and netting master agreements with a Credit Support Annexes ('CSA's'). These ensure the regular revaluation of the collateral required and the payment of any corresponding margin calls.

They also permit, in case of a counterparty default, to apply close out netting across all outstanding transactions for all amounts due or to be paid. The collateral types permitted by HSBC France are primarily cash or high quality and highly liquid assets.

The management of the collateral for OTC derivatives & repos and reverse repos are subject to extremely close monitoring. Specific controls exist to ensure the correct settlement / margin calls are made; daily re-valuations of exposures and reconciliations with counterparties for all collateralised transactions.

Credit Valuation Adjustment

In addition, CRD IV introduced a regulatory capital charge to cover the credit valuation adjustment ('CVA') risk, the risk of adverse movements in the credit valuation adjustments taken for expected credit losses on derivative transactions. Some counterparty exposures are exempt from CVA, such as non-financial counterparties and sovereigns.

Institutions that hold internal model method approvals both for the specific risk and the counterparty credit risk can calculate the CVA capital charge under the advanced approach otherwise a standard approach have to be used.

HSBC France applies the Standard approach to determine the CVA capital charge; this approach relies on the counterparty credit risk exposures and is based on the effective maturity of the transactions. CVA weightings are provided in the CRD IV regulation based on counterparty external ratings.

Credit Valuation Adjustment (CVA) hedges

In the normal course of business, HBFR enters into bilateral transactions that can generate risky exposure when there is no or only partial credit mitigants. For non CVA exempted counterparties, the bank computes own funds requirements for the credit valuation adjustment risk.

Credit derivatives allows to hedge this credit exposure. The responsibility for hedging and / or mitigating credit exposure lies within the remit of the Counterparty Exposure Management Desk. Since 2018, this desk trades CDS hedges which are eligible for the mitigation of the CVA own funds requirements which explains the CVA risk reduction in the table above.

Wrong-Way Risk

The standard methodology of measuring risk exposure assumes there is no correlation between a counterparty's creditworthiness and the replacement cost of transactions undertaken with that counterparty. In the case of certain transactions however, the exposure is materially adversely correlated with the credit quality of the counterparty and this is what we call the "Wrong Way Risk".

HSBC distinguishes two types of Wrong-Way Risk:

- General Wrong-Way Risk, which occurs when the probability of counterparty default is positively correlated with general risk factors. For instance, this may occur in case of the reverse repo when the country of incorporation of the counterparty is the same as the country of the issuer of bond exchanged.
- Specific Wrong-Way Risk arise from the transactions where future exposure is expected to be high when the counterparty's probability of default is also high i.e. future exposure is positively and directly correlated with the counterparty probability of default and this relationship is driven by transaction(s) with the counterparty. It can also occur in basket or index transactions where the index or basket references the capital or financing instrument of the counterparty (ie. reverse repo on a counterparty's own bonds).

SWWR may also occur where a legal relationship exists between the counterparty and collateral issuer or between the counterparty and reference asset of a derivative.

HSBC France TRC uses a range of procedures to monitor on a and control wrong-way risk on a daily basis, including requiring deal pre-approvals before undertaking Wrong-Way Risk transactions outside pre-agreed guidelines.

It is HSBC policy that specific Wrong-Way Risk transactions are approved on a case-by-case basis.

CCR limits monitoring

Counterparty Credit Risk exposures are monitored intraday at close of business by the TCR team.

Traded Credit Risk Control ('TCRC') is responsible for capturing the exceptions in CCR systems and providing the first level of analysis. Any new breach is escalated to the TCRM who perform the second level analysis and escalate any unauthorised breach to the Relationship Manager, Front Office, Credit Officer and Senior Management.

Main CCR limits/exposure movements are reported monthly in the GBM Risk Management Meeting.

Unauthorized breaches escalated to the Local or Regional head of Traded Credit Risk are reported for Business Committee (BCC)/Key Indicators (KRI) in accordance with the Group policy.

Counterparty risk[1] – by type of exposure and by product

	2018		2017	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
By exposure class				
IRB advanced approach	1 383	111	685	55
– Central governments and central banks	–	–	–	–
– Institutions	1 383	111	685	55
– Corporates	–	–	–	–
IRB foundation approach	859	69	638	51
– Corporates	859	69	638	51
Standardised approach	505	40	422	34
– Central governments and central banks	1	–	–	–
– Regional government or local authorities	5	–	–	–
– Institutions	489	39	419	34
– Corporates	10	1	3	–
CVA advanced	–	–	–	–
CVA standardised	683	55	1,128	90
CCP standardised	197	16	163	13
By product				
– Derivatives (OTC and Exchange traded derivatives)	2 040	163	1,784	143
– Securities financing transactions	887	71	73	6
– Other	–	–	–	–
– CVA advanced	–	–	–	–
– CVA Standardised	683	55	1,128	90
– CCP default funds	17	1	51	4
At 31 Dec	3 627	290	3,036	243

1 *Includes settlement risk.*

Liquidity and funding risk management

Liquidity and funding risk management framework

Liquidity risk is the risk that HSBC France does not have sufficient financial resources to meet its obligations as they fall due, or will have to access such resources at excessive cost. The risk arises from mismatches in the timing of cash flows or when the funding needed for illiquid asset positions cannot be obtained at the expected terms as and when required.

The objective of the group's internal Liquidity and funding risk management framework ('LFRF') is to allow it to withstand very severe liquidity stresses and be adaptable to changing business models, markets and regulations.

HSBC Group does not manage liquidity risk and funding risk centrally. Liquidity and funding risk is managed by each operating entity on a standalone basis with no implicit reliance assumed on any other Group entity unless pre-committed. HSBC's general policy is that each defined operating entity should be self-sufficient in funding its own activities.

All operating entities are required to manage liquidity risk and funding risks in accordance with the LFRF which includes having established Asset and Liability Committees ('ALCO') who are responsible for monitoring and controlling liquidity and funding.

HSBC France group manages its liquidity and funding risks in line with the HSBC group framework.

The key aspects of the internal Liquidity risk management are the following:

- stand-alone management of liquidity and funding at HSBC France level;
- operating entity classification by Inherent liquidity risk ('ILR') categorisation;
- minimum LCR requirement depending on ILR categorisation;
- LCR is produced on a daily basis;
- minimum NSFR requirement depending on ILR categorisation;
- legal entity depositor concentration limit;
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financial institutions and securities issued;
- annual individual liquidity adequacy assessment ('ILAA') by principal operating entity;
- minimum LCR requirement by currency;
- intra-day liquidity monitoring; and
- forward-looking funding assessments.

The new internal LFRF and the risk tolerance limits were approved by the Group Board on the basis of recommendations made by the Group Risk Committee.

Our ILAA process aims to:

- identify risks that are not reflected in the LFRF, and, where required, to assess additional limits required locally; and
- validate the risk tolerance at the operating entity level by demonstrating that reverse stress testing scenarios are acceptably remote and ensuring vulnerabilities have been assessed through the use of severe stress scenarios.

Management of liquidity and funding risk

Liquidity Coverage Ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission ('EC') Delegated Regulation 2015/61.

It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consists of cash or assets that can be converted into cash very quickly with little or no loss of value in markets.

Net Stable Funding Ratio

The Net Stable Funding Ratio ('NSFR') requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The European calibration of NSFR is pending following the Basel Committee's final recommendation in October 2014. HSBC France, like the HSBC group, calculates NSFR in line with Basel Committee on Banking Supervision's publication number 295 ('BCBS295'). This calculation requires various interpretations of the text, and therefore HSBC France's NSFR may not be directly comparable with the ratios of other institutions.

Liquid assets

Liquid assets are held and managed by HSBC France. Most liquid assets are held by Balance Sheet Management ('BSM') department, primarily for the purpose of managing liquidity risk in line with the LFRF.

Liquid assets also include any unencumbered liquid assets held outside BSM departments for any other purpose. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to BSM.

Inherent liquidity risk categorisation

Each operating entity within the HSBC Group internally is assigned an inherent liquidity risk ('ILR') categorisation that is subjectively applied considering political, economic and regulatory factors within the host country and factors specific to the operating entities themselves, such as their local market, market share and balance sheet strength. The ILR is used to determine in part the entities risk appetite and the prescribed stress scenarios that each operating entity has to be able to withstand and manage to, including HSBC France.

Sources of funding

Customer deposits in the form of current and savings accounts payable on demand or at short notice form a significant part of our stable funding. Therefore HSBC places considerable importance on maintaining their stability. For deposits, stability depends upon numerous factors including maintaining depositor confidence in our capital and liquidity strength.

Wholesale funding markets are accessed by issuing senior debt securities (publicly and privately) and borrowing from secured repo markets against high-quality collateral, to align asset and liability maturities, currency mismatches and to maintain a presence in local wholesale markets.

Issued ordinary share capital, other capital instruments and total loss absorbing capacity ('TLAC') eligible debt securities (that are suscribed by HSBC Bank plc as intragroup instruments) also provide additional funding.

The main financing transactions in 2018 are presented in the Significant events during the year section on page 167.

Liquidity behaviouralisation

All stable deposits are assumed under the Group's frameworks to have a liquidity behaviouralised life beyond one year and to represent a homogeneous source of stable funding. The behaviouralisation of assets is far more granular and seeks to define the period for which it is assumed stable funding will be required for that asset.

Funds transfer pricing

The HSBC group manages structural interest rate risk and liquidity and funding risks within different frameworks and using different assumptions HSBC France is required to apply the Group's transfer pricing policy framework to determine for each material currency the most appropriate interest rate risk transfer pricing curve and a liquidity premium curve. The liquidity premium curve reflects the assessed cost of paying for term debt and stable funding more broadly. This cost is charged to the assets that require stable funding and then credited to the deposits that provide stable funding after external debt costs are paid for. The liquidity premium process supports the creation of assets and liabilities that meet the requirements of the NSFR regulation. In addition to this, where an asset or liability generates an outflow that requires HQLA to be held, it is charged the cost of holding the HQLA which is the difference between the assumed yield of the HQLA and the interest rate transfer pricing curve.

Liquidity stress testing

HSBC France undertakes liquidity stress testing to confirm that its risk appetite is correct, to validate that it can continue to operate under various stress scenarios and to confirm that the stress assumptions within the LCR scenario are appropriate and conservative enough for the group's business. HSBC France also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead the group to exhaust its liquidity resources. If the scenarios are not deemed remote enough then corrective action is taken.

Several different stress testing scenarios are run that test the quality of liquidity resources under stresses of varying durations and nature. The ALCO approves the underlying assumptions and reviews results. These results are also presented through the Internal Liquidity Adequacy Assessment Process ('ILAAP') to the Board.

Liquidity and funding risk profile

Liquidity coverage ratio

At 31 December 2018, HSBC France remained within the LCR risk limits established by the Board and applicable under the Group's LFRF.

HSBC France reported European Commission ('EC') LCR at 31 December 2018 of 128 per cent to the French *Autorité de Contrôle Prudentiel et de Régulation ('ACPR').*

The following table displays the LCR levels for HSBC France consolidated on an EC LCR Delegated Regulation basis.

Liquidity coverage ratio

	At 31 Dec	
	2018	2017
	%	%
HSBC France	**128**	149

Net stable funding ratio

At 31 December 2018, HSBC France was within the NSFR risk limits established by the Board and applicable under the LFRF.

The table below displays the NSFR levels for HSBC France consolidated on a BCBS295 basis.

Net stable funding ratio

	At 31 Dec	
	2018	2017
	%	%
HSBC France	**113**	116

Depositor concentration and term funding maturity concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is undermined if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists.

In addition to this, HSBC France is exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

At 31 December 2018, HSBC France was within the risk limits set for depositor concentration and term funding maturity concentration which were established by the Board and are applicable under the LFRF.

Liquid assets

The table below shows the unweighted liquidity value of assets categorised as liquid, which is used for the purposes of calculating the LCR metric.

This reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets.

Liquid assets

	Estimated liquidity value at 31 December	
	2018	2017
	€m	€m
Level 1	**17,277**	18,529
Level 2a	**485**	835
Level 2b	**26**	2

Level 1 liquid assets include HSBC France balances with its central bank (excluding non-withdrawable reserves) and notes and coins

Funding sources and uses

The following 'Funding sources and uses' table provide a consolidated view of how HSBC France' balance sheet is funded, and should be read in light of the LFRF, which requires operating entities to manage liquidity and funding risk on a stand-alone basis.

The table analyses HSBC France's consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds.

Contingency Funding Plan

HSBC France maintains an operating Contingency funding plan aiming at ensuring that the bank has the ability to quickly react to any unexpected liquidity event, through a clear description of roles and responsibilities, as well as a detailed list of possible actions.

Funding sources and uses

	2018	2017		2018	2017
	€m	€m		€m	€m
Sources			**Uses**		
Customer accounts	**41,906**	38,277	Loans and advances to customers	**46,997**	44,856
Deposits by banks	**10,828**	13,297	Loans and advances to banks	**6,197**	4,843
Repurchase agreements – non-trading	**18,921**	6,586	Repurchase agreements – non-trading	**32,835**	13,781
Debt securities issued	**2,472**	5,159	Trading assets	**16,966**	22,401
Subordinated liabilities	**876**	576	Financial investments	**16,502**	20,548
Financial liabilities designated at fair value	**14,584**	7,565	Cash and balances with central banks	**9,018**	14,630
Liabilities under insurance contracts	**21,335**	21,853	Net deployment in other balance sheet assets and liabilities	**12,136**	10,396
Trading liabilities	**23,145**	32,436			
Total equity	**6,584**	5,706			
At 31 Dec	**140,651**	131,455	**At 31 Dec**	**140,651**	131,455

Contingent liquidity risk arising from committed lending facilities

HSBC France provides customers with committed facilities such as standby facilities to corporate customers and committed backstop lines. All of the undrawn commitments provided to conduits or external customers are accounted for in the LCR and NSFR in line with the applicable regulations. This ensures that under a stress scenario any additional outflow generated by increased utilisation of these committed facilities will not give rise to liquidity risk for HSBC France.

The table below shows the HSBC France's contractual exposures as at 31 December.

HSBC France's contractual exposures as at 31 December monitored under the contingent liquidity risk structure

	At	
	31 Dec 2018	31 Dec 2017
	€bn	€bn
Commitments to customers		
– Corporates	**23.2**	19.2
– Retail and SME	**1.3**	1.7
– Financials	**2.9**	2.2
– Others	**0.5**	1.3
Commitments to customers		
– 5 largest[1]	**2.9**	2.9

1 *Sum of the undrawn balance of the 5 largest facilities excluding conduits.*

Asset encumbrance and collateral management

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. Collateral is managed on an HSBC France basis consistent with the approach to managing liquidity and funding. Available collateral held in HSBC France is managed as a single consistent collateral pool from which HSBC France will seek to optimise the use of the available collateral.

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Summary of assets available to support potential future funding and collateral needs (on- and off-balance sheet)

	2018	2017
	€m	€m
Total-on balance sheet assets as at 31 December	**180,946**	167,544
Less:		
– reverse repo/ stock borrowing receivables and derivatives assets	**(64,613)**	(48,188)
– other assets that cannot be pledged as collateral[1]	**(30,038)**	(26,205)
Total on-balance sheet assets that can support funding and collateral needs as at 31 December	**86,295**	93,151
Add:		
– fair value of collateral received in relation to reverse repo/ stock borrowing/derivatives that is available to sell or repledge	**79,329**	41,115
Total assets that can support funding and collateral needs as at 31 December	**165,624**	134,266
Less:		
– on-balance sheet assets pledged	**(28,584)**	(26,215)
– re-pledging of collateral received in relation to reverse repo/ stock borrowing	**(78,791)**	(36,221)
Total assets available to support funding and collateral needs as at 31 December	**58,249**	71,830

Market risk

Market risk is the risk that the market rates and prices on which the Group has taken views - interest rates, exchange rates, equity prices etc – will move adversely relative to positions taken causing losses to the Group.

All open market risk must be subject to limits. A governance process ensures that this rule is respected in all the HSBC Group entities. These limits are defined in terms of lists of authorised instruments, underlying assets, markets and maturities, Value at Risk ('VaR') limits, sensitivity levels, maximum losses and stress tests. They are revised at least once a year in the annual limit review process and are presented in the Market Risk Forum.

The process for allocating market risk limits and the permanent market risk control system as a whole involve a number of people from the HSBC Group and HSBC France, as well as specific committees, the roles of which are set out below.

Market Risk governance

Market risk is managed and controlled through limits approved by the Risk Management Meeting for HSBC Holdings plc. These limits are allocated across business lines and to the Group's legal entities. Each major operating entity, such as HSBC France, has an independent market risk management and control sub-function which is responsible for measuring market risk exposures, monitoring and reporting these exposures against the prescribed limits on a daily basis.

Group Wholesale credit and Market Risk ('Group WMR')

In the HSBC Group, market risk supervision is carried out within the Wholesale credit and Market Risk department which is a sub-function of the Group Risk function. The Head of Group WMR reports to the HSBC Group Chief Risk Officer. This department is in charge, via its Traded Risk entity, of subsequently allocating risk limits to the various HSBC Group entities and business lines, via the Site Entity Room Mandates, once these have been validated by the appropriate HSBC Group governance body. Similarly, this department is in charge of monitoring exposure at the HSBC Group level and of granting temporary limits. The Wholesale and Market Risk has a European dimension and a local dimension in certain countries including France.

Europe Traded Risk

The Head of Traded Risk Europe, who reports directly to the Global Head of Traded Risk and to the Head WMR Europe, supervises the mandates review process within his geographic zone of responsibility. He submits them for review to Group WMR. He is also functional head of the Head of Traded Risk France.

HSBC France market risk governance

Locally, the Chief Risk Officer confers to WMR France the management of the market risks limits for HSBC France and the business lines it operates. On top of their submission to Group WMR through Traded Risk Europe, the risks mandates are also approved by the Head of WMR France within the risk appetite limits approved by the HSBC France Board. These are subject to an annual review by the HSBC France Market Risk Forum.

The HSBC France Market Risk Forum ('MRF')

Its role is to oversee all market risk aspects, to ensure that appropriate controls are in place and to approve the main rules included in the supervision system.

The MRF is chaired by the Head of WMR France and is held on a monthly basis. It includes the heads of the businesses concerned by these risks and the main heads of the associated control functions: the Head of WMR France, the Head of Traded Risk France, the Head of Independent Model Review ('IMR') and the Head of Product Control. Traded Risk France acts as secretary of the committee.

The HSBC France Market Risk Forum reviews risks and results indicators, analyses any significant events observed during the previous month, including any breaches of significant limits, any requests for permanent or temporary limits.

The Risk Management Meeting ('RMM')

The Head of Traded Risk presents on a monthly basis the main points of the Market Risk Forum to be raised at HSBC France RMM in terms of market risk.

Wholesale Credit and Market Risk ('WMR') France

WMR France is responsible for the wholesale credit risk and the market risk of the French balance sheet. The Head of Wholesale credit and Market Risk France chairs the HSBC France Market Risk Forum. He is also a member of the HSBC France Balance Sheet ALCO.

Traded Risk France

Within WMR Risk, Traded Risk designs, develops and implements the market risk management policy. This in particular covers:

- permanent monitoring of market risks;
- development and implementation of procedures complying with regulatory requirements and with best practices;
- allocation of market risk limits within HSBC France compatible with the HSBC Group's strategy and risk appetite;
- approval of new products;
- calculations of market risks and Value at Risk ('VaR').

The Head of Traded Risk France reports hierarchically to the Head of Wholesale and Market Risk France. The Head of Traded Risk France is responsible for both Market Risk Management and Control ('MRMaC') France and Traded Credit France. He is responsible for ensuring the consistency and effectiveness of the market risk control framework. In general, it is the responsibility of the Head of Traded Risk France to provide Senior Management and HSBC France's Market Risk Forum with comments and explanations concerning any significant breaches of max-loss and limits, or any positions he deems useful for Senior Management to know about.

MRMaC is made up of two teams: the Market Risk Management ('MRM') and the Market Risk Control ('MRC').

Market Risk Management ('MRM')

Market Risk Management ('MRM') defines market risk mandate limits, deals with breaches of limits and exceptional situations, monitor and analyses positions, depending on market movements, analyses the appropriateness of risk metrics (sensitivity, VaR, stress scenarios), defines and prepares a summary analysis of market risks for Senior Management, is involved in improving risk monitoring procedures and implements new indicators, as required by market developments.

The MRM team prepares the annual limit review jointly with the business heads and submit it for approval to the Head of WMR France and to Group WMR via the Head of Traded Risk Europe.

Market Risk Control ('MRC')

The Market Risk Control teams are responsible on a day-to-day basis for checking adherence to all of the various market risk limits, regardless of the level of the market risk mandate and the nature of the limit in question. They report any breaches of these limits and also any consumption in excess of a warning threshold set at 80 per cent of the limit. They are responsible for reporting weekly the stress tests. They also carry out the back-testing of the VaR.

They also produce and distribute HSBC France's consolidated market risk reports for Senior Management and for the HSBC Group Consolidation. The team is also responsible for producing the various periodical summary statements required for both internal needs (packs for the RMM, Risk Committee, the board, annual reports, etc.) and external needs, such as supervisory authorities.

Market Risk Control reports hierarchically to the Head of Traded Risk France.

Traded Credit Risk

Two teams are responsible for the daily monitoring of the counterparty risk exposures of HSBC France.

A first one is focusing on the reporting of counterparty risk. It ensures completion of the scope, performs daily controls and produces daily risk report to the second one, the risk managers.

On top of controlling adherence to the dedicated limits, the Traded Credit Risk Managers provide detailed and ad hoc analysis to senior management, ensure that risk measures are fit-for-purpose and runs regular stress tests on the portfolio.

Both teams locally report into the Head of Traded Risk France.

Independent Model Review ('IMR')

Models developed by the front office research team are used for managing, valuing and assessing the risks of some derivative products. These models as well as VaR models are reviewed by an independent unit of experts, the Independent Model Review ('IMR') previously called Quantitative Risk and Valuation Group ('QRVG'). Its manager reports at a local level to the Chief Risk Officer in charge of risks and functionally to the Head of IMR Europe Middle East & Africa ('EMEA').

Product Control

Product Control is responsible for daily independent controls over the valuation of the positions. It produces daily and detailed explanations of the economical PL, and reconciles it at month-end with the accounting PL. It performs controls over off-market and off-margin transactions (this task is being transferred progressively to the Markets Surveillance team) and is occasionally involved in the resolution of collateral disputes.

Definition, implementation and monitoring of Fair Value Adjustments are part of its remit, and it is also involved in the monitoring of the different recommendations issued by IMR in terms of model limitation. Head of Product Control locally reports to HSBC France Chief Finance Officer, and functionally to the regional Head of Product Control.

The HSBC France Valuation Committee

The Valuation Committees meet on a monthly basis and features representation from Front Office, Product Control, Market Risk Management and IMR.

It notably reviews and approves of the results of the month-end IPV and FVA calculation process as well as the prudent valuation calculations on a quarterly basis. Approximate bookings where systems do not adequately reflect the economics of a transaction are also considered during this meeting.

All fair value adjustment methodologies are reviewed and approved by this forum at least annually.

Market risk in 2018

Eurozone debt yields were pretty stable in 2018, despite an increasing trend in the beginning of the year.

Main event has been the regain of volatility on Italian debt as end of May.

Doubts around alleged euroscepticism of key ministers caused a surge in yields with an increase up to 130 basis points (bp,+1.3%) on 5 years maturity whereas a contagion has been observed on other peripheral countries but remained limited. Volatility on Italian debt remained high until year end due to a general concern of the markets on government's commitment to cost containment.

The European Central Bank prepared markets to the progressive end of the Asset Purchase Program by end of 2018.

The Federal Open Market Committee increased by 75bp (0.75%) the Fed Funds target rate but US swap curve remained very flat with an inversion on the short-end (2y-5y).

Stock Markets suffered from the escalation of global commercial tensions and uncertainty around the relationship between United Kingdom and European Union following Brexit.

Exposures have been in line with the HSBC France market risk appetite, exposures on Italy have been strictly reduced since the beginning of the crisis

The European Central Bank reviewed the Eurozone banks markets internal models for own funds requirement. HSBC France participated to the review in the first 2018 semester.

HSBC France did undertake a significant number of key projects to have the capability to maintain the best access on financial market for Group HSBC's clients. Among them, the integration of the counterpart and the specific risks in the internal model approach for own fund requirements is ongoing.

Market risk measures

Market Risk monitoring system

The objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite. HSBC uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, Value at Risk and stress testing.

The maximum exposure and risk that HSBC France intends to bear are defined by a set of mandates which cover the most significant limits in terms of:

- Value at Risk, overall, total trading, sub-limits of VaR on interest rates, foreign exchange, equities;
- Sensitivity to risk factors including option factors (interest rates, government curve, inflation, volatility, exchange rates), and various 'spread' factors;
- Exposure-At-Default ('EAD') per bond issuers;
- Maximum daily and monthly losses, referred to as 'max loss';
- Authorised instruments.

Each business mandate encompasses several business units called Volcker and FBL (which stands for French Banking Law) desks which in turn receive a set of limits from MRM after submission by the desk head of a Trading Desk Profile. This document summarises the desk's strategy, the required risk limits as well as any other relevant information for the desk's operations.

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices, such as the effect of a one basis point change in yield. HSBC uses sensitivity measures to monitor the market risk positions within each risk type. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Value at risk

One of the principal tools used by the Group to monitor and limit market risk exposure is Value at Risk ('VaR'). An internal model of HSBC France is used to calculate VaR.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (99 per cent for HSBC). HSBC France calculates VaR daily. The VaR model used by HSBC France, as for the Group, is based on historical simulation.

The historical simulation model derives plausible future scenarios from historical market rates time series, taking account of inter-relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential variations in market prices are calculated with reference to market data from the last two years. Since January 2007, HSBC France has been calculating a one-day VaR.

Although a useful guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

HSBC France has been working with Group HSBC to improve the VaR current model and submitted to the ECB a new VaR model at the beginning of 2016 in order to better encompass very low or negatives rates environment has been validated by ECB and implemented in May 2017.

The back-testing process compares the ex-ante calculated VaR figures with ex post daily Profit and Loss ('P&L') figures. This comparison tests the ability of VaR to control the expected P&L variations and therefore helps assess the quality of the internal model. Any shortcomings in the VaR model will particularly come to light if the day's P&L figures exceed 99 per cent VaR or where VaR systematically and overwhelmingly exceeds daily P&L figures.

The 'back-testing violation' exceptions are reported and analysed.

The model is back-tested by taking 99 per cent, one-day VaR figures and comparing them with daily results determined from changes in market prices assuming constant positions. Back-testing is done daily. Its results are reviewed monthly in a special HSBC Group committee and in the MRF and notified quarterly to the regulator of HSBC France.

Risk not in VAR framework

VaR captures the traditional risk factors directly observable on a daily basis, such as exchange rates, interest rates, equity prices, etc., but does not take account of potential changes in more exotic factors such as correlations, basis risk, mean reversion parameters, etc. Therefore, since 31 December 2007, HSBC France also calculates an additional VaR measure called 'Add-On VaR' or Risk not in VaR in respect of these exotic risk factors.

Stressed VaR

The VaR captures the traditional risk factors directly observable on a daily basis, such as exchange rates, interest rates, equity prices, etc., but does not take account of potential changes in more exotic factors such as correlations, basis risk, mean reversion parameters, etc. Therefore, since 31 December 2007, HSBC France also calculates an additional VaR measure called 'Add-On VaR' or Risk not in VaR in respect of these exotic risk factors. Stressed VaR can be rescaled to a one-day equivalent holding period by dividing it by the square root of 10.

In 2018, HSBC France has been authorized by European Central Bank to calibrate its own worst period on a monthly basis.

Stress Testing

Stress testing is an important tool that is integrated into the groups market risk management tool to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by VaR modelling.

Stress testing is implemented at the legal entity, regional and the Group levels. A standard set of scenarios is used consistently across all regions within the Group. Scenarios are tailored in order to capture the relevant events or market movements at each level.

The process is governed by the Stress Testing Review Group forum which, in conjunction with Group risk management, determines the scenarios to be applied at portfolio and consolidated level, as follows:

- single risk factor stress scenarios that are unlikely to be captured within the VaR models, such as the break of a currency peg;
- technical scenarios consider the largest move in each risk factor without consideration of any underlying market correlation;
- hypothetical stress scenarios consider potential macroeconomic events, for example, the slowdown in mainland China and the potential effects of a sovereign debt default, including its wider contagion effects; and
- historical stress scenarios incorporate historical observations of market movements during previous periods of stress which would not be captured within VaR.

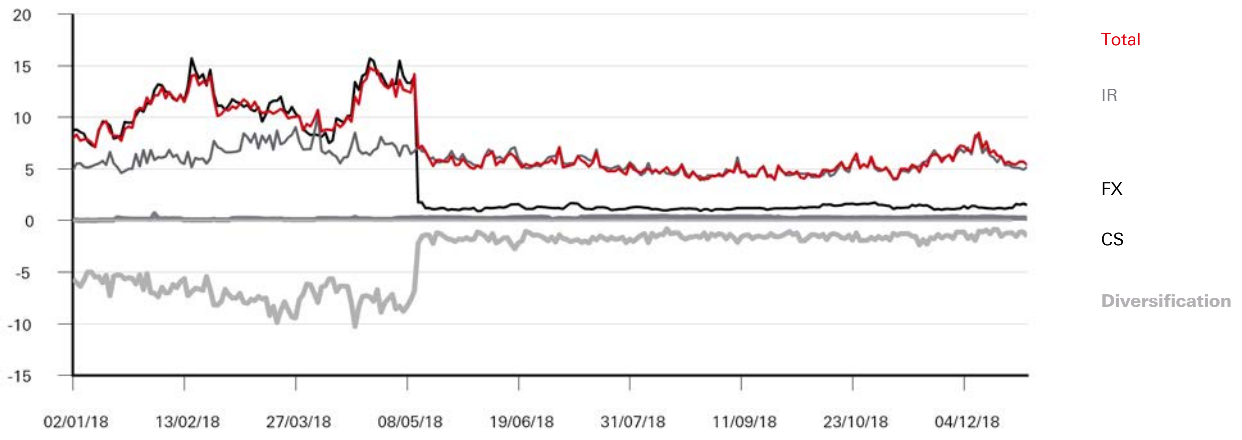
Others scenarios are designed locally to take into account HSBC France specific activities and are presented to the MRF on top of selected Group stress tests. Indeed, the whole set of scenarios with a significant impact on portfolio valuations is discussed and reviewed during the monthly Market Risk Forum. Local stress test scenarios defined in HSBC France contemplates different scenarios on Eurozone (mixing different deformations of the yield curves of the sovereign issuers, including serious tensions on these spreads) and are regularly recalibrated to adjust to market conditions. Dedicated scenarios involving deformation of the swap curve and the volatility surface are also applied to more exotic books in order to capture the convexity and the deformation of risks of these books. These results are presented on a monthly basis to the MRF.

Trading portfolios

Value at Risk of the trading portfolios

Trading VaR remained within the risk appetite throughout the year and remained limited in average. Portfolio exposures were pretty light on Flow Rates business with a difficult business context linked to the low rates environment and tensions on the Italian debt. Similarly to the former interest model in 2017, the credit specific risk VaR model faced issues linked to very low credit spreads. A new model has been developed and released in May 2018. This explains the reduction of the Credit VaR (CS) consistently with the actual market risks held in the Trading Book.

Trading VaR by risk type (€m)



Trading VaR by risk type

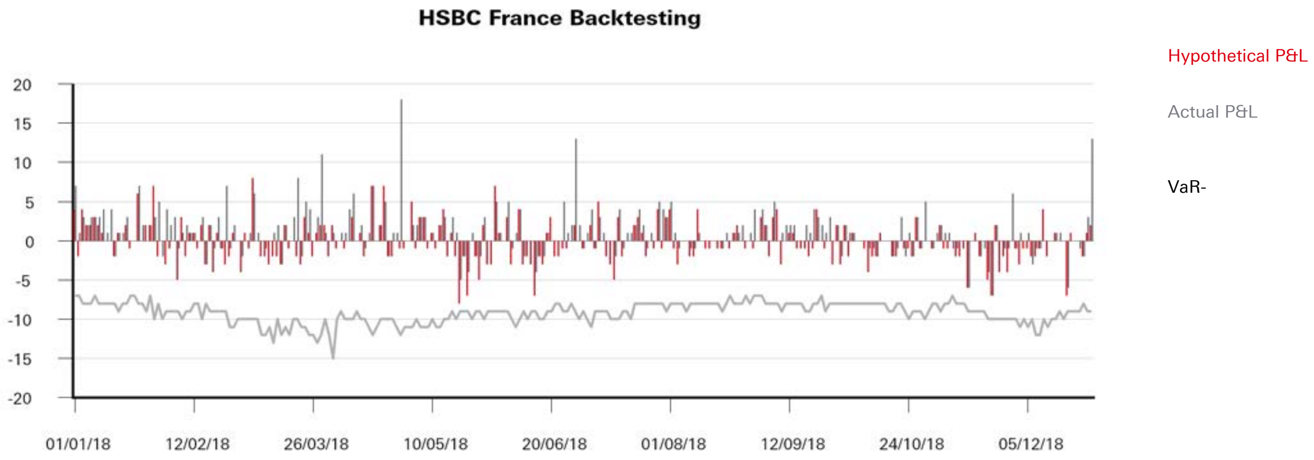
	Foreign exchange (FX) and commodity	Interest rate (IR)	Equity (EQ)	Credit Spread (CS)	Portfolio Diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 31 Dec 2018	**0.22**	**5.21**	**–**	**1.51**	**(1.55)**	**5.39**
Average	**0.24**	**5.83**	**–**	**4.81**	**(3.54)**	**7.34**
Maximum	**0.64**	**10.16**	**–**	**15.69**	**(10.25)**	**14.81**
Balance at 31 Dec 2017	0.06	5.14	–	8.73	(5.53)	8.45
Average	0.03	10.91	–	3.16	(2.80)	11.40
Maximum	0.20	46.86	–	8.73	(6.58)	45.14

1D SVaR of the Trading portfolio

The period for the Stressed VaR has been computed on a monthly basis since beginning of 2018.

1D SVaR of the Trading portfolio

	31 Dec 2018
Average	**11.32**
Maximum	**26.37**
Minimum	**4.39**
At 31 Dec 2018	**6.97**



Non-Trading portfolios

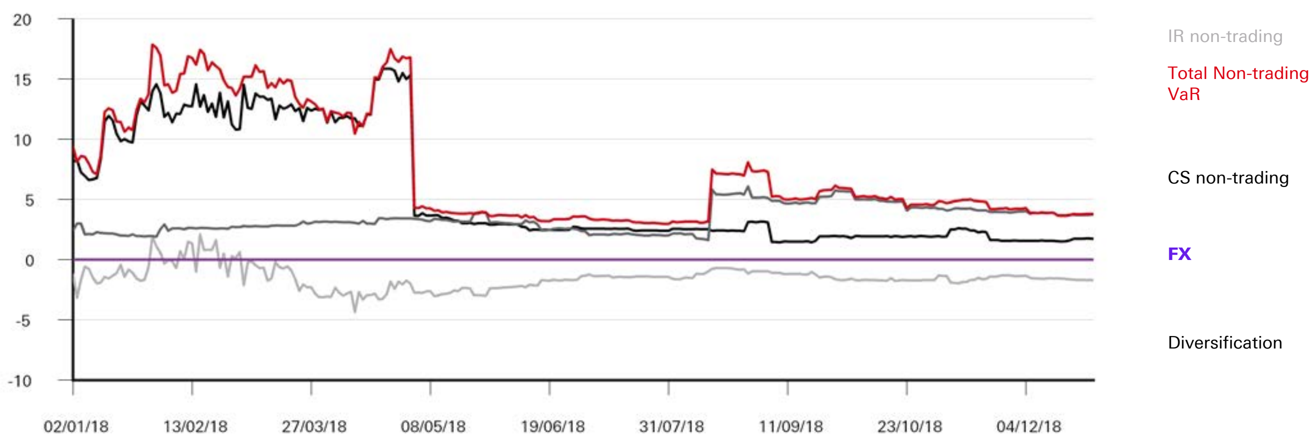
Value at Risk of the non-trading portfolio

The VaR of the non-trading portfolio is lower at the end of 2018 than at the end of 2017 driven by the reduction of exposures in the Liquidity Buffer.

Total accrual VaR by risk type

	Foreign Exchange	Interest Rate	Equity	Credit Spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 31 Dec 2018	**0.01**	**3.75**	**—**	**1.74**	**(1.69)**	**3.8**
Average	**—**	**3.39**	**—**	**5.6**	**(1.51)**	**7.49**
Maximum	**0.01**	**6.08**	**—**	**15.86**	**(4.33)**	**17.85**
Balance at 31 Dec 2017	—	1.59	—	9.23	(1.75)	9.08
Average	—	2.53	—	6.33	(1.94)	6.94
Maximum	—	11.9	—	13.04	(5.9)	14.43

Total non trading VaR by risk type (€m)



Market risk under standardised approach

		2018		2017	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
	Risk type				
1	Interest rate risk (general and specific)	**403**	**32**	356	28
2	Equity risk (general and specific)	**—**	**—**	—	—
3	Foreign exchange risk	**142**	**11**	—	—
4	Commodity risk	**—**	**—**	—	—
	Options				
5	Simplified approach	**44**	**4**	45	4
6	Delta-plus method	**—**	**—**	—	—
7	Scenario approach	**—**	**—**	—	—
8	Securitisation	**—**	**—**	—	—
9	**Total**	**589**	**47**	401	32

Market risk under IMA

		2018		2017	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
1	**VaR (higher of values a and b)**	**1 104**	**88**	1 191	95
(a)	Previous day's VaR	**299**	**24**	253	20
(b)	Average daily VaR	**1 104**	**88**	1 191	95
2	**Stressed VaR (higher of values a and b)**	**1 762**	**141**	3 596	288
(a)	Latest SVaR	**407**	**33**	504	40
(b)	Average SVaR	**1 762**	**141**	3 596	288
3	**Incremental risk charge (higher of values a and b)**	**—**	**—**	—	—
(a)	Most recent IRC value	**—**	**—**	—	—
(b)	Average IRC value	**—**	**—**	—	—
5	**Other**	**—**	**—**	—	—
6	**Total**	**2 866**	**229**	4,787	383

Interest-rate risk of the banking book

Overview

Banking book interest rate risk is the risk of an adverse impact to earnings or capital due to changes in market interest rates. Interest rate risk in the banking book is generated by our non-traded assets and liabilities and is monitored and controlled at Group level by Group Treasury and at HSBC France level by Asset, Liability and Capital Management. Group Treasury and ALCM functions are supervised by RMM who approve risk limits used in the management of interest rate risk. Banking book interest rate risk is transferred to and managed by BSM, who are overseen by Wholesale Market Risk and Product Control functions.

Governance

Group Treasury and ALCM monitor and control non-traded interest rate risk as well as reviewing and challenging the business prior to the release of new products and proposed behavioural assumptions used for hedging activities. ALCM are also responsible for maintaining and updating the transfer pricing framework, informing ALCO of the overall banking book interest rate risk exposure and managing the balance sheet in conjunction with BSM.

The internal transfer pricing framework is constructed to ensure that structural interest rate risk, arising due to differences in the re-pricing timing of assets and liabilities, is transferred to BSM and business lines are correctly allocated income and expense based on the products they write, inclusive of activities to mitigate this risk. Contractual principle repayments, payment schedules, expected prepayments, contractual rate indices used for re-pricing and interest rate reset dates are examples of elements transferred for risk management by BSM.

The internal transfer pricing framework is governed by each entities Asset and Liability Management Committee ('ALCO') whose responsibility it is to define each operating entities transfer pricing curve and review and approve the transfer pricing policy, including behaviouralisation assumptions used for products where there is either no defined maturity or customer optionality exists. HSBC france ALCO is responsible for monitoring and reviewing the bank's overall structural interest rate risk position. Interest rate behaviouralisation policies have to be formulated in line with the Group's behaviouralisation policies and approved at least annually by ALCO.

Non-traded assets and liabilities are transferred to BSM based on their re-pricing and maturity characteristics. For assets and liabilities with no defined maturity or re-pricing characteristics behaviouralisation is used to assess the interest rate risk profile. The maximum percentage of any portfolio that can be behaviouralised is 90 per cent with the residual treated as contractual.

BSM manages the banking book interest rate positions transferred to it within the Markets Risk limits approved by RMM. Effective governance across BSM is supported by the dual reporting lines it has to the Head of GB&M and to the Group Treasurer. BSM will only receive non-trading assets and liabilities as long as they can economically hedge the risk they receive. Hedging is generally managed through vanilla interest rate derivatives or fixed rate government bonds. Any interest rate risk which BSM cannot economically hedge is not transferred and will remain within the business line where the risk is originated.

Measurement of Interest Rate Risk in the Banking Book

The following measures are used by ALCM to monitor and control interest rate risk in the banking book:

- Nominal Gap
- Net Interest Income (NII) sensitivity
- Economic Value of Equity (EVE) sensitivity

The interest-rate risk is assessed monthly based on the nominal banking book gap between assets and liabilities by time bucket. The maturity is either in line with contractual maturities or where the contractual maturities are not perceived to be a true reflection of the underlying risk a theoretical, behaviouralised maturity is used. The analysis is based on the next interest rate repricing date. The main behaviouralised items are Non-Interest Bearing Current Accounts and fixed rate home loans with a prepayment option.

Non-traded VaR uses the same models as those used in the trading book but for banking book balances. It will exclude the elements of risk which are not transferred to BSM.

NII sensitivity reflects the Group's sensitivity of earnings due to changes in market interest rates. Entities forecast both one year and five year net interest income sensitivities across a range of interest rate scenarios based on a static balance sheet assumption. Sites include business line rate pass-on assumptions, re-investment of maturing assets and liabilities at market rates per shock scenario and prepayment risk. BSM is modelled based on no management actions i.e. the risk profile at the month end is assumed to remain constant throughout the forecast horizon.

The NII Sensitivity is measured under varying interest rate scenarios:

- Immediate parallel shock of the yield curve of +/-100 basis points from beginning of first quarter
- Immediate parallel shock of the yield curve of +/-25 basis points from beginning of first quarter
- Basel Committee on Banking Supervision's six predefined shock scenarios.

EVE sensitivity is a present value calculation of the banking book under different interest rate scenarios where equity is considered to have zero value. The balance sheet is valued on a run off basis, no balance sheet growth or reinvestment and will incorporate behaviouralised profiles of non-maturity products and customer optionality.

These amounts concern HSBC France legal perimeter. Given the interest rate risk management policies applied in the subsidiaries and foreign branches, the inclusion of this scope is considered non material, with the exception of HSBC Assurance France, which has its own ALCM structure (Cf. risk management of Insurance operations).

The EVE Sensitivity is measured under varying interest rate scenarios:

- Parallel shock of the yield curve of +/-200 basis points;
- Basel Committee on Banking Supervision's six predefined shock scenarios.

Key risk Drivers

The bank's interest rate risk in the banking book can be segregated into the following drivers:

- Managed rate risk – pricing of products are dependent upon business line decisions and therefore do not correlate to movements in market interests rates.
- Re-investment risk – risk arising due to change in rates when behaviouralised balances are reinvested as per the transfer pricing policy
- Basis Risk – where assets and liabilities are priced of different market indices creating a re-pricing mismatch
- Prepayment risk – customer behaviour in different interest rate scenarios creates a mis-match between the profile used to hedge the interest rate risk and the actual profile
- Duration risk – changes in the maturities of assets and liabilities due to changes in interest rate.

Exposures

HSBC France SA is exposed to a change of Eurozone interest rates curve on banking operations and structural elements of the balance sheet and would see its net interest income decrease by EUR 17 million on one year as of 31 December 2018 for a decrease of 100 basis points. The impact of an up 200 basis points scenario on shareholders' equity would be EUR -747 million at 31 December 2018.

The following table sets out the interest rate gap by time buckets on Retail and Commercial bank's euro activities as of 31 December 2018 before hedging transactions.

Exposures

(in million of Euros)	1 year	3 years	5 years	7 years	10 years
Interest rate gap	2,910	1,177	357	(92)	(209)

After three years of large numbers of renegotiations and early repayments due to strong competition and low interest rates, a significant decrease has been observed since mid-2017. As a consequence, HSBC France has adapted the managed prepayment rate of its portfolio.

In addition, the environment of low or negative rates has resulted in a continued increase of the Non-Interest Bearing Current Accounts balances. Considering the prospects with savings products, HSBC France has aligned their hedging maturities accordingly.

The historically low rates environment, should it last longer, would keep on burdening the banking book's Net Interest Margin.

Balance sheet management

Effective governance across BSM is supported by the dual reporting lines it has to the Deputy Head of HSBC France GB&M and to the Head of BSM EMEA. BSM is responsible for managing liquidity and funding under the supervision of the local ALCO.

It also manages the non-trading interest-rate risk coming from positions transferred by ALCM within a defined Risk mandate.

In executing the management of the liquidity risk on behalf of ALCO, and managing the non-trading interest rate positions, BSM invests in highly-rated liquid assets in line with the Group's liquid asset policy.

The majority of the liquidity is invested in central bank deposits and government, supranational and agency securities with the remainder utilised by Global Markets to fund HQLA assets.

Withdrawable central bank deposits are accounted for as cash balances. Interbank loans, statutory central bank reserves and loans to central banks are accounted for as loans and advances to banks. BSM's holdings of securities are accounted for as Hold to Collect and Sell ('HTCS') assets. Statutory central bank reserves are not recognised as liquid assets.

BSM is permitted to use derivatives in accordance with its mandate to manage interest-rate risk. Derivative activity is predominantly through the use of vanilla interest rate swaps which are part of cash flow hedging and fair value hedging relationships.

Credit risk in BSM is predominantly limited to exposure to central banks and high quality sovereigns, supranationals or agencies which constitute the majority of BSM's liquidity portfolio.

BSM does not manage the structural credit risk of any Group entity balance sheets.

VaR is calculated on both trading and non-trading positions held in BSM. It is calculated by applying the same methodology used for the Markets business and utilised as a tool for market risk control purposes.

BSM holds trading portfolio instruments in only very limited circumstances.

Positions and the associated VaR were not significant during 2018 and 2017.

Operational risks

In accordance with the French Order of 3 November 2014 and the Operational Risk Functional Instructions Manual ('FIM') definition, operational risk is defined within HSBC Group as a risk that might be the result of:

- Inadequacy, ineffectiveness or failure of internal processes, performed manually or automatically;
- External events.

This risk includes notably external or internal fraud risk (article 324 of EU regulation No. 575/2013), non-authorised activities, errors and omissions including events characterised by a low probability but with a high operational loss in case of occurrence, and risks related to models.

Since 2012, HSBC adopted a risk management and internal control framework called the Three Lines of Defence to ensure completion of its commercial objectives and meeting regulatory and legal requirements and its accountabilities towards shareholders, customers and employees.

This framework updated on 2015 has continued to be enhanced in 2018 through the Operational Risks Transformation Programme ('ORTP'). This new model aims at strengthening the articulation of the various internal control and operational risks management levels and efficiently coordinating the risks and control activities. This update led HSBC France to review the definition and the structure of risk management departments defined in 2009. Moreover, to comply with the French regulation (Order of 3 November 2014), risk management departments have been renamed to adopt the terminology of 'risk functions'.

Along with this update, a new operational risk system, Helios, which is underpinned by the Operational Risk Management Framework ('ORMF'), was implemented in 2017.

The HSBC Group defined a risk taxonomy in which operational risks are split in 15 risk categories the main one being: Financial Crime Compliance, Regulatory Compliance, Information, External Fraud, Internal Fraud, Systems and Operations.

The Three Lines of Defence

The First Line of Defence includes businesses, functions and HOST responsible for managing operational risks within their activities and operations and is in charge of first level controls to mitigate those risks. Since some activities and processes can be outsourced externally or internally to HOST or other functions, these responsibilities are extended to outsourced activities to ensure complete risk management and monitoring.

There should be a clear independence between the First, Second and Third Line of Defence responsibilities. Businesses, functions and HOST are responsible for ensuring that risks in their perimeters are identified, managed and mitigated by a first level control framework in line with the risk appetite.

The Second Line of Defence includes functions and HOST. They are responsible for ensuring that all activities they oversee within HSBC France, are effectively managed by the First Line to be compliant with the risk appetite defined by HSBC France. They have a significant responsibility to ensure that HSBC France meets its operational risks management and internal control requirements for their risk areas. They have an advisory and expertise role and ensure that first line activities are appropriate in terms of risk and control management. The Second Line of Defence is independent from the risk taken by the First Line of Defence in its activities.

The Third Line of Defence, Internal Audit, provides independent assurance to management and the non-executive Risk and Audit Committees that HSBC's risk management, governance and internal control processes are operating effectively. Periodic controls of HSBC France aim to ascertain the compliance of operations, the levels of risk actually incurred by the institution, due observance of the procedures and the effectiveness and appropriateness of the control frameworks, by means of independent investigations conducted centrally by staff qualified for this purpose.

Internal Audit assurance assesses the management of the risks and controls by the First Line as well as controls oversight by the Second Line.

Operational Risk FIM has been reviewed in 2018 in order to enhance the role and responsibilities of the 3 Lines of Defence stakeholders.

Regulatory disposition

Basel II regulatory dispositions require that banking institutions take into account the operational risk management on three levels:

- In terms of capital requirements to take into account all banking risks and their economic reality (Pillar I).
- In terms of operational risk framework, meaning an implementation of an internal framework to manage risks which should enhance the prudential supervision by the national supervisors (Pillar II).
- In terms of information and financial communication on the matter, intended to administrators, supervisory authorities, shareholders, etc. (Pillar III).

Beyond regulatory requirements, managing operational risks and the permanent evolution of the control framework depending on changing activities and regulations to reduce losses from the Profit & Loss ('P&L') is a major strategic issue for HSBC France and represents one of the main ways for improvement of a customer quality service.

Operational Risk Management – Methodology defined by the regulator

Regulators have defined three methods which are the following:

- Basic approach;

- Standardised approach;
- Advanced approach.

Each of these methods is more complex than the other to determine the capital required to cover operational losses, leading to more complexity in terms of operational risk management.

Each method is linked to specific requirements in terms of risk management and external information on the framework of which implementation is a condition for the approach application.

Like HSBC Group, HSBC France currently uses the standardised approach in terms of operational risks.

This approach is based on the application of different ratios (12 per cent, 15 per cent, 18 per cent) to the average gross income (over three years) of each one of the eight business lines defined by the Basel II framework.

It implies that a method has to be determined to divide the global gross income between business lines defined by the regulator.

Among qualitative criteria used for this method, the implementation of an internal operational risk framework is required and needs to include the following aspects:

- Regular inventory of operational losses;
- Potential operational risks identification for all entities;
- Implementation of risk management processes, by defining and implementing action plans to mitigate the risks and by monitoring risk indicators;
- Implementation of an independent structure to manage those risks;
- Regular communication of information about the evolution of these risks to the executive management.

Quantitative aspects

The Finance department is in charge of calculating capital requirement related to operational risks and communicating it to the *Autorité de Contrôle Prudentiel et de Résolution ('ACPR')* and the European Central Bank ('ECB').

First, the Net Banking Income ('NBI') has to be divided between the eight business lines defined by Basel II requirements to calculate the regulatory capital allocation. This task involves splitting the NBI by entities.

Basel Lines of Business	Regulatory Capital Charge %
Corporate Finance	18
Trading and Sales	18
Retail Banking	12
Commercial Banking	15
Payments and Settlement	18
Agency Services	15
Asset Management	12
Retail Brokerage	12

For operational losses, COREP statements are produced and communicated to the ACPR by the Finance department on behalf of HSBC France; the Operational Risk function with the support of the Region contributes to the production of two of these three COREP statements: Operational Risk Details and Operational Risk Large Loss Details on the consolidated perimeter of HSBC France, excluding its subsidiary HSBC SFH (France), 100 per cent owned, which is specialised in the issuance of Covered Bonds and is monitored directly by the Finance department.

COREP is a prudential reporting implemented by the European banking supervision committee. It has been created based on English words: COmmon solvency ratio REPorting. It relates to the sovereign solvability ratio linked to Basel II agreement.

Using information recorded by BRCM in the operational risk management system, the Operational Risk function is in charge of the first level of controls of these statements.

Qualitative aspects

Tasks include the following activities:

- Specific organisation in charge of monitoring and managing operational risks;
- Identification, scoring and actualisation of potential risks to which group entities are exposed and first level controls to mitigate them;
- Close monitoring of main material risks for the Group or concerned entities;
- Definition and monitoring of action plans to mitigate the most material risks;
- Annual definition of operational risk tolerance;
- Recording and analysis of operational losses, notably regarding tolerance and reporting to executive management;
- Promotion of operational risk culture intended to all group entities, through work performed by Operational Risk function and BRCM and training and awareness actions;
- Centralisation and coordination of HSBC France ORM work chaired by the CRO;
- Contribution to operational risk management systems evolution;
- Implementation and monitoring of operational risk indicators.

Permanent Control

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

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

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

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

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

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

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

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

Within the permanent control process, the Risk function oversees by the Chief Risk Officer ('CRO'), plays a major role. It is composed by specialised direction:

- Financial Crime Compliance which includes fraud risk;
- Regulatory Compliance;
- Information Security Risk;
- Retail Credit Risk; which oversees retail credit risks;
- Wholesale Credit and Market Risk; which oversees credit risks on wholesale market and market risk;
- Operational Risk, function in charge of oversight operational risk and manage the permanent control framework – Operational Risk Management Framework ('ORMF').

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

Since 2015, Legal, Financial Crime Compliance and Regulatory Compliance functions report directly to the Chief Executive Officer ('CEO'), in accordance with HSBC Group's organisation. The Tax function is part of the Finance function according to the Group organisation.

The HSBC France RMM, which is chaired by the Chief Risk Officer and includes the members of the Executive Committee in an overarching Committee overseeing risk management and permanent control. Next to it, the committee in charge of overseeing more specifically the Financial Crime Risk, Sanctions Risk and Fraud Risk, is the Financial Crime Risk Management Committee. It meets every month to analyse HSBC France's main risks, as established by a previously agreed agenda.

The HBEU International RMM is in charge of overseeing the HSBC France International locations and reports to the HSBC France RMM.

The HBFR RMM reports functionally to its European equivalent in the HSBC Group.

All risk reports presented to the RMM informed the HSBC France's Executive Committee, the Audit Committee, the Risk Committee and the Board of Directors. The RMM covers all entities operating within HSBC France perimeter. The RMM makes use of the work of all dedicated committees within each business and the work of the HBEU RMM International that cover all risks monthly.

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

HSBC Group Manuals

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

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

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

Handbook and codes of conduct

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

In 2016, HSBC implemented its 'charter' to complement the local Codes of Conduct to offer a common approach that brings HSBC purpose and values to life in the decision-making process.

The internal committees, forums and working groups

Risks and internal control oversight are driven by a number of dedicated committees, forums and working groups which act as facilitates for managing, communication and monitoring of operational risk.

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

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

Operational Risk Management Framework ('ORMF')

Within the Second Line of Defence, the Operational Risk function is specifically responsible for the Operational Risk Management Framework ('ORMF') through notably defining the operational risks management framework and policies, overseeing their implementation and ensuring an independent monitoring of the ORMF.

The Operational Risk function, supervised directly by the CRO should have a holistic vision of risks. It has a consolidation and harmonisation role and provides an overview of the main operational risks and permanent control to the executive management, the Risk Committee and HSBC Group, collaborating with regional Operational Risk team to which the head of HSBC France Operational Risk reports functionally. The Operational Risk function works closely with the businesses and functions BRCM teams and the Risk Stewards on major themes such as reviews of risk and control maps, design and monitoring of action plans, incident reporting, risk indicators and control plans.

The Operational Risk function also acts as secretary for the HSBC France Risk Management Meeting ('RMM') chaired by the Chief Risk Officer which is the main committee of risk management and permanent control. One of the missions of the Operational Risk function is to help the HSBC France executive management, starting by the CRO, achieve a transverse vision of risks, both complete and prioritised and if possible, prospective of the main operational risk issues of all HSBC France entities, including International locations.

Finally, the Operational Risk team acts as an interface with the Global Operational Risk team and with the European regional team. Particularly, it broadcasts in France and in HSBC France European branches, instructions and best practices communicated by the Group.

Like the HBEU Operational Risk team, HSBC France Operational Risk function is organised by functions, business and HOST to facilitate communication with the First Line of Defence. It ensures that the operational risk and control framework complies with French and European Union regulatory requirements.

Monitoring authorities

The Operational Risk Meeting ('ORM') meets on a quarterly basis under the chairmanship of the Chief Risk Officer. The purpose is to ensure a transverse organisation and coordination of operational risks management and control framework.

Within this framework, the role of the ORM is to:

- Communicate about the latest developments in terms of risk management framework;
- Analyse the operational risks related to transverse issues or methodological questions (such as risk assessment, monitoring tool), define and periodically review the operational risks monitoring indicators;
- Promote risk culture and knowledge of operational risks by facilitating communication between the First Line and the Second Line;
- Review the results of analysis performed by Operational Risk function such as the transverse risks monitoring, RCA analysis, internal events or BRCM control results.

The HBFR ORM attendees are:

- Heads of HSBC France businesses, Chief Control Officer ('CCO') HOST and CCO GBM;
- Heads of main functions, Risk Stewards;
- Head of Global Internal Audit France ('INA FRA');
- Heads of Compliance Monitoring and testing teams (RC MAT and FCRA);
- Operational Risk function in charge of preparing, presenting the meeting and minutes.

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

The work of the ORM is based primarily on the summary of the work of the HSBC France Operational Risk Forum, which combines the Operational Risk function, all Business Risk and Control Managers ('BRCM') and control owners, in the presence of a representative of the main Second Line of Defence functions, a delegate from the Internal Audit and from Compliance monitoring and testing teams.

The HSBC France Operational Risk Forum meets quarterly as per agenda defined by the Operational Risk function, a few days before the Operational Risk Meeting. The supporting material prepared by the Operational Risk function and based on the discussions and issues raised during the Forum allows the Operational Risk function to achieve a summary of the highlights.

Operational Risk Management

HSBC France and its activities are exposed to all the types of operational risks that banks face, particularly:

- Operational risks link to Record Management process related to customer's document and data and ability to retrieve them with integrity and completeness in short delays;
- Risks linked to data quality, accuracy and completeness in particular for data in scope of new regulatory requirements and reportings;
- Operational risks and Execution risk related to change management, and process, systems and organisations modifications;
- Risks linked to outsourced services management (external vendors and HSBC Intra-group);
- IT risks notably linked to security, resilience and ever greening of systems and architecture and to licence management;
- Information Security Risks;
- Risk related to cybercrime (phishing, malware, cyber-attacks…);
- External fraud risks, in particular: card fraud, Internet fraud, false transfers, social engineering;
- Risk of mistakes in processing transactions;
- Risk related to customer relations.

Operational risks may have consequences on reputational risk. Any lapse by HSBC France in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk which may impact its relationship with its clients, counterparts, shareholders, regulators and any other stakeholders. Safeguarding and building upon the Group's reputation is the responsibility of every employee of HSBC France.

Identification and Management of Operational Risks

Governance

The general organisation of the permanent control is the responsibility of the Chief Risk Officer ('CRO'), who is supported by the Operational Risk function. The Operational Risk function works closely with the Business Risk and Control Management ('BRCM') team of Global Businesses, Global Functions and HOST and with the other Global Functions belonging to the Second Line of defence. In addition, the HSBC France Operational risk team works closely with the CRO International in charge of the HBEU

International locations and the CROs of the new Branches. Within this framework, the lead committee in charge of overseeing risks is the Risk Management Meeting ('RMM') in which the Chief Executive Officer International is member from July 2018. This committee relies on the HBEU International RMM where the HSBC France CRO is invited, and on the works of global businesses and some second line of defence functions (legal, regulatory compliance, financial crime compliance) risks management committees. The RMM reviews on a monthly basis the operational risks of businesses, functions and HOST, the progress made in action plans implemented to mitigate identified risks and operational losses. Operational Risk function holds a specific meeting on a regular basis, called Operational Risk Meeting to review transverse operational risks and disseminate risk culture within Global Business and Global Functions. This framework relies on Forums and working groups related to operational risks and permanent control within the businesses and risk functions that are responsible for overseeing management of the operational risks and permanent controls of each entity.

The HSBC France group has policies covering the process for identification, reporting, management, control and prevention of operational risks, specifying particularly that:

- Operational risk management is first and foremost the responsibility of managers through how they run their operations;
- IT systems are used to identify and report operational risks and generate regular and appropriate reports;
- Identification and assessment of risks and controls across the entire scope are updated on an on going basis in order to identify any significant changes;
- Operational losses are collated and reported on a monthly basis.

HSBC France uses the standardised approach for calculating the regulatory capital needed to cover operational risks. To estimate economic capital, HSBC France uses the same concept, but as applied to certain specific businesses in the HSBC Group's structure instead of the eight businesses of the regulatory approach.

Operational Risk Assessment

Risk Maps

According to the Functional Instructions Manual ('FIM'), updated lastly in September 2018 implementation of operational risk maps is under responsibilities of Risk and Control Owner.

BRCM (Business Risk and Control Management) teams coordinate risk maps assessment and ensure the appropriate methodology is used and regularly updated. They also may bring help on the Risk and Control Assesment ('RCA') methodology and use of the operational risk system, Helios.

According to the order of 3 November 2014, article 100: 'These systems and procedures allow the liable companies to measure and manage all the causes and all the significant effects of the risks and to have a risks' mapping which identifies and estimates the risks incurred with regard to internal and external factors' and article 102 'the cartography mentioned in article 100 : a) take into consideration all the incurred risks; b) is established by entity or business line, at the level in which is exercised, where necessary, the strengthened supervision), under strengthened or additional; it estimates the adequacy of the risks incurred with regard to (compared with) the evolutions of the activity; d) identify the actions (shares) to master the risks outstanding discounted bills by: – the strengthening of the systems of permanent control; – the implementation of the systems of surveillance (supervision) and control (master's degree) of the risks mentioned in the title V; – the definition of the emergency plans and the continuity of the activity planned in the article 215.', the mappings of risks cover all the entities.

The risk maps follow notably Operational Risk FIM instructions. They are designed for a perimeter with a methodology called Risk and Control Assessment ('RCA') on the assessment of inherent risks, which is the risk level without considering the control in place and then on the assessment of residual risks, which is the risk level remaining after taking into consideration the control framework. The result of the assessment is registered in a four-level scale:

- Very High Risk
- High Risk
- Medium Risk
- Low Risk

This risk prioritisation is a monitoring and decision-making tool for executive management. This approach by risk level helps to create a scale level monitoring plan with a risk-based approach.

Risk maps cover operational risks to which entities are exposed and includes first level key controls as well as the framework of second level controls to mitigate in priority material risks of the entity.

The first level of controls environment is scored according to a 3 score scale: effective, need improvement, ineffective. Controls scored 'Need improvement' or 'ineffective' controls lead to a corrective action plan to ensure control environment will be effective in order to make operational again the plan which has been controlled.

Operational teams, specifically Risk Owners, are in charge of establishing and updating risk maps in first instance. They have to identify and assess risks with Control Owners as well as first level controls to perform. This work is performed regularly notably based on:

- Results of controls performed by operationals;
- Recommendations from permanent control reviews performed by BRCM;
- Recommendations from Risk Stewards;
- Recommendations from periodic control reports, or third parties reports (including regulators);
- Internal or external events.

The Operational Risk function used to organise RCA challenge sessions or workshops to review higher risks, with Risk Stewards, BRCM, heads of businesses, functions, HOST, the Internal Audit and the CRO to present the most material risks for the entity. Based on risk maps established by businesses, functions and HOST, BRCM teams define a second level control plan for their entities. This plan presents independent second level control activities that will be performed throughout the year. The programme has to be reviewed and updated regularly, based on any change of circumstances to ensure its relevance.

The monitoring plan is established using a risk-based approach to ensure an appropriate and regular cover of risks. BRCM can use various assessment methods to do so: tests, thematic reviews or indicators monitoring or any other investigation method that may help obtain reasonable assurance on first level control efficiency.

The control plan has to be recorded in the operational risk management system and results have to be recorded all along its execution.

BRCM teams have to regularly monitor the plan progress and have to notify any delay. In case of significant delay, an action plan has to be implemented to ensure an exhaustive coverage of inherent risk rated Very High/High inherent risks.

Main deficiencies raised during the control plan have to be presented during the entity's risk committee and during HSBC France Operational Risk Meeting ('ORM'). A formalised monitoring of the corrective actions implemented has to be performed by BRCM, notably by recording in the Group operational risk management system. Operational Risk function produces regular summary of the main deficiencies identified by BRCM reviews to the governance bodies: Risk Management Meeting ('RMM'), Operational Risk Meeting ('ORM') and Risk Committee.

In 2018, the mains risks identified by HSBC France are related to:

- Regulatory Compliance;
- Information and Cyber Security;
- Financial Crime.

The AML risk is followed in a dedicated committee, the Financial Crime Risk Management Committee ('FCRMC') created in the first quarter of 2017, under the responsibility of the Chief Executive Officer. The ISR risk is followed in a new instance created in the fourth quarter of 2017, the Cyber Defence Forum under the responsibility of the Chief Operating Officer ('COO') and the HSBC France Head of Security Risk.

Incidents management and escalation

A monthly report for the HSBC France and HSBC Group is produced with data recorded in HSBC Group's incidents and operational risks management system Helios. Operational Risk function presents a summary report to the relevant bodies (Operational Risk Meeting, Risk Management Meeting and Risk Committee).

This application allows for centralised management of the risk identification and updating process, declarations of operating losses and the monitoring of action plans decided with a view to mitigating the criticality of risks deemed to be major.

Operational incidents nature

The Functional Instructions Manual ('FIM') allows to categorise operational incidents respective of different natures and also allows to distinguish various impact types associated to incidents. Significant incidents result in a detailed analyse of root causes and in the review of other processes that might be impacted by the same root causes to control them as soon as possible. A diagnosis on control deficiencies is established and associated risk maps and procedures have to be updated consequently. All these tasks have to be performed by BRCM.

Main risks, incidents and risk indicators may result in action plans that have to be monitored and integrated in the control framework of BRCM teams. These action plans are also monitored by businesses and functions risk committees and by the HSBC France Operational Risk Forum.

Operational risk losses: quantitative data starting from 2010

Operational losses from 2010 to end of 2018 per risk category [*] (in millions of EUR)

	Accounting Risk	Building Unavailability and Workplace Safety Event	Employment Practices and Relations Event	External Fraud Event	Failure in Other Principal Risk Processing	Financial Crime Event	Information and Cyber Security Event	Internal Fraud Event	Legal Event	Operations (Transaction Processing) Event	Regulatory Compliance Event	Security of People and Physical Assets Event	Systems and Data Integrity Event	Tax Event	Total
2010	0.8	0.1	0.3	6.5	1.9	0	0	0.4	-3.3	6.1	23.3	0.1	0	0	36.3
2011	9	0.2	0.8	5.4	2.7	0	0	-0.1	0.7	7.5	-18	0	0.5	3.1	12
2012	1.1	0	0.7	10.5	2.1	0	0.1	0.5	-0.8	7.5	5.1	0.1	1	0.3	28.2
2013	0.3	0	1.6	12.1	2.6	0	0.2	0.2	0.1	3.2	0.4	0	2.2	-2.5	20.4 [**]
2014	0	0.1	1.3	6.4	0.6	0	0	0.1	0.3	5.3	-2.8	0	-0.3	-0.1	10,9
2015	0.1	0	1.1	4.8	1.8	0	0	0.1	0.6	4.6	3.4	0	0.5	0	17.1
2016	0	0	0.6	11.1	-0.2	0	0	0	0.1	-15.7	36.2	0	0.3	0	32.4
2017	0	0.1	0.9	2.9	1.4	0	0	0.2	0	3.4	0.7	0	0.1	1	10.6
2018	**7.8**	**0**	**-0.07**	**2.4**	**0.7**	**0**	**0**	**0**	**0.73**	**3.4**	**2**	**0**	**0.1**	**0.4**	**17.46**

(*) *Figures Source: Operational risk system (Helios).*
(**) *Excluding a one-off legacy internal event within GBM.*

Event (financial impact) numbers per risk category (*)

	Accounting Risk	Building Unavail-ability and Workplace Safety Event	Employ-ment Practices and Relations Event	External Fraud Event	Failure in Other Principal Risk Processing	Finan-cial Crime Event	Information and Cyber Security Event	Internal Fraud Event	Legal Event	Operations (Transaction Processing) Event	Regulatory Compliance Event	Security of People and Physical Assets Event	Systems and Data Integrity Event	Tax Event	Total
2010	8	1	48	181	56			17	63	315	144	6	14	14	867
2011	8	11	40	159	73			8	35	251	83	1	12	5	686
2012	3		27	137	52		1	4	35	200	108	2	21	5	595
2013	1		38	133	46		2	9	34	150	39	1	31	7	492 (**)
2014		2	34	227	33		1	1	21	146	53	1	19	6	544
2015	1		57	153	40			5	17	149	56		7	2	487
2016			26	134	41			2	19	140	51		10		423
2017	1	1	33	112	32		1	5	5	248	41		7	3	489
2018	**4**	**0**	**34**	**112**	**35**	**0**	**0**	**0**	**8**	**276**	**26**	**0**	**17**	**6**	**518**

(*) *Figures Source: Operational risk system (Helios).*
(**) *Excluding a one-off legacy internal event within GBM.*

RWA and capital requirements related to operational risk to the end of 2018

(in millions of euros)	RWAs	Capital requirements
RBWM	**812**	**65**
CMB	**1,012**	**81**
GBM	**1,129**	**90**
PB	**72**	**6**
Corporate Centre	**169**	**14**
Total	**3,194**	**256**

The year's highlights 2018

In 2018, HSBC France has extended its perimeter with the arrival of 3 new Branches, HSBC Greece, HSBC Bank Polska S.A. ('HBPL') and HSBC Institutional Trust Services (Ireland) DAC ('HTIE'), for which, work has been carried out on the embeddedness of operational risk framework France specificities.

Reliability, strengthening and enhancement of internal control and operational risk framework continued in 2018.

The main objectives of Operational Risk Transformation Program 'ORTP' are to:

- Better prioritise risks and controls;
- Strengthen the Operational Risk Management Framework;
- Improve the risk management through the 'Risk Appetite' definition and a simplification of operational risk processes, procedures and tools.

The roles and responsibilities of the First and the Second Line of Defence have been enhanced notably for Risk Steward and Control Owners.

The Risk and Control Assessments are reviewed on a a trigger events basis which should impact the risk profile, with the support of the Second Line of Defence experts and under the responsibility of the Businesses and functions relevant Heads.

The control library has been consolidated with the integration of the key control definition in order to mitigate accurately the risk identified and mainly on the area of Cyber Security, System and Financial Crime Risks (including, corruption, sanctions and fraud).

The work related to the improvement in the supervision and control of outsourced services continued in 2018 including the update of the Third Party Risk framework for which, operational risk is the Risk Steward, as well as the enhancement of the execution risk monitoring for the most significant projects with the implementation of a project overarching committee.

The mandatory trainings related to Operational risk including the Financial Crime Compliance, the Information Security and the Regulatory Compliance continued throughout the year.

Compliance

The level of inherent compliance risk remained high in 2018 as the industry continued to experience greater regulatory scrutiny and heightened levels of regulatory oversight and supervision from both the *Autorité de Contrôle Prudentiel et de Résolution ('ACPR')* and the *Autorité des Marchés Financiers ('AMF')*.

In recent years, we have experienced a substantial rise in the volume of new regulation impacting our operational processes, along with increasing levels of compliance risk as regulators and other authorities pursued reviews and investigations into the bank's activities.

Within the new Single Supervisory Mechanism, HSBC France is now under the supervision of the European Central Bank ('ECB'), for prudential matters since November 2014. Within this context, the ECB expressed interests toward the bank compliance procedures and controls frameworks.

In line with the Group heightened standards and organisation, HSBC France has continued to improve Financial Crime Compliance and Regulatory Compliance frameworks.

Organisational structure of the Compliance function

The HSBC France permanent control framework of non-compliance risks is held by two functions of experts, which are respectively led at HSBC France level by the Head of Financial Crime Risk ('FCR') on the one hand, and the Head of Regulatory Compliance ('RC') on the other hand. Both functions cover the subsidiaries in France in their scope, as well as the Greek branch since January 1st, 2018 and the Polish and Irish subsidiaries since August 1st of the same year.

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

The FCR and RC Heads report on the exercise of their role directly to the Executive Directors as well as the supervisory body via the Risk Committee and the Board of Directors in accordance with Articles 30 and 31 of the Order of 3 November 2014.

The RC and FCR functions are responsible for HSBC France's compliance control, within the meaning of Article 28 of the above-mentioned Order, and for coordinating the HSBC France group's compliance control system for their respective areas of responsibility. As such, they are responsible for ensuring the control, for all entities of the HSBC France group, of the non-compliance risk as defined by Article 10 p) of the Order of 3 November 2014 relating to banks' internal control systems.

The identification and monitoring of compliance with the regulations relating to certain specific areas are the responsibility, within the HSBC France group, of the Second Line of Defence functions with appropriate expertise and resources (accounting standards, prudential ratios, control of major counterparty risks, recommendations relating to the security of information systems, etc.). The remit of the FCR and RC functions does not extend to the control of compliance with rules not belonging to the banking and financial sector (labour and social security law, regulations relating to the security of people and property, etc.), the monitoring of which comes under the responsibility of other Second Line of Defence functions of HSBC France (e.g. Human Resources). However, they have to be informed, under the existing reporting or escalation procedures, by the departments concerned, of any problems identified and corrective measures implemented likely to have an impact on the non-compliance risk.

Regulatory compliance risk management

The Regulatory Compliance function is in charge of the regulatory compliance risk control framework of the HSBC France group.

This department is divided into the following teams:

- RC teams for each global business line or function (Retail Banking & Wealth Management, Business Banking, Private Banking, Global Banking and Markets, Asset Management, Insurance, HSBC Operations, Services, Technology and Global Functions) which are in charge of advising and supporting their respective business/function line to achieve regulatory compliance;
- one RC Conduct Head who ensures support of the RC teams, as well as of the First Line of Defense, in implementing the HSBC Group's Conduct policy and outcomes, and especially since the publication of the France Conduct Handbook in October 2018;
- one Regulatory Compliance Monitoring & Testing ('RCMAT') team dedicated to RC risk controls to ensure the appropriate management of the RC risks by the global business lines/ functions;
- the Business Management team which is responsible for the organisation of the RC Function, for the coordination of the RC framework and for the implementation of projects;
- the Regulatory Affairs & Policies team which is in charge of the monitoring of regulatory developments, of the interactions with regulatory and supervising authorities regarding RC risks and of the drafting of policies to manage RC risks;
- Additional employees will join RC in 2019 to ensure oversight and supervision over the activities transferred to HSBC France as part of HSBC's wider European strategy, as well as those carried out by the EEA branches of HSBC France.

As at 31 December 2018, the RC Function had 64.5 full-time equivalent employees.

The Head of RC carries out the roles of Head of Compliance for Investment Services ('RCSI') for HSBC France in respect of Articles 312-1 and 312-2 of the General Regulation of the AMF (French Financial Markets Authority). The different Heads of Compliance for Investment Services ('RCSI'), Heads of Compliance and Internal Control ('RCCI') for the legal entities of the HSBC France group come under the responsibility of the Head of RC. As a key function holder within the meaning of Article L354-1 of the Insurance Code, the Head of RC for HSBC Assurance Vie remains accountable to the ACPR for Financial Crime Risk matters. Reporting mechanisms have been established to ensure the appropriate level of information of the key function holder.

For the EEA entities newly acquired by HSBC France, most HSBC processes described hereinafter apply to them in a similar fashion.

RC Risk Management Framework

The RC Function relies, in particular, on the legal monitoring of the Legal function in order to identify the modifications of legislative and regulatory texts as well as legal developments having an impact on the activities of the HSBC France group. Legal, RC and FCR formalised their articulation and roles and responsibilities regarding regulatory change in 2016 in order to define responsibilities of identifying, analysing new regulation and conduct gap analysis and impact assessments.

The analysis of RC risks is documented in maps recording the legislative, regulatory, professional provisions, as well as the provisions specific to the HSBC Group, applicable to each business or function, and the procedures and controls implemented to ensure compliance with said provisions. The RC risk maps are updated on a continuous basis depending on trigger events.

The RC risks relating to the activities of HSBC France stem primarily from the following areas: customer protection, compliance with conduct rules relating to client interests, complaint handling, the protection of the integrity and transparency of financial markets, the preservation of the confidentiality of information, employees code of ethics, the prevention of conflicts of interest and compliance with the applicable rules in terms of marketing (both on a domestic and a cross-border basis).

Following the proposed evolution of the RC Function within the HSBC Group, several projects have been initiated or implemented in 2018 to improve the identification and the management of RC risks.

As such, as part of the implementation of the Operational Risk Management Framework, the Group tool called 'Oversight & Challenge' has been rolled out in France to evidence the challenges made by the RC teams as Risk Stewards of the First line of defence's RC Risk & Control Assessments. Other HSBC databases feed the Oversight & Challenge tool, thus providing RC with a more extensive view of the events which could potentially trigger a new assessment of the RC inherent risks and/or associated controls.

Throughout 2018, the RC Function aligned the procedures of the RC teams within the newly-acquired EEA entities with HSBC France's remit (Greek branch, as well as the Polish and Irish subsidiaries), in line with the applicable French legislation and HSBC standards.

Finally, an internal working group - including RC - steered the implementation of the revised EBA Guidelines on internal governance (in connection with the Group, the Risk Function, and the Company Secretary).

Staff training and awareness

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

In 2018, training programmes were provided on the following themes either in the form of e-learning or classroom-based:

- training of all the bank's employees on the Conduct themes on customer protection and market integrity, as well as insider risks;
- training depending on the business line, on the following themes: training on the Conduct initiatives, and training on the upcoming regulatory developments ('GDPR', 'IDD', 'PRIIPs', 'Benchmark' and 'Volcker').

Throughout 2018, HSBC France rolled out nine mandatory e-learning training programmes among all its employees - including two connected to RC risks. Each of these e-learning training programmes had to be completed within a prescribed time. The company's Management monitored the completion rate for these training programmes each month and took corrective measures, where applicable, enabling all employees to complete the programmes within short timeframes.

Compliance examination procedures and detection and prevention tools

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

The Consilium tool, designed to improve the formalisation and the traceability of the advice deemed material that RC teams provide to the First Line of Defence, has been improved in October 2018: teams of the first line of defence are now able to raise queries directly in the tool.

Control System

The Compliance function is considered to be first and foremost a Second Line of Defence player in the HSBC Group. This role is ensured:

- firstly, by implementing the policies or circulars, by advising and training the operating staff in the businesses or functions;
- secondly, by conducting cross-functional theme-based reviews carried out by the RCMAT team.

The reporting of issues and RC Risk Control Forums

The control compliance framework follows up potential identified issues, rely on existing reporting's procedures within RC Function, as well as on information regard to the supervisory bodies.

Problems identified in the implementation of the compliance obligations are the subject of an incident report that is drawn up and must be transmitted to the appropriate level within the RC Function, followed by regular monitoring of the actions implemented to rectify the situation, using a dedicated tool called IRIS (Integrated Regulatory Information System).

Supervision and recording of Regulatory Engagements

Under the consolidated approach to non-compliance risks, the RC Function ensures centralised monitoring of Regulatory Engagements within entities of the HSBC France group regarding RC risks, mostly via the RC Regulatory Affairs and Policies team. Since February 2018, the HSBC Group is rolling out in France a tool dedicated to the supervision and the recording of Material Regulatory Engagements between HSBC and its regulators.

RC Risk Control Forums

The functioning of the framework and the main RC risks identified are reviewed through dedicated control forums, consisting of both RC representatives and operating managers. These forums either have a decision-making role, in terms of managing the regulatory compliance control system, or the role of providing information to Senior Management on the functioning of the system, identified issues, and the corrective measures undertaken.

RC risks are reviewed by the Risk Management Meeting ('RMM'), which is the governance forum within HSBC France for risk management and permanent control (business lines and entities of the HSBC France group also hold a similar committee). It has a decision-making power regarding the organisation of the risk control and management frameworks. Since 3rd January 2018 the RC Function has ensured compliance with its new obligations towards the management body as part of the revised Market in Financial Instruments Directive (MiFID II) through the RMM and the Risk Committee.

The quarterly Conduct and Regulatory Compliance Forum meets under the chairmanship of the Chief Executive Officer, and includes Executive Committee members who are Business Heads. The objective of this Forum is to provide information to Senior Management on the functioning of the risk control framework, on identified issues and the corresponding corrective measures undertaken.

Main topics raised during the Forum and brought to the attention of senior management include:

- the implementation by the business lines of the Conduct policy on customer protection and market integrity;
- the findings of the controls carried out by the RCMAT team, the status of its recommendations and their implementation by action owners in the first line;
- cross-business RC items of significance, whether for information, for action and/or for decision by senior management.

In the case of risks related to new products and services as well as significant modifications made to existing products, the majority of the businesses have specific bodies for the examination of products and services.

In HSBC France, new products and services meeting certain criteria are, in addition, subject to the prior approval of the New Products Committee, chaired by the Chief Executive Officer of HSBC France, and whose secretariat is managed by RC. The New Products Committee has been adapted in 2018 to include the product governance requirements deriving from MiFID II.

To finish, the RC Function created in September 2018 a monthly RC Risk Steward Forum to facilitate RC's role a Second Line of Defence function and to ensure a consistent approach to the RC risk management.

Financial Crime Risk Management

In 2018 HSBC France continued to improve its financial crime compliance framework through the implementation of global transformation programs and by aligning its own organisation with the Group's.

The Financial Crime Risk ('FCR') Team encompasses the Anti-Money Laundering ('AML') and Counter Terrorism Financing ('CTF'), Sanctions, Anti-Bribery and Corruption ('ABC') and Fraud teams.

FCR is organised around:

- Expert central teams in the above-mentioned fields responsible for FCR Group policies and procedures, deployment in line with local regulatory requirements;

- AML-CTF and Sanctions Investigation Teams and Sanctions in line with local regulatory requirements, as well as the Fraud teams;
- Other teams dedicated to each LoB (Retail Banking & Wealth Management, Corporate Market & Banking, Private Banking, Global Market & Banking, Asset Management and Insurance).
- One central team dedicated to Anti-Bribery and Corruption, and in line with provisions of the French Law 'Loi Sapin 2' and French Anti-Corruption Agency ('AFA') guidelines;
- A Regulatory Affairs Manager for representative relations with the French Prudential Supervisory Authority 'ACPR' and the French Treasury Department 'Direction du Trésor', HSBC France within the French Banking Federation Fédération Bancaire Française ('FBF') and the Anti-Money Laundering Consultative Commission of the ACPR 'Commission Consultative Lutte Antiblanchiment de l'ACPR', and for ensuring effective implementation of local regulatory constraints within HSBC France;
- A Financial Crime Risk Assurance ('FCRA') team dedicated to compliance controls, to control the FCR related risks in the business lines and functions.

As at 31 December 2018, the Financial Crime Risk Function ('FCR') had 147 full-time equivalent employees.

The TRACFIN (French financial intelligence unit) '*declarants*' and *'correspondants',* as well as the representatives of all the legal entities of the HSBC France group, come under the responsibility of the Head of FCTM (Financial Crime Threat Mitigation) for HSBC France and its subsidiaries in France.

System of control and identification of non-compliance risks

The FCR function relies, in particular, on the legal monitoring of the French Legal function in order to identify the modifications of legislative and regulatory texts as well as jurisprudential developments having an impact on the activities of the HSBC France group.

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

The non-FCR risks relating to the activities of HSBC France stem primarily from the following areas: Anti-Money Laundering, Counter Terrorism Financing, Anti-Bribery and Corruption, international financial sanctions respect, and Fraud.

The designed exercise 'Operational Effectiveness' has continued in 2018 with a view to assess the effectiveness of the FCR framework in all entities of HSBC Group and to identify potential gaps to be addressed.

Staff training and awareness

Staff training relating to fight against financial crime principally includes:

- Mandatory e-learnings ensuring all employees having sufficient Financial Crime Risks knowledge and their respective roles;
- Certifying training classroom-based for the FCR Risks employees most exposed: new employees follow a training and receive a certification within 90 days following their arrival in HSBC;
- A re-certification is performed annually;
- Ad hoc Training Plans: for employees who require further training for the realisation of their daily tasks in terms of Financial Crime Risks.

Mandatory trainings are part of the staff performance assessment and are included in their variable pay.

Compliance examination procedures and detection and prevention tools

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

In 2018, HSBC France has further progressed the programmes to reinforce the framework and mitigate the Financial Crime risks, particularly in relation to transaction monitoring and identification of attempts to finance terrorism.

Control System

The FCR function is considered to be first and foremost a Second Line of Defence player in the HSBC Group. This role is ensured:

- firstly, by implementing the policies or guidances, by advising and training the operating staff in the businesses or functions;
- secondly, by conducting cross-functional theme-based reviews carried out by the Financial Crime Risk Assurance team ('FCRA').
- In addition, FCR France is now in charge of the oversight of different branches / subsidiaries in Europe in relation to Financial Crime risks, with a view to comply with HSBC Group policy and local regulatory requirements.

Issues reporting and the FCC Compliance Committee

The control compliance framework follows up potential identified issues, relying on existing reporting procedures within the FCR Function, as well as on information in regard to the supervisory bodies.

Issues reporting

Potential issues identified are raised to the attention of the management and reported in the Integrated Regulatory Information System ('IRIS') tool for appropriate action and follow up, as well as to the Autorité de Contrôle Prudentiel et de Résolution's (ACPR) and the HBFR Board of Directors when above previously defined thresholds as per Article 98 of the French Order of 3 November 2014. As part of a non-compliance risk consolidated approach, the FCR Function ensures, furthermore, a centralised monitoring of any supervisory authorities contacts within group's entities of HSBC France.

The FCC Compliance Committee

The functioning of the framework and the main non-compliance risks identified are reviewed through dedicated control forums, consisting of both compliance function representatives and operating managers. These forums either have a decision-making role, in terms of managing the compliance control system, or the role of providing information to Senior Management on the functioning of the system, identified issues, and the corrective measures undertaken. The main governance body is the Financial

Crime Risk Management Committee ('FCRMC'), which is held on a monthly basis, and is chaired by the Chief Executive Officer in presence of the Head of FCR France and the Head of each LoB. The FCRMC ensures monitoring of financial crime risks within the bank in France and within its branches across Europe, and has a decision-making role to define priorities and ensure the robustness of the system. The FCRMC reports directly to the HBFR Executive Committee, as well as the European FCRMC allowing an efficient process of common subjects with other group entities.

The HSBC France FCRMC is replicated for each LoB and HOST. The LoB and functions FCRMCs are also held monthly, and are chaired by each Heads of LoB and functions. Moreover these FCRMCs enable the management of financial crime risk at a more granular level.

Structural foreign exchange risk

The structural foreign exchange exposures of HSBC France are very limited. It concerns few investments, not significant, in the foreign subsidiaries, as structural foreign exchange exposure arising from banking operations is systematically transferred to the trading room which manages exchange rate risk according to the limits set by the Risk Management Meeting.

The foreign exchange risk on equity is due to investments in foreign currency that are not hedged by financing in foreign currency. Those exposures correspond to net investments in subsidiaries, branches or associated companies for which the euro is not the functional currency.

HSBC France's investments in foreign subsidiaries are small in amount.

HSBC France monitors this risk through the measure of exposures and RWAs denominated in foreign currencies, and capital ratios sensitivity to movements in foreign exchange rates, calculated by the Finance Department.

As at 2018 year-end, circa. 3 per cent of the credit and counterparty risk RWAs were denominated in currencies other than EUR. For a variation of +/- 20 per cent of all other currencies against EUR, the estimated impact on the CET 1 ratio is circa. +0.08 / - 0.07 per cent.

Legal risks and litigation management

The HSBC France Legal Department ('DAJ') is responsible for HSBC France group's legal risks oversight as a second line of defence, and helps the various HSBC France group businesses and functions to prevent and control legal risk. The DAJ is in charge of litigation follow-up. The DAJ also supervises the legal teams of HSBC France's branches or subsidiaries abroad.

Prevention of legal risks

The DAJ is responsible for running the Legal and Tax Risks Forum which meets quarterly to examine situations likely to give rise to specific and significant legal or tax risks. It also runs the Complex and Structured Transactions Meeting, which examines the legal, accounting, tax, financial, and reputational risks arising from complex structured transactions. The DAJ participates in the Products Examination Committee, in the Operational Risks Forum, and in the Risk Management Meeting ('RMM') of the HSBC France group, and is involved in due diligence procedures for market operations, structured transactions and any new acquisition (or disposal) of an entity by the HSBC France group.

The DAJ is also responsible for managing risks, directly or indirectly, connected with defence litigation matters. It is involved in dealing with credit files requiring special management or in default. The DAJ monitors other risks that might have a legal impact.

Control framework of legal risk

The Legal and Tax Risks Forum, chaired by the Chief Risk Officer, meets quarterly to ensure that the risks framework for legal and tax risks remains adequate in the face of changes in laws, regulations and group organisation.

The Forum also examines the monitoring of incidents raised previously, the results of implemented controls, along with any new incidents and measures taken. It reports on its activities to the HSBC France group Operational Risks Forum.

This framework is wholly effective and a detailed description of it is given in a regularly updated internal procedure. In the operational risk framework, The DAJ operates as First and Second line of Defence. A legal risks taxonomy has been defined to harmonise their identification and control. The DAJ is deeply involved in the review and control of the legal risks assessed by the businesses and functions in their RCAs.

Litigation monitoring with regard to HSBC France group entities

The situation of the risks arising from significant litigation in progress against the HSBC France group is examined monthly by a committee run by Chief Accounting officer, chaired by the Chief Financial Officer and the Chief Risk Officer and is made up notably of representatives of the Finance Department, the Credit Department and the DAJ. This committee decides upon the amount of the litigation provision to be charged or written back.

Cases in progress as at 31 December 2018 involving legal risks likely to have a significant effect on the financial situation of the HSBC France group net assets are set out below. These cases have given rise to appropriate provisions, as necessary.

Interbank commissions relating to electronic cheque processing

In 2002, a number of banks with retail networks, including HSBC France, forming part of an inter-branch committee sponsored by the French Banking Federation, introduced a system of interbank fees applying to the new electronic cheque processing termed *Echange d'Images Chèques ('EIC')*, the cheque image exchange system.

In March 2008, the French Competition Authority sent notification of a complaint to the 12 members of the committee – including HSBC France – for the introduction of interbank fees when the EIC was set up.

On 20 September 2010, the French Competition Authority took an unfavourable decision as regards the scheme introduced in 2002. In substance, it found that the EIC constituted an illegal scheme, the purpose of which included effects on the cost of processing cheques causing an increase in costs charged on 'major remitter' customers. The banks involved in setting up this charging system were fined a total of EUR 384.9 million. HSBC France was ordered to pay a fine of EUR 9.05 million. HSBC France, together with the other banks that were fined, except the Banque de France, decided to appeal this unfavourable decision.

The banks actually contest as much the anticompetitive purpose as the anticompetitive effect of the EIC-related commission and argue that it has no significant effect on the costs of banking services. The banks, including HSBC France, further question the method used in calculating the fines imposed upon them.

On 23 February 2012, the Paris Court of Appeal overturned the decision of the French Competition Authority, finding that the Authority had failed to demonstrate a restriction by object. The Paris Court of Appeal cleared the banks of wrongdoing and ordered the repayment of fines paid by the banks. The French Competition Authority appealed to the Supreme Court against the decision.

On 14 April 2015, the French Supreme Court overturned the decision of the Paris Court of Appeal of 23 February 2012 solely on procedural grounds.

Consequently, the banks had to transfer back the sums reimbursed on the basis of the decision of the Paris Court of Appeal of 23 February 2012.

The French Supreme Court referred the parties back to the Paris Court of Appeal.

On 21 December 2017, the Paris Court of Appeal decided that the banks, including HSBC France, did infringe competition law. The amount of the fine against HSBC France is unchanged.

HSBC France has appealed the Paris Court of Appeal's decision before the French Supreme court. The proceeding before the French Supreme court is on-going.

The Apollonia case

As was the case for around 20 other banks, HSBC worked during a limited period of time (from early 2006 to April 2007), and mainly in one branch, with a financial adviser and estate agent, known as Apollonia. The latter offered its clients (mainly independent professionals) 'turnkey' tax efficient products of the *Loueur Meublé Professionnel ('LMP')* (professional lessor of furnished accommodations) type and for a small number of investors *'Loi Robien'* type tax efficient products.

Between April 2006 and April 2007, 184 property loan applications were approved, for a total of EUR 29 million, bearing in mind that different media have said the total amount of operations by Apollonia with all banks purportedly reached around EUR 2 billion.

At the end of September 2008, HSBC France became aware of the use of inappropriate marketing methods by Apollonia. Moreover, it appeared that most of the borrowers took out several loans through Apollonia from various banks without notifying HSBC France.

Five notaries have been indicted for conspiracy to commit organised fraud, forgery and use of forgeries. HSBC France is involved as a civil law party, giving it access to the criminal file. From this, it has become apparent that a very large proportion of the official agency authorisations, signed by the buyers giving authority to sign purchase and sales deeds, were not properly prepared.

HSBC France systematically files proceedings against those investors with loan repayments due but the hearings are held in abeyance because of the criminal proceedings under way. However, in order to settle the financial aspects of the matter, without waiting for the outcome of criminal proceedings, out-of-court settlements have already been reached with some borrowers and talks are continuing with other borrowers. Proceedings have also been commenced against the notaries involved and their insurer MMA. These proceedings have also been adjourned for the time being.

Adequate provisions have been recorded for the Apollonia case in the light of information available to Senior Management.

HSBC Bank Polska S.A.: ACTION Case

On 29 June 2018, HSBC France ('HBFR') acquired from HSBC Bank plc 100% of the shares of HSBC Bank Polska S.A.. Pursuant to the terms of the Sale and Purchase Agreement, HSBC France and/or its subsidiaries will be indemnified by HSBC Bank plc in respect of certain liabilities relating to the activities of HSBC Bank Polska S.A. prior to the acquisition of HSBC Bank Polska S.A. HSBC Bank Polska S.A. is involved in the proceeding as described below. In April 2017, ACTION brought an action against HSBC Bank Polska S.A. alleging, among other things, breach of a facility agreement and claiming damages and indemnification for lost profits. The proceeding is on-going.

European interbank offered rates investigations and litigation

See Note 36 of the consolidated financial statements with regard to other significant legal proceedings and regulatory matters relating to HSBC Group entities generally, including HSBC France.

Other regulatory, civil law or arbitration proceedings

To date, as far as HSBC France is aware, it is not threatened by any other regulatory, civil law or arbitration proceedings that are in progress or in suspense against it that might have, or over the last 12 months have had, any significant effect on the financial situation or the profitability of the company and/or of the group.

Tax risk

The HSBC France Tax Department ('DAF'), oversees as a Second Line of Defence the HSBC France group tax risk.

This Department assists HSBC France group various businesses, along with its subsidiaries, in the prevention and the monitoring of tax risks.

DAF attends the Legal and Tax Risks Forum, which is run by the DAJ, and also the Product Examination Committee, and the Committees related to Internal Control and Operational Risk and Wealth Management Oversight Committee ('WMOC').

The Tax policy framework for HSBC Holdings plc and subsidiaries is set out below for the year ended 31 December 2018.

Approach to Tax Risk Management

HSBC seeks to apply the spirit and the letter of the law in all territories where we operate. As a consequence, we pay our fair share of tax in the countries where we operate, as a matter of fact.

HSBC France do not have any subsidiaries or branches in NCST (Non Cooperative State Territory).

Tax risk is managed in accordance with the HSBC's Operational Risk Management Framework ('ORMF'). The ORMF defines minimum standards and processes, and the governance structure for the management of operational risk and internal control.

The ORMF has been codified in a high-level standards manual, supplemented with detailed policies, which describes our approach to identifying, assessing, monitoring and controlling operational risk and gives guidance on mitigating action to be taken when weaknesses are identified.

Responsibility for minimising operational risk lies with all HSBC employees. Specifically, all staff are required to manage operational risks, including tax risks of the business and operational activities for which they are responsible.

The Tax Risk Management Framework ('TRMF') is part of the ORMF and covers five key risks :

- **Tax Reporting** – risk of misstatement of tax assets, liabilities and disclosures in the financial statements, regulatory returns and other external reports e.g. CRDIV Country by Country Report;
- **Tax payments** – risk of failure to withhold, charge or pay taxes;
- **Tax compliance** – risk of failure to report and file accurate tax returns including customer information;

- **Tax avoidance** – risk that HSBC enters into transactions on its own account or promotes products and services to customers that are not consistent with the spirit of the law (tax avoidance);
- **Tax evasion** – risk that HSBC allows customers to use its services to evade tax.

HSBC manages the five key tax risks by:

- Identifying the risks;
- Ensuring that the right controls are in place to prevent, manage and reduce risk;
- Setting policy and guidelines for managing tax risks;
- Providing support and guidance to staff to support the above policies; and
- Employing an experienced, professionally qualified in-house tax team. Our in-house team is supported by advice from external advisers whenever in-house expertise is not available.

Global Internal Audit is responsible for providing independent assurance that HSBC is managing tax risk effectively.

Risk appetite in relation to taxation

HSBC continues to apply global initiatives to improve tax transparency such as:

The US Foreign Account Tax Compliance Act ('FATCA');

- The OECD Standard for Automatic Exchange of Financial Account Information (also known as the Common Reporting Standard);
- The Capital Requirements Directive IV ('CRD IV') Country by Country reporting; and
- The OECD Base Erosion and Profit Shifting ('BEPS') initiative.

Tax Planning

HSBC will use tax incentives or opportunities for obtaining tax efficiencies where these:

- Are aligned with the intended policy objectives of the relevant government; and
- Are aligned with business or operational objectives.

HSBC does not undertake transactions whose sole purpose is to abuse the tax system or otherwise employ tax avoidance strategies, for example by artificially diverting profits to low tax jurisdictions.

HSBC does not deal with customers who are not tax transparent or who may want to use our products to avoid taxation.

Approach to Dealings with Tax Authorities

HSBC seeks to maintain an open and transparent relationship with the tax authorities by:

- Keeping them informed of business activities and key developments as they arise and proactively disclosing issues;
- Responding to their questions and enquiries in a timely manner;
- Engaging on consultations relating to emerging legislation either directly or via industry bodies; and
- Meeting with them regularly to maintain our relationship.

Accounting risk

The accounting procedures

The Finance Department is responsible for the effective enforcement of accounting policies and accounting control processes in compliance with the framework of HSBC France group. It defines, for all the entities of HSBC France group, the procedures and controls to be applied. This particularly concerns the procedures and accounting policies, the procedures of certification and justification of Balance Sheet and Off Balance Sheet and the Analytical Review of accounts that support the preparation of the financial statements.

The accounting and regulatory audit trail is documented as per the procedures and documentations established under the responsibility of the departments of Financial Control ('FC').

The Finance Department updates and circulates the procedures and accounting guidance which complies with the French GAAP and International Financial Reporting Standards ('IFRS'). These principles are compliant with the French Commercial Law, French accounting standards and IFRS.

The enforcement of IFRS by all the entities of HSBC France group is also in compliance with the accounting principles of Group HSBC.

Organisation of accounting production and financial reporting

The vast majority of reporting documents are produced monthly and on both a non-consolidated and consolidated basis. These reportings present on year on year analysis including full substantiation of significant variances.

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

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

Control of accounting production

The financial control of the Bank is organised around three main axes:

- The monthly accounting certification;
- The analytical review of the financial statements;
- The financial Internal Control Sarbanes-Oxley (SOX).

According to the HSBC Group, HSBC France prepares, on a monthly basis, a certificate of accounting reconciliations which is addressed to the HSBC Group Europe Finance Department. This certificate, which is an attestation of the full reconciliation and substantiation of Balance Sheet and Off Balance Sheet, is signed off by the CFO, based on a consolidation of certificates of accounting reconciliations transmitted by the heads of accounting and financial reporting of HSBC France and its entities. These certifications are formalised using the Group managed accounting certification tool AssureNET.

The monthly accounting certification reporting is based on the principle according to which each account of a general balance is assigned to an owner, which is responsible for its reconciliation. The anomalies detected lead to the determination of corrective actions for the teams and business concerned. The BRCM (Business Risk & Control Managers) of the entities of HSBC France group, internal controllers of the First Line of Defence, ensure these controls during their work programme on a risk based approach.

Balance sheet and profit and loss analytical reviews are performed by operational accounting and Business Finance/ Management Reporting and Analysis teams on a monthly basis. These variance analysis are performed against business plans, budgets, trends comparisons vs prior month or year-on-year and all major variations according to thresholds are investigated and explained. These reportings are sent to the HSBC Group Europe Finance, Heads of businesses and functions, as well as CFO. The financial reportings are presented monthly by the CFO to the Executive Committee of HSBC France Group and quarterly to the Audit Committee, the Risk Committee and the Board of HSBC France. The Audit Committee and the Risk Committee examine quarterly, half-yearly and annually the accounts submitted to the Board.

In order to comply with the requirements of American Law of Sarbanes-Oxley (SOX), enforced by Group HSBC, HSBC France thoroughly evaluates the controls in place while establishing the financial statements. The main processes supporting the establishment of these statements are part of a detailed documentation and proper controls, and regularly supervised within periodic review framework. These detailed analysis of operations flows till the accounts contribute to the improvement of control of the audit trail. Defects identified during this process must be corrected in the given period of time defined by the owners of remediation action plans and should be quarterly reviewed by the Finance SOX internal controller.

The Internal Audit team takes actively part in the supervision of the correct implementation of SOX process, while performing their periodic controls. The Finance SOX internal controller has access via the Audit databases of HSBC Group (ARAMIS and AID - Audit Issues Database), to the audit points raised by the different teams of audit, which permits to follow-up SOX recommendations issued by the periodic control team. In addition, the external statutory auditors perform every year the review of the control organization on the behalf of HSBC Group and give their opinion on the SOX 404 report prepared by the management of HSBC Holding PLC.

Every quarter, the Audit Committee and Risk Committee of HSBC France are informed of the results of these controls and the progress of main action plans in case of deficiencies. A certificate is half-yearly sent by HSBC France to HSBC Holding, duly signed by the CEO, the CFO and the Head of Internal Audit, attesting the effectiveness of internal financial controls.

IT Systems Risk

HOST Technology has undertaken a number of initiatives to improve its control environment both within Technology and as part of HSBC France wide efforts.

This continues to deliver a range of improvements, embedding control accountability, ensuring funded remediation for all "Needs Improvement" controls assessments and ongoing controls monitoring of the environment.

Operational Risk Transformation Program ("ORTP")

HOST Technology has adopted the new Operational Risk Management Framework ("ORMF") and new system ("HELIOS") as well as a revised governance for management of operational risk.

HOST Technology established two new committees:

- EU&UK IT Control Environment Management Meeting ("CEMM") scrutinises the overarching Regional Technology control environment including overseeing control programs. Regional CIO and all countries CIOs attend this monthly meeting as the technology control owners for their respective areas of accountabilities.
- Group IT CEMM provides Regional senior leadership with visibility over the control effectiveness (i.e. ratings projections as well as key factors influencing the control environment including Audit issues, self-identified issues and control programmes). Other risk trigger events – such as incidents – are being discussed in the context of affected controls and associated ratings. Control dashboards are produced on a monthly basis. IT CEMMs provide input and if necessary escalate issues to RMMs.

Framework responsibilities and control governance

Work continues to improve all control descriptions to assist risk owners to understand the implications of the controls upon which they rely through their risk cartographies. Supporting this – a number of Key Control Indicators ("KCIs") have been launched to provide ongoing control monitoring. Technology controls governance continues to improve – specifically in articulating Global controls and Local controls, in assigning proper control ownership for the Local controls and pushing more accountability to control owners.

Control environment assessment

Technology controls monitoring is achieved by means of governance oversight and rigorous testing on an ongoing basis. The EU&UK IT CEMM is responsible for monitoring remediation programs. Monitoring of our remediation actions against issues also provides a method for projecting control effectiveness. Our Path To Green ('PTG') program supports the proactive monitoring of the IT control environment based on the remediation progress of existing issues mapped to our critical IT controls. The control environment is dynamic in nature and will change over time based on remediation, changes to the threat environment or technology innovation, where new controls may be added or existing effective controls may require new remediation. Remediation and effectiveness targets are also dependent upon annual investment plans in some cases which may carry across multiple years. Control Owners perform periodic (quarterly) attestations on the effectiveness of the control environment. On-going monitoring of controls through continuous oversight and supervision of control operators by Control Owners to verify controls are operating as expected. This will include the monitoring of Key Control Indicators ('KCIs') for a number of controls.

Control programs

A range of funded controls remediation programs exist to continue to enhance our controls environment including (but not exhaustive) Cyber, Service Resilience, Privilege Access Management, Service Sustainability, third service parties connections.

Trigger events & scenarios

The ORMF is dynamic. Events that have an impact on the Risk profile of the business happen all the time.

Those that are substantive enough to take action are referred to as Trigger Events. A trigger event is any occurrence which necessitates the full or partial reassessment of any component or association within an RCA (including but not limited to its configuration and scoping).

The causes of a *trigger Event*

- A suspected change to the inherent risk faced by the Bank;
- A suspected change in the effectiveness of controls operated by the Bank;
- A suspected change to the residual risk faced by the Bank; and/ or

- A change to our understanding of the risk environment in which HSBC operates.

How does this relate to a CIO?

- Knowledge of projects/programmes required due to regulatory change e.g. GDPR, PSD2, IFRS9;
- Aware of a local/regional internal operational risk external events experienced;
- Aware of events that cause HOST Technology to challenge the effectiveness of a control – e.g. increase in incidents associated with Change Management;
- Oversight of 'local' self-identified and Audit issues;
- Challenge peer CIOs on their assessments.

Key achievements

- Developed with Risk Stewards a new Risk and Control Taxonomy/Library for Local risks and controls implemented in HELIOS;
- Defined with Risk Stewards, Operational Risk and Control Owners, a refreshed critical control configuration, encompassing globally consistent controls as well as Local control instances;
- CIO/delegated control owners briefed on roles and responsibilities within ORMF;
- Businesses briefed on critical controls with initial linkages of controls to risk instances;
- Since the first quarter of 2018, the control owners need to enter into HELIOS on a quarterly basis a certification concening the efficiency of these controls.

Next steps

- Finalising enhanced control data quality in HELIOS, including control descriptions and rationales;
- Refining linkage of critical control instances to risk instances with our Business counterparts and Risk Stewards.

Security risk

Security risk issues are managed at Group level by Global Security Risk. Security Risk in France takes functional direction from Security Risk in Europe. This unit has responsibility for information, contingency, insider risks and physical risks. This enables management to identify and mitigate the consequences of these and other non-financial risks to its business lines across the jurisdictions in which the bank operates.

- The Business Contingency Risk sub-function is responsible for ensuring that the group's critical systems, processes and functions have the resilience to maintain continuity in the face of major disruptive events. Within this very large perimeter, business continuity management covers the pre-planning for recovery, seeking to minimise the adverse effects of major business disruption, either globally, regionally or within country, against a range of actual or emerging risks. The pre-planning concentrates on the protection of customer services, the bank's staff, revenue generation, the integrity of data and documents and meeting regulatory requirements. Each business has its own recovery plan, which is developed following the completion of a business impact analysis. This determines how much time the business could sustain an outage before the level of losses becomes unacceptable, i.e. its criticality. These plans are reviewed and tested every year. The planning is undertaken against Group policy and standards and each business confirms in an annual compliance certificate the adherence to these plans. Should there be exceptions, these are raised and their short-term resolution is overseen by the business continuity teams. It is important that plans are dynamic and meet all risks, particularly those of an emerging nature such as possible pandemics and cyber attacks. The ORMF is used to measure the resilience of the bank to these risks, and is confirmed to the HSBC France risk committee. Resilience is managed through various risk mitigation measures. Amongst these include the requirement to agree with HSBC Operations, Services and Technology ('HOST') acceptable recovery times of systems, ensuring that the bank's critical buildings have the correct infrastructure to enable operations to continue and requiring the bank's critical vendors to have their own recovery plans.
- The Insider Risk sub-function is responsible for ensuring compliance with the Group's standards of integrity and so minimise the risk of internal criminal activity or the leakage of confidential data. Insider Risk comprises the risk implicit in actions by employees, contractors and others (such as third party vendors), with authorised access to sensitive information, our systems, our premises, our infrastructures, and to our money, that cause reputational, regulatory or operational harm.
- The Physical Security sub-function develops practical physical, electronic and operational counter-measures to ensure that the people, property and assets managed by HSBC France are protected from crime, theft, attack and groups hostile to HSBC's interests.

Information and cyber security risk

Risk description

The Information and Cyber Security Risk is responsible for defining the strategy and policy by which the organisation protects its information assets and services from compromise, corruption or loss, whether caused deliberately or inadvertently by internal or external parties. It provides advice, guidance and oversight to the business about the effectiveness of information security controls and practices in place or being proposed

The threat from cyber-attacks remains a concern for our organisation, and failure to protect our operations from internet crime or cyber-attacks may result in financial loss, business disruption and/or loss of customer services and data or other sensitive information that could undermine our reputation and our ability to attract and keep customers. Ransomware and Distributed Denial of Service ('DDoS') attacks are an increasingly dominant threat across the industry

Governance

HSBC is committed to maintaining and continually improving information security to meet our responsibilities to our customers and regulators and to reduce exposure to legal sanction,

operational loss or reputational damage. We are committed to ensuring the confidentiality, integrity and availability of corporate, client and customer information.

HSBC adopts a 'Three Lines of Defence' model to ensure that risks and controls are properly managed by its businesses, functions and technology teams on an on-going basis.

HSBC utilises risk management across the lines of defence to identify, assess, report and manage risks across the organisation.

Information security frameworks within HSBC follow internationally recognised best practice standards.

Key performance indicators

Security incidents: In 2018, the bank was subjected to a small number of DDoS attacks on our external facing websites across the Group and no ransomware attacks. Although cyber-attacks in 2018 had a negligible effect on our customers, services or firm, due to the increasing sophistication of cyber-attacks there is the potential for future attacks to have a material adverse effect on our business, prospects, financial condition, reputation and results of operations. HSBC had not reported any significant security incidents in the past 12 months.

Training & awareness: HSBC has an ongoing security awareness programme employing various channels to engage staff including, intranet content, posters, e-mails, new employee education and annual mandatory information security. All HSBC staff has been covered by the awareness training and the testing exercise conducted in 2018 has proved better results from France than other countries in Europe. High risk profiles such as Board of directors were subjected to dedicated Cyber awareness campaigns.

Periodic control

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

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

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

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

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

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

- INA FRA, a general audit team based in France, in the main historically auditing central functions, Retail Banking and Wealth Management ('RBWM'), Commercial Banking ('CMB'), banking operations, IT and strategically important projects. INA FRA budgeted headcount was 32 members in 2018, mainly split between business auditors and IT auditors; and
- the global teams, specialised by business and/or function, based principally in London and Hong Kong, whose areas of involvement depend on the following functional structure:
  - Europe, MENAT, LAM, Canada and GBM Audit, responsible for auditing Global Banking and Markets ('GBM') and covering several locations around the world: Europe, Middle East, North Africa and Turkey ('MENAT'), Latin America ('LAM') and Canada;
  - RBWM, GPB, CMB and Technology Services and Functions Audit, responsible for auditing Retail Banking and Wealth Management, Insurance and Pension risks, Asset Management, Private Banking, Commercial Banking, banking operations, outsourcing, Information Technology and organisational changes, in support of the business audit teams; and
  - Risk and Finance Audit, responsible for auditing Wholesale and Retail credit risk, model and market risks, legal and compliance risks, management of operational risk, physical and information security, fraud risk, capital adequacy and liquidity requirements, asset and liability management, accounting, management control and tax, moreover, this team is also responsible for auditing the risk to deliver unfair customer outcomes and to verify that the actions are consistent with the values of the HSBC Group.

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

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

Periodic controls on HSBC in France in 2018 have thus been assured jointly by GBL INA directly, by INA FRA or by both actors in concert in accordance with the agreement signed on 25 March 2011 and updated on 31 August 2016 which structures the roles, responsibilities and coverage model.

There are five (this number will soon be brought up to eight) members of the global GBM audit team that are based in Paris. In addition, other members of global teams are also located in Paris: one person from the International Europe Audit team (this number should be brought up to five in 2019), one person for Model Risk Audit and one person for Insurance Audit.

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

HSBC France's Inspector General, Head of INA FRA reports to the Head of "Europe, MENAT, LAM, Canada and GBM Audit" and HSBC France's Audit Committee, and administratively to the HSBC France Chief Executive Officer. Since 2017, in accordance with the Solvency II requirements, one independent Senior Audit Manager in charge of periodic control for the insurance subsidiary of HSBC France has been appointed.

All Audit work is performed in accordance with HSBC Group's audit standards, as set out in AIM, which is updated on a regular basis. The latest version (v.4.3) has been issued on 30 August 2018.

The new Auditing, Reporting and Management Information System ('ARaMIS') has been implemented in 2017 and is used for all audit activities:

- Management of the Audit Universe;
- Risk Assessment of the Audit Entities;
- Preparation of the Audit Plan;
- End-to-end Audit Process; and
- Issue Tracking and Follow-Up.

The main changes on internal methodology that have been made in 2018 are related to the alignment with the risk taxonomy of the Enterprise Risk Management Framework ('ERMF') and the introduction of continuous auditing. AIM includes application guidance to put into practice the audit methodology in ARaMIS.

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

- the Inspector General participates in the HSBC France Executive Committee, Risk Management Meeting ('RMM'), Operational Risk meeting, Financial Crime Risk Management Committee ('FC RMC'), Regulatory Compliance Committee and the HSBC France Audit Committee and those of its subsidiaries in France;
- the Senior Audit Managers participate in the risk committees of the different businesses and functions;
- regular bilateral meetings, usually quarterly, are held between the Inspector General, INA FRA senior management and the different heads of businesses and functions; and
- regular meetings, usually quarterly, are held between the Inspector General, INA FRA senior management and the external auditors.

In terms of management information, audit reports are sent to the management or person in charge of the audited entity or process, who is ultimately responsible for ensuring that Internal Audit's findings are remediated as well as any findings from the supervisory authorities or external auditors. The Chief Executive Officer, the Chief Risk Officer, the Chief Operating Officer, the Head of Regulatory Compliance and the Head of Operational Risk always receive a copy of all audit reports.

Audit reports relating to HSBC France subject to an adverse rating are routinely presented and commented on to HSBC France's Audit Committee by the Inspector General. This committee also monitors outstanding action plans resulting from very high or high risk audit issues.

Finally, the HSBC France Internal Audit function is a member of the Inter-Audit Committee (Comité Inter-Inspections Générales - CIIG), which assembles eight French banks together to undertake concerted audits of vendors providing services to at least four members, as required by title V, chapter II of the French ministerial order of 3 November 2014.

Human Resources

Risks relating to human resources management and control system

At the end of 2018, the main HR risks with potentially significant impacts on the operation of HSBC France were as follows:

- psycho-social risks created by a poor working environment, inadequate working conditions, insufficient human resources or inadequate managerial practices;
- data security risks relating to the loss or unauthorised distribution of sensitive data relating to staff;
- legal risks relating to non-compliance with regulations;
- risks of non-payment of employer contributions and taxes on remuneration.

HSBC France's Human Resources Department is involved in the second line of defence of the Human Resources ('HR') risk of the HSBC France group.

For this purpose, it has mapped the transverse risks relating to HR as well as the HR function risks. This document is updated at least once a year and is used in support of the annual control plan.

The internal control also relies on risk indicators (HR Operational Risk and People Risk), which are commented monthly at the Risk Management Meeting.

The HR Risk Forum was set up in 2009. It meets quarterly to review the continuing appropriateness of the permanent control system of the Human Resources risk function. The members of this Committee are the main Heads of HSBC in France's Human Resources Department, the HR Operational Risk Function correspondent, the representative of Legal in charge of Employment law, the representative of Regulatory Compliance and the representative of Audit France.

The Forum especially presents the governance topics managed by HR and action plans in progress. It reviews progress on recommendations communicated to HR by Audit, or other Functions or internal control and progress on risk identified by HR departments. It performs analysis on operational loss and HR incidents. It ensures that service providers are listed and that the risks relating to the services provided have been assessed. It reports on its work to the 'Operational Risk Meeting'.

The committees

Role of the HSBC France People Committee

The People Committee supports Head of HR and local CEO with respect to strategies, policies and any initiatives in term of staff management according to the Group HR policy approved by the Group People Committee ('GPC'), while taking into account local practices and regulatory constraints.

The main missions of the People Committee are:

- Follow up, on a transversal way at local level and within every Global Business and Global Function, of the implementation of Group strategies in term of staff management, for instance regarding diversity, international mobility, employees engagement score, recruitment, personal development;
- Review of possible dispensations obtained towards GPC on approaches adopted with regard to strategies implementation and/or Group main policies in term of staff management;
- Follow up of main risks in term of staff management at local level (especially cases of breaches identified through consequence management process, statistics on turnover, results of Global People Survey ('GPS') and corresponding action plans);
- Identification of local talented employee, according to the Group Talent Pool process and elaboration of the succession plan for local positions;
- Follow up of the appropriate application of the Group Strategy in term of performance management and assessment of talented employee;
- Analysis of the evolution of organisational structures if any and corresponding decisions at local level (for example major changes to Job Catalogue, to managers scope of responsibilities);
- Review of GCB 0-3 career movements;
- Approval of minutes and review of previous People Committee actions plans.

In term of remuneration, the People Committee in its limited perimeter performs different roles both in its global and individual aspects.

Remuneration policy

It examines the main thrust of the remuneration policy put forward by the Human Resources Department for France and approves it.

It ensures that this policy fits in with the general principles of the remuneration policy set out by the HSBC Group for all of itssubsidiaries, in accordance with the specific directives set by the global businesses lines.

It gives its opinion on whether this policy complies with local industry standards and the recommendations of the French bank supervisory authorities *(Autorité de Contrôle Prudentiel et de Résolution, Autorité des Marchés Financiers, Fédération Bancaire Française).*

Variable remuneration arrangements

It checks that all variable remuneration arrangements in place in the bank's various businesses are in line with the general principles set out in the remuneration policy for France, Group and the global businesses lines and comply with the requirements of the supervisory authorities.

It reviews the variable remuneration packages awarded by global businesses lines to French teams on the basis of the overall performance of each business and of the relative performance of French teams, while taking risk and compliance into account.

It approves the structure of these packages, i.e. the split between cash and shares, between immediate remuneration and deferred remuneration in application of the HSBC Group rules, and local industry standards on the subject.

Individual awards

After approval of the list, it reviews and approves the consistency of remuneration of the 'Material Risk Takers' (except for the members of the People Committee in its limited perimeter) before submitting them to the appropriate HSBC France and HSBC Group decision-making bodies.

It reviews the businesses' 20 highest earners (except the members of the People Committee in its limited perimeter) in conjunction with the HSBC France and HSBC Group's decision-making bodies and the global businesses lines.

It ensures that proposed individual remuneration packages take account of any individual breaches with respect to internal rules in term of credit risk, compliance and reputation, information security, and for specific employees, to mandates provided by Volker and SRAB rules.

The Human Resources department undertakes to submit a summary of the major focus and main changes of the remuneration policy to the first Remuneration Committee of the Board of Directors following the People Committee in its limited perimeter.

Role of the Remuneration Committee

On the basis of the remuneration policy papers prepared by the People Committee in its limited perimeter, the Remuneration Committee, chaired by an independent Director, gives his view on the bank's remuneration policies and, practices ensuring they are consistent with the HSBC Group policy and that they comply with applicable local standards. It also ensures that risk management and compliance issues are taken into account.

Its scope of responsibility covers all remuneration policies and practices in place within the company, with a more in-depth review of market professionals and Executive Directors.

Role of the Risk and Compliance functions as regards remuneration policies

The Risk and Compliance functions are, in accordance with the HSBC Group rules – Functional Instruction Manual ('FIM') and Global Standards Manual ('GSM') referred to for advice on laying down remuneration policies on introducing new variable remuneration systems and finally during the pay review process when allocating individual discretionary variable.

Thus, from 2009, situations of breach of compliance and infringements of internal rules, identified by the Risk and Compliance functions, have been taken into account when awarding variable remuneration.

To strengthen the Risk and Compliance functions, throughout the year and especially during the annual salary review process when individual variable remuneration is decided, certain changes were made in 2010 and significantly reinforced in 2015.

On a practical level, these functions are responsible, in their respective fields of operation, for:

- identifying and listing, throughout the year, all instances of non-adherence to compliance rules and/or rules of internal procedure and/or rules concerning risk or security information;
- instructing cases of individual breach in coordination with employee's manager and, if appropriate, with employment law team;
- presenting cases to the Operational Risk Committee of the business concerned in order to assess the gravity of the risk and the level of severity of the individual breach taking into account aggravating and mitigating factors. Finally, the Committee decides the disciplinary and/or managerial actions to be implemented;
- if necessary, providing feedback to management for possibly making possible changes to internal procedures and to the 'balanced scorecard' of the employees involved in the breaches.

In addition, Global Business/Global Function Consequence Management Committees, attended by the Head of Business or Function concerned, the Chief Risk Officer, the Head of Regulatory Compliance, the Head Financial Crimes Compliance, the Head of HR, the Head of Performance and Reward and the HRG concerned, are held during the pay review process.

For each identified breach case, and even more for the ones identified as high or very high the Committee decides:

- the potential adjustment on performance rating;
- the impact on the variable remuneration of the employees concerned;
- whether, regarding the severity of the breach, the 'malus' rule needs to be applied, cancelling some or all previously awarded and unvested shares.

After these decisions, the Human Resources Department checks that any adjustments validated by the Committee is duly uploaded into the Pay Review System with the appropriate rational.

If the proposed variable remuneration requires it (above a certain threshold), Risk and Compliance functions may be asked to contribute to the preparation of a business case setting out the compliance breach and/or internal rule breach and its impact on variable remuneration.

The Human Resources Department notifies the People Committee and the Remuneration Committee of the list of decisions giving a summary of the individual and/or group behaviour that breached internal rules in terms of risk or compliance and a summary of exceptional positive contributions and behaviours aligned to our 'Global Standards'.

Insurable Risk Coverage

HSBC in France is covered through Global insurance programs arranged by HSBC Holdings plc for major insurable operational risks which aim is to protect persons, infrastructures and assets.

Cover limits for assets protection are determined on an 'extreme' loss assumption, aiming to mitigate major impacts on Group activities.

Cover limits for infrastructure risks (notably property damage), are based on reinstatement value and vary among locations. Onsite insurers risks engineer visits are processed regularly.

Local policies are issued in France for most of the Group insurance programs. HSBC France and its Branches in Europe also arranges regulatory required local insurance policies programs, such as, civil liability for licensed activities, construction works, or third-party liability motor insurance, etc.

As a principle, levels of coverage and retentions are in line with:

- insurance market conditions, business practices and regulations;
- Assets values and potential impact on HSBC France and HSBC Holdings plc balance sheets, and the Group risk appetite

The total amount of insurance premiums paid in 2018 represents 0.31 per cent of HSBC France net operating income.

Major programs, involve the HSBC Group reinsurance captive's participation.

Brokers and partners are chosen in accordance to their expertise and international network. Insurers are selected with a strict control of their solvency policy.

Sustainability and climate change risk

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

HSBC's sustainability risk framework is based on robust policies and formal processes.

These risks are monitored monthly by HSBC France Risk Management Committee.

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

Under article 173 of French act no. 2015-992 of 17 August 2015 on energy transition, HSBC France has been assessing since 2016, how aligned its financing portfolio is with the International Energy Agency's 2°C scenario, on a sector basis. HSBC France is now assessing transition risk as a top and emerging risk, it being the risk that the ability of a customer/counterparty to meet its financial obligations deteriorates as a consequence of the transition from a high-carbon to a low-carbon economy.

For more detailed information, refer to 'Managing the environmental risks related to banking activities' in the Non financial performance statement, page 56.

Risk management of Insurance operations

The risk governance framework of HSBC Assurances Vie (France) focuses on several committees, whose responsibility is to manage the exposure of the business to risks according to the limits of the risk appetite. The main committees involved in the risk governance are the following:

- the Actuarial Control Committee validates the changes in assumptions, methodology and processes that result in a material impact on profit before tax or solvency position;
- the Local Insurance Model Oversight Committee validates and controls the models used by the business;
- the Asset and Liabilities Committee manages the asset-liability risk and monitors the economic and regulatory capital levels;
- the Investment Committee manages the investment risks (market, credit and liquidity risks);
- the Financial Crime Compliance Committee covers the topics related to the fight against financial crime and money laundering;
- the Insurance Risk Committee monitors the insurance risks, including the lapse rate (redemption, mortality and morbidity), the reinsurance strategy and the non-economic assumptions used in the models;

- the BRCM Meeting is in charge of the operational risks including regulatory and compliance risks.

The Risk Management Meeting's responsibilities extend to all risks to which the Insurance business is exposed. The RMM uses the risk reports from the above committees and exercises governance on those committees, overseeing their structure and their running. The RMM reports to the Audit Committee of HSBC Assurances Vie (France) the significant issues and the actions being taken to manage them.

This section provides disclosures on the risks arising from insurance manufacturing operations including financial risks such as market risk, credit risk and liquidity risk, and insurance risk.

Risks in these operations are managed within the insurance entity using methodologies and processes appropriate to the insurance activities, but remain subject to oversight at HSBC Group Insurance level.

HSBC France's bancassurance model

We operate an integrated bancassurance model which provides wealth and protection insurance products principally for customers with whom the group has a banking relationship. Insurance products are sold predominantly by Global Businesses Retail Banking & Wealth Management and Commercial Banking through their branches and direct channels.

The insurance contracts HSBC France sells relate to the underlying needs of the HSBC Group's banking customers, which it can identify from its point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts.

Where HSBC France does not have the risk appetite or operational scale to be an effective manufacturer, a handful of leading external insurance companies are engaged in order to provide insurance products to the HSBC Group's customers through its banking network and direct channels.

The local subsidiary sets its own control procedures in addition to complying with guidelines issued by the HSBC Group Insurance. Country level oversight is exercised by the subsidiary's local Risk Management Committee.

In addition, local subsidiary's ALCO monitors and reviews the duration and cash flow matching of insurance assets and liabilities.

All insurance products, whether manufactured internally or by a third party, are subjected to a product approval process prior to introduction.

Financial risks of insurance operations

The HSBC France group's insurance businesses are exposed to a range of financial risks which can be categorised into:

- market risk: risks arising from changes in the fair values of financial assets or their future cash flows from fluctuations in variables such as interest rates, foreign exchange rates and equity prices;
- credit risk: risk of financial loss following the default of third parties to meet their obligations; and
- liquidity risk: risk of not being able to make payments to policyholders as they fall due as a result of insufficient assets that can be realised as cash.

Regulatory requirements prescribe the type, quality and concentration of assets that the HSBC Group Insurance must maintain to meet insurance liabilities. These requirements complement the HSBC Group-wide policies.

The following table analyses the assets held in HSBC France's insurance manufacturing company by type of contract, and provides a view of the exposure to financial risk.

Financial assets held by HSBC Assurances Vie (France)

	31 Dec 2018			
	Linked contracts	Non-linked contracts	Other assets	Total
	€m	€m	€m	€m
Financial assets at fair value through profit and loss				
– debt instruments	–	2,489	90	2,579
– equity instruments	46	5,991	664	6,701
Total	46	8,480	754	9,280
Financial assets at fair value through OCI				
– debt instruments	–	9,819	1,056	10,875
– equity instruments	–	–	–	–
Total	–	9,819	1,056	10,875
– Derivatives	–	102	3	105
– Other financial assets	–	2,182	84	2,266
Total	46	20,583	1,897	22,526

Approximately 60 per cent of financial assets were invested in debt securities at 31 December 2018, and 30 per cent invested in equity securities.

In life-linked insurance, the net premium is invested in a portfolio of assets. HSBC Assurances Vie (France) manages the financial risks of this product on behalf of the policyholders by holding appropriate assets according to the type of contracts subscribed.

Market risk of insurance operations

Market risk arises when mismatches occur between product liabilities and the investment assets which back them. For example, mismatches between asset and liability yields and maturities give rise to interest rate risk.

The main features of products manufactured by the group's insurance manufacturing company which generate market risk, and the market risk to which these features expose the company, are discussed below.

Long-term insurance or investment products may incorporate benefits that are guaranteed. Interest rate risk arises to the extent that yields on the assets supporting guaranteed investment returns are lower than the investment returns implied by the guarantees payable to policyholders.

The income from the insurance and investment contracts with discretionary participation features (DPF) is primarily invested in bonds; a fraction is allocated to other asset classes in order to provide customers with an enhanced potential yield. The subsidiaries holding such type of product portfolio are at risk of falling market prices when discretionary bonuses cannot be fully taken into account. An increase in market volatility may also result in an increase in the value of the collateral for the insured.

Long-term insurance and investment products typically permit the policyholder to surrender the policy at any time or to let it lapse. When the surrender value is not linked to the value realised from the sale of the associated supporting assets, the subsidiary is exposed to market risk. In particular, when customers seek to surrender their policies when asset values are falling, assets may have to be sold at a loss to fund redemptions.

For unit-linked contracts, market risk is substantially borne by the policyholder, but market risk exposure typically remains as fees earned for management are related to the market value of the linked assets.

Each insurance manufacturing subsidiary of the HSBC Group manages market risk by using some or all of the following techniques:

- for products with DPF, adjusting bonus rates to manage the liabilities to policyholders. The effect is that a significant portion of the market risk is borne by the policyholder;
- structuring asset portfolios to support liability cash flows;
- using derivatives, to a limited extent, to protect against adverse market movements or better match liability cash flows;
- for new products with investment guarantees, considering the cost when determining the level of premiums or the price structure;
- periodically reviewing products identified as higher risk, which contain investment guarantees and embedded optionality features linked to savings and investment products;
- including features designed to mitigate market risk in new products; and
- exiting, to the extent possible, investment portfolios whose risk is considered unacceptable.

The French insurance manufacturing company monitors exposures against mandated limits regularly and reports these quarterly to HSBC Group Insurance. Exposures are aggregated and reported on a quarterly basis to senior risk management forums in HSBC Group Insurance.

Standard measures for quantifying market risks are as follows:

- for interest rate risk, the sensitivities of the net present values of asset and expected liability cash flows, in total and by currency, to a one basis point parallel upward or downward shift in the discount curves used to calculate the net present values, and to a steepening of a flattening of these curves;
- for equity price risk, the total market value of equity holdings and the market value of equity holdings by region and country.

The standard measures are relatively straightforward to calculate and aggregate, but they have limitations. The most significant one is that a parallel shift in yield curves of one basis point does not capture the non-linear relationships between the values of certain assets and liabilities and interest rates. Non-linearity arises, for example, from investment guarantees and product features which enable policyholders to surrender their policies. HSBC Assurances Vie (France) bears the shortfall if the yields on investments held to support contracts with guaranteed benefits are less than the investment returns implied by the guaranteed benefits.

On another hand, the sensitivity of some assets to the movement of the interest rates curve may vary itself according to the level of this curve. So it will not be adequate to calculate the impact of an important movement using only the impact of a small movement. Additional calculations will be necessary.

The group recognises these limitations and augments its standard measures with stress tests which examine the effect of a range of market rate scenarios on the aggregate annual profits and total equity of the insurance manufacturing companies after taking into consideration tax and accounting treatments where material and relevant. The results of these stress tests are reported to the HSBC Group Insurance and risk committees every quarter.

The following table illustrates the effect of selected interest rates, equity price and credit spread scenarios on the profits for the year and total equity of insurance manufacturing subsidiaries. Where appropriate, the impact of the stress on the present value of the in-force long-term insurance business asset ('PVIF') is included in the results of the sensitivity tests. The relationship between the profit and total equity and the risk factors is non-linear and, therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. The sensitivities are stated before allowance for the effect of management actions which may mitigate the effect of changes in market rates, and for any factors such as policyholder behaviour that may change in response to changes in market risk.

Sensitivity of risk factors related to the Insurance Company of the Group

	At	
	31 Dec 2018	31 Dec 2017
	€m	€m
+ 100 basis points parallel shift in yield curves	**11**	13
- 100 basis points parallel shift in yield curves	**(16)**	(33)
10 per cent increase in equity price	**17**	15
10 per cent decrease in equity price	**(15)**	(14)
50 basis points increase in credit spread[1]	**18**	27
50 basis points decrease in credit spread[1]	**(21)**	(22)

1 *PVIF sensitivity after tax.*

The decrease of the PVIF sensitivity to interest rates and credit spread stresses is mainly due to the Q3 model evolutions (notably the credit risk modeling, combined with an increase of credit spread). The inclusion of property risk premium and refinement of the structured products assets modeling also impact the PVIF's sensitivities.

Credit risk of insurance operations

Credit risk can give rise to losses through default and can lead to volatility in income statement and balance sheet figures through movements in credit spreads.

Management of the French insurance manufacturing company is responsible for the credit risk, quality and performance of their investment portfolios. The assessment of creditworthiness of issuers and counterparties is based primarily upon internationally recognised credit ratings and other publicly available information.

Investment credit exposures are monitored against limits by the local insurance manufacturing subsidiaries, and are aggregated and reported to HSBC Group Insurance Credit Risk and HSBC Group Credit Risk. Stress testing is performed by HSBC Group Insurance on the investment credit exposures using credit spread sensitivities and default probabilities. A number of tools are used to manage and monitor credit risk. These include a Credit Watch Report which contains a watch list of investments with current credit concerns and is circulated fortnightly to Senior Management in HSBC Group Insurance and to the individual Country Chief Risk Officers to identity investments which may be at greater risk of future impairment.

Credit quality

The following table presents an analysis of treasury bills, other eligible bills and debt securities within the French insurance business by measures of credit quality. The five credit quality classifications are defined on page 91.

Only assets supporting liabilities under non-linked insurance, investment contracts and shareholders' funds are included in the table, as financial risk on assets supporting linked liabilities is predominantly borne by the policyholder. 83 per cent of the assets included in the table are invested in investments rated as 'Strong' Treasury bills, other eligible bills and debt securities in the French insurance manufacturing company.

Treasury bills, other eligible bills and debt securities in the French insurance manufacturing company

	31 Dec 2018		
	Strong	Good/Satisfactory	Total
	€m	€m	€m
Financial assets designated at fair value	**2,150**	**429**	**2,579**
– treasury and other eligible bills	–	–	–
– debt securities	2,150	429	2,579
Financial investments	**8,990**	**1,884**	**10,874**
– treasury and other eligible bills	–	–	–
– debt securities	8,990	1,884	10,874
Total	**11,140**	**2,313**	**13,453**

Liquidity risk of insurance operations

Every quarter, HSBC Assurances Vie is required to complete and submit liquidity risk reports to the HSBC Group Insurance for collation and review. Liquidity risk is assessed in these reports by measuring changes in expected cumulative net cash flows under a series of stress scenarios designed to determine the effect of reducing expected available liquidity and accelerating cash outflows. This is achieved, for example, by assuming new business or renewals are lower, and surrenders or lapses are greater, than expected.

The following tables show the expected undiscounted cash flows for insurance contract liabilities. The remaining contractual maturity of investment contract liabilities is all undated as in most cases, policyholders have the option to terminate their contracts at any time.

Expected maturity of insurance contract liabilities

	Expected cash flow (undiscounted)				
	< 1 year	1-5 years	5-10 years	> 10 years	Total
31 Dec 2018	€m	€m	€m	€m	€m
Non-linked insurance[1]	1,548	7,380	4,374	7,999	21,302
Linked life insurance[1]	1	8	6	17	33
Total	**1,550**	**7,388**	**4,380**	**8,017**	**21,335**

1 *Non-linked insurance includes remaining non-life business.*

Insurance risk

Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the insurer. Insurance risk is principally measured in terms of liabilities under the contracts.

The insurance risk profile of the HSBC French life insurance manufacturing business has not changed materially during 2018 despite the increase in liabilities to policyholders on these contracts to EUR 21.35 billion (2017: EUR 21.87 billion).

A principal risk faced by the HSBC French Insurance business is that, over time, the cost of acquiring and administering a contract, claims and benefits may exceed the aggregate amount of premiums received and investment income. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates.
The following tables analyse the HSBC French insurance risk exposures by type of business.

Analysis of life insurance risk – liabilities to policyholders

(in millions of euros)	At 31 Dec 2018 €m	At 31 Dec 2017 €m
Insurance contracts with DPF[1]	–	–
Credit Life	36	39
Annuities	74	70
Term assurance and other long-term contracts	11	11
Non-Life insurance	–	–
Total non-linked insurance[2]	**121**	120
Life linked	33	38
Investments contracts with DPF[1,3]	21,181	21,695
Liabilities under insurance contracts	**21,335**	21,853

1 *Insurance contracts and investments contracts with discretionary participation features ('DPF') give policyholders the contractual right to receive, as a supplement to their guaranteed benefits, additional benefits that are likely to be a significant portion of the total contractual benefits, but whose amount or timing is contractually at the discretion of the Group. These additional benefits are contractually based on the performance of a specific pool of contracts or assets, of the profit of the company issuing the contracts.*
2 *Non-linked insurance includes remaining non-life business.*
3 *Although investment contracts with DPF are financial investments, the Group continues to account for them as insurance contracts as permitted by IFRS.*

Sensitivities to non-economic assumptions

The Group's life insurance business is accounted for using the embedded value approach which, inter alia, provides a risk and valuation framework. The sensitivity of the present value of the in-force ('PVIF') long-term asset to changes in economic and non-economic assumptions is described in Note 22.

Please note that the value approach simulation used has been reviewed by several external auditors which have confirmed that this one is compliant with market standards.

Reputational risk management

There were no material changes to the policies and practices for the management of reputational risk within HSBC France in 2018.

Overview

Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise. Stakeholders' expectations change constantly and so reputational risk is dynamic and varies between geographical regions, groups and individuals. We have an unwavering commitment to operating at the high standards we set for ourselves in every jurisdiction. Any lapse in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk.

Governance and structure

The development of policies, management and mitigation of reputational risk are co-ordinated through the Reputational Risk Client Selection Committees held by business line. These committees keep the RMM apprised of areas and activities presenting significant reputational risk and, where appropriate, make recommendations to the RMM to mitigate such risks. Significant issues posing reputational risk are also reported to the Board through the Risk Committee where appropriate.

Key risk management processes

Each business has established a governance process that empowers its Reputational Risk Client Selection Committee to address reputational risk issues at the right level, escalating decisions where appropriate. The functions manage and escalate reputational risks within established operational risk frameworks.

Our policies set out our risk appetite and operational procedures for all areas of reputational risk, including financial crime prevention, regulatory compliance, conduct-related concerns, environmental impacts, human rights matters and employee relations.

Capital and leverage management

Capital Management approach and policy

HSBC France’s objective in managing the Bank's capital is to maintain appropriate levels of capital to support its business strategy and meet regulatory requirements at all times.

HSBC France manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2018, HSBC France complied with the European Central Bank (‘ECB’) regulatory capital adequacy requirements. To achieve this, the bank manages its capital within the context of an annual capital plan, which is approved by the Board and which determines the appropriate amount and mix of capital.

The policy on capital management is underpinned by the HSBC group capital management framework, which enables a consistent management of the capital.

Each HSBC France’s subsidiary subject to individual regulatory capital requirements manages its own capital to support its planned business growth and meet its local regulatory requirements.

Capital Measurement

HSBC France is supervised by the Joint Supervisory Team of the ECB and the ACPR. The Joint Supervisory Team sets HSBC France’s capital requirements, in line with the regulatory framework.

The Basel III framework, like Basel II, is structured around three ‘pillars’: minimum capital requirements, supervisory review process and market discipline. Basel III also introduces a number of capital buffers, including the Capital Conservation Buffer (‘CCB’), Countercyclical Buffer (‘CCyB’), and other systemic buffers such as the Globally/Other Systematically Important Institutions (‘G-SII’/’O-SII’) buffer. CRR and CRD IV legislations implemented Basel III in the EU.

The capital management framework defines regulatory capital and economic capital as the two primary measures for the management and control of capital.

Capital measures:

- Regulatory capital is the capital which HSBC France is required to hold in accordance with the rules established by regulators; and
- Economic capital is the internally calculated capital requirement to support risks to which HSBC France is exposed and forms a core part of the internal capital adequacy assessment process.

Regulatory Requirements

As a result of the annual Supervisory Review and Evaluation Process (SREP), the European Central Bank (ECB) has set to 3.00% for 2019 (versus 2.75% for 2018) the minimum capital requirement under Pillar 2 (P2R) for HSBC France. HSBC France will be required to meet on a consolidated basis a minimum total capital ratio of at least 13.50%, from January 1st, 2019 (versus 12.63% in 2018). The Overall capital requirement (OCR) is composed of: the 8% minimum capital in respect of article 92.1 of the 575/2013 Regulation, the 2.50% for the Conservation buffer in 2019 (versus 1.875% in 2018) in respect of article 129 of the 2013/36 Directive and the Pillar 2 requirement mentioned above.

The requirement in respect of Common equity tier 1 for 2019 is 10.00%, excluding Pillar 2 guidance (P2G).

Regulatory Capital

HSBC France’s capital base is divided into three main categories, namely Common Equity Tier 1, Additional Tier 1 and Tier 2, depending on their characteristics.

Common Equity Tier 1 (‘CET 1’) capital is the highest quality form of capital, comprising shareholders’ equity and related non-controlling interests (subject to limits). Under CRD IV/CRR various capital deductions and regulatory adjustments are made against these items - these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability as well as negative amounts resulting from the calculation of expected loss amounts under IRB.

Additional Tier 1 capital comprises eligible non-common equity capital securities such as Additional Tier 1 eligible subordinated debt as per CRR, and any related share premium. Holdings of additional Tier 1 securities of financial sector entities are deducted from additional Tier 1 capital.

Tier 2 capital comprises eligible subordinated debt and any related share premiums. Holdings of Tier 2 capital of financial sector entities are deducted.

Leverage Ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based metric, to supplement risk-based capital requirements. It aims to constrain the build-up of excessive leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as Tier 1 capital divided by total on- and weighted off-balance sheet exposures, and further netting possibilities on market instruments. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement.

Pillar 3 disclosure requirements

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to increase market transparency by requiring banks to publish, at least annually, wide-ranging information on their risks and capital, and how these are managed. Pillar 3 Disclosure is published on HSBC’s website, www.hsbc.com, under ‘Investor Relations’.

Key capital numbers

	At 31 Dec CRD IV	
	2018	2017[1]
	€m	€m
Capital resources		
CET1	**4,747**	4,644
Tier 1 Capital	**5,247**	4,791
Total Capital	**5,708**	5,000
Risk weighted assets	**–**	–
Credit Risk[1]	**25,972**	22,446
Counterparty Credit Risk	**3,627**	3,036
Market Risk	**3,455**	5,188
Operational Risk	**3,194**	3,385
Basel 1 floor impact	**–**	1,324
Total risk weighted assets	**36,248**	35,379
Capital Ratios – transitional (%)		
Common equity tier 1	**N/A**	13.1%
Total tier 1	**N/A**	13.5%
Total capital	**N/A**	14.1%
Capital Ratios – fully-loaded (%)		
Common equity tier 1	**13.1%**	13.2%
Total tier 1	**14.5%**	13.8%
Total capital	**15.7%**	14.6%

1 *Reported under transitional on 31 December 2017.*

Overwiew of changes of own funds ratios

Own funds disclosure

Ref*		At 31 Dec 2018 €m	At 31 Dec 2017 €m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**842**	353
	– ordinary shares	**475**	16
2	Retained earnings	**3,627**	3,500
3	Accumulated other comprehensive income (and other reserves)	**1,596**	1,483
5	Transitional adjustments due to additional minority interests	**—**	6
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**(32)**	60
6	**Common equity tier 1 capital before regulatory adjustments**	**6,032**	5,403
	Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments	**(173)**	51
8	Intangible assets (net of related deferred tax liability)	**(420)**	(308)
11	Fair value reserves related to gains or losses on cash flow hedges	**23**	70
12	Negative amounts resulting from the calculation of expected loss amounts	**(107)**	(98)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**(57)**	113
19	CET1 instruments of financial sector entities where the institution has a significant investment	**(553)**	(528)
22	Amount exceeding the 15% threshold	**—**	(59)
28	**Total regulatory adjustments to common equity tier 1**	**(1 286)**	(759)
29	**Common equity tier 1 capital**	**4,747**	4,644
	Additional tier 1 ('AT1') capital: instruments		
30	Capital instruments and the related share premium accounts	**500**	200
36	**Additional tier 1 capital before regulatory adjustments**	**500**	200
	Additional tier 1 capital: regulatory adjustments		
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period	**—**	(53)
43	**Total regulatory adjustments to additional tier 1 capital**	**—**	(53)
44	**Additional tier 1 capital**	**500**	147
45	**Tier 1 capital (T1 = CET1 + AT1)**	**5,247**	4,791
	Tier 2 capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	**876**	576
51	**Tier 2 capital before regulatory adjustments**	**876**	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)	**(415)**	(368)
57	**Total regulatory adjustments to tier 2 capital**	**(415)**	(368)
58	**Tier 2 capital**	**461**	208
59	**Total capital (TC = T1 + T2)**	**5,708**	5,000
60	**Total risk-weighted assets**	**36,248**	35,379
	Capital ratios and buffers		
61	Common equity tier 1	**13,1 %**	13.1%
62	Tier 1	**14,5 %**	13.5%
63	Total capital	**15,7 %**	14.1%
64	Institution specific buffer requirement	**6.4%**	5.8%
65	– capital conservation buffer requirement	**1.9%**	1.3%
68	Common equity tier 1 available to meet buffers1	**6.4%**	5.8%
	Amounts below the threshold for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**8**	8
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**529**	506
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**156**	225

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
Reported under transitional on 31 December 2017.
1 *Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.*

Capital increase (EUR 0.7 billion) is detailed on the note 1 'significant events during the year' of the Consolidated Financial Statement section.

RWAs by risks types

	RWAs		Capital required[1]	
	2018	2017	**2018**	2017
	€m	€m	**€m**	€m
Credit risk[2]	**25,972**	22,446	**2,078**	1,796
Counterparty credit risk	**3,627**	3,036	**290**	243
Market risk	**3,455**	5,188	**276**	415
Operational risk	**3,194**	3,385	**256**	271
Basel 1 floor impact	**–**	1,324	**–**	106
At 31 Dec	**36,248**	35,379	**2,900**	2,831

RWAs by global business

	RWAs		Capital required[1]	
	2018	2017	**2018**	2017
	€m	€m	**€m**	€m
Retail Banking and Wealth Management ('RBWM')	**4,989**	4,615	**399**	369
Commercial Banking ('CMB')	**12,677**	11,133	**1,014**	891
Global Banking and Markets ('GB&M')	**15,915**	16,713	**1,273**	1,337
Global Private Banking ('GPB')	**1,213**	985	**97**	79
Corporate Centre	**1,454**	609	**116**	49
Basel 1 floor impact	**–**	1,324	**–**	106
At 31 Dec	**36,248**	35,379	**2,900**	2,831

1 'Capital required', here and in all tables where the term is used, represents the Pillar 1 capital charge at 8 per cent of RWAs.
2 'Credit Risk', here and in all tables where the term is used, excludes counterparty credit risk.

RWA movement by key driver

			Model updates		**Méthodology and policy**				
	Asset size	**Asset quality**	**Portfolios moving onto IRB approach**	**New/ updated models**	**Internal updated**	**External updates - regulatory**	**Acquisitions and disposals**	**Foreign exchange movements**	**Total RWA**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
RWAs at 31 Dec 2017									**35,379**
Counterparty Risk (incl. Credit Valuation Adjustment)	**12**	**(86)**					**665**		**3,627**
Credit risk (incl. Default funds)	**2,471**	**(397)**			**211**		**1,241**		**25,972**
Market Risk	**(1,879)**				**35**		**111**		**3,455**
Operational Risk	**(192)**								**3,194**
Basel 1 floor impact									**–**
RWAs at 31 Dec 2018									**36,248**

RWA increased by EUR 868 million, mainly driven by the increase in Credit Risk-Weighted Assets driven by the increase in activity and by the acquisition of new Greek branch and Polish subsidiary from the parent company Hsbc Bank PLC. This increase is partly offset by the removal of Basel 1 floor (not anymore applicable since January 1st 2018) and the reduction of Market risk RWA. For Operational Risk the variation was fully carried by volume effect, as these risk-weighted assets are computed under standardised approach.

Leverage Ratio at 31 December

	At 31 Dec	
	CRD IV	
	2018	2017
	€m	€m
Tier 1 Capital	**5,247**	4,791
Leverage Exposure	**144,188**	130,580
Leverage ratio % - transitional	**N/A**	3.7%
Leverage ratio % - fully-loaded	**3.6%**	3.6%

Tier 1 capital inflated by EUR 456 million to EUR 5,247 million during 2018. The Leverage exposure increased by EUR 13.6 billion to EUR 144 billion, mainly due to the inclusion in the calculation of reverse repos at amortised cost between the trade date and the settlement date previously not taken into account, and to a significant increase of the activity.

Consolidated financial statements

	Page
Consolidated income statement	147
Consolidated statement of comprehensive income	148
Consolidated balance sheet	149
Consolidated statement of cash flows	150
Consolidated statement of changes in equity	151

Notes on the Financial Statements

1	Basis of preparation and significant accounting policies	152
2	Business combination and disposal of subsidiaries	168
3	Net Fee income	169
4	Net income/(expense) from financial instruments designated and otherwise mandatorily measured at fair value	170
5	Insurance business	170
6	Operating profit	172
7	Employee compensation and benefits	172
8	Auditors' remuneration	177
9	Tax	177
10	Dividends	180
11	Earnings per share	180
12	Trading assets	181
13	Fair values of financial instruments carried at fair value	181
14	Fair values of financial instruments not carried at fair value	188
15	Financial assets designated and otherwise mandatorily measured at FVTPL	189
16	Derivatives	189
17	Financial investments	192
18	Assets pledged, collateral received and assets transferred	193
19	Interests in associates and joint ventures	194
20	Related information on foreign subsidiaries country by country	194
21	Structured entities	195
22	Goodwill and intangible assets	197
23	Prepayments, accrued income and other assets	200
24	Trading liabilities	201
25	Financial liabilities designated at fair value	202
26	Debt securities in issue	202
27	Accruals, deferred income and other liabilities	202
28	Provisions	202
29	Subordinated liabilities	203
30	Maturity analysis of assets, liabilities and off balance sheet commitments	203
31	Offsetting of financial assets and financial liabilities	207
32	Non-controlling interests	207
33	Called up share capital and other equity instruments	208
34	Contingent liabilities, contractual commitments and guarantees	208
35	Lease commitments	209
36	Legal proceedings and regulatory matters	210
37	Related party transactions	211
38	Effect of reclassification upon adoption of IFRS 9	213
39	Events after the balance sheet date	216
40	Group HSBC France subsidiaries, joint ventures and associates	217

Statutory Auditor's report on the consolidated financial statements	220

Consolidated income statement[1]

for the year ended 31 December 2018

	Notes	2018 €m	2017 €m
Net interest income		**1,011**	1,048
– interest income		**1,622**	1,568
– interest expense		**(611)**	(520)
Net fee income	3	**593**	574
– fee income	3	**866**	864
– fee expense	3	**(273)**	(290)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis[2,3]	4	**24**	291
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss[3]	4	**(638)**	616
Changes in fair value of long-term debt and related derivatives	4	**(2)**	(1)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	4	**113**	N/A
Gains less losses from financial investments		**14**	107
Dividend income		**–**	5
Net insurance premium income	5	**2,026**	1,861
Other operating income/(expense)		**70**	8
Total operating income		**3,211**	4,509
Net insurance claims and benefits paid and movement in liabilities to policyholders	5	**(1,475)**	(2,602)
Net operating income before change in expected credit losses and other credit impairment charges		**1,736**	1,907
Change in expected credit losses and other credit impairment charges		**10**	(81)
Net operating income		**1,746**	1,826
– employee compensation and benefits	7	**(899)**	(891)
– general and administrative expenses		**(755)**	(674)
– depreciation and impairment of property, plant and equipment		**(40)**	(37)
– amortisation and impairment of intangible assets		**(7)**	(5)
Total operating expenses		**(1,701)**	(1,607)
Operating profit/(loss)		**45**	219
Share of profit in associates and joint ventures	19	**–**	–
Profit/(loss) before tax		**45**	219
Tax expense	9	**(63)**	(43)
Profit/(loss) for the period		**(18)**	176
Attributable to:			
– shareholders of the parent company		**(17)**	177
– non-controlling interests		**(1)**	(1)
Basic earnings per ordinary share	11	**(0.24)**	2.63
Diluted earnings per ordinary share	11	**(0.24)**	2.63
Dividends per ordinary share	10	**–**	6.11

1 *The HSBC Group adopted IFRS 9 on 1 January 2018 and certain accounting changes. Comparative information has not been restated apart from the items mentioned in the footnote 3.*

2 *Since 1 January 2018, certain structured financial liabilities are classified as "Financial liabilities designated at fair value". These financial liabilities were previously included in the "Trading liabilities". As a result, changes in the fair value of these instruments attributable to changes in own credit risk are recognised in other comprehensive income while they impacted the income statement in 2017. Comparative figures have not been restated. For 2017, a restatement would have resulted in an increase in the "Net result of financial instruments held for trading or managed at fair value" of EUR 86 million and an increase of EUR 30 million in tax with an equivalent decrease in other comprehensive income.*

3 *The presentation of the items "Net income/(expense) from financial instruments held for trading or managed on a fair value basis" and "Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss" has been reviewed. Comparative information has been modified accordingly.*

Consolidated statement of comprehensive income[1]

for the year ended 31 December 2018

	Notes	2018 €m	2017 €m
Profit for the period		**(18)**	176
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Available-for-sale investments:		**N/A**	(51)
– fair value gains/(losses)		**N/A**	21
– fair value gains reclassified to the income statement		**N/A**	(104)
– amounts reclassified to the income statement in respect of impairment losses		**N/A**	–
– income taxes		**N/A**	32
Debt instruments at fair value though other comprehensive income:		**(24)**	N/A
– fair value gains/(losses)	16	**(21)**	N/A
– fair value gains transferred to the income statement on disposal	16	**(14)**	N/A
– expected credit losses recognised in income statement	16	**–**	N/A
– income taxes		**11**	N/A
Cash flow hedges:		**47**	35
– fair value (losses)/gains		**20**	(31)
– fair value losses/(gains) reclassified to the income statement		**54**	85
– income taxes		**(27)**	(19)
Exchange differences and other		**–**	(2)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability:		**4**	(4)
– before income taxes	7	**8**	(5)
– income taxes		**(4)**	1
Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[2]:		**158**	(17)
– fair value gains/(losses)		**241**	(21)
– income taxes		**(83)**	4
Equity instruments designated at fair value through other comprehensive income:		**–**	N/A
– fair value gains/(losses)		**–**	N/A
– income taxes		**–**	N/A
Other comprehensive income/(expense) for the period, net of tax		**185**	(39)
Total comprehensive income/(expense) for the period		**167**	137
Attributable to:			
– shareholders of the parent company		**168**	138
– non-controlling interests		**(1)**	(1)
Total comprehensive income/(expense) for the period		**167**	137

1 *The Group HSBC adopted IFRS 9 on 1 January 2018. Comparative information has not been restated.*

2 *Since 1 January 2018, certain structured financial liabilities have been classified as "Fair value financial liabilities". These financial liabilities were previously included in the "Trading liabilities". As a result, changes in the fair value of these instruments attributable to changes in own credit risk are recorded in other comprehensive income while they impacted the income statement in 2017. Comparative figures have not been restated. For 2017, a restatement would have resulted in a decrease in other comprehensive income of EUR 86 million and an increase of EUR 30 million in tax expenses with an equivalent increase in the income statement.*

Consolidated balance sheet[1]

for the year ended 31 December 2018

	Notes	2018 €m	2017 €m
Assets			
Cash and balances at central banks		**9,018**	14,630
Items in the course of collection from other banks		**437**	435
Trading assets[3]	12	**16,966**	22,401
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	15	**10,495**	–
Financial assets designated at fair value	15	**–**	8,605
Derivatives	16	**31,777**	34,407
Loans and advances to banks[3]		**6,197**	4,843
Loans and advances to customers[3]		**46,997**	44,856
Reverse repurchase agreements – non-trading		**32,835**	13,781
Financial investments	17	**16,502**	20,548
Asset held for sale		**30**	–
Prepayments, accrued income and other assets[3]	23	**8,460**	1,915
Current tax assets		**154**	130
Interests in associates and joint ventures	19	**2**	2
Goodwill and intangible assets	22	**920**	766
Deferred tax assets	9	**156**	225
Total assets		**180,946**	167,544
Liabilities			
Deposits by banks[3]		**10,828**	13,297
Customer accounts[3]		**41,906**	38,277
Repurchase agreements – non-trading		**18,921**	6,586
Items in the course of transmission to other banks		**269**	490
Trading liabilities[2,3]	24	**23,145**	32,436
Financial liabilities designated at fair value[2]	25	**14,584**	7,565
Derivatives	16	**31,298**	33,229
Debt securities in issue	26	**2,472**	5,159
Accruals, deferred income and other liabilities[3]	27	**8,437**	2,086
Current tax liabilities		**61**	29
Liabilities under insurance contracts	5	**21,335**	21,853
Provisions	28	**75**	103
Deferred tax liabilities	9	**155**	152
Subordinated liabilities	29	**876**	576
Total liabilities		**174,362**	161,838
Equity			
Called up share capital	33	**367**	337
Share premium account	33	**475**	16
Other equity instruments	10	**500**	200
Other reserves		**1,566**	1,600
Retained earnings		**3,647**	3,523
Total shareholders' equity		**6,555**	5,676
Non-controlling interests	32	**29**	30
Total equity		**6,584**	5,706
Total liabilities and equity		**180,946**	167,544

1 *The HSBC Group adopted IFRS 9 on 1 January 2018. Comparative information has not been restated.*
2 *From 1 January 2018, certain structured financial liabilities are classified as 'Financial liabilities designated at fair value'. These were previously included in 'Trading liabilities'. Comparative data have not been restated. A restatement would have increased 'Financial liabilities designated at fair value' by EUR 2.7 billion at 31 December 2017, with an equivalent decrease in 'Trading liabilities'.*
3 *At 1 January 2018, the HSBC Group adopted certain accounting changes. Comparative data have not been restated. On asset, cash collateral, margin and settlement accounts have been reclassified from 'Trading assets', 'Loans and advances to banks' and 'Loans and advances to customers' to 'Prepayments, accrued income and other assets'. On liabilities, cash collateral, margin and settlement accounts have been reclassified from 'Trading liabilities', 'Deposits by banks' and 'Customer accounts' to 'Accruals, deferred income and other liabilities'.*

Consolidated statement of cash flows

for the year ended 31 December 2018

	Footnotes	2018 €m	2017 €m
Profit before tax		**45**	219
Adjustments for non-cash items:		**56**	119
– depreciation and amortisation		**47**	42
– net gain from investing activities		**(16)**	(107)
– share of profits in associates and joint ventures		**—**	—
– loss on disposal of subsidiaries, businesses, associates and joint ventures		**—**	—
– change in expected credit losses gross recoveries and other credit risk provisions		**(9)**	79
– provisions including pensions		**18**	32
– share-based payment expense		**12**	12
– other non-cash items included in profit before tax		**5**	29
– elimination of exchange differences		**(1)**	32
Changes in operating assets and liabilities		**2,972**	6,731
– change in net trading securities and derivatives		**(132)**	9,445
– change in loans and advances to banks and customers		**(1,907)**	(4,687)
– change in reverse repurchase agreements – non-trading		**(8,763)**	166
– change in financial assets designated at fair value and otherwise mandatorily at fair value		**681**	(1,301)
– change in other assets		**1,023**	48
– change in deposits by banks and customer accounts		**(1,443)**	5,293
– change in repurchase agreements – non-trading		**12,335**	(1,006)
– change in debt securities in issue		**(2,687)**	(1,457)
– change in financial liabilities designated at fair value		**4,529**	(926)
– change in other liabilities		**(596)**	1,168
– dividends received from associates		**—**	—
– contributions paid to defined benefit plans		**—**	—
– tax paid		**(68)**	(12)
Net cash (used in)/generated from operating activities		**3,073**	7,069
Purchase of financial investments		**(5,227)**	(1,602)
Net cash flow on financial investments		**6,434**	7,135
Net cash flows from the purchase and sale of property, plant and equipment		**(11)**	(92)
Net cash inflow/(outflow) from disposal of customer and loan portfolios		**—**	—
Net cash flow on disposal/purchase of goodwill and intangible assets		**(115)**	(49)
Net cash flow on disposal/acquisition of subsidiaries, businesses, associates and joint ventures[1]		**(13)**	—
Net cash flows from investing activities		**1,068**	5,392
Issue of ordinary share capital and other equity instruments[3]	33	**788**	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	29	**300**	300
Subordinated loan capital repaid		**—**	—
Dividends paid to shareholders of the parent company[2]	10	**(62)**	(505)
Net cash inflow from change in stake of subsidiaries		**—**	—
Dividends paid to non-controlling interests		**—**	—
Net cash (used in)/from financing activities		**1,026**	(5)
Net increase/(decrease) in cash and cash equivalents		**5,167**	12,456
Cash and cash equivalents at beginning of the period		**22,231**	9,807
Exchange differences in respect of cash and cash equivalents		**4**	(32)
Cash and cash equivalents at 31 Dec		**27,402**	22,231
Cash and cash equivalents comprise of:			
– cash and balances at central banks		**9,018**	14,630
– items in the course of collection from other banks		**437**	435
– loans and advances to banks of one month or less		**2,022**	1,985
– reverse repurchase agreement with banks of one month or less		**15,717**	5,426
– treasury bills, other bills and certificates of deposit less than three months		**477**	245
– less: items in the course of transmission to other banks		**(269)**	(490)
Cash and cash equivalents at 31 Dec		**27,402**	22,231

1 *This flow corresponds to the amount paid for the acquisition of the activities of the Greek branch of HSBC France the 1 January 2018 and two subsidiaries HSBC Institutional Trust Services (Ireland) DAC and HSBC Bank Polska S.A. acquired with effect from 1 August 2018, in addition to the 'Cash and balances at central banks' of the three entities (see note 2).*
2 *DIvidends paid include the coupons on capital securities classified as equity.*
3 *The equity and additional Tier 1 issuances are detailed in note 1 "Significant events during the year" and notes 10 and 33.*

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

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

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

Consolidated statement of changes in equity

for the year ended 31 December 2018

				Other reserves						
	Called up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2017	353	200	3,523	110	(70)	(27)	1,587	5,676	30	5,706
Impact of transition to IFRS 9 [1]	—	—	28	(59)	—	—	—	(31)	—	(31)
At 1 Jan 2018 [1,2]	**353**	**200**	**3,551**	**51**	**(70)**	**(27)**	**1,587**	**5,645**	**30**	**5,675**
Profit for the period[3]	—	—	(17)	—	—	—	—	(17)	(1)	(18)
Other comprehensive income (net of tax)	—	—	162	(24)	47	—	—	185	—	185
– debt instruments at fair value through other comprehensive income	—	—	—	(24)	—	—	—	(24)	—	(24)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—	—	—	—	—
– cash flow hedges	—	—	—	—	47	—	—	47	—	47
– remeasurement of defined benefit asset/ liability	—	—	4	—	—	—	—	4	—	4
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk [3]	—	—	158	—	—	—	—	158	—	158
– exchange differences and other	—	—	—	—	—	—	—	—	—	—
Total comprehensive income for the period	—	—	145	(24)	47	—	—	168	(1)	167
– capital securities issued	489	300	—	—	—	—	—	789	—	789
– dividends to shareholders [4]	—	—	(62)	—	—	—	—	(62)	—	(62)
– exercise and lapse of share option and vesting of share awards	—	—	—	—	—	—	—	—	—	—
– cost of share-based payment arrangements	—	—	6	—	—	—	—	6	—	6
– change in business combination and other movements [5]	—	—	7	2	—	—	—	9	—	9
Total Other	**489**	**300**	**(49)**	**2**	**—**	**—**	**—**	**742**	**—**	**742**
At 31 Dec 2018	**842**	**500**	**3,647**	**29**	**(23)**	**(27)**	**1,587**	**6,555**	**29**	**6,584**
At 1 Jan 2017	353	—	3,871	161	(105)	(25)	1,587	5,842	31	5,873
Profit for the period	—	—	177	—	—	—	—	177	(1)	176
Other comprehensive income (net of tax)	—	—	(21)	(51)	35	(2)	—	(39)	—	(39)
– available-for-sale investments	—	—	—	(51)	—	—	—	(51)	—	(51)
– cash flow hedges	—	—	—	—	35	—	—	35	—	35
– remeasurement of defined benefit asset/ liability	—	—	(4)	—	—	—	—	(4)	—	(4)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	(17)	—	—	—	—	(17)	—	(17)
– exchange differences and other	—	—	—	—	—	(2)	—	(2)	—	(2)
Total comprehensive income for the year	—	—	156	(51)	35	(2)	—	138	(1)	137
– capital securities issued	—	200	—	—	—	—	—	200	—	200
– dividends to shareholders	—	—	(505)	—	—	—	—	(505)	—	(505)
– exercise and lapse of share option and vesting of share awards	—	—	(8)	—	—	—	—	(8)	—	(8)
– cost of share-based payment arrangements	—	—	6	—	—	—	—	6	—	6
– other movements	—	—	4	—	—	—	(1)	3	—	3
– transfers	—	—	(1)	—	—	—	1	—	—	—
Total Other	—	200	(504)	—	—	—	—	(304)	—	(304)
At 31 Dec 2017	353	200	3,523	110	(70)	(27)	1,587	5,676	30	5,706

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

1 *The impact on Equity of the IFRS 9 Transition is EUR (31) million and the opening balance at 1 January 2018 has been adjusted consequently.*
2 *The amounts at 1 January 2018 do not include the transfer of Group HSBC activities in Greece to the Greek branch of HSBC France at 1 January 2018.*
3 *At 31 December 2018, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a gain of EUR 56 million (at 31 December 2017: loss of EUR (81) million). This includes the re-instatement of EUR 14 million on adoption of IFRS 9 related to certain structured financial liabilities which are classified as 'Financial liabilities designated at fair value '. These were previously included in 'Trading liabilities' . Comparative data have not been restated*
4 *Dividends include EUR 15.6 million related to coupon payment on AT1 other equity instrument.*
5 *At 31 December 2018, other movements include EUR (21) million related to the transfer of Group HSBC activities in Greece to Greek branch of HSBC France on 1st January 2018, and EUR 38 million related to the acquisition of 2 subsidiaries HSBC Institutional Trust Services (Ireland) DAC and HSBC Bank Polska S.A. on 1st August 2018.*

1 Basis of preparation and main accounting policies

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

These consolidated financial statements were approved by the Board of Directors on 19 February 2019.

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC France have been prepared in accordance with IFRSs as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU'). At 31 December 2018, there were no unendorsed standards effective for the year ended 31 December 2018 affecting these consolidated financial statements, and HSBC France's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2018

HSBC France has adopted the requirements of IFRS 9 'Financial Instruments' from 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017. This includes the adoption of 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' which is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The effect of its adoption is not considered to be significant. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which HSBC France has exercised. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by the transitional requirements of IFRS 9, HSBC France has not restated comparatives.

The adoption of IFRS 9 on January 1, 2018 reduced HSBC France Group's net position by EUR 31 million net of taxes deferred, with an increase of EUR 5 million related to the 'Classification and Measurement' phase and a decrease of EUR 36 million in the 'Impairment' phase. The IFRS9 transition reduced the transitional CET1 ratio by 2 basis points. The total amount of provisions for expected credit losses at 1 January 2018 is EUR 578 million for financial assets at amortized cost, EUR 16 million for commitments and guarantees and EUR 5 million for financial assets at fair value through other comprehensive income. For more details, see Note 38.

In addition, HSBC France has adopted the requirements of IFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on the consolidated financial statements of HSBC France.

IFRS 9 transitional requirements

Key similarities and differences between IAS 39 and IFRS 9 have been presented in the Update to the Registration document and Interim Financial Report 2018 (please refer to pages 37 to 40).

The results of these changes are included in the reconciliation of the consolidated balance sheet set out in Note 38.

Changes in accounting policy

While not necessarily required by the adoption of IFRS 9, the following voluntary changes in accounting policy and presentation have been made as a result of reviews carried out in conjunction with its adoption. The effect of presentational changes at 1 January 2018 is included in the reconciliation set out in Note 38 and comparatives have not been restated.

- Group HSBC France has considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components. We have concluded that a change in accounting policy and presentation from 'trading customer accounts and other debt securities in issue' would be appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information about the effect of these financial liabilities on our financial position and performance. As a result, rather than being classified as held for trading, we will designate these financial liabilities as at fair value through profit or loss since they are managed and their performance evaluated on a fair value basis. A further consequence of this change in presentation is that the effects of changes in the liabilities' credit risk will be presented in 'Other comprehensive income' with the remaining effect presented in profit or loss in accordance with Group accounting policy adopted in 2017 (following the adoption of the requirements in IFRS 9 relating to the presentation of gains and losses on financial liabilities designated at fair value).
- Cash collateral, margin and settlement accounts have been reclassified from 'Trading assets' and 'Loans and advances to banks and customers' to 'Prepayments, accrued income and other assets' and from 'Trading liabilities' and 'Deposits by banks' and 'Customer accounts' to 'Accruals, deferred income and other liabilities'. The change in presentation for financial assets is in accordance with IFRS 9 and the change in presentation for financial liabilities is considered to provide more relevant information, given the change in presentation for the financial assets. The change in presentation for financial liabilities has had no effect on measurement of these items and therefore on retained earnings or profit for any period.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs which are effective from 1 January 2019, some of which have been endorsed for use in the EU. HSBC France expects they will have an insignificant effect, when adopted, on the consolidated financial statements.

Major new IFRSs

The IASB has published IFRS 16 'Leases' and IFRS 17 'Insurance contracts'. IFRS 16 has been endorsed for use in the EU and IFRS 17 has not yet been endorsed. In addition, an amendment to IAS 12 'Income taxes' has not yet been endorsed.

IFRS 16 'Leases'

IFRS 16 'Leases' has an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees recognise a right of use ('ROU') asset and a corresponding financial liability on the balance sheet. The asset is amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. At 1 January 2019, HSBC France has adopted the standard using a modified retrospective approach where the cumulative effect of initially applying the standard is recognised an adjustment to the opening balance of retained earnings and comparatives are not restated.

The implementation increased assets (ROU assets) by EUR 219 million and increased financial liabilities by the same amount with no effect on net assets or retained earnings.

IFRS 17 'Insurance contracts'

IFRS 17 'Insurance contracts' was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is currently effective from 1 January 2021. However, the IASB is considering delaying the mandatory implementation date by one year and may make additional changes to the standard. The group is in the process of implementing IFRS17. Industry practise and interpretation of the standard are still developing and there may be changes to it, therefore the likely impact of its implementation remains uncertain.

Amendment to IAS 12 'Income Taxes'

An amendment to IAS 12 was issued in December 2017 as part of the annual improvement cycle. The amendment clarifies that an entity should recognise the tax consequences of dividends in the same place where the transactions or events that generated the distributable profits are recognised. This amendment is effective for annual periods beginning on or after 1 January 2019 and is applied to the income tax consequences of distributions recognised on or after the beginning of the earliest comparative period.

(c) Foreign currencies

Items included in the financial statements of each of HSBC France's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements of the HSBC France group are presented in euros.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

In the consolidated financial statements, the assets, liabilities and results of foreign operations, whose functional currency is not euros, are translated into the group's presentation currency at the reporting date. Exchange differences arising are recognised in other comprehensive income. On disposal of a foreign operation, exchange difference previously recognised on other comprehensive income are reclassified to the income statement.

(d) Presentation of information

Certain disclosures concerning the nature and extent of risks relating to insurance contracts and financial instruments have been included in the 'Risk' section from page 72 to 141.

Capital disclosures have been included in the 'Capital and leverage management' pages from 142 to 145.

HSBC France's Securitisation activities and structured product disclosures are published in the Note 21 from pages 195 to 196.

Following sections, are presented in 'Risk':

- Credit risks: pages 89 and following;
- Market risks: pages 112 and following;
- Liquidity risks: pages 109 and following;
- Insurance risks: pages 137 and following;
- Capital and allocation management: pages 142 and following.

Information related to results by activity (IFRS 8) are disclosed in the 'Report of the Board of Directors to the Annual General Meeting' in pages 12 and 14.

Informations related to Pillar 3 disclosures are disclosed by the HSBC France group in a separate document available on hsbc.com website.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical accounting estimates and judgements in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of HSBC's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved. The most important for HSBC France are listed below:

- Impairment of loans and advances: refer to risk management report on pages 89 and following;
- Deferred tax assets: refer to Note 9;
- Valuation of financial instruments: refer to Note 13;

- Goodwill impairment: refer to Note 22;
- PVIF: refer to Note 22;
- Provisions for litigations: refer to Notes 28 and 36.

(f) Segmental analysis

Measurement of segmental assets, liabilities, income and expenses is in accordance with the group's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. The types of products and services from which each reportable segment derives its revenue are discussed in the 'Report of the Board of Directors to the Annual General Meeting' pages 11 to 17.

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

1.2 Summary of significant accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

Where an entity is governed by voting rights, the group would consolidate when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

Goodwill

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. HSBC France's CGUs are based on global business.

Impairment testing is performed at least once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

Goodwill is included in a disposal group if the disposal group is a CGU to which goodwill has been allocated or it is an operation within such a CGU. The amount of goodwill included in a disposal group is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Critical accounting estimates and judgements

The review of goodwill for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

- The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment.
- The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to individual CGUs. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control. They are therefore subject to uncertainty and require the exercise of significant judgement.

The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. In such circumstances, management retests goodwill for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.

HSBC France sponsored structured entities

HSBC France is considered to sponsor another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing that entity or in bringing together relevant counterparties so the transaction that is the purpose of the entity could occur. HSBC France is generally not considered a sponsor if the only involvement with the entity is merely administrative.

Interests in associates and joint arrangements

Joint arrangements are investments in which HSBC France, together with one or more parties, has joint control. Depending on HSBC France's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture. HSBC France classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangements, as associates.

HSBC France recognises its share of the assets, liabilities and results in a joint operation. Investments in associates and interests in joint ventures are recognised using the equity method. The attributable share of the results and reserves of joint ventures and associates are included in the consolidated financial statements of HSBC France based on either financial statements made up to 31 December or pro-rated amounts adjusted for any material transactions or events occurring between the date the financial statements are available and 31 December.

Investments in associates and joint ventures are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired. Goodwill on acquisitions of interests in joint ventures and associates is not tested separately for impairment, but is assessed as part of the carrying amount of the investment.

(b) Income and expense

Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt securities issued by HSBC France that are designated under the fair value option and derivatives managed in conjunction with those debt securities are included in interest expense.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income and expense

HSBC France generates fee income from services provided at a fixed price over time, such as account service and card fees, or when HSBC France delivers a specific transaction at the point in time such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and HSBC France's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short term contracts with payment terms that do not include a significant financing component.

HSBC France acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades HSBC France acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

HSBC France recognises fees earned on transaction-based arrangements at a point in time when we have fully provide the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where HSBC France offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established.

This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis'. This element is comprised of the net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends; and it also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss
- 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'. This includes interest income, interest expense and dividend income in respect of financial assets and liabilities measured at fair value through profit or loss; and those derivatives managed in conjunction with the above which can be separately identifiable from other trading derivatives
- 'Changes in fair value of long-term debt and related derivatives'. Interest paid on the external long-term debt and interest cash flows on related derivatives is presented in interest expense
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss'. This includes interest on instruments which fail the SPPI test. See (d) below.

The accounting policies for insurance premium income are disclosed in Note 5.

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, HSBC France recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out or the valuation inputs become observable.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where HSBC France manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The group accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

HSBC France may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When HSBC France intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repurchase or repurchase agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repurchase or repurchase agreements.

(e) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when HSBC enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(f) Equity securities measured at fair value with fair value movements presented in other comprehensive income ('OCI')

The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where HSBC holds the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss (except for dividend income which is recognised in profit or loss).

(g) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when HSBC France enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when HSBC France enters into contracts with counterparties, which appears on balance sheet on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis' or 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'.

Under the above criterion, the main classes of financial instruments designated by HSBC France are:

- Long-term debt issues.
- The interest and/or foreign exchange exposure on certain fixed rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.
- Financial assets and financial liabilities under unit-linked and non-linked investment contracts.

A contract under which HSBC France does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiaries are determined based on the fair value of the assets held in the linked funds. If no fair value designation was made for the related assets, at least some of the assets would otherwise be measured at either fair value through other comprehensive income or amortised cost. The related financial assets and liabilities are managed and reported to management on a fair value basis. Designation at fair value of the financial assets and related liabilities allows changes in fair values to be recorded in the income statement and presented in the same line.

(h) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss, with changes in fair value generally recorded in the income statement. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Where the derivatives are managed with debt securities issued by HSBC France that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. HSBC France uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued; the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income; the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net income from financial instruments held for trading or managed on a fair value basis'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. In hedges of forecast transactions that result in recognition of a non-financial asset or liability, previous gains and losses recognised in other comprehensive income are included in the initial measurement of the asset or liability. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

Critical accounting estimates and judgements

As a result of the request received by the Financial Stability Board from the G20, a fundamental review and reform of the major interest rate benchmarks is underway across the world's largest financial markets. The process of replacing existing benchmark interbank offer rates ('IBORs') with alternative risk free rates ('RFRs') is at different stages, and is progressing at different speeds, across several major jurisdictions. There is therefore uncertainty as to the timing and the methods of transition for many financial products affected by these changes, and whether some existing benchmarks will continue to be supported in some way.

As a result of these developments, significant accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the variability of cash flows and interest rate risk due to changes in IBORs continue to qualify for hedge accounting as at 31 December 2018. Management's judgement is that those existing hedge accounting relationships continue to be supported at the 2018 year end. Even though there are plans to replace those rates with economically similar rates based on new RFRs over the next few years, there is widespread continued reliance on IBORs in market pricing structures for long term products with maturities over the hedged horizon, which can be up to 10 years. In addition there is a current absence of observable and liquid market prices using the new RFRs. This judgement will be kept under review in future as markets based on the new RFRs develop, taking into consideration any specific accounting guidance that may be developed to deal with these unusual circumstances. The International Accounting Standards Board has commenced the due process for providing clarification on how the guidance for hedge accounting in IAS 39 Financial Instruments: Recognition and Measurement and IFRS 9: Financial Instruments should be applied in these circumstances, which were not contemplated when the standards were published.

(i) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets (POCI) are treated differently as set out below.

Credit-impaired (stage 3)

HSBC France determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit- impaired when HSBC France modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be purchased or originated credit-impaired ('POCI') and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications that are not credit-impaired

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that HSBC France's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value.

The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30 bps
Greater than 3.3 and not impaired	2x

For CRRs greater than 3.3 which are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notch
8.3	0 notch

Further information about the 23-grade scale used for CRR can be found on page 91.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

Unimpaired and without significant increase in credit risk - (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, HSBC France calculates ECL using three main components, a probability of default, a loss given default and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

HSBC leverages the Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as follows.

Model	Regulatory capital	IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle) • The definition of default includes a backstop of 90+ days past due, although this has been modified to 180+ days past due for some portfolios, particularly UK and US mortgages	• Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) • Default backstop of 90+ days past due for all portfolios
EAD	• Cannot be lower than current balance	• Amortisation captured for term products
LGD	• Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) • Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data • Discounted using cost of capital • All collection costs included	• Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) • No floors • Discounted using the original effective interest rate of the loan • Only costs associated with obtaining/selling collateral included
Other		• Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the Group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which HSBC France is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit HSBC France's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period HSBC France remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward-looking economic inputs

HSBC France will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and two, less likely, 'Outer' scenarios on either side of the Central, referred to as an Upside and a Downside scenario. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside are constructed following a standard process supported by a scenario narrative reflecting the Group's current top and emerging risks and by consulting external and internal subject matter expert. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 80% and the Upside and Downside scenarios 10% each, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, internally consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The central forecast and spread between the Central and Outer scenarios is grounded on the expected gross domestic product of the UK and France. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, inflation and commercial property prices across all the countries in which HSBC France operates.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

HSBC France recognises that the Consensus Economic Scenario approach using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL.

Critical accounting estimates and judgements

In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities.

The PD, LGD and EAD models, which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling, and for the incorporation of 'Upside scenarios', which have not generally been subject to experience gained through stress testing.

The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. Section 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions underlying the Central scenario and information about how scenarios are developed in relation to the Group's top and emerging risks and its judgements, informed by consensus forecasts of professional industry forecasters. The sensitivity of ECL to different economic scenarios is illustrated by recalculating the ECL for selected portfolios as if 100% weighting had been assigned to each scenario.

(j) Insurance contracts

Through its insurance subsidiary, HSBC France issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which HSBC France accepts insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an investment contract if the insurance risk is significant.

While investment contracts with discretionary participation features are financial instruments, they continue to be treated as insurance contracts as permitted by IFRS 4.

Insurance contracts are accounted for as follows:

Insurance premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

Insurance claims and reinsurance recoveries

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. Claims arising during the year include maturities, surrenders and death claims.

Reinsurance recoveries are accounted for in the same period as the related claim.

Future profit participation on insurance contracts with discretionary participation features

In accordance with the *Code des assurances*, a discretionary participation is allocated to non-linked investments contract based on actual net financial income.

Assets backing non-linked investments contracts are valuated at their fair value. The fair value variation generated during the year is allocated in deferred discretionary participation. At least 85 per cent is allocated to policyholders; the remaining amount is accounted for as deferred participation and should be distributed to customers within eight years.

Present value of in-force long-term insurance business

The group recognises the value placed on insurance contracts, and investment contracts with DPF, that are classified as long-term and in-force at the balance sheet date, as an asset. The asset represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date. The present value of in-force long-term insurance business ('PVIF') is determined by discounting those expected future profits using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, ans a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees. The PVIF asset is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in 'Other operating income' on a gross of tax basis.

Liabilities under insurance contracts

Liabilities under non-linked life insurance contracts are calculated by each life insurance operation based on local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, which is calculated by reference to the value of the relevant underlying funds or indices.

(k) Employee compensation and benefits

Share-based payments

Share-based payments are payments based on shares issued by HSBC Holdings plc.

HSBC France employees benefit from the following advantages:

- from 2006, HSBC Holdings plc implemented share plans on HSBC Holdings plc shares;
- employees can subscribe to HSBC Holdings plc shares within the employee share ownership plan.

Share plan

HSBC France grants bonus share plans to these employees for services rendered.

The vesting period may start before the date at which the plans are awarded when the employees return or have started to render their services before the grant date.

The expense is recognized in the income statement from the date at which the employees began providing services to the entity until the acquisition date.

The cancellation of the expense may result from the inability to fulfill the vesting conditions during the vesting period.

The amount recorded in the income statement is adjusted to take into account the reality of the shares granted at the date of acquisition (certain shares granted were not vested due to non-compliance by the employees with the attendance or performance criterion).

Employee share ownership plan

When a capital increase is opened to employees in the framework of the Employee share ownership plan, the advantage granted through the discount on the market value of the security is a staff expense for the period.

(l) Tax

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when HSBC France intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled based on tax rates and laws enacted, or substantially enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same legal entity, and relate to income taxes levied by the same taxation authority, and when the group has a legal right to offset.

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognised in other comprehensive income. Deferred tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred tax relating to financial assets at fair value through other comprehensive income, cash flow hedging instruments and own credit spread on liabilities classified at fair value option is credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

Critical accounting estimates and judgements

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relate to expected future profitability and to the applicability of tax planning strategies, including corporate reorganisations.

(m) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical accounting estimates and judgements

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation, property (including onerous contracts) and similar obligations. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous judgements and estimates as appropriate. At more advanced stages, it is typically easier to make judgements and estimates around a better defined set of possible outcomes. However, the amount provisioned can remain very sensitive to the assumptions used. There could be a wide range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved. Provisions for customer remediation also require significant levels of estimation and judgement. The amounts of provisions recognised depend on a number of different assumptions, such as the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

(n) Accounting policies applicable prior to 1 January 2018

Financial instruments measured at amortised cost

Loans and advances to banks and customers and most of the financial debt are carried at amortised cost. Initial recognition includes direct transaction cost. When the initial fair value is lower than the cash amount advanced, the write down is deferred in balance sheet and amortised over the life of the instrument, except if the loan is impaired.

Loans and advance to customers

Loans and advances to banks and customers include loans and advances originated by HSBC France, which are not intended to be sold in the short term and have not been classified either as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers and are derecognised when either borrowers repay their obligations, or the loans are sold or written off or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment allowance. Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

For certain leveraged finance and syndicated lending activities, the group may commit to underwrite loans on fixed contractual terms for specified periods of time, where the drawdown of the loan is contingent upon certain future events outside the control of the group. Where the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a trading derivative and measured at fair value through profit and loss. On drawdown, the loan is classified as held for trading and measured at fair value through profit and loss. Where it is not the group's intention to trade the loan, a provision on the loan commitment is only recorded where it is probable that the group will incur a loss. This may occur, for example, where a loss of principal is probable or the interest rate charged on the loan is lower than the cost of funding. On inception of the loan, the hold portion is recorded at its fair value and subsequently measured at amortised cost using the effective interest method. However, where the initial fair value is lower than the cash amount advanced, the write-down is charged to the income statement in other operating income. The write-down will be recovered over the life of the loan, through the recognition of interest income using the effective interest rate method, unless the loan becomes impaired. The write-down is recorded as a reduction to other operating income.

Impairment of loans and advances

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances.

Individually assessed loans

All loans are individually assessed for the purpose of determining whether there is objective evidence of a loss and raise an impairment charge accordingly. Determining whether there is objective evidence that a loss event has occurred and, if so, the measurement of the impairment allowance, both require judgement. In determining whether there is objective evidence that a loss event has occurred, judgement is exercised in evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past-due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress, particularly where the likelihood of repayment is affected by the prospects for refinancing or the sale of a specified asset. For those loans where objective evidence of impairment exists, management determine the size of the allowance required based on a range of factors such as the realisable value of security, the likely dividend available on liquidation or bankruptcy, the viability of the customer's business model and the capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

The HSBC France group might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities or avoid default or repossession. Where forbearance activities are significant, higher levels of judgement and estimation uncertainty are involved in determining their effects on loan impairment allowances. Judgements are involved in differentiating the credit risk characteristics of forbearance cases, including those which return to performing status following renegotiation. Forbearance activities take place in both retail and wholesale loan portfolios.

The exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which our loan impairment allowances as a whole are sensitive.

The criteria used to make this assessment include:

- known cash-flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant;
- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

Losses for impaired loans are recognised promptly when there is objective evidence of impairment. Impairment losses are calculated on individual loans and on loans assessed collectively and are recorded as charges to the income statement against the carrying amount of impaired loans on the balance sheet.

In determining such impairment losses on individually assessed accounts, the following factors are considered:

- HSBC France's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service their debt obligations;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, HSBC France and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the amount and timing of expected receipts and recoveries;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely costs of obtaining and selling collateral as part of foreclosure;
- the ability of the borrower to obtain, and make payments in, the relevant foreign currency if loans are not in local currency; and
- where available, the secondary market price for the debt.

The determination of the realisable value of security is based on the market value at the time the impairment assessment is performed.

Impairment loss is calculated by comparing the present value of the expected future cash flows, which includes expected future receipts of contractual interests, discounted at the original effective interest rate of the loan, with its current carrying value. The impairment allowances on individually significant accounts are reviewed at least quarterly.

Collective impairment

A collective impairment is raised on loan portfolios to recognise losses incurred but not yet reported.

The collective impairment loss is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product, etc.);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each portfolio. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. The estimated period between a loss occurring and its identification may consequently vary over time as these factors change.

Regarding Retail customers, the collective provisioning methodology differs between the Home Loan portfolio and the other types of credit exposures.

Regarding Home Loans, the collective provision calculation makes a difference between those exposures that are secured by a mortgage on the property and those that are guaranteed by a specialised company. In both cases, it takes into account the observed Probabilities of Default over the last 12 months and, for the defaulted exposures, the actual provisioning rate applied.

In respect of the other exposure types, the calculation method is based on the HSBC Group's 'Net Flow Rate' model, which extrapolates the foreseeable losses over a given period on the basis of, on the one hand, the observed migration rates between payments that are overdue by more than 30 days, 60 days and 90 days, and, on the other hand, the historical loss rates of the latter category.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from realising the security have been received.

Reversals of impairment

If the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly.

The write-back is recognised in the income statement.

Renegotiated loans

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans taking into account the new contractual terms following renegotiation. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument. Any new agreements arising due to derecognition events will continue to be disclosed as renegotiated loans.

Financial instruments measured at fair value

Available-for-sale debt securities

Treasury bills, debt securities and equity shares intended to be held on a continuing basis are classified as available-for-sale securities unless designated at fair value or classified as 'held-to-maturity'. Financial investments are recognised at trade date, when HSBC France enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the transactions are sold or the borrowers repay their obligations.

Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value. Changes in fair value are recognised in equity in the 'Available-for-sale reserve' until the securities are either sold or impaired. On the sale of available-for-sale securities, gains or losses held within equity are recycled through the income statement and classified as 'Gains less losses from financial investments'.

Interest income is recognised on such securities using the effective interest method, calculated over the asset's expected life. Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are recognised as an adjustment to the effective interest rate. Dividends are recognised in the income statement when the right to receive payment has been established.

Impairment of available-for-sale financial assets

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. If such evidence exists as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated, an impairment loss is recognised.

If the available-for-sale financial asset is impaired, the difference between its acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provision' in the income statement and impairment losses for available-for-sale equity securities are recognised within 'Gains less losses from financial investments' in the income statement. The impairment methodologies for available-for-sale financial assets are set out in more detail below.

Available-for-sale debt securities

In assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, level of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

Available-for-sale equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the type of asset:

- for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in fair value of the financial asset is recognised in other comprehensive income. If the fair value of the debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, or the instrument is no longer impaired, the impairment loss is reversed through the income statement;
- for an available-for-sale equity security, all subsequent variations in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on equity securities are not reversed through the income

statement. Subsequent decreases in the fair value of the available-for-sale equity securities are recognised in the income statement, to the extent that further cumulatives impairment losses have been incurred.

Financial assets designated at fair value

A financial instrument, other than one held for trading, is classified in this category if it meets one or more criteria set out below, and is so designated irrevocably at its inception.

HSBC France may designate financial instruments at fair value where the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial instruments or recognising the gains and losses on them on different bases from related positions. Under this criterion, the main classes of financial assets designated by the HSBC France group are financial assets under unit-linked insurance and unit-linked investment contracts. Liabilities to customers under linked contracts are determined based on the fair value of the assets held in the linked funds. If no fair value designation was made for the related assets, the assets would be classified as available for sale, with changes in fair value recorded in other comprehensive income. These financial instruments are managed on a fair value basis and information is provided to management on that basis. Designation at fair value of the financial assets under investment contracts allows the changes in fair values to be recorded in the income statement and presented in the same line;
- applies to a group of financial assets that is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management staff;
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

The fair value designation, once made, is irrevocable in respect of the financial instruments it affects.

Designated financial assets are recognised at trade date when HSBC France enters into contractual arrangements with counterparties, which is generally on trade date, and are normally derecognised when sold. Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured. Gains and losses arising from fair value changes of these assets are recognised in the income statement at the occurring date and, with interest income and expenses and dividend related are recognised in 'Net income from financial instruments designated at fair value'.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets are also included in 'Net income from financial instruments designated at fair value'. Interest on these derivatives is also included in this line. The amount of change during the period, and cumulatively, in the fair value of designated loans and receivables that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions.

Financial liabilities designated at fair value

The fair value designation, once made, is irrevocable.

Designated financial liabilities are recognised at settlement date when HSBC France enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when extinguished.

Own credit spread variations on financial liabilities designated at fair value are recorded in other comprehensive income ; the remaining effect is presented in profit or loss.

HSBC France may designate financial instruments at fair value in the following cases:

Long-term debt issues

The interest payable on certain fixed rate long-term debt securities issued has been economically hedged by an interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities issued were accounted for at amortised cost, because the related derivatives are measured at fair value with changes in the fair value recognised in the income statement. From 1 January 2017, by designating the long-term debt at fair value, changes in those liabilities' credit risk are recorded in other comprehensive income with the remaining effect presented in profit or loss.

Financial liabilities under unit-linked insurance and unit-linked investment contracts

Through its insurance subsidiary, HSBC France issues contracts to customers that contain insurance risk, financial risk or a combination thereof.

A contract under which HSBC France accepts insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. A contract may also transfer financial risk, but is accounted for as an investment contract if the insurance risk is not significant.

Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value which is calculated by reference to the value of the relevant underlying funds or indices. A liability adequacy test is carried out on insurance liabilities to ensure that the carrying amount of the liabilities is sufficient in the light of current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared with the carrying value of the liability. When a shortfall is identified it is charged immediately to the income statement.

The unrealised gains and losses calculated on these assets are recorded in an "ACVA adjustment" in the income statement, then an equivalent expense (or income) is passed through the increase of the commitments to the insured under their contracts in unit account.

Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative, this includes embedded derivatives which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in 'Net trading income'. Gains and losses on derivatives managed in conjunction with financial instruments designated at fair value are reported in 'Net income from financial instruments designated at fair value' together with the gains and losses on the economically hedged items. Where the derivatives are managed with debt securities issued by the group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

1.3 Significant events during the year

Acquisition of the Greek activities of HSBC Bank plc

The acquisition of the Greek activities of HSBC Bank plc was completed on January 1, 2018 and payment of EUR 1 (refer to Note 2). The Greek branch's contribution to the consolidated operating result amounts to EUR 3 million as of 31 December 2018.

Acquisition of two subsidiaries of HSBC Bank plc

On 1 August 2018, HSBC France acquired 100% ownership of European subsidiaries HSBC Institutional Trust Services (Ireland) DAC and HSBC Polska Bank S.A. (refer to Note 2):

- HSBC Institutional Trust Services (Ireland) DAC, for USD 21.5 million (EUR 18.4 million) with a premium of EUR 1.7 million on net asset value. The contribution of the Irish subsidiary in the consolidated operating result amounts to EUR (0.1) million as at 31 December 2018.
- HSBC Bank Polska S.A., for EUR 88.4 million with a discount of EUR 40.3 million compared to the net asset value. The contribution of the Polish subsidiary in the consolidated operating profit amounted to EUR 3 million as at 31 December 2018.

Branches creation

Over the second semester of 2018, HSBC France created eight European branches in Belgium, the Czech Republic, Poland, Ireland, Italy, Luxembourg, the Netherlands and Spain. They have not been activated in 2018 and have not impacted financial statements as at 31 December 2018.

Single Resolution Fund ('SRF')

HSBC France contribution amounted to EUR 58.8 million for 2018 of which EUR 8.8 million has been recorded under security deposits. Total of the contribution to Single Resolution Fund amounted to EUR 35.3 million in balance sheet.

Capital increase

The Board of Directors at its meeting on 30 May 2018 decided, under the delegation granted by the shareholders' general meeting on 26 April 2017, to increase the HSBC France core capital by approximately EUR 100 million (of which EUR 6.2 million of share capital). Following the completion of this operation on 25 July 2018, the HSBC France share capital has been increased from EUR 337,189,135 to EUR 343,410,030.

As part of the anticipation of activities transfers to the balance sheet of HSBC France, the Board of Directors decided, at its Meeting of July 26, 2018, an increase of HSBC France's capital of approximately EUR 388 million (of which EUR 23.2 million of share capital). This operation was approved by shareholders at the extraordinary general meeting on August 10, 2018. Following the completion of this operation on 30 August 2018, the HSBC France share capital has been increased from EUR 343,410,030 to EUR 366,584,940.

Additional Tier 1 issuance (Other Equity Instrument)

HSBC France has issued a New Tier 1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 300 million. The new AT1 Capital instrument is an undated subordinated loan callable by HSBC France on any interest payment dates falling 5 years after the date of issuance and is accounted for as Equity (refer to the Note 10).

Tier 2 Issuance (Subordinated loan):

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

HSBC France Issuance

On 20 March 2018, HSBC France issued a senior variable rate debt with a nominal value of EUR 1.25 billion and a maturity of 5 years. On 28 August 2018, HSBC France issued a dual-tranche Senior Preferred transaction the first of EUR 1.75 billion with a maturity of 3 years and the second of EUR 750 million with a maturity of 10 years.

SFH Issuance

HSBC SFH (France) is a company dedicated to the refinancing of HSBC France by issuing bonds secured by mortgage. On 17 April 2018, HSBC SFH (France) issued a covered bond with a nominal value of EUR 1 billion and a maturity of 7 years, with a deferred repayment option of one year.

Evolutions of the PVIF (Present value of in-force insurance business) model

Several model evolutions and assumption updates have been implemented in 2018, mainly linked to the tripartite fees agreement between the asset management company HSBC Global Asset Management (France), the bank HSBC France and the insurance company HSBC Assurance Vie (France) on commissions of unit-linked contracts (EUR 37 million), to the impact of the data correction of the model input on the unit-linked management fees (EUR 17 million), to the credit risk modelling (EUR (25) million) and to the inclusion of a property risk premium (EUR 19 millions). Those modifications are reported in the Note 22 PVIF in the notes to the consolidated accounts.

Restatement of the off-balance sheet published on December 31, 2017

In the second half of 2018, HSBC France identified that the commitments corresponding to reverse repurchase agreements (banking book) and repurchase agreements (banking book) between the date of the negotiation and the date of settlement was historically not reported in the off balance sheet. The same applies to certain non-cash collateral. At 31 December 2017, the impact on off balance sheet is EUR 37 billion for reverse repurchase agreements, EUR 27 billion for repurchase agreements and EUR 3 billion on non-cash collateral. Comparative data have been restated. This restatement has no impact on expected credit losses.

Dividends related to 2018

The Board of Directors held on 19 February 2019 will propose to the Ordinary General Meeting, on 15 March 2019, not to distribute a dividend in respect of the year 2018 (refer to the Note 10).

Acquisition of EVPS

As part of the structural changes to anticipate the consequences of the future exit of the United Kingdom from the Union European, the European Volume Payment Solution (EVPS) platform, owned by HSBC Bank plc Paris Branch, was transferred on 1 December 2018 to HSBC France for an amount of EUR 17.2 million.

EVPS is the intra-group platform used to automatically manage SEPA (Single Euro Payments Area) payments and flows in Europe enabling HSBC France and other European entities and branches to process their low-value payments through this platform.

Revaluation of investments in Euroclear and Sicovam

Euroclear is an unlisted financial services company specializing in the settlement of securities transactions. HSBC France holds shares in Euroclear and Sicovam, which holds only Euroclear shares. In 2018, a series of transactions on Euroclear shares in the market and additional information on the value of Euroclear indicated that a revaluation of Euroclear and Sicovam shares was desirable and appropriate. This reassessment was therefore conducted in December 2018 and had a positive impact on results of EUR 36 million.

2 Business combination and disposal of subsidiaries

In order to be compliant to the new ‘Ringfencing’ law on the retail banking activities separation in the United Kingdom, HSBC France opened last 14 August 2017 a branch in Greece, within the project of acquisition of the HSBC plc Greece branch activities. The operational transfer has been done on 1 January 2018 and realised through a payment of 1 Euro. For accounting purposes, the branch ‘HSBC France Athens Branch’ is consolidated within HSBC France perimeter since 1 January 2018.

Furthermore, in the context of the upcoming structural changes to mitigate the consequences related to the future exit of the United Kingdom from the European Union and to simplify the legal organisation in Continental Europe, HSBC France acquired the 1 August 2018 100% of European subsidiaries HSBC Polska Bank SA and HSBC Institutional Trust Services (Ireland) DAC, for respectively an amount of EUR 88.4 million and USD 21.5 million (EUR 18.4 million).

These operations from HSBC Bank plc have been classified out of the scope of ‘IFRS 3 business combination’ as the investments have simply been moved within the same group. For this reason HSBC France opted for the application of the book value accounting. At the acquisition date, the assets and liabilities acquired were as follows:

	At 1 Jan 2018	At 1 Aug 2018	At 1 Aug 2018
	HSBC France Athens Branch	HSBC Bank Polska S.A.	HSBC Institutional Trust Services (Ireland) DAC
	€m	€m	€m
Assets			
Cash and balances at central banks	32	62	–
Trading assets	4	–	–
Derivatives	2	9	–
Loans and advances to banks	690	18	21
Loans and advances to customers	622	584	–
Financial investments	300	482	–
Other assets	23	30	2
Total assets	**1,673**	**1,185**	**23**
Liabilities			
Deposits by banks	23	159	–
Customer accounts	1,641	815	–
Derivatives	5	8	–
Other liabilities	25	77	6
Total Shareholders’ equity	(21)	126	17
Total liabilities	**1,673**	**1,185**	**23**

3 Net fee income

Net fee income by global business

	2018						2017
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre	Total	Total
	€m	€m	€m	€m	€m	€m	€m
Account services	28	74	10	5	–	117	122
Funds under management	182	–	–	1	–	183	205
Cards	22	20	7	–	–	49	55
Credit facilities	–	45	72	–	–	117	116
Broking income	5	–	–	1	–	6	8
Unit trusts	3	–	–	2	–	5	3
Imports/exports	–	7	3	–	–	10	9
Remittances	6	13	6	–	–	25	29
Underwriting	–	1	53	–	–	54	89
Global custody	6	–	4	1	–	11	6
Insurance agency commission	10	–	–	10	–	20	18
Other[1]	194	39	136	2	(102)	269	204
Fee income	**456**	**199**	**291**	**22**	**(102)**	**866**	864
Less: fee expense	(187)	(18)	(169)	(1)	102	(273)	(290)
Net Fee income	**269**	**181**	**122**	**21**	**–**	**593**	574

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

Fee income is recognised as services are provided to customers. It is commonly from services provided at a fixed price over time, such as Account services and Cards fees, or at the point in time HSBC France delivers a specific transaction as is the case for Broking income and Imports/Exports. With the exception of certain Fund Management and Performance fees which can be variable depending on the size of the customer portfolio and on how HSBC France's performs, all other fees are generated at a fixed price. Variable fees are recognised when all uncertainties are resolved. Fee revenue is generally earned from short term contracts with payment terms that do not include significant financing arrangements.

HSBC France is principal in the majority of those contracts with customers, with the exception of Broking Income fees. For most brokerage trades, HSBC France acts as agent in the transaction, and recognises broking income net of fees payable to other parties in the arrangement.

Fees earned on transaction based arrangements, including Broking income, are satisfied at the time of the transaction and revenue is recognised at a point in time when HSBC France fully provide its service to the customer. Where the performance obligation associated with the contract will be satisfied as an obligation to provide services over time, which is the case of Account Services fees, income is recognised on a systematic basis over the life of the agreement.

The transaction price is fully allocated to the performance obligation when the contract contains only a single obligation. Where HSBC France offers a package of services that contains multiple non-separable performance obligations, such as Account services fees, the promised services are treated as a single performance obligation. If a package contains a separable performance obligation, the corresponding transaction price is allocated on a stand-alone selling price basis.

4 Net income/(expense) from financial instruments designated and otherwise mandatorily measured at fair value

	2018	2017
	€m	€m
Net income/(expense) arising on:		
Trading activities	**63**	297
Other instruments designated and mandatorily measured at fair value and related derivatives	**(39)**	(6)
Net income from financial instruments held for trading or managed on a fair value basis	**24**	291
Financial assets held to meet liabilities under insurance and investment contracts	**(641)**	618
Liabilities to customers under investment contracts	**3**	(2)
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**(638)**	616
Changes in own credit spread on long-term debt	**—**	—
Derivatives managed in conjunction with HSBC's issued debt securities	**18**	(112)
Other changes in fair value	**(20)**	111
Changes in fair value of long-term debt and related derivatives	**(2)**	(1)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**113**	N/A
Year ended 31 Dec	**(503)**	906

5 Insurance business

Through its insurance subsidiary, HSBC France issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which HSBC France accepts insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an investment contract if the insurance risk is significant.

While investment contracts with discretionary participation features are financial instruments, they continue to be treated as insurance contracts as permitted by IFRS 4.

Insurance contracts are accounted for as follows:

Insurance premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

Net insurance premium income

	With DPF	Unit-linked	Other Contracts	Total
	€m	€m	€m	€m
Gross insurance premium income	**1,961**	**—**	**68**	**2,029**
Reinsurers' share of gross insurance premium income	**—**	**—**	**(3)**	**(3)**
Year ended 31 Dec 2018	**1,961**	**—**	**65**	**2,026**
Gross insurance premium income	1,799	—	66	1,865
Reinsurers' share of gross insurance premium income	—	—	(4)	(4)
Year ended 31 Dec 2017	1,799	—	62	1,861

Insurance claims and reinsurance recoveries

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. Claims arising during the year include maturities, surrenders and death claims.

Reinsurance recoveries are accounted for in the same period as the related claim.

Future profit participation on insurance contracts with discretionary participation features

In accordance with the Code des assurances, a discretionary participation is allocated to non-linked investments contract based on actual net financial income.

Assets backing non-linked investments contracts are valuated at their fair value. The fair value variation generated during the year is allocated in deferred discretionary participation. At least 85 per cent is allocated to policyholders; the remaining amount is accounted for as deferred participation and should be distributed to customers within eight years.

Net insurance claims and benefits paid and movement in liabilities to policyholders

	With DPF	Unit-linked	Other Contracts	Total
	€m	€m	€m	€m
Gross claims and benefits paid incurred and movement in liabilities	**1,457**	**(4)**	**24**	**1,477**
– claims, benefits and surrenders paid	**1,595**	**2**	**22**	**1,619**
– movement in liabilities	**(138)**	**(6)**	**2**	**(142)**
Reinsurers' share of claims incurred and benefits paid and movement in liabilities	**—**	**—**	**(2)**	**(2)**
– claims, benefits and surrenders paid	**—**	**—**	**—**	**—**
– movement in liabilities	**—**	**—**	**(2)**	**(2)**
Year ended 31 Dec 2018	**1,457**	**(4)**	**22**	**1,475**
Gross claims and benefits paid incurred and movement in liabilities	2,577	2	23	2,602
– claims, benefits and surrenders paid	1,777	3	24	1,804
– movement in liabilities	800	(1)	(1)	798
Reinsurers' share of claims incurred and benefits paid and movement in liabilities	—	—	—	—
– claims, benefits and surrenders paid	—	—	—	—
– movement in liabilities	—	—	—	—
Year ended 31 Dec 2017	2,577	2	23	2,602

Liabilities under insurance contracts

	With DPF	Unit-linked	Other Contracts	Total
	€m	€m	€m	€m
Gross liabilities under insurance contracts at 1 Jan 2018	**21,695**	**39**	**119**	**21,853**
Claims and benefits paid	**(1,595)**	**(2)**	**(22)**	**(1,619)**
Increase in liabilities to policyholders	**1,457**	**(4)**	**24**	**1,477**
Exchange differences and other movements[1]	**(376)**	**—**	**—**	**(376)**
Gross liabilities under insurance contracts at 31 Dec 2018	**21,181**	**33**	**121**	**21,335**
Reinsurers' share of liabilities under insurance contracts	**—**	**—**	**(2)**	**(2)**
Net liabilities under insurance contracts at 31 Dec 2018	**21,181**	**33**	**119**	**21,333**
Gross liabilities under insurance contracts at 1 Jan 2017	21,142	39	120	21,301
Claims and benefits paid	(1,777)	(3)	(24)	(1,804)
Increase in liabilities to policyholders	2,577	2	23	2,602
Exchange differences and other movements[1]	(247)	1	—	(246)
Gross liabilities under insurance contracts at 31 Dec 2017	21,695	39	119	21,853
Reinsurers' share of liabilities under insurance contracts	—	—	(1)	(1)
Net liabilities under insurance contracts at 31 Dec 2017	21,695	39	118	21,852

1 *'Exchange differences and other movements' includes movements in liabilities arising from net unrealised investment gains recognised in other comprehensive income.*

The key factors contributing to the movement in liabilities to policyholders included death claims, surrenders, lapses, liabilities to policyholders created at the initial inception of the policies, the declaration of bonuses and other amounts attributable to policyholders.

6 Net Operating Income (significant items)

Net operating income for the year ended 31 December 2018 amounts to EUR 1,746 million (2017: EUR 1,826 million) and includes in particular, but not exhaustively, income, expense, gains and losses as follows:

Net Operating Income is stated after the following items:

	2018	2017
	€m	€m
Income		
Interest recognised on credit impaired financial assets	9	21
Interest recognised on financial assets measured at amortised cost[1]	969	N/A
Interest recognised on financial assets measured at FVOCI[1]	337	N/A
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value	(107)	(138)
Payments under lease and sublease agreements	–	–
– minimum lease payments	–	–
– contingent rents and sublease payments	–	–
Restructuring provisions	(1)	
Gains/(losses)	21	11
Impairment of available-for-sale equity securities	N/A	–
Gains/(losses) recognised on assets held for sale	3	–
Gains/(losses) on disposal of property, plant and equipment and non-financial investments	18	11
Loan impairment charges and other credit risk provisions	(10)	(81)
Net impairment charge on loans and advances	(10)	(82)
Release/(impairment) of available-for-sale debt securities	N/A	–
Release/(impairment) in respect of other credit risk provisions	N/A	1

1 *Interest revenue calculated using the effective interest method comprises interest recognised on financial assets measured at either amortised cost or fair value through other comprehensive income.*

7 Employee compensation and benefits

Employee compensation and average number of employees

	31 Dec 2018	31 Dec 2017
	€m	€m
Wages and salaries	608	603
Social security costs	285	271
Post-employment benefits	6	17
Year ended 31 Dec	899	891

Average number of persons employed by HSBC during the year by global business

	31 Dec 2018	31 Dec 2017
Retail Banking and Wealth Management	3,929	3,684
Commercial Banking	1,494	1,346
Global Banking and Markets	682	652
Global Private Banking	113	105
Corporate Centre	12	10
Support functions and others[1]	2,960	2,967
Year ended 31 Dec[2]	9,190	8,764

1 *Including pre-retirement (CFCS) and expatriates.*
2 *Permanent contracts (CDI) and fixed terms contracts (CDD) within HSBC France (including the Greek branch since 1 January 2018) and its subsidiaries HSBC Global Asset Management (France), HSBC Assurances Vie (France), HSBC Institutional Trust Services (Ireland) DAC (since 1 August 2018) and HSBC Bank Polska S.A. (since 1 August 2018).*

Share-based payments

Share Group policy

In 2005, the HSBC Group significantly revised its employee share option and share policy.

The new rules of share option and share plans were approved by its Annual General Meeting held in May 2005. These rules include a French sub-plan (Schedule 3 of the general rule), which complies with the legal and tax regulations applicable in France. This regulation was revised in 2011 firstly to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the 'Group Performance Share Plan', for the HSBC Group's Senior Executives. In this context, the French sub-plan (Schedule 5 of the new rules) has also been subjected to a review, to comply with local social and tax rules. Since 2006, the general policy of the HSBC Group is to award shares instead of share options (except in the case of a country specific legal and tax regulation).

The shares can be:

- 'Group Performance Shares' subject to performance conditions;
- 'Restricted Shares' without performance conditions.

Movement on 'Group Performance Shares'

	Number (000s)
Outstanding at 1 Jan 2018	**75**
Granted during the year	—
Exercised during the year	—
Expired during the year	—
Forfeited during the year	—
Outstanding at 31 Dec 2018	**75**
Of which exercisable	—
Weighted average remaining contractual life (years)	
Outstanding at 1 Jan 2017	75
Granted during the year	—
Exercised during the year [1]	—
Expired during the year	—
Forfeited during the year	—
Outstanding at 31 Dec 2017	75
Of which exercisable	—
Weighted average remaining contractual life (years)	

1 *The amount of exercised shares over 2017 has been corrected.*

This category of shares is available, beyond a vesting period of five years, at the retirement date.

From 2016, those Group performance Shares are not available anymore.

'Restricted Shares'

For French employees, shares awarded are 'French qualified shares'.

These shares vest definitively after a two-year or three-year period and according to the rules of the Plan. Shares granted from 2011 will vest 66 per cent after two years and 34 per cent after three years.

Shares granted before 2016 can not be sold before a tax lock-up period of two-year period after their vesting. Since 1 January 2016, this category does not support any tax lock-up period and can be sold immediately.

Impatriates are awarded non-qualified 'Restricted shares' that vest 33 per cent after one year, 33 per cent after two years and 34 per cent after three years.

Some 'Material Risk Taker' employees are awarded 'Restricted shares' that vest immediately and 'French qualified shares' vest under a period about three or five years. But all the shares granted to 'Material Risk Taker' are assorted to a period of tax unavailability about six months or 12 months.

Movement on 'Restricted Shares'

	Number (000s)
Outstanding at 1 Jan 2018	**832**
Granted during the year[1]	**1,693**
Exercised during the year[2,3]	**(1,784)**
Expired during the year	**(43)**
Outstanding at 31 Dec 2018	**698**
Of which exercisable	**—**
Weighted average remaining contractual life (years)	
Outstanding at 1 Jan 2017	1,566
Granted during the year[1]	1,187
Exercised during the year[2]	(1,873)
Expired during the year	(48)
Outstanding at 31 Dec 2017	832
Of which exercisable	—
Weighted average remaining contractual life (years)	

1 *The weighted average fair value of options granted during the year was EUR 8.17 (2017: EUR 7.70).*
2 *The weighted average share price at the date the options were exercised was EUR 7.92 (2017: EUR 7.77).*
3 *Excluding shares vested in march 2018 by HSBC Institutional Trust Services (Ireland) DAC and HSBC Bank Polska S.A. (Poland) employees as both subsidiaries were not acquired by HSBC France when shares have vested in march 2018. To be noted that the number of shares that have vested in 2018 for employees of these branches does not represent a significant financial impact.*

In 2018, EUR (6) million was charged to the income statement in respect of amortisation of the existing plans for HSBC in France (in 2017: EUR (6) million).

Regulatory and best practice guidance has clarified the required structure and terms of the vesting period that should be recognised in the consolidated financial statements of the HSBC France group. As a result, the vesting period for deferred share awards expected to be granted in 2018, in respect of the 2017 performance year, was determined to have started on 1 January 2017.

Employee share offering

In 2018, the HSBC Group did not proceed to any capital increase opened to current employees.

Income statement charge

	2018	2017
	€m	€m
Restricted share awards	12	12
Savings related and other share option plans	—	—
Year ended 31 Dec	**12**	12

Pension and other post-retirement benefits

Policy

HSBC France operates a number of pension and other post-retirement benefit plans. These plans include both defined benefit and defined contribution plans and various other retirement benefits such as post-retirement benefits.

HSBC France pays each retiree a retiring allowance. The amount is determined by the final earnings, the length of service in the company at this date and the guarantees under collective and internal agreements. Those plans represent 77 per cent of all commitments in France.

HSBC France grants certain beneficiaries a scheme plan. Those scheme plan forecast the payment of benefits from the date of retirement. Those plans represent roughly 20 per cent of all commitments in France.

The costs recognised for funding these post-employment plans are determined using the Projected Unit Credit Method, with annual actuarial valuations performed on each plan. HSBC France recognises actuarial gains and losses directly in equity, without being recognised in income. Past service costs are immediately recognised. The current service costs and any past service costs, together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities, are charged to operating expenses.

The net defined benefit liability recognised in the balance sheet related to post-employment benefits recognised represents the present value of the defined benefit obligations reduced by the fair value of plan assets.

Payments to defined contribution plans and state-managed retirement benefit plans, where HSBC France's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as they fall due.

Post-employment defined benefit plans' principal actuarial assumptions

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2018, and the 2019 periodic costs, were:

Key actuarial assumptions for the principal plan

	Discount rate	Inflation rate	Rate of increase for pensions and deferred pensions	Rate of pay increase
	%	%	%	%
At 31 Dec 2018	**1.70**	**1.50**	**1.50**	**2.61**
At 31 Dec 2017	1.35	1.50	1.50	2.61

HSBC France determines discount rates, in consultation with its actuary based upon the current average yield of high quality (AA rated or equivalent) debt instruments, with maturities consistent with that of the defined benefit obligations.

Recognition of defined benefit plans

Net assets/(liabilities) recognised on the balance sheet in respect of defined benefit plans

	Fair value of plan assets	Present value of defined benefit obligations	Effect of limit on plan surpluses	Total
	€m	€m	€m	€m
Defined benefit pension plans	8	173	—	165
Defined benefit healthcare plans	—	—	—	—
At 31 Dec 2018	8	173	—	165
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')				165
Total employee benefit assets (within 'Prepayments, accrued income and other assets')				—

Net assets/(liabilities) recognised on the balance sheet in respect of defined benefit plans

	Fair value of plan assets	Present value of defined benefit obligations	Effect of limit on plan surpluses	Total
	€m	€m	€m	€m
Defined benefit pension plans	8	177	—	169
Defined benefit healthcare plans	—	—	—	—
At 31 Dec 2017	8	177	—	169
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')				169
Total employee benefit assets (within 'Prepayments, accrued income and other assets')				—

Cumulative actuarial gains/(losses) recognised in other comprehensive income

	2018	2017
	€m	€m
At 1 January	76	71
Total actuarial gains/(losses) recognised in other comprehensive income for the year	(8)	5
At 31 December	68	76

Actuarial gains and losses of the year are composed of EUR (8) millions of actuarial assumptions' changes are only explained by the increase of the discount rate from 1.35 per cent to 1.70 per cent.

Actuarial assumption sensitivities

The following table shows the effect of changes in these and the other key assumptions on the principal plan: the discount rate is sensitive to changes in market conditions arising during the reporting period. The mortality rates used are sensitive to experience from the plan member profile.

	Defined benefits pension plan			
	Financial impact of increase		Financial impact of decrease	
	2018	2017	2018	2017
	€m	€m	€m	€m
Discount rate – increase/decrease of 0.25%	(5)	(6)	5	6
Inflation rate – increase/decrease of 0.25%	1	1	(1)	(1)
Pension payments and deferred pensions – increase/decrease of 0.25%	1	1	(1)	(1)
Pay – increase/decrease of 0.25%	4	5	(4)	(4)
Change in mortality – increase of 1 year	2	2	(2)	(2)

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Present value of defined benefit obligations	Effect of the asset ceiling	Net defined benefit asset/ (liability)
	Principal plan	Principal plan	Principal plan
	€m	€m	€m
At 1 Jan 2018[1]	**8**	**177**	**169**
Current service cost	**–**	**5**	**5**
Past service cost and gains/(losses) from settlements	**–**	**(1)**	**(1)**
Service cost	**–**	**4**	**4**
Net interest income/(cost) on the net defined benefit asset/(liability)	**–**	**2**	**2**
Re-measurement effects recognised in other comprehensive income	**–**	**(8)**	**(8)**
– return on plan assets (excluding interest income)	**–**	**–**	**–**
– actuarial gains/(losses)	**–**	**(8)**	**(8)**
– other changes	**–**	**–**	**–**
Transfers[2]	**–**	**5**	**5**
Exchange differences	**–**	**–**	**–**
Contributions by HSBC	**–**	**–**	**–**
– normal	**–**	**–**	**–**
– special	**–**	**–**	**–**
Contributions by employees	**–**	**–**	**–**
Benefits paid	**–**	**(8)**	**(8)**
Administrative costs and taxes paid by plan	**–**	**–**	**–**
At 31 Dec 2018	**8**	**173**	**164**
Present value of defined benefit obligation relating to:	**–**	**173**	**–**
– actives	**–**	**136**	**–**
– deferreds	**–**	**–**	**–**
– pensioners	**–**	**37**	**–**
At 1 Jan 2017	9	174	165
Current service cost	–	5	5
Past service cost and gains/(losses) from settlements	–	–	–
Service cost	–	5	5
Net interest income/(cost) on the net defined benefit asset/(liability)	–	3	3
Re-measurement effects recognised in other comprehensive income	–	5	5
– return on plan assets (excluding interest income)	–	(2)	(2)
– actuarial gains/(losses)	–	7	7
– other changes	–	–	–
Exchange differences	–	–	–
Contributions by HSBC	–	–	–
– normal	–	–	–
– special	–	–	–
Contributions by employees	–	–	–
Benefits paid	(1)	(10)	(9)
Administrative costs and taxes paid by plan	–	–	–
At 31 Dec 2017	8	177	169
Present value of defined benefit obligation relating to:	–	177	–
– actives	–	140	–
– deferreds	–	–	–
– pensioners	–	37	–

1 *The opening balance on 1st January 2018 shows the amounts before the acquisition of the HSBC Group's Greek operations by the Greek branch of HSBC France, the impacts of which are presented in the year's movements.*
2 *This amount corresponds to the liabilities of the Greek branch of HSBC France.*

Benefits expected to be paid from the plans to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from plans

	2019	2020	2021	2022	2023	2024 – 2028
	€m	€m	€m	€m	€m	€m
The principal plan[1]	9	6	8	8	9	50

1 *The duration of the defined benefit obligation is 13 years for the principal plan under the disclosure assumptions adopted (2017: 13 years) and 13 years for all other plans combined (2017: 13 years).*

Fair value of plan assets by asset classes

	31 Dec 2018				31 Dec 2017			
	Fair value	**Quoted market price in active market**	**No quoted market price in active market**	**Thereof HSBC**	Fair value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Fair value of plan assets	**8**	**8**	**—**	**—**	8	8	—	—
– equities	**—**	**—**	**—**	**—**	—	—	—	—
– bonds	**8**	**8**	**—**	**—**	8	8	—	—
– derivatives	**—**	**—**	**—**	**—**	—	—	—	—
– other	**—**	**—**	**—**	**—**	—	—	—	—

Directors' emoluments

Details of Directors' emoluments, pensions and their interests are disclosed in the Directors' Remuneration Report on page 39 and following pages.

8 Auditors' remuneration

	PricewaterhouseCoopers		**BDO France – Léger & Associés**			
	Audit[1]		**Audit**		**Others**	
	Amount (excluding VAT)	**%**	**Amount (excluding VAT)**	**%**	**Amount (excluding VAT)**	**%**
	€k		**€k**		**€k**	
Fees for account certifications	**3,567**	**90**	**529**	**93**	**—**	**—**
Fees for other services provided to HSBC	**380**	**10**	**41**	**7**	**—**	**—**
Year ended 31 Dec 2018	**3,947**	**100**	**570**	**100**	**—**	**—**
Fees for account certifications	3,702	90	667	97	—	—
Fees for other services provided to HSBC	409	10	23	3	—	—
Year ended 31 Dec 2017	4,111	100	690	100	—	—

1 *This column includes audit fees paid to PricewaterhouseCoopers entities other than PricewaterhouseCoopers Audit France.*

Services other than the account certification at 31 December 2018 for PricewaterhouseCoopers Audit France and BDO France – Léger & Associés mainly concern comfort letters related to the programs of issuances and interim dividends, legal or regulatory services and also services related to specific reports (ISAE 3000) and reports related to internal control procedures (i.e. report ISAE 3402).

9 Tax expense and deferred tax

Tax expense

	2018	2017
	€m	€m
Current tax	**77**	43
Deferred tax	**(14)**	—
Year ended 31 Dec	**63**	43

The 2018 Finances Law ('Loi de Finances') has integrated a gradual decrease of the tax rate from 33 1/3 to 25 per cent in 2022.

The social contribution on profit (CSB at 3.3 per cent of the income tax) is maintained and is added to the income tax.

As a consequence, in 2018 France's tax rate is 34,43 per cent (44.43 per cent in 2017 due to the exceptional contribution at 30% of income tax).

In application of the standard IAS 12, at each deferred tax basis, assumptions of date of recovery were taken to determine these deferred tax rate to apply to take into account the tax rate decrease from 33 1/3 to 25 per cent.

The amount of deferred tax expense has been recognised at 31 December 2018, taking into account the profit outlook as established in the budget.

The increase of the tax expense between 2018 and 2017 is mainly due to tax audit provision on HSBC Leasing.

Tax audit

In 2018, HSBC Leasing (France) incurred a tax audit for the years 2015 and 2016. The French tax Authorities sent at the end of 2018 a proposal of reassessment concerning the tax treatment of provisions related to some leasing transactions. A provision corresponding to the best estimate, at this stage, of the risk has been recorded at 31 December 2018.

HSBC France conducted a detailed review of its tax risks within the context of 2018 year end closing.

Analysis of overall tax charges

Tax reconciliation

	2018		2017	
	Overall tax charges		Overall tax charges	
	€m	%	€m	%
Profit before tax	45		219	
Tax expense				
Taxation at French corporate tax rate of 34.43% (2017: 44.43%)	15	34.43	97	44.43
Impact of differently taxed overseas profits in overseas locations	–	0.8	(15)	(7.1)
Items increasing tax charge:				
– Permanent disallowables	(1)	(2.4)	25	11.4
– Local taxes and overseas withholding taxes	16	34.9	24	11.1
Items reducing tax charge:				
– Changes in tax rates	10	21.2	(10)	(4.8)
– Non-taxable income and gains subject to tax at a lower rate	(6)	(12.6)	(6)	(2.6)
– Adjustment in respect of prior years	53	115.3	(5)	(2.4)
– Deferred tax temporary differences not provided	–	–	–	–
– Other items	(24)	(52.5)	(67)	(30.6)
Year ended 31 Dec	63	138.5	43	19.4

The effective tax rate for 2018 of 138.5 per cent is higher than the French corporate tax rate of 34.43 per cent, due to tax audits expenses, the impact of the Single Resolution Mechanism non-deductible, the CVAE included in the tax expense.

Deferred taxation

	2018			2017		
	Deferred tax asset	Deferred tax liability	Total	Deferred tax asset	Deferred tax liability	Total
	€m	€m	€m	€m	€m	€m
Temporary differences:						
– retirement benefits	33	1	34	35	1	36
– assets leased	(5)	(2)	(7)	30	(2)	28
– revaluation of property	(8)	–	(8)	(8)	–	(8)
– other temporary differences	136	(154)	(18)	168	(151)	17
– deferred losses carried forward	–	–	–	–	–	–
Year ended 31 Dec	156	(155)	1	225	(152)	73

The Deferred Tax amounts in 'other temporary differences' category mainly concern Deferred Tax Assets on Covered Bonds Mark-to-Market and the Deferred Tax Liabilities on PVIF.

The main amounts of deferred tax related to items that are charged directly to equity are detailed as follows:

	2018	2017
	€m	€m
Cash flow hedge	12	39
Financial assets at FVOCI reserve	(18)	(43)
Own credit spread FVO [1]	(20)	44
Net foreign exchange	–	–
Actuarial losses	18	22

1 *From 1 January 2017, the HSBC Group has adopted the requirements of IFRS 9. As a result, the effect of changes in credit risk of financial liabilities designated at fair value option are presented in other comprehensive income and not through profit and loss.*

Movement of deferred tax assets and liabilities

	Retirement benefits	Loans impairment allowances	Financial assets at FVOCI	Goodwill and intangibles	Other[1]	Total
	€m	€m	€m	€m	€m	€m
Assets	**35**	**19**	**(25)**	**(4)**	**200**	**225**
Liabilities	**1**	**—**	**(18)**	**—**	**(135)**	**(152)**
At 1 Jan 2018	**36**	**19**	**(43)**	**(4)**	**65**	**73**
Income statement	**—**	**(16)**	**—**	**—**	**29**	**13**
IFRS 9 transitional adjustment [3]	**1**	**19**	**13**	**—**	**(15)**	**18**
Other comprehensive income	**(3)**	**—**	**12**	**—**	**(112)**	**(103)**
Equity	**—**	**—**	**—**	**—**	**—**	**—**
Foreign exchange and other adjustments	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2018	**34**	**22**	**(18)**	**(4)**	**(33)**	**1**
Assets [2]	**33**	**22**	**(3)**	**(4)**	**108**	**156**
Liabilities [2]	**1**	**—**	**(15)**	**—**	**(141)**	**(155)**
Assets	38	43	(42)	(5)	215	249
Liabilities	1	—	(28)	—	(174)	(201)
At 1 Jan 2017	39	43	(70)	(5)	41	48
Income statement	(4)	(24)	(5)	1	32	—
Other comprehensive income	1	—	32	—	(10)	23
Equity	—	—	—	—	—	—
Foreign exchange and other adjustments	—	—	—	—	2	2
At 31 Dec 2017	36	19	(43)	(4)	65	73
Assets [2]	35	19	(25)	(4)	200	225
Liabilities [2]	1	—	(18)	—	(135)	(152)

1 *Deferred tax from Mark-to-Market of Covered Bonds debts and Cash Flows Hedge and deferred tax in 'Other' includes liabilities deferred tax from PVIF and assets.*
2 *After netting off balances within countries, the balances as disclosed in the accounts are as follows: deferred tax assets EUR 156 million (2017: EUR 225 million); and deferred tax liabilities EUR (155) million (2017: EUR (152) million).*
3 *Changes in measurement in gross carrying amounts due to IFRS 9 are shown in the 'Other' column.*

CVAE

Since 2010, the French Tax 'taxe professionnelle' was replaced by a new tax 'contribution économique territoriale' ('CET') composed of the 'cotisation foncière des entreprises' ('CFE') based on the rental value of taxable property, and the 'cotisation sur la valeur ajoutée des entreprises' ('CVAE') corresponding to 1.54 per cent of added-value of the year.

HSBC France has treated the CVAE as income tax, in application of IAS 12. Deferred CVAE contributions are accounted for on the basis of temporary differences between the book value of assets and liabilities and their tax value from a CVAE standpoint.

Since 2014, the CVAE contribution is included in 'Income Tax'. In 2018, the impact of this accounting position was a classification of a charge of EUR 16,3 million (2017: EUR 17.4 million) on the 'Income Tax' and the recognition of a deferred tax liability of EUR (0.8) million (2017: EUR 8.7 million).

Crédit d'impôt Compétitivité Emploi ('CICE')

The '*Crédit d'impôt Compétitivité Emploi*' ('CICE') is a new tax rebate that became operative on 1 January 2013. Available for every French company, the CICE substantially reduces the tax paid. For 2018, the CICE corresponds to 6 per cent of staff costs excluding salaries over 2.5 times the minimum wage (SMIC).

The CICE is equivalent to a reduction in staff costs and it is considered as a government grant.

Thus, the HSBC France group, in application of IAS 20, has chosen to recognise the CICE as a reduction of business expenses.

For the fiscal year 2018, HSBC France group benefited from a 7.5 million tax credit under the 'Crédit d'Impôt Compétitivité Emploi' ('CICE'), (in 2017: EUR 7.8 million).

Within the framework of the allocation of CICE, HSBC France group backed the profit of the tax credit to a pool of expenses and investments dedicated to the improvement of products and services to customers as well as enhancement of the bank's efficiency. Those expenses are broken down into the following categories:

- Information and technology innovative investments: significant expenses have been engaged during the year 2018 dedicated to the development of enhanced and better integrated commercial software, notably the complete reshape of workstation in branches, faster deployment of digital tools and services to customers as well as continuous improvement of financial crime compliance processes;
- Training: Staff benefited from numerous courses during the year 2018 with certificated courses, language training courses as well as compliance and risk management;
- Premises: investments in the development and refurbishment of the branch network and headquarters, energy saving schemes.

10 Dividends

Dividends to shareholders of the parent company

	2018		2017	
	Per share	Total	Per share	Total
	€	€m	€	€m
Dividends paid on ordinary shares				
In respect of previous year:				
– exceptional dividend	–	–	4.45	300
– dividend paid	0.69	47	2.00	135
In respect of current year:				
– first interim dividend	–	–	0.97	65
Total dividend paid to shareholders	0.69	47	7.42	500
Total coupons on capital securities classified as equity		15		5

Dividends related to 2018

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

Dividends related to 2017

The Combined General Meeting of 15 May 2017 approved the proposal of the Board of Directors held on 26 April 2017 to distribute an exceptional dividend amounting for EUR 300,098,330.15, or EUR 4.45 per share. This exceptional dividend was paid on 30 May 2017 to the 67,437,827 outstanding shares at this date.

The Combined General Meeting on 13 March 2018 approved the proposal of the Board of Directors held on 20 February 2018 to distribute a dividend amounting for EUR 111,946,792,82, or EUR 1.66 per share, in respect of the year 2017. This dividend was paid on 15 March 2018, after deduction of the interim dividend of EUR 0.97 per share decided by the Board of Directors held on 27 October 2017 and already paid to the outstanding shares at this date.

Dividends per share

	2018	2017
	€	€
Dividends per share[1]	–	6.11

1 *Coupons paid on other equity instruments are not included in the calculation of the dividends per share.*

Other Equity instruments

HSBC France has issued in 2018 a New Tier 1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 300 million. The new AT1 Capital instrument is an undated subordinated loan callable by HSBC France on any interest payment dates falling 5 years after the date of issuance and is accounted for as Equity

Total coupons on capital securities classified as equity

		2018	2017
	First call date	€m	€m
Perpetual subordinated capital securities			
– EUR 200 million issued at 0.58 %	27/11/2017	9	5
– EUR 300 million issued at 0.2725 %	28/09/2018	6	–
Total		15	5

1 *Discretionary coupons are paid semi-annually on the perpetual subordinated capital securities.*

11 Earnings per share

Basic earnings per ordinary share were calculated by dividing the earnings of EUR (17) million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 69,531,366 (full year 2017: earnings of EUR 177 million and 67,437,827 weighted average number of shares). Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 69,531,366 (full year 2017: 67,437,827 shares).At 31 December 2018, no potentially dilutive ordinary share had been issued.

Basic and diluted earnings per share

	2018			2017		
	Profit	Number of shares	Per share	Profit	Number of shares	Per share
	€m	(millions)	€	€m	(millions)	€
Basic earnings per share	(17)	70	(0.24)	177	67	2.63
Diluted earnings per share	(17)	70	(0.24)	177	67	2.63

12 Trading assets

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. They are recognised on trade date, when HSBC France enters into contractual arrangements with counterparties to purchase the financial instruments and are normally derecognised when sold. They are initially measured at fair value, with transaction costs taken to the income statement. Subsequently changes in their fair value are recognised in the income statement in 'Net trading income'. For trading assets, the interest is shown in 'Net Trading income'.

	2018	2017
	€m	€m
Treasury and other eligible bills	1,457	641
Debt securities	15,509	15,784
Equity securities	—	—
Trading securities	**16,966**	16,425
Loans and advances to banks [1]	—	3,948
Loans and advances to customers [1]	—	2,028
Year-ended 31 Dec	**16,966**	22,401

1 *At 1 January 2018, the HSBC Group adopted certain accounting changes. Comparative data have not been restated. On asset, cash collateral, margin and settlement accounts have been reclassified from 'Trading assets', 'Loans and advances to banks' and 'Loans and advances to customers' to 'Prepayments, accrued income and other assets'.*

Trading Securities

	2018	2017
	€m	€m
Governments	11,140	13,412
Asset-backed securities	—	—
Corporate debt and other securities	5,826	3,013
Equity securities	—	—
Year ended 31 Dec	**16,966**	16,425

13 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by an independent function of the risk taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. On inactive markets, direct observation of traded prices may not be possible. In these circumstances, the group will source alternative market information to validate the financial instrument's fair value. Greater weight will be given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, inter alia:

- the extent to which prices may be expected to represent genuine traded or tradeable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date;
- the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of the logic within valuation models, the inputs to those models, any adjustments required outside the valuation models and, where possible, model outputs.

Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

ECB conducted an on-site inspection from October 2018 to January 2019 on market risk, valuation risk and IFRS levelling. The final report will be issued by ECB in due course.

Determination of fair value of financial instruments carried at fair value

Fair values are determined according to the following hierarchy:

- Level 1 – Quoted market price: financial instruments with quoted prices for identical instruments on active markets that the group can access at the measurement date.
- Level 2 – Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments on active markets or quoted prices for identical or similar instruments on inactive markets or financial instruments valued using models where all significant inputs are observable.
- Level 3 – Valuation technique with significant non-observable inputs: financial instruments valued using models where one or more significant inputs are not observable.

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

Financial instruments carried at fair value and bases of valuation

	Valuation techniques				Amount with HSBC		
	Level 1 - quoted market price	Level 2 - using observable inputs	Level 3 - with significant non-observable inputs	Third-party Total	Amounts with HSBC entities	Of which Level 3	Total
At 31 Dec 2018	€m	€m	€m	€m	€m	€m	€m
Assets							
Trading assets	**16,831**	**133**	**2**	**16,966**	**–**	**–**	**16,966**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**9,117**	**163**	**593**	**9,873**	**622**	**184**	**10,495**
Derivatives	**25**	**16,796**	**335**	**17,156**	**14,621**	**280**	**31,777**
Financial assets designated at fair value	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Financial investments	**16,070**	**–**	**13**	**16,083**	**413**	**–**	**16,496**
Liabilities							
Trading liabilities	**23,125**	**–**	**–**	**23,125**	**20**	**–**	**23,145**
Financial liabilities designated at fair value	**5,287**	**9,005**	**292**	**14,584**	**–**	**–**	**14,584**
Derivatives	**4**	**17,252**	**67**	**17,323**	**13,975**	**368**	**31,298**
At 31 Dec 2017							
Assets							
Trading assets	16,380	5,227	2	21,609	792	–	22,401
Financial assets designated at fair value	8,040	199	54	8,293	312	–	8,605
Derivatives	21	19,461	380	19,862	14,545	299	34,407
Financial investments: available-for-sale	19,727	13	224	19,964	584	–	20,548
Liabilities							
Trading liabilities	23,478	7,082	268	30,828	1,608	–	32,436
Financial liabilities designated at fair value	2,538	5,027	–	7,565	–	–	7,565
Derivatives	9	19,853	53	19,915	13,314	444	33,229

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial Investments	Held for trading	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2018							
Transfers from Level 1 to Level 2	–	–	–	–	–	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–	–	–

	Assets				Liabilities		
	Available for sale	Held for Trading	Designated at fair value through profit or loss	Derivatives	Held for Trading	Designated at fair value through profit or loss	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2017							
Transfers from Level 1 to Level 2	–	–	–	–	–	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–	–	–

Fair value adjustments

Fair value adjustments are adopted when HSBC France considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model. HSBC France classifies fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to Global Banking and Markets.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Risk-related adjustments

Bid-offer

IFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if almost all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit valuation adjustment ('CVA')

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that the group may not receive the full market value of the transactions (see below).

Debit valuation adjustment ('DVA')

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the HSBC France group may default, or may not pay full market value of the transactions (see below).

Funding fair value adjustment

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available, and is adjusted for events that may terminate the exposure, such as the default of HSBC or the counterparty. The FFVA and DVA are calculated independently.

Model-related adjustments

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted by HSBC France when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

Focus Level 3

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

	Assets					Liabilities			
	Financial Investments	Held for trading	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Held for trading	Designated at fair value	Derivatives	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Private equity investments including strategic investments	10	—	355	—	365	—	—	—	—
Asset-backed securities	—	—	—	—	—	—	—	—	—
Structured notes	—	2	—	—	2	—	292	—	292
Derivatives	—	—	—	335	335	—	—	67	67
Other portfolios	3	—	238	—	241	—	—	—	—
HSBC Group subsidiaries	—	—	184	280	464	—	—	368	368
Year ended 31 Dec 2018	**13**	**2**	**777**	**615**	**1,407**	**—**	**292**	**435**	**727**
	Assets					Liabilities			
	Available for sale	Held for trading	Designated at fair value	Derivatives	Total	Held for trading	Designated at fair value	Derivatives	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Private equity investments including strategic investments	221	—	54	—	275	—	—	—	—
Asset-backed securities	—	—	—	—	—	—	—	—	—
Structured notes	—	2	—	—	2	268	—	—	268
Derivatives	—	—	—	380	380	—	—	53	53
Other portfolios	3	—	—	—	3	—	—	—	—
HSBC Group subsidiaries	—	—	—	299	299	—	—	444	444
Year ended 31 Dec 2017	224	2	54	679	959	268	—	497	765

Private equity

The group's private equity positions are generally classified as financial investments and are not traded on an active market. In the absence of an active market for the investment, fair value is estimated based upon an analysis of the investee's financial position and results, risk profile, prospects and other factors as well as reference to market valuations for similar entities quoted on an active market, or the price at which similar companies have changed ownership. Fair value investment estimation being subjected to judgement and uncertainty subjective factors remain until the private equity investment is sold.

Derivatives

Over-the-counter (i.e. non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, such as interest rate swaps and

European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some divergence in market practice.

Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historic data or other sources.

Structured notes

For structured notes whose fair value is derived from a valuation technique, the fair value will be derived from the fair value of the underlying debt security as described above, and the fair value of the embedded derivative will be determined as described in the section above on derivatives. Trading liabilities valued using a valuation technique with significant unobservable inputs principally comprised equity linked structured notes which are issued by HSBC and provide the counterparty with a return that is linked to the performance of certain equity securities, and other portfolios. The notes are classified as Level 3 due to the unobservability of parameters such as long-dated equity volatilities and correlations between equity prices, between equity prices and interest rates and between interest rates and foreign exchange rates.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2018 [1]	**10**	**2**	**955**	**679**	**–**	**268**	**497**
Total gains/(losses) recognised in profit or loss	–	–	(13)	(48)	–	(27)	(33)
– net income from financial instruments held for trading or managed on a fair value basis	–	–	–	(48)	–	(27)	(33)
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	–	–	–	–	–	–	–
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	55	–	–	–	–
– gains less losses from financial investments at fair value through other comprehensive income	–	–	–	–	–	–	–
– expected credit loss charges and other credit risk charges	–	–	–	–	–	–	–
– fair value gains transferred to the income statement on disposal	–	–	–	–	–	–	–
– exchange differences	–	–	(68)	–	–	–	–
Total gains/(losses) recognised in other comprehensive income ('OCI')	1	–	–	–	–	–	–
– financial investments: fair value gains/(losses)	1	–	–	–	–	–	–
– cash flow hedges: fair value gains/(losses)	–	–	–	–	–	–	–
– fair value gains transferred to the income statement on disposal	–	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	–	–
Purchases	2	–	180	16	–	64	6
New issuances	–	–	–	–	–	15	–
Sales	–	–	(25)	–	–	–	–
Settlements	–	–	(320)	(13)	–	(17)	1
Transfer out	–	–	–	(20)	–	(11)	(58)
Transfer in	–	–	–	1	–	–	22
At 31 Dec 2018	**13**	**2**	**777**	**615**	**–**	**292**	**435**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2018	1	–	–	(47)	–	(24)	(30)
– trading income/(expense) excluding net interest income	1	–	–	(47)	–	(24)	(30)
– net income/(expense) from other financial instruments designated at fair value	–	–	–	–	–	–	–
– expected credit loss charges and other credit risk charges	–	–	–	–	–	–	–

Movement in Level 3 financial instruments (Continued)

	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	(17)	—	—	(4)	30	—	(51)
– trading income/(expense) excluding net interest income	—	—	—	(4)	30	—	(51)
– gains less losses from financial investments	(17)	—		—	—	—	—
Total gains or losses recognised in other comprehensive income ('OCI')	21	—	2	—	—	—	—
– available-for-sale investments: fair value gains/(losses)	23	—	2	—	—	—	—
– cash flow hedges: fair value gains/(losses)	—	—	—	—	—	—	—
– exchange differences	(2)	—	—	—	—	—	—
Purchases	21	—	33	—	—	—	2
New issuances	—	—	—	—	—	—	—
Sales	(52)	—	—	—	—	—	—
Settlements	—	—	—	(27)	(5)	—	27
Transfers out	(11)	—	—	(18)	(20)	—	(61)
Transfers in	11	—	—	58	17	—	88
At 31 Dec 2017	224	2	54	679	268	—	497
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec	25	—	2	8	31	—	(41)
– trading income/(expense) excluding net interest income	—	—	2	8	31	—	(41)
– loan impairment charges and other credit risk provisions	—	—	—	—	—	—	—
– gains less losses from financial investments	25	—	—	—	—	—	—

1 *The opening balance on 1 January 2018 shows the amounts before the acquisition of the HSBC Group's Greek activities by the Greek branch of HSBC France, the impacts of which are presented in the year's movements.*

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

The fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.
The following table shows the sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type.

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

	Reflected in profit or loss		**Reflected in OCI**	
	Favourable	**Unfavourable**	**Favourable**	**Unfavourable**
	€m	**€m**	**€m**	**€m**
2018				
Private equity investments including strategic investments	**35**	**(26)**	**1**	**(1)**
Asset-backed securities	**–**	**–**	**–**	**–**
Structured notes	**1**	**(1)**	**–**	**–**
Derivatives	**6**	**(6)**	**–**	**–**
Other portfolios	**2**	**(4)**	**–**	**(3)**
HSBC Group subsidiaries	**12**	**(12)**	**–**	**–**
Year ended 31 Dec	**56**	**(49)**	**1**	**(4)**
2017				
Private equity investments including strategic investments	3	(3)	21	(22)
Asset-backed securities	—	—	—	—
Structured notes	—	—	—	—
Derivatives	13	(13)	—	—
Other portfolios	—	—	—	—
HSBC Group subsidiaries	22	(22)	—	—
Year-ended 31 Dec	38	(38)	21	(22)

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

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

Key unobservable inputs to Level 3 financial instruments

The table above lists key unobservable inputs to level 3 financial instruments, and provides the range of those inputs as at 31 December 2018. A further description of the categories of key unobservable inputs is given below.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value[1]				Full range of inputs		Core range of inputs	
	Assets	Liabilities	Valuation technique	Key unobservable inputs	Lower	Higher	Lower	Higher
	€m	€m			%	%	%	%
At 31 Dec 2018								
Private equity including strategic investments	**365**	**–**	**See notes below**	**See notes below**	**n/a**	**n/a**	**n/a**	**n/a**
Asset-backed securities								
– CLO/CDO[2]	**–**	**–**	**Market proxy**	**Bid quotes**	**n/a**	**n/a**	**n/a**	**n/a**
– other ABSs	**–**	**–**						
Structured notes								
– equity-linked notes	**–**	**277**	**Model – Option model**	**Equity volatility**	**–**	**–**	**–**	**–**
– fund-linked notes	**–**	**–**	**Model – Option model**	**Fund volatility**	**–**	**–**	**–**	**–**
– FX-linked notes	**–**	**–**	**Model – Option model**	**FX volatility**	**–**	**–**	**–**	**–**
– other	**2**	**15**						
Derivatives								
Interest rate derivatives								
– securitisation swaps	**129**	**4**	**Model – DCF[3]**	**Prepayment rate**	**50%**	**50%**	**50%**	**50%**
– long-dated swaptions	**383**	**325**	**Model – Option model**	**IR volatility**	**16%**	**33%**	**18%**	**30%**
– other	**78**	**77**						
Foreign exchange derivatives								
– foreign exchange options	**16**	**16**	**Model – Option model**	**FX volatility**	**8%**	**14%**	**9%**	**14%**
Equity derivatives								
– long-dated single stock options	**–**	**–**	**Model – Option model**	**Equity volatility**	**–**	**–**	**–**	**–**
– other	**9**	**13**						
Credit derivatives								
– other	**–**	**–**						
Other portfolios[4]	**425**	**–**						
Total Level 3	**1,407**	**727**						
At 31 Dec 2017								
Private equity including strategic investments	275	–	See notes below	See notes below	n/a	n/a	n/a	n/a
Asset-backed securities	–	–						
– CLO/CDO[2]	–	–	Market proxy	Bid quotes	n/a	n/a	n/a	n/a
– other ABSs	–	–						
Structured notes								
– equity-linked notes[5]	–	268	Model – Option model	Equity volatility	–	–	–	–
– fund-linked notes	–	–	Model – Option model	Fund volatility	–	–	–	–
– FX-linked notes	–	–	Model – Option model	FX volatility	–	–	–	–
– other	2	–						
Derivatives								
Interest rate derivatives								
– securitisation swaps	136	–	Model – DCF[3]	Prepayment rate	50%	50%	50%	50%
– long-dated swaptions	429	370	Model – Option model	IR volatility	14%	41%	16%	38%
– other	87	113						
Foreign exchange derivatives								
– foreign exchange options	9	9	Model – Option model	FX volatility	10%	14%	10%	14%
Equity derivatives								
– long-dated single stock options	–	–	Model – Option model	Equity volatility	–	–	–	–
– other	18	5						
Credit derivatives								
– other	–	–						
Other portfolios	3	–						
Total Level 3	959	765						

1 *Including Level 3 amounts with HSBC Group subsidiaries.*
2 *Collateralised Loan Obligation/Collateralised Debt Obligation.*
3 *Discounted cash flow.*
4 *Other portfolios include outstanding loans that failed the SPPI test.*
5 *Amounts previously reported in the "Other" category have been reclassified to "Equity-Linked Bonds".*

Private equity including strategic investments

Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs.

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. Prepayment rates are an important input into modelled values of asset-backed securities. For example, so-called securitisation swaps have a notional value that is linked to the size of the outstanding loan portfolio in a securitisation, which may fall as prepayments occur. Prepayment rates may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historic prepayment rates, macroeconomic modelling.

Market proxy

Market proxy pricing may be used for an instrument for which specific market pricing is not available, but evidence is available in respect of instruments that have some characteristics in common. In some cases it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence.

Volatility

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time. As a result, it is difficult to make general statements regarding volatility levels. For example, while it is generally the case that foreign exchange volatilities are lower than equity volatilities, there may be examples in particular currency pairs or for particular equities where this is not the case.

Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data. For example, longer-dated volatilities may be extrapolated from shorter-dated volatilities.

Correlation

Correlation is a measure of the inter-relationship between two market prices. Correlation is a number between minus one and one. A positive correlation implies that the two market prices tend to move in the same direction, with a correlation of one implying that they always move in the same direction. A negative correlation implies that the two market prices tend to move in opposite directions, with a correlation of minus one implying that the two market prices always move in opposite directions.

Correlation may be unobservable. Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC trade prices, proxy correlations and examination of historical price relationships.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept a lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices. Credit spreads may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macroeconomic or other events.

14 Fair values of financial instruments not carried at fair value

The table below shows the fair value of financial instruments not recognised at fair value in the balance sheet. The carrying amount of all other financial instruments equals their fair value.

Fair value of financial instruments not carried at fair value and basis of valuation

		Fair value			
	Carrying amount	Level 1 - Quoted market price	Level 2 - Using observable inputs	Level 3 - Significant unobservable inputs	Total
	€m	€m	€m	€m	€m
At 31 Dec 2018					
Assets					
Loans and advances to banks	**6,197**	**1**	**6,096**	**101**	**6,198**
Loans and advances to customers	**46,997**	**—**	**—**	**47,033**	**47,033**
Reverse repurchase agreements – non-trading	**32,835**	**—**	**32,835**	**—**	**32,835**
Financial investments: debt securities at amortised cost	**6**	**—**	**—**	**6**	**6**
Liabilities					
Deposits by banks	**10,828**	**—**	**10,828**	**—**	**10,828**
Customer accounts	**41,906**	**—**	**41,901**	**—**	**41,901**
Repurchase agreements – non-trading	**18,921**	**—**	**18,921**	**—**	**18,921**
Debt securities in issue	**2,472**	**—**	**2,472**	**—**	**2,472**
Subordinated liabilities	**876**	**—**	**876**	**—**	**876**
At 31 Dec 2017					
Assets					
Loans and advances to banks	4,843	—	4,843	—	4,843
Loans and advances to customers	44,856	—	—	44,932	44,932
Reverse repurchase agreements – non-trading	13,781	—	13,781	—	13,781
Financial investments: debt securities at amortised cost	—	—	—	—	—
Liabilities					
Deposits by banks	13,297	—	13,297	—	13,297
Customer accounts	38,277	—	38,296	—	38,296
Repurchase agreements – non-trading	6,586	—	6,586	—	6,586
Debt securities in issue	5,159	—	5,169	—	5,169
Subordinated liabilities	576	—	576	—	576

Valuation

The fair value measurement is HSBC France's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs expected to flow from the instruments' cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

The fair value of financial assets and liabilities is calculated using models maintained by HSBC France, and is based on discounting expected cash flows. The calculated fair value difference predominantly arises on loans secured on residential properties. In this product segment, the most significant fair value difference arises from early repayment options included in mortgage loans, representing the cost to the bank of the embedded option.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that incorporate the prices and future earnings streams of equivalent quoted securities.

Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions may include value estimates from third-party brokers which reflect over-the-counter trading activity; forward-looking discounted cash flow models using assumptions which HSBC believes are consistent with those which would be used by market participants in valuing such loans; and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The stratification of a loan book considers all material factors, including vintage, origination period, estimates of future interest rates, prepayment speeds, delinquency rates, loan-to-value ratios, the quality of collateral, default probability, and internal credit risk ratings.

The fair value of a loan reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value impact of repricing between origination and the balance sheet date.

Deposits by banks and customer accounts

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

Repurchase and reverse repurchase agreements – non-trading

Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are generally short dated.

15 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	2018			2017		
	Designated at fair value	Mandatorily measured at fair value	Total	Designated at fair value	Mandatorily measured at fair value	Total
	€m	€m	€m	€m	€m	€m
Securities	–	10,073	10,073	8,602	–	8,602
– treasury and other eligible bills	–	–	–	–	–	–
– debt securities	–	3,015	3,015	1,081	–	1,081
– equity securities	–	7,058	7,058	7,521	–	7,521
Loans and advances to banks and customers	–	422	422	3	–	3
Other	–	–	–	–	–	–
Year ended 31 Dec	–	10,495	10,495	8,605	–	8,605

16 Derivatives

The table shows the fair value of derivatives by contract type:

Notional contract amounts and fair values of derivatives by product contract type held by HSBC France

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Foreign exchange	181,800	8	3,637	1	3,638	3,508	–	3,508
Interest rate	3,436,035	13,460	40,577	75	40,652	40,122	131	40,253
Equities	4,506	–	81	–	81	116	–	116
Credit	534	–	–	–	–	15	–	15
Commodity and other	–	–	–	–	–	–	–	–
Gross total fair values	3,622,875	13,468	44,295	76	44,371	43,761	131	43,892
Offset (Note 31)					(12,594)			(12,594)
At 31 Dec 2018	3,622,875	13,468	44,295	76	31,777	43,761	131	31,298
Foreign exchange	136,979	956	3,271	48	3,319	3,122	12	3,134
Interest rate	2,755,225	19,173	44,104	118	44,222	43,072	229	43,301
Equities	17,121	–	137	–	137	64	–	64
Credit	179	–	1	–	1	2	–	2
Commodity and other	–	–	–	–	–	–	–	–
Gross total fair values	2,909,504	20,129	47,513	166	47,679	46,260	241	46,501
Offset (refer to Note 31)					(13,272)			(13,272)
At 31 Dec 2017	2,909,504	20,129	47,513	166	34,407	46,260	241	33,229

The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Trading derivatives

Most of the HSBC France group's derivative transactions relate to sales and trading activities. Positions come from the activity with clients, including as a result of reasonable expected short-term demand of clients and dynamic hedging of the positions.

Derivatives valued using models with unobservable inputs

Unamortised balance of derivatives valued using models with significant unobservable inputs

	2018	2017
	€m	€m
Unamortised balance at 1 Jan	**3**	3
Deferral on new transactions	**–**	–
Recognised in the income statement during the year:	**–**	–
– amortisation	**–**	–
– subsequent to unobservable inputs becoming observable	**–**	–
– maturity, termination or offsetting derivative	**–**	–
Exchange differences	**–**	–
Other	**–**	–
At 31 Dec	**3**	3

Hedging instruments

HSBC France uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the group to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, or cash flow hedges, or hedges in net investment of foreign operations. These are described under the relevant headings below.

Fair value hedges

The HSBC France group's fair value hedges principally consist of interest rate swaps that are used to protect against changes due to movements in market interest rates in the fair value of fixed-rate long-term financial instruments of portfolio and fixed rates loans. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield adjustment over the remainder of the hedging period.

At 31 December 2018 the fair values of outstanding derivatives as fair value hedges were assets of EUR 19 million and liabilities of EUR 118 million (31 December 2017 : assets of EUR 87 million and liabilities of EUR 210 million).

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet	Change in fair value[2]
Hedged Risk	€m	€m	€m	presentation	€m
Foreign currency	**8**	**1**	**–**	**Derivatives**	**1**
Interest rate[3]	**8,746**	**18**	**118**	**Derivatives**	**76**
At 31 Dec 2018	**8,754**	**19**	**118**		**77**

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.
2 Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.
3 The hedged risk 'interest rate' includes inflation risk.

HSBC France Hedged item by hedged risk

	Hedged Item						In-effectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount			Change in fair value[1]	Recognised in profit and loss	
	Assets	Liabilities	Assets	Liabilities	Balance sheet			Profit and loss
Hedged Risk	€m	€m	€m	€m	presentation	€m	€m	presentation
	3,300	**–**	**–**		**FVOCI**	**(60)**		
	935		**–**		**L&A to Customers**	**(1)**	**2**	**Net income from financial instruments held for trading or managed on a fair value basis**
		–		**–**	**Debt issued**	**–**		
Interest rate[2]		**4,136**		**39**	**Deposits by Banks**	**(13)**		
At 31 Dec 2018	**4,235**	**4,136**	**–**	**39**		**(74)**	**2**	

1 Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.
2 The hedged risk 'interest rate' includes inflation risk.

Cash flow hedges

The HSBC France group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The hedges are used to protect against exposures to variability in future interest cash flows.

The documentation of the qualification of macro-hedging relationships will be carefully monitored during the 2019 financial year as part of the transition of the Euribor and Eonia indices.

Hedging instrument by hedged risk

	Hedging Instrument					Hedged Item	Ineffectiveness	
		Carrying amount						
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	€m	€m	€m		€m	€m	€m	
Foreign currency	—	—	—	Derivatives	—	—	—	
Interest rate	4,714	57	13	Derivatives	22	20	2	Net income from financial instruments held for trading or managed on a fair value basis
At 31 Dec 2018	**4,714**	**57**	**13**		**22**	**20**	**2**	

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

2. Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.

Analysis of other comprehensive income by risk type

	Interest rate	Foreign	Other
	€m	€m	€m
Cash flow hedging reserve at 1 Jan 2018	(70)	—	—
Fair value gains/(losses)	20	—	—
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of hedged items that has affected profit or loss	54	—	—
Income taxes	(27)	—	—
Others	—	—	—
Cash flow hedging reserve at 31 Dec 2018	(23)	—	—

Schedule of expected cash flows

	3 months or less	More than 3 months but less than 1 year	5 years or less but more than 1 year	More than 5 years
	€m	€m	€m	€m
Net cash inflows/(outflows) exposure				
Assets	**2,272**	**2,272**	**1,922**	**1,300**
Liabilities	**(2,443)**	**(2,353)**	**(1,489)**	**(50)**
At 31 Dec 2018	**(171)**	**(81)**	**433**	**1,250**
Net cash inflows/(outflows) exposure				
Assets	2,220	2,216	2,216	764
Liabilities	(3,149)	(2,818)	(1,648)	—
At 31 Dec 2017	(929)	(602)	568	764

Embedded derivatives: home purchase savings

Home purchase savings accounts ('CEL') and plans ('PEL') are specific financial instruments established by law 65-554 of 10 July 1965. Within these products, customers build up savings during a certain period and use them to obtain loans during a subsequent period. The latter phase depends on, and cannot be separated from, the build-up phase.

To recognise derivatives embedded in PEL/CEL home purchase savings products at fair value, HSBC France has developed a model with the following main characteristics:

- the main accounting reference is IFRS 9, concerning the calculation of fair value with respect to derivative instruments;
- the derivatives under consideration are borrowing and savings options embedded in contracts in force at the accounts-closing date:
  - the model calculates the fair value of exceptional payment and deferred payment options granted to customers (for home purchase savings plans only),
  - the model calculates the fair value of options to use acquired borrowing rights;
- the calculation is dependent on customer behaviour, and is carried out separately for each issue of PELs and on a combined basis for CELs.

At 31 December 2018, derivatives embedded in home purchase savings products represented a liability of EUR 6 million (at 31 December 2017: a liability of EUR 5.5 million).

17 Financial investments

Carrying amount of financial investments

	2018	2017
	€m	€m
Financial investments measured at fair value through other comprehensive income	**16,496**	N/A
– treasury and other eligible bills	**729**	N/A
– debt securities	**15,756**	N/A
– equity securities	**11**	N/A
– other instruments	**—**	N/A
Debt instruments measured at amortised cost	**6**	N/A
– treasury and other eligible bills	**—**	N/A
– debt securities	**6**	N/A
Available for sale securities at fair value	**N/A**	20,548
– treasury and other eligible bills	**N/A**	—
– debt securities	**N/A**	20,331
– equity securities	**N/A**	217
Held to maturity securities at amortised cost	**N/A**	—
– debt securities	**N/A**	—
At 31 Dec [1]	**16,502**	20,548

1 *Categories of financial instruments are disclosed under IFRS 9 at 31 December 2018. These are not directly comparable with 31 December 2017, where the instruments were categorised in accordance with IAS 39.*

Equity instruments measured at fair value through other comprehensive income

	Instruments held at year end		Instruments derecognised during the year		
	Fair value	Dividends recognised	Fair value on date of disposal	Cumulative gain/ loss on disposal	Dividend recognised
	€m	€m	€m	€m	€m
Business facilitation	**—**	**—**	**—**	**—**	**—**
Employee share awards	**—**	**—**	**—**	**—**	**—**
Strategic investments	**—**	**—**	**—**	**—**	**—**
Investments required by central institutions	**11**	**—**	**—**	**—**	**—**
Others	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2018	**11**	**—**	**—**	**—**	**—**

Financial investments at amortised cost and fair value

	2018		2017	
	Amortised cost	Fair value	Amortised cost	Fair value
	€m	€m	€m	€m
Governments	**6,766**	**7,346**	7,989	9,221
Asset-backed securities	**—**	**—**	—	—
Corporate debt and other securities	**8,706**	**9,145**	9,666	11,110
Equities	**11**	**11**	149	217
At 31 Dec	**15,483**	**16,502**	17,804	20,548

Maturities of investments in debt securities at their carrying amount

	1 year or less	5 years or less but over 1 year	10 years or less but over 5 years	Over 10 years	Total
	€m	€m	€m	€m	€m
Debt securities measured at fair value through other comprehensive income	**2,998**	**5,276**	**4,537**	**2,945**	**15,756**
Debt securities measured at amortised cost	**—**	**6**	**—**	**—**	**6**
At 31 Dec 2018	**2,998**	**5,282**	**4,537**	**2,945**	**15,762**
Available for sale	3,290	8,696	4,293	4,052	20,331
Held to maturity	—	—	—	—	—
At 31 Dec 2017	3,290	8,696	4,293	4,052	20,331

Contractual maturities and weighted average yields of investment debt securities

	1 year or less		5 years or less but over 1 year		10 years or less but over 5 years		Over 10 years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	€m	%	€m	%	€m	%	€m	%
Debt securities measured at fair value through other comprehensive income								
Governments	1,535	1.2	2,305	2.5	1,554	1.7	637	3.6
Asset-backed securities	–	–	–	–	–	–	–	–
Corporate debt and other securities	1,382	2.0	2,540	2.7	2,615	2.2	2,168	2.9
Total amortised cost at 31 December 2018	2,917		4,845		4,169		2,805	
Total carrying value	2,998		5,276		4,537		2,945	
Debt instruments measured at amortised cost								
Governments	–	–	6	–	–	–	–	–
Asset-backed securities	–	–	–	–	–	–	–	–
Corporate debt and other securities	–	–	–	–	–	–	–	–
Total amortised cost at 31 December 2018	–		6		–		–	
Total carrying value	–		6		–		–	

18 Assets pledged, collateral received and assets transferred

Assets pledged

The following table shows the carrying amounts of financial assets not qualifying for derecognition and their associated liability:

Financial assets pledged as collateral

	2018	2017
	€m	€m
Treasury bills and other eligible securities	1,228	590
Loans and advances to banks [1]	32	2,817
Loans and advances to customers [1]	17,421	18,039
Debt securities	16,429	19,326
Equity shares	–	–
Other [1]	4,849	–
Assets pledged at 31 Dec	39,959	40,772

1 *At 1 January 2018, the HSBC Group adopted certain accounting changes. Comparative data have not been restated. On asset, cash collateral, margin and settlement accounts have been reclassified from 'Loans and advances to banks' and 'Loans and advances to customers' to 'Prepayments, accrued income and other assets'. A restatement would have increased 'Other Assets ' by EUR 4.8 billion at 31 December 2017 (EUR 2.8 billion from Loans and advances to banks and EUR 2 billion from Loans and advances to customers).*

The table above shows encumbered assets including those linked to TLTRO II and Covered bonds debt. The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, in the case of securitisations and covered bonds, the amount of liabilities issued, plus mandatory over-collateralisation, is less than the book value of the pool of assets available for use as collateral. This is also the case where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining.

Financial assets pledged as collateral that the counterparty has the right to sell or repledge

	2018	2017
	€m	€m
Trading assets	12,584	12,101
Financial investments	1,654	5,080
At 31 Dec	14,238	17,181

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default was EUR 80,784 million at 31 December 2018 (EUR 40,951 million at 31 December 2017).

The fair value of financial assets accepted as collateral that have been sold or repledged was EUR 78,791 million at 31 December 2018 (EUR 36,221 million at 31 December 2017). The group is obliged to return equivalent securities.

Those transactions are made in accordance with the conditions of standard securities lending and borrowing operations.

Assets transferred

The HSBC France group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of the financial asset concerned:

- full derecognition occurs when the HSBC France group transfers its contractual right to receive cash flows from the financial assets and substantially, all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks. In addition, full derecognition occurs where the contractual rights to receive the cash flows of the financial assets are retained but a contractual obligation to pay the cash flows to one or more recipients is assumed;

- partial derecognition occurs when HSBC France sells, or otherwise transfers, financial assets in such a way that some, but not substantially all, of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of HSBC France continuing involvement;
- derecognition does not occur when the group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, but:
  - either, retains substantially all of the risks and rewards of ownership of the transferred asset;
  - or neither retains nor transfers substantially all of the risks and rewards of ownership but has retained control. In this situation the financial assets are recognised on the balance sheet to the extent of HSBC France continuing involvement.

The majority of transferred financial assets that do not qualify for derecognition are (i) debt securities held by counterparties as collateral under repurchase agreements or (ii) equity securities lent under securities lending agreements.

As the substance of these transactions is secured borrowings the asset collateral continues to be recognised in full and the related liability reflecting HSBC France obligation to repurchase the transferred assets for a fixed price at a future date is recognised in deposits from banks or customers as appropriate. As a result of these transactions, HSBC France is unable to use, sell or pledge the transferred assets for the duration of the transaction. HSBC France remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

The following table analyses the carrying amount of financial assets that did not qualify for derecognition during the year and their associated financial liabilities:

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Carrying amount of:	
	Transferred assets	Associated liabilities
	€m	€m
Repurchase agreements	**14,238**	**14,250**
Securities lending agreements	**5,397**	**5,397**
At 31 Dec 2018	**19,635**	**19,647**
Repurchase agreements	17,181	17,315
Securities lending agreements	2,647	2,647
At 31 Dec 2017	19,828	19,962

19 Interests in associates and partnerships

Associate

At 31 December 2018, the group HSBC France consolidates under equity method only three entities on which it exercises a joint control or a significant influence. The impact on consolidated financial statements is not significant.

	At 31 Dec 2018		
	Country of incorporation and principal place of business	Principal activity	HSBC's interest %
HCM Holdings Ltd	**United Kingdom**	**Asset Management**	**51%**
HSBC Global Asset Management (Switzerland)	**Switzerland**	**Asset Management**	**50%**
Service Epargne Entreprise	**France**	**Asset Management**	**14.4%**

Although the HSBC France group owns more than 50 per cent of the equity capital of HCM Holdings Ltd, the agreement with the other shareholder includes restrictions on the rights of HSBC France as the majority shareholder and indicates joint control over HCM Holdings Ltd by the two shareholders.

Regarding the entity Service Epargne Entreprise developped in partnership with other groups, the HSBC France group participates in strategic decisions of the associate through its representation in the executive bodies, influences operational management by providing management systems or management staff or brings its technical cooperation to the company's growth.

Partnerships

As of 31 December 2018, the contribution of HSBC Middle East Leasing Partnership ('MELP') to the consolidated total assets of the HSBC France group is EUR 467 million (2017: EUR 515 million) and EUR 16 million (2017: EUR 11.8 million) to the consolidated income statement.

20 Related information on foreign subsidiaries country by country

Related information on foreign subsidiaries country by country required by the directive 2013/36/EU ('CRD IV') has been transposed in article L. 511-45 of the French Monetary and Financial Code.

Article R. 511-16-4, I of the French Monetary and Financial Code provides that undertakings are not required to disclose the information if these elements are already published by their parent company established within another Member State of the European Union and subject to a similar requirement.

In the context of political and regulatory developments in Europe, HSBC France now publishes this information:

	HSBC France group	France	Greece	Poland	Ireland	Others
	€m	€m	€m	€m	€m	€m
Net Operating Income	1,746	1,667	57	15	8	(1)
Profit Before Tax	45	40	3	3	–	(1)
Current Tax	(77)	(75)	(1)	(1)	–	–
Deferred Tax	14	14	–	–	–	–
Public subsidies received	–	–	–	–	–	–
Number of employees (Full Time Equivalent)	8,829	8,220	365	198	46	–

The list of subsidiaries by country detailing the names of entities, nature of activity and geographical location, is presented in the Note 40 on pages 217 to 219. The addresses of main locations abroad are presented on pages 272 and 273.

21 Structured entities

Consolidated structured entities by HSBC France

Total assets of the HSBC France group's consolidated structured entities, split by entity type

	Conduits	Securitisations	HSBC France group managed funds	Other	Total
	€m	€m	€m	€m	€m
At 31 Dec 2018	–	**100**	**4,182**	**1,869**	**6,151**
At 31 Dec 2017	–	100	2,633	2,138	4,871

General policy

A structured entity is an entity designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. Thus, these entities have a limited scope of activities and a well-defined purpose.

Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 1.

HSBC France is involved directly or indirectly with structured entities mainly through securitisation of financial assets, conduits and investment funds.

Group arrangements that involve structured entities are authorised centrally when they are established to ensure appropriate purpose and governance. The activities of structured entities administered by the group are closely monitored by senior management. The HSBC France group has involvement with both consolidated and unconsolidated structured entities, which may be established by the group or by a third party, detailed below.

Securitisations

HSBC France has interests in unconsolidated securitisation vehicles through holding notes issued by these entities.

HSBC France group managed funds

The HSBC France group has established a number of money market and non-money market funds in order to offer its customer investment opportunities. When HSBC France is deemed to be acting as principal rather than agent in its role as investment manager, HSBC France will control and hence consolidate these funds.

HSBC France, as fund manager, may be entitled to receive management and performance fees based on the assets under management. HSBC France may also retain units in these funds.

Non-HSBC France group managed funds

HSBC France purchases and holds unit of third party managed funds in order to facilitate both business and customer needs.

HSBC France sponsored structured entities

The amount of assets transferred to and income received from such sponsored entities during 2018 and 2017 was not significant.

Other

HSBC France also enters into a number of transactions in the normal course of business, including asset and structured finance transactions where it has control of the structured entity.

Unconsolidated structured entities by HSBC France

The term 'unconsolidated structured entities' refers to all structured entities that are not controlled by the group. It includes interests in structured entities that are not consolidated. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The table below shows the total assets of unconsolidated structured entities in which the group has an interest at the reporting date, as well as the group's maximum exposure to loss in relation to those interest.

	Securitisations	Group managed funds	Non-group managed funds	Other	Total
Total asset values of the entities (€m)					
0 – 500	**–**	**124**	**113**	**32**	**269**
500 – 2,000	**–**	**29**	**70**	**–**	**99**
2,000 – 5,000	**–**	**4**	**39**	**–**	**43**
5,000 – 25,000	**–**	**–**	**9**	**–**	**9**
25,000+	**–**	**–**	**–**	**–**	**–**
Number of entities at 31 Dec 2018	**–**	**157**	**231**	**32**	**420**
Total asset values of the entities (€m)					
0 – 500	–	130	70	34	234
500 – 2,000	–	25	62	–	87
2,000 – 5,000	–	5	37	–	42
5,000 – 25,000	–	–	15	–	15
25,000+	–	–	–	–	–
Number of entities at 31 Dec 2017	–	160	184	34	378

	€m	€m	€m	€m	€m
Total assets in relation to HSBC's interests in the unconsolidated structured entities	**–**	**3,291**	**1,660**	**57**	**5,008**
– trading assets	**–**	**–**	**–**	**–**	**–**
– financial assets designated and otherwise mandatorily measured at fair value	**–**	**3,291**	**1,486**	**–**	**4,777**
– loans and advances to banks	**–**	**–**	**–**	**–**	**–**
– loans and advances to customers	**–**	**–**	**–**	**–**	**–**
– financial investments	**–**	**–**	**174**	**57**	**231**
– other assets	**–**	**–**	**–**	**–**	**–**
Total liabilities in relation to HSBC's interests in the unconsolidated structured entities	**–**	**–**	**–**	**–**	**–**
– other liabilities	**–**	**–**	**–**	**–**	**–**
Other off balance sheet commitments	**–**	**–**	**–**	**–**	**–**
HSBC's maximum exposure at 31 Dec 2018	**–**	**3,291**	**1,660**	**57**	**5,008**
	€m	€m	€m	€m	€m
Total assets in relation to HSBC's interests in the unconsolidated structured entities	–	2,905	1,755	49	4,709
– trading assets	–	–	–	–	–
– financial assets designated and otherwise mandatorily measured at fair value	–	2,892	1,501	–	4,393
– loans and advances to banks	–	–	–	–	–
– loans and advances to customers	–	–	–	–	–
– financial investments	–	13	254	49	316
– other assets	–	–	–	–	–
Total liabilities in relation to HSBC's interests in the unconsolidated structured entities	–	–	–	–	–
– other liabilities	–	–	–	–	–
Other off balance sheet commitments	–	–	–	–	–
HSBC's maximum exposure at 31 Dec 2017	–	2,905	1,755	49	4,709

The maximum exposure to loss from the group's interests in unconsolidated structured entities represents the maximum loss it could occur as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

- For commitments and guarantees, and written credit default swaps, the maximum exposure of the Group HSBC France to loss is the notional amount of potential future losses.
- For retained and purchased investments in and loans to unconsolidated structured entities, the maximum exposure of the Group HSBC France loss is the carrying value of these interests at the balance sheet reporting date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate the group's exposure to loss.

22 Goodwill and intangible assets

	2018	2017
	€m	€m
Goodwill – net book value	**235**	235
Present value of in force long term assurance business ('PVIF')	**500**	457
Other intangible assets [1]	**185**	74
At 31 Dec	**920**	766

1 *Included within other intangible assets is internally generated software with a net carrying value of EUR 176 million (2017: EUR 66 million).*

Movement analysis of goodwill

	2018	2017
	€m	€m
Gross amount		
At 1 Jan	**382**	382
Exchange differences	**–**	–
Reclassified to held for sale	**–**	–
Other	**–**	–
At 31 Dec	**382**	382
Accumulated impairment losses		
At 1 Jan	**(147)**	(147)
Impairment losses	**–**	–
Exchange differences	**–**	–
Other	**–**	–
At 31 Dec	**(147)**	(147)
Net carrying amount at 31 Dec	**235**	235

Goodwill

In accordance with the Accounting Standard IAS 36, HSBC France performs an impairment test at the end of each annual closing and at each evidence of impairment in value. This test is performed by comparing the carrying amount of the cash generating unit ('CGU') to its recoverable amount. If the carrying amount of the CGU exceeds its recoverable amount, an impairment loss is recognised in the income statement.

Key assumptions in VIU calculation

	Goodwill at 31 Dec 2018[1]	Discount rate	Nominal growth rate beyond initial cash flow projections	Goodwill at 31 Dec 2017[1]	Discount rate	Nominal growth rate beyond initial cash flow projections
	€m	%	%	€m	%	%
Commercial Banking	**169**	**9.4**	**2.0**	169	9.6	2.0
Asset Management	**66**	**7.8**	**2.0**	66	7.9	2.0
Total goodwill in the CGUs listed above	**235**			235		

1 *Includes customer/merchant relationships which amount to EUR 9 million for Asset Management.*

At 31 December 2018, the following goodwill is carried by HSBC France. HSBC France did not record any impairment on its goodwill.

		At 31 Dec 2018		
	At 31 Dec 2017	Gross	Impairment	Net
	€m	€m	€m	€m
Commercial Banking	169	**169**	**–**	**169**
Asset Management	66	**66**	**–**	**66**
Total goodwill in the CGUs listed above	235	**235**	**–**	**235**

Commercial banking

The test did not raise any indicators of impairment.

Asset management

The test did not raise any indicators of impairment.

Other intangible assets

Other intangible assets include mortgage servicing rights, computer software, trade names, customer lists, core deposit relationships, credit card customer relationships and merchant or other loan relationships. Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. Where:

- intangible assets have an indefinite useful life, or are not yet ready for use, they are tested for impairment annually. An intangible asset recognised during the current period is tested before the end of the current year; and
- intangible assets have a finite useful life, except for the present value of in-force long-term insurance business, they are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life. The amortisation of mortgage servicing rights is included within 'Net fee income'.

Intangible assets with finite useful lives are amortised, generally on a straight-line basis, over their useful lives as follows:

- Trade names — 10 years
- Internally generated software — between 3 and 10 years
- Purchased software — between 3 and 10 years
- Other — generally 10 years

The analysis of intangible assets movements at 31 December is as follows:

	Internally generated software[1]	Purchased software	Other	Total
	€m	€m	€m	€m
Cost				
At 1 Jan 2018	**84**	**87**	**15**	**186**
Additions	**115**	**4**	**–**	**119**
Disposals	**(23)**	**(30)**	**–**	**(53)**
Amount written off	**–**	**–**	**–**	**–**
Exchange differences	**–**	**–**	**–**	**–**
Other changes	**8**	**1**	**–**	**9**
At 31 Dec 2018	**184**	**62**	**15**	**261**
Accumulated amortisation and impairment				
At 1 Jan 2018	**(18)**	**(80)**	**(14)**	**(112)**
Amortisation charge for the year	**(4)**	**(3)**	**–**	**(7)**
Impairment charge for the year	**–**	**–**	**–**	**–**
Amount written off	**–**	**–**	**–**	**–**
Disposals	**20**	**30**	**–**	**50**
Exchange differences	**–**	**–**	**–**	**–**
Other changes	**(6)**	**(1)**	**–**	**(7)**
At 31 Dec 2018	**(8)**	**(54)**	**(14)**	**(76)**
Net carrying amount at 31 December 2018	**176**	**8**	**1**	**185**
Cost				
At 1 Jan 2017	36	95	15	146
Additions	49	–	–	49
Disposals	(1)	(8)	–	(9)
Amount written off	–	–	–	–
Exchange differences	–	–	–	–
Other changes	–	–	–	–
At 31 Dec 2017	84	87	15	186
Accumulated amortisation and impairment				
At 1 Jan 2017	(18)	(84)	(14)	(116)
Amortisation charge for the year	(1)	(4)	–	(5)
Impairment charge for the year	–	–	–	–
Amount written off	–	–	–	–
Disposals	1	9	–	10
Exchange differences	–	–	–	–
Other changes	–	(1)	–	(1)
At 31 Dec 2017	(18)	(80)	(14)	(112)
Net carrying amount at 31 December 2017	66	7	1	74

1 *Include mainly internal cost linked to strategic development project.*

Present value of in-force insurance business

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

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

Movements in PVIF

	2018 €m	2017 €m
At 1 January	**457**	460
Change in PVIF of long-term insurance business	**43**	(3)
– moving forward	**(54)**	(68)
– value of new business	**25**	39
– assumption changes and others	**69**	(4)
– market impact	**(19)**	13
– experience variances	**22**	17
At 31 December	**500**	457

The PVIF moves from EUR 457 million as of 31 December 2017 to EUR 500 million as of 31 December 2018. Beyond the recurring effects related to the activity, this positive variation of EUR 43 million includes the following effects:

- A positive effect of model changes and assumptions update EUR 69 million due to the impact of the tripartite fees agreement between the asset manager HGAM, the bank HSBC France and the insurance company HSBC Assurance Vie on commissions of unit-linked contracts (EUR 37 million), to the impact of the data correction of the model input on the unit-linked management fees (EUR 17 million), to the credit risk modelling (EUR (25) million) and to the inclusion of a property risk premium (EUR 19 million).
- A positive impact of current year new business (EUR 28 million) which partially offsets the negative impact of the Moving forward (EUR (54) million)

Key assumptions modification impacts over PVIF [1]

	2018	2017
Weighted average risk free rate	**1.52%**	1.50%
Weighted average risk discount rate	**2.35%**	2.20%
Expenses inflation	**1.70%**	1.48%

Risk margin over discount rate profits [2]

	2018 €m	2017 €m
Operational risk	**16**	13
Model risk	**15**	15
Volatility risk	**64**	39

1 *For 2018, market value future profits' discounted rate used for the PVIF is of 2.35 per cent, to which a risk margin of EUR 95 millions is added. For 2017, market value future profits' discounted rate used for the PVIF is of 2.20 per cent, to which a risk margin of EUR 67 million was added.*
2 *Risk margin (model risk, operational and volatility risk) are detailed separately (see page 137).*

Sensitivity to changes in economic assumptions

The following table shows the effects of the risk-free rate movements and the discount rate on the value of PVIF at 31 December in millions of Euros for HSBC Assurances Vie.

	2018 €m	2017 €m
+ 100 basis points shift in risk-free rate	**34**	35
- 100 basis points shift in risk-free rate	**(43)**	(69)
+ 100 basis points shift in risk-discount rate	**(23)**	(27)
- 100 basis points shift in risk-discount rate	**24**	25

Due to certain characteristics of the contracts, the sensitivities may be non-linear and the results of the sensitivity-testing should not be extrapolated to higher levels of stress. In calculating the scenario, the shift in the risk-free rate results in changes to investment returns, risk discount rates and bonus rates which are incorporated. The sensitivities shown are before actions that could be taken by management to mitigate impacts and before resultant changes in policyholder behaviour.

Sensitivity of the PVIF to non-economic assumptions

Policyholder liabilities and PVIF for life manufacturers are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. The table below shows the sensitivity of total equity at 31 December 2018 to reasonably possible changes in these non-economic assumptions at that date.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates is dependent on the type of contracts being written. For insurance contracts, the cost of claims is funded by premiums received and income earned on the investment portfolio supporting the liabilities. For a portfolio of term insurance, an increase in lapse rates typically has a negative effect on profit due to the loss of future premium income on the lapsed policies.

Expense rate risk is the exposure to a change in expense rates. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative impact on profits.

The following table presents the PVIF sensitivity:

	Effect on total equity at 31 Dec 2018[1]	Effect on total equity at 31 Dec 2017[1]
	€m	€m
10% increase in mortality and/or morbidity rates	(13)	(11)
10% decrease in mortality and/or morbidity rates	14	12
10% increase in lapse rates	(26)	(22)
10% decrease in lapse rates	29	25
10% increase in expense rates	(30)	(27)
10% decrease in expense rates	30	27

1 *Impacts on profits are shown after tax in 2018 and 2017.*

Increased expense is entirely borne by the insurer and so reduces profits.

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

23 Prepayments, accrued income and other assets

	2018	2017
	€m	€m
Prepayments and accrued income	679	733
Settlement accounts [1]	1,259	N/A
Cash collateral and margin receivables [1]	4,423	N/A
Endorsements and acceptances	19	—
Reinsurers' share of liabilities under insurance contracts (Note 5)	2	1
Employee benefit assets (Note 7)	—	—
Other accounts	1,168	293
Property, plant and equipment	910	888
At 31 Dec	**8,460**	1,915

1 *At 1 January 2018, the HSBC Group adopted certain accounting changes. Comparative data have not been restated. On asset, cash collateral, margin and settlement accounts have been reclassified from 'Trading assets', 'Loans and advances to banks' and 'Loans and advances to customers' to 'Prepayments, accrued income and other assets'.*

Property, plant and equipment

Land and buildings are stated at historical cost, or fair value at the date of transition to IFRS, less any impairment losses and depreciation calculated to write off the assets as follows:

- freehold land is not depreciated;
- acquisition-related expenses on buildings are expensed in the year in which they occur, as are preliminary costs;
- depreciation of buildings is calculated over their estimated useful lives, which are generally between 25 and 75 years.

Equipment, fixtures and fittings (including equipment on operating leases where HSBC France is the lessor) are stated at cost less impairment losses and depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between 5 and 25 years. HSBC France holds certain properties as investments to earn rentals or for capital appreciation, or both. Investment properties are included in the balance sheet at fair value with changes in fair value recognised in the income statement in the period of change. Fair values are determined by independent professional valuers who apply recognised valuation techniques.

Property, plant and equipment is subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

	Freehold land and buildings	Equipment, fixtures and fittings	Total
	€m	€m	€m
Cost or fair value			
At 1 Jan 2018	**773**	**614**	**1,387**
Additions at cost	**—**	**31**	**31**
Fair value adjustments	**23**	**—**	**23**
Disposals	**(5)**	**(92)**	**(97)**
Transfers	**10**	**6**	**16**
Exchange and other differences	**—**	**—**	**—**
Changes in scope of consolidation and other changes	**(8)**	**8**	**—**
At 31 Dec 2018	**793**	**567**	**1,360**
Accumulated depreciation			
At 1 Jan 2018	**(32)**	**(467)**	**(499)**
Depreciation charge for the year	**(3)**	**(37)**	**(40)**
Disposals	**2**	**92**	**94**
Transfers	**—**	**6**	**6**
Exchange translation differences	**—**	**—**	**—**
Changes in scope of consolidation and other changes	**—**	**(11)**	**(11)**
At 31 Dec 2018	**(33)**	**(417)**	**(450)**
Net book value at 31 Dec 2018	**760**	**150**	**910**
Cost or fair value			
At 1 Jan 2017	684	627	1,311
Additions at cost	70	22	92
Fair value adjustments	19	—	19
Disposals	—	(35)	(35)
Transfers	—	—	—
Exchange and other differences	—	—	—
At Changes in scope of consolidation and other changes	—	—	—
At 31 Dec 2017	773	614	1,387
Accumulated depreciation			
At 1 Jan 2017	(30)	(467)	(497)
Depreciation charge for the year	(2)	(35)	(37)
Disposals	—	35	35
Transfers	—	—	—
Exchange translation differences	—	—	—
Changes in scope of consolidation and other changes	—	—	—
At 31 Dec 2017	(32)	(467)	(499)
Net book value at 31 Dec 2017	741	147	888

24 Trading liabilities

Trading liabilities are classified as held for trading if they have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. They are recognised on trade date, when HSBC France enters into contractual arrangements with counterparties and are normally derecognised when extinguished.

These trading liabilities are initially measured at fair value. All gains and losses from a previous fair value variation of these assets and liabilities as well as for income and interest expense and related dividends, are recognised in the income statement in 'gains or losses on financial instruments'.

	2018	2017
	€m	€m
Deposits by banks [1]	**20**	4,611
Customer accounts [1]	**—**	1,626
Other debt securities in issue [2]	**—**	2,733
Other liabilities – net short positions in securities	**23,125**	23,466
At 31 Dec	**23,145**	32,436

1 At 1 January 2018, the HSBC Group adopted certain accounting changes. Comparative data have not been restated. On asset, cash collateral, margin and settlement accounts have been reclassified from 'Trading assets', 'Loans and advances to banks' and 'Loans and advances to customers' to 'Prepayments, accrued income and other assets'. On liabilities, cash collateral, margin and settlement accounts have been reclassified from 'Trading liabilities', 'Deposits by banks' and 'Customer accounts' to 'Accruals, deferred income and other liabilities'.

2 At 1 January 2018, financial liabilities are classified as "Financial liabilities designated at fair value". These were previously included in "Trading liabilities". Comparative data have not been restated. A restatement would have increased the "Financial liabilities designated at fair value" by EUR 2.7 billion at 31 December 2017, with an equivalent decrease in the line "Trading liabilities".

25 Financial liabilities designated at fair value

	Footnote	2018 €m	2017 €m
Deposits by banks and customer accounts		**85**	122
Liabilities to customers under investment contracts		**13**	18
Debt securities in issue (Note 26)	1	**14,486**	7,425
Subordinated liabilities (Note 29)		**—**	—
Preferred securities		**—**	—
At 31 Dec		**14,584**	7,565

1 *At 1 January 2018, financial liabilities are classified as "Financial liabilities designated at fair value". These were previously included in "Trading liabilities". Comparative data have not been restated. A restatement would have increased the "Financial liabilities designated at fair value" by EUR 2.7 billion at 31 December 2017, with an equivalent decrease in the line "Trading liabilities".*
In addition, the 2018 variance includes the issuance of senior debt by HSBC France for EUR 3.75 billion and covered bonds by HSBC SFH (France) for EUR 1 billion (see section "Significant events of the year" on note 1 on page 167.

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2018 was EUR 221 million for the HSBC France group (at 31 December 2017: EUR 79 million).

At 31 December 2018, the accumulated amount of the change in fair value attributable to changes in credit risk for the HSBC France group was EUR 85 million (at 31 December 2017: EUR (125) million).

In 2018, HSBC France recognised a positive variation of EUR 210 million in other comprehensive income in respect of HSBC France's own credit risk (compared to a negative variation of EUR (26) million in the income statement in 2017), refer to the Note 1 'Future accounting developments'.

26 Debt securities in issue

HSBC France

	2018 €m	2017 €m
Bonds and medium-term notes	**14,309**	11,370
Other debt securities in issue	**2,649**	3,947
Total debt securities in issue	**16,958**	15,317
Included within:		
– trading liabilities (Note 24) [1]	**—**	(2,733)
– financial liabilities designated at fair value (Note 25)	**(14,486)**	(7,425)
At 31 Dec	**2,472**	5,159

1 *At 1 January 2018, financial liabilities are classified as "Financial liabilities designated at fair value". These were previously included in "Trading liabilities". Comparative data have not been restated. A restatement would have increased the "Financial liabilities designated at fair value" by EUR 2.7 billion at 31 December 2017, with an equivalent decrease in the line "Trading liabilities".*

27 Accruals, deferred income and other liabilities

	2018 €m	2017 €m
Accruals and deferred income	**918**	812
Settlement accounts [1]	**1,617**	N/A
Cash collateral and margin payables [1]	**4,563**	N/A
Endorsements and acceptances	**19**	—
Employee benefit liabilities (Note 7)	**165**	169
Liabilities of disposal groups held for sale	**—**	—
Other liabilities	**1,155**	1,105
At 31 Dec	**8,437**	2,086

1 *At 1 January 2018, the HSBC Group adopted certain accounting changes. Comparative data have not been restated. On liabilities, cash collateral, margin and settlement accounts have been reclassified from 'Trading liabilities', 'Deposits by banks' and 'Customer accounts' to 'Accruals, deferred income and other liabilities'.*

28 Provisions

HSBC France recognises a provision when the following three elements are gathered:

- existence of a present obligation occurring from a past event;
- it is probable that an outflow of resources will be required to settle the obligation;
- a reliable estimate of the amount can be made.

	Restructuring costs	Legal proceedings and regulatory matters	Other provisions	Total
	€m	€m	€m	€m
Provisions (excluding contractual commitments)				
At 31 Dec 2017	**51**	**26**	**22**	**99**
Additions	**1**	**4**	**14**	**19**
Amounts utilised	**(26)**	**(13)**	**(21)**	**(60)**
Unused amounts reversed	**(2)**	**(2)**	**(3)**	**(7)**
Exchange and other movements	**—**	**—**	**—**	**—**
At 31 Dec 2018	**24**	**15**	**12**	**51**
Contractual commitments				
At 31 Dec 2017				**4**
Impact on transition to IFRS 9				**12**
Net change in expected credit loss provisions				**—**
Transfer-in[1]				**8**
At 31 Dec 2018				**24**
Total provisions				
At 31 Dec 2017				**103**
At 31 Dec 2018				**75**

1 *This amount correspond to the amount transferred due to the acquisition of Greek branch from HSBC Bank plc on 1 January 2018.*

	Restructuring costs	Contractual commitments	Legal proceedings and regulatory matters	Other provisions	Total
	€m	€m	€m	€m	€m
At 1 Jan 2017	64	6	96	17	183
Additions	10	4	3	25	42
Amounts utilised	(16)	—	(72)	(16)	(104)
Unused amounts reversed	(7)	(6)	(1)	(4)	(18)
Exchange and other movements	—	—	—	—	—
At 31 Dec 2017	51	4	26	22	103

Further details of 'Legal proceedings and regulatory matters' regarding the HSBC Group are set out in Note 36.

29 Subordinated liabilities

Debt securities in issue and subordinated liabilities are initially measured at fair value, which is the consideration received net of directly attributable transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest rate method to amortise the difference between proceeds net of directly attributable transaction costs and the redemption amount over the expected life of the debt, unless the securities are designated at fair value.

	2018	2017
	€m	€m
At amortised cost	**876**	576
Designated at fair value (Note 25)	**—**	—
At 31 Dec	**876**	576

		Book value	
		2018	2017
		€m	€m
Tier 2 securities issued by HSBC France			
EUR 260 million	Floating rate notes maturing 2029	**260**	260
EUR 16 million	Undated subordinated variable rate notes	**16**	16
EUR 300 million	Floating rate notes maturing 2027	**300**	300
EUR 300 million	Floating rate notes maturing 2028	**300**	—
At 31 Dec		**876**	576

30 Maturity analysis of financial assets, liabilities and off-balance sheet

The balances in the table below do not agree directly with those in the consolidated balance sheet as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives).

Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and derivatives not treated as hedging derivatives are included in the 'On demand' time bucket and not by contractual maturity.

In addition, loans and other credit-related commitments, financial guarantees and similar contracts are generally not recognised on the balance sheet. The undiscounted cash flows potentially payable under financial guarantees and similar contracts are classified on the basis of the earliest date they can be called.

Distribution of cash flows payable by maturity

	2018					
	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	€m	€m	€m	€m	€m	€m
Deposits by banks	**2,201**	**2,067**	**322**	**5,198**	**2,085**	**11,873**
Customer accounts	**34,372**	**3,652**	**3,820**	**32**	**30**	**41,906**
Repurchase Agreements – non–trading	**—**	**18,721**	**200**	**—**	**—**	**18,921**
Trading liabilities	**23,145**	**—**	**—**	**—**	**—**	**23,145**
Financial liabilities designated at fair value	**14**	**14**	**222**	**9,391**	**5,425**	**15,066**
Derivatives	**31,201**	**8**	**162**	**40**	**34**	**31,445**
Debt securities in issue	**—**	**—**	**2,472**	**—**	**—**	**2,472**
Subordinated liabilities	**—**	**—**	**—**	**607**	**286**	**893**
Other financial liabilities	**530**	**144**	**523**	**106**	**862**	**2,165**
Sub Total	**91,463**	**24,606**	**7,721**	**15,374**	**8,722**	**147,886**
Loan commitments	**82,774**	**—**	**—**	**—**	**—**	**82,774**
Financial guarantee contracts	**1,031**	**—**	**—**	**—**	**—**	**1,031**
Total at 31 Dec 2018	**175,268**	**24,606**	**7,721**	**15,374**	**8,722**	**231,691**
	2017					
Deposits by banks	1,415	2,354	430	6,299	2,990	13,488
Customer accounts	29,813	3,961	3,956	151	440	38,321
Repurchase Agreements – non–trading	—	6,392	194	—	—	6,586
Trading liabilities	32,436	—	—	—	—	32,436
Financial liabilities designated at fair value	—	—	1,347	4,268	2,045	7,660
Derivatives	32,992	5	68	136	28	33,229
Debt securities in issue	—	635	3,451	1,072	—	5,158
Subordinated liabilities	—	—	—	304	287	591
Other financial liabilities [2]	490	370	432	97	896	2,285
Sub Total	97,146	13,717	9,878	12,327	6,686	139,754
Loan commitments [1]	60,121	—	—	—	—	60,121
Financial guarantee contracts [1]	1,245	—	—	—	—	1,245
Total at 31 Dec 2017	158,512	13,717	9,878	12,327	6,686	201,120

1 31 December 2017 balances have been restated to include EUR 37 billion of loan commitments given (unsettled reverse repurchase agreements).
2 At 31 December 2017, the amounts previously reported in the bucket "Due within 3 months" are henceforth reallocated to "On demand" and "Due within 3 months".

The following tables provides an analysis of financial assets and liabilities by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due over five years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due over five years' time bucket;
- financial investruments included with assets and liabilities of disposal groups held for sale are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction;
- Liabilities under investment contracts are classified in accordance with their contractual maturity.

Maturity analysis of assets, liabilities and off-balance sheet commitments

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets									
Cash and balances at central banks	9,018	–	–	–	–	–	–	–	9,018
Items in the course of collection from other banks	437	–	–	–	–	–	–	–	437
Trading assets	16,966	–	–	–	–	–	–	–	16,966
Financial assets designated or otherwise mandatorily measured at fair value	10	167	89	38	114	244	813	9,020	10,495
Derivatives	31,707	1	1	–	2	–	36	30	31,777
Loans and advances to banks	1,043	613	836	228	105	3,199	94	79	6,197
Loans and advances to customers	3,590	1,031	3,988	1,632	1,988	5,543	14,396	14,829	46,997
– personal	755	359	520	494	523	1,871	4,851	11,015	20,388
– corporate and commercial	2,722	657	3,267	1,122	1,397	3,210	8,677	3,493	24,545
– financial	113	15	201	16	68	462	868	321	2,064
Reverse repurchase agreements – non-trading	23,283	5,078	2,223	887	1,114	–	250	–	32,835
Financial investments	911	618	830	795	574	1,804	3,478	7,492	16,502
Asset-held-for-sale	–	–	30	–	–	–	–	–	30
Accrued income and other financial assets	6,931	100	154	8	5	38	86	184	7,506
Financial assets at 31 Dec 2018	93,896	7,608	8,151	3,588	3,902	10,828	19,153	31,634	178,760
Non-financial assets	–	–	–	–	–	–	–	2,186	2,186
Total assets at 31 Dec 2018	93,896	7,608	8,151	3,588	3,902	10,828	19,153	33,820	180,946
Off-balance sheet commitments received									
Loan and other credit-related commitments	62,957	–	–	–	–	–	–	–	62,957
Financial liabilities									
Deposits by banks	2,802	470	166	9	147	3,566	1,616	2,052	10,828
Customer accounts	36,190	1,835	1,194	1,698	928	29	2	30	41,906
– personal	17,846	298	74	53	43	1	–	13	18,328
– corporate and commercial	16,200	1,331	1,120	1,245	685	28	2	17	20,628
– financial	2,144	206	–	400	200	–	–	–	2,950
Repurchase agreements – non-trading	15,662	3,059	159	41	–	–	–	–	18,921
Items in the course of transmission to other banks	269	–	–	–	–	–	–	–	269
Trading liabilities	23,145	–	–	–	–	–	–	–	23,145
Financial liabilities designated at fair value	15	14	179	29	14	2,597	6,794	4,942	14,584
– debt securities in issue: covered bonds	–	–	179	–	–	1,039	2,376	993	4,587
– debt securities in issue: unsecured	1	14	–	29	14	1,558	4,418	3,866	9,900
– subordinated liabilities and preferred securities	–	–	–	–	–	–	–	–	–
– other	14	–	–	–	–	–	–	83	97
Derivatives	31,173	3	2	51	–	26	12	31	31,298
Debt securities in issue	–	–	922	550	1,000	–	–	–	2,472
– covered bonds	–	–	–	–	–	–	–	–	–
– unsecured	–	–	922	550	1,000	–	–	–	2,472
Accruals and other financial liabilities	6,485	96	362	7	16	41	65	856	7,928
Subordinated liabilities	–	–	–	–	–	–	600	276	876
Total financial liabilities at 31 Dec 2018	115,741	5,477	2,984	2,385	2,105	6,259	9,089	8,187	152,227
Non-financial liabilities	–	–	–	–	–	–	–	22,135	22,135
Total liabilities at 31 Dec 2018	115,741	5,477	2,984	2,385	2,105	6,259	9,089	30,322	174,362
Off-balance sheet commitments given									
Loan and other credit-related commitments	86,155	–	–	–	–	–	–	–	86,155
– personal	1,181	–	–	–	–	–	–	–	1,181
– corporate and commercial	26,191	–	–	–	–	–	–	–	26,191
– financial	58,783	–	–	–	–	–	–	–	58,783

Maturity analysis of assets, liabilities and off-balance sheet commitments (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets									
Cash and balances at central banks	14,630	—	—	—	—	—	—	—	14,630
Items in the course of collection from other banks	435	—	—	—	—	—	—	—	435
Trading assets	22,401	—	—	—	—	—	—	—	22,401
Financial assets designated at fair value	3	8	3	5	13	80	294	8,199	8,605
Derivatives	34,313	—	—	—	—	6	55	33	34,407
Loans and advances to banks	778	73	372	234	29	3,154	99	104	4,843
Loans and advances to customers	3,151	922	3,541	1,637	1,515	6,031	13,994	14,065	44,856
– personal	686	290	349	372	418	1,504	4,012	8,603	16,234
– corporate and commercial	2,324	623	2,948	1,251	1,060	4,127	9,364	5,217	26,914
– financial	141	9	244	14	37	400	618	245	1,708
Reverse repurchase agreements – non-trading	8,376	2,728	1,131	778	768	—	—	—	13,781
Financial investments	127	572	689	1,126	980	2,983	5,726	8,345	20,548
Accrued income and other financial assets	277	66	220	6	28	57	153	219	1,026
Financial assets at 31 Dec 2017	84,491	4,369	5,956	3,786	3,333	12,311	20,321	30,965	165,532
Non-financial assets	—	—	—	—	—	—	—	2,012	2,012
Total assets at 31 Dec 2017	84,491	4,369	5,956	3,786	3,333	12,311	20,321	32,977	167,544
Off-balance sheet commitments received									
Loan and other credit-related commitments	30,016	—	—	—	—	—	—	—	30,016
Financial liabilities									
Deposits by banks	3,150	608	282	98	50	64	6,160	2,885	13,297
Customer accounts	32,065	1,705	1,772	903	1,281	75	71	405	38,277
– personal	13,288	17	23	26	66	62	56	50	13,588
– corporate and commercial	16,376	1,605	1,544	577	914	13	15	354	21,398
– financial	2,401	83	205	300	301	—	—	1	3,291
Repurchase agreements – non-trading	6,031	360	195	—	—	—	—	—	6,586
Items in the course of transmission to other banks	490	—	—	—	—	—	—	—	490
Trading liabilities	32,436	—	—	—	—	—	—	—	32,436
Financial liabilities designated at fair value	—	—	126	206	1,015	177	4,065	1,976	7,565
– debt securities in issue: covered bonds	—	—	—	175	—	177	2,080	1,380	3,812
– debt securities in issue: unsecured	—	—	120	31	1,015	—	1,985	462	3,613
– subordinated liabilities and preferred securities	—	—	—	—	—	—	—	—	—
– other	—	—	6	—	—	—	—	134	140
Derivatives	33,002	3	2	51	10	78	58	25	33,229
Debt securities in issue	—	635	29	—	3,422	1,073	—	—	5,159
– covered bonds	—	—	—	—	—	—	—	—	—
– unsecured	—	635	29	—	3,422	1,073	—	—	5,159
Accruals and other financial liabilities	228	142	411	8	15	26	69	896	1,795
Subordinated liabilities	—	—	—	—	—	—	300	276	576
Total financial liabilities at 31 Dec 2017	107,402	3,453	2,817	1,266	5,793	1,493	10,723	6,463	139,410
Non-financial liabilities	—	—	—	—	—	—	—	22,428	22,428
Total liabilities at 31 Dec 2017	107,402	3,453	2,817	1,266	5,793	1,493	10,723	28,891	161,838
Off-balance sheet commitments given									
Loan and other credit-related commitments	63,248	—	—	—	—	—	—	—	63,248
– personal	893	—	—	—	—	—	—	—	893
– corporate and commercial	24,085	—	—	—	—	—	—	—	24,085
– financial	38,270	—	—	—	—	—	—	—	38,270

Further information regarding the group's liquidity and funding management is available in the Risk Management section page 77 and following.

31 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Offsetting of financial assets and financial liabilities

	Footnotes	Amounts subject to enforceable netting arrangements							Amounts not subject to enforceable netting arrangements	Total
					Amounts not offset in the balance sheet					
		Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial Instruments	Non-Cash collateral	Cash collateral	Net amount		
		€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets										
Derivatives (Note 16)	1	**44,352**	**(12,594)**	**31,758**	**(25,534)**	**(152)**	**(3,429)**	**2,643**	**19**	**31,777**
Reverse repos, stock borrowing and similar agreements classified as:		**100,800**	**(67,965)**	**32,835**	**(4,400)**	**(28,274)**	**(161)**	**–**	**20**	**32,855**
– trading assets		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– non-trading assets		**100,800**	**(67,965)**	**32,835**	**(4,400)**	**(28,274)**	**(161)**	**–**	**20**	**32,855**
Loans and advances to customers	2	**217**	**(51)**	**166**	**–**	**–**	**–**	**166**	**–**	**166**
At 31 Dec 2018		**145,369**	**(80,610)**	**64,759**	**(29,934)**	**(28,426)**	**(3,590)**	**2,809**	**39**	**64,798**
Derivatives (Note 16)	1	47,679	(13,272)	34,407	(27,758)	(149)	(5,187)	1,313	244	34,651
Reverse repos, stock borrowing and similar agreements classified as:		40,960	(27,179)	13,781	(3,030)	(10,717)	(34)	–	–	13,781
– trading assets		–	–	–	–	–	–	–	–	–
– non-trading assets		40,960	(27,179)	13,781	(3,030)	(10,717)	(34)	–	–	13,781
Loans and advances to customers	2	242	(71)	171	–	–	–	171	–	171
At 31 Dec 2017		88,881	(40,522)	48,359	(30,788)	(10,866)	(5,221)	1,484	244	48,603
Financial Liabilities										
Derivatives (Note 16)	1	**43,884**	**(12,594)**	**31,290**	**(25,534)**	**(848)**	**(4,849)**	**59**	**8**	**31,298**
Repos, stock borrowing and similar agreements classified as:		**86,886**	**(67,965)**	**18,921**	**(4,401)**	**(14,377)**	**(143)**	**–**	**–**	**18,921**
– trading liabilities		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– non-trading liabilities		**86,886**	**(67,965)**	**18,921**	**(4,401)**	**(14,377)**	**(143)**	**–**	**–**	**18,921**
Customer accounts excluding repos	3	**51**	**(51)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 Dec 2018		**130,821**	**(80,610)**	**50,211**	**(29,935)**	**(15,225)**	**(4,992)**	**59**	**8**	**50,219**
Derivatives (Note 16)	1	46,501	(13,272)	33,229	(27,759)	(501)	(4,582)	387	276	33,505
Repos, stock borrowing and similar agreements classified as:		33,765	(27,179)	6,586	(3,030)	(3,355)	(201)	–	–	6,586
– trading liabilities		–	–	–	–	–	–	–	–	–
– non-trading liabilities		33,765	(27,179)	6,586	(3,030)	(3,355)	(201)	–	–	6,586
Customer accounts excluding repos	3	71	(71)	–	–	–	–	–	–	–
At 31 Dec 2017		80,337	(40,522)	39,815	(30,789)	(3,856)	(4,783)	387	276	40,091

1 *At 31 December 2018, the amount of cash margin received that had been offset against the gross derivatives assets was EUR 621 million (2017: EUR 208 million). The amount of cash margin paid that had been offset against the gross derivatives liabilities was EUR 1,275 million (2017: EUR 1007million).*
2 *At 31 December 2018, the total amount of 'Loans and advances to customers' was EUR 46,997 million (2017: 44,856m) of which 166 million (2017: 171million) was subject to offsetting.*
3 *At 31 December 2018, the total amount of 'Customer accounts' was EUR 41,906 million (2017: 38,277m) of which EUR 0 million (2017: 0 million) was subject to offsetting.*

Of this subset, the loans and advances to customers and customer accounts included in amounts not set off in the balance sheet primarily relate to transactions where the counterparty has an offsetting exposure with HSBC and an agreement is in place with the right of offset but the offset criteria are otherwise not satisfied.

32 Non-controlling interests

	2018	2017
	€m	€m
Non-controlling interests attributable to holders of ordinary shares in subsidiaries	**29**	30
At 31 Dec	**29**	30

33 Called up share capital and other equity instruments

Called up share capital and share premium

At December 31 2018, HSBC France's capital amounted to EUR 367 million divided into 73,316,988 ordinary shares with a nominal value of EUR 5, fully paid up.

HSBC France ordinary shares of EUR 5 each, issued and fully paid

	2018		2017	
	Number	**€m**	Number	€m
At 1 Jan	**67,437,827**	**337**	67,437,827	337
Shares issued	**5,879,161**	**30**	—	—
At 31 Dec	**73,316,988**	**367**	67,437,827	337

HSBC France share premium

	2018	2017
	€m	€m
At 31 Dec	**475**	16

Total called up share capital and share premium

	2018	2017
	€m	€m
At 31 Dec	**842**	353

Other equity instruments

HSBC France has issued a New Tier 1 capital (AT1 instrument) in 2018 subscribed by HSBC Bank plc for EUR 300 million. The new AT1 Capital instrument is an undated subordinated loan callable by HSBC France on any interest payment dates falling 5 years after the date of issuance and is accounted for as Equity.

Additional tier 1 capital securities

HSBC France's additional tier 1 capital securities in issue which are accounted for in equity

		First call date	2018	2017
			€m	€m
EUR 200 million	Undated Subordinated additional Tier 1 instruments	27/11/2017	**200**	200
EUR 300 million	Undated Subordinated additional Tier 1 instruments	28/09/2018	**300**	
At 31 Dec			**500**	200

34 Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

(a) Contingent liabilities and commitments

	2018	2017
	€m	€m
Guarantees and other contingent liabilities		
Financial guarantees and other similar contracts [2]	**8,790**	7,809
Other contingent liabilities	**—**	—
At 31 Dec	**8,790**	7,809
Commitments [1]		
Documentary credits and short-term trade-related transactions	**656**	481
Forward asset purchases and forward deposits placed [2]	**54,962**	36,921
Standby facilities, credit lines and other commitments to lend	**30,537**	25,846
– 1 year and under	**30,537**	25,846
– over 1 year	**—**	—
At 31 Dec	**86,155**	63,248

1 *Excluding capital commitments, which are separately disclosed below.*
2 *31 December 2017 balances have been restated to include EUR 37 billion of loan commitments (unsettled reverse repurchase agreements) and EUR 3 billion of guarantees and similar contracts not previously identified for disclosure.*

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the group's annual credit review process.

The total of the nominal principal amounts is not representative of future liquidity requirements.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

(b) Guarantees

The group provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the group. These guarantees are generally provided in the normal course of the group's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which the group could be required to make at 31 December were as follows:

	2018		2017	
	Guarantees in favour of third parties	**Guarantees by the group in favour of HSBC entities**	Guarantees in favour of third parties	Guarantees by the group in favour of HSBC entities
	€m	**€m**	€m	€m
Guarantee type				
Financial guarantees contracts	**1,031**	**55**	1,245	16
Credit-related substitutes[1]	**6,361**	**228**	5,039	314
Other guarantees	**1,064**	**51**	1,128	67
At 31 Dec	**8,456**	**334**	7,412	397

1 *31 December 2017 balances have been restated to include EUR 3 billion of guarantees not previously disclosed.*

Financial guarantees include undertakings to fulfil the obligations of customers or group entities, should the obligated party fail to do so. The inter-company financial guarantees include a specific guarantee related to debt issued by the group for the benefit of other entities of the group and with respect to regulatory requirements. Financial guarantees also include stand-by letters of credit, which are financial guarantees given irrevocable obligations on the part of HSBC France to pay a third party when a customer fails to meet a commitment.

Credit-related substitutes include performance bonds and stand-by letters of credit related to particular transactions which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.

Other guarantees include bid bonds and other transaction-related guarantees which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the group's annual credit review process.

The HSBC France group had no contingent liabilities or commitments in relation to joint ventures or associates, incurred jointly or otherwise.

The majority of the above guarantees have a term of more than one year. Those guarantees are subject to the group's annual credit review process.

When the group gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

35 Lease commitments

Operating lease commitments

At 31 December 2018, future minimum lease payments under non-cancellable operating leases for land, buildings and equipment were EUR 219 million.

Finance lease receivables

HSBC France leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft), property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2018			2017		
	Total future minimum payments	**Unearned finance income**	**Present Value**	Total future minimum payments	Unearned finance income	Present Value
	€m	**€m**	**€m**	€m	€m	€m
Lease receivables						
– not later than one year	**257**	**(25)**	**232**	407	(63)	344
– later than one year and no later than five years	**1,154**	**(92)**	**1,062**	1,430	(157)	1,273
– later than five years	**823**	**(50)**	**773**	965	(87)	878
At 31 Dec	**2,234**	**(167)**	**2,067**	2,802	(307)	2,495

36 Legal proceedings and regulatory matters relating to HSBC group entities generally

HSBC group entities, including HSBC France group entities, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and in the section 2.19 a Legal Risks and Litigation management of the 2018 Registration Document, HSBC France considers that none of these matters is significant. HSBC France recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2018.

Anti-money laundering and international sanctions-related matters

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

The Independent Consultant will continue working in his capacity as a skilled person and independent consultant for a period of time at the FCA's and FRB's discretion.

Through his country-level reviews, the Independent Consultant identified potential AML and sanctions compliance issues that HSBC is reviewing further with the FRB and/or FCA.

Bernard L. Madoff Investment Securities LLC:

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

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

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

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

The HTIE and/or its subsidiary Somers Dublin DAC are involved in Madoff-related proceedings as described below.

Defender case:

In November 2013, Defender Limited brought an action against HSBC Institutional Trust Services (Ireland) Limited ('HTIE') and others, based on allegations of breachof contract and claiming damages and indemnification for fund losses. The trial commenced in October 2018. In December 2018, the Irish Court issued a judgment in HTIE's favor on a preliminary issue, holding that Defender Limited had no effective claim against HTIE. This judgment concluded the trial without further issues in dispute being heard. Defender Limited has the right to appeal.

Osus Case:

In December 2014, SPV OSUS filed an action against HTIE and HSBC Securities Services (Ireland) Limited alleging breach of contract and claiming damages and indemnification for fund losses which was dismissed on the basis of a preliminary issue by the Irish High Court in October 2015. In July 2018, following further appeal by SPV OSUS, the Irish Supreme Court affirmed the dismissal, on a final basis.

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.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the EU, Switzerland, Brazil and South Africa, are conducting civil and criminal investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including continuing to cooperate with authorities and implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC Holdings agreed to pay a financial penalty and restitution.

37 Related party transactions

The ultimate parent company of the group is HSBC Holdings plc, which is incorporated in the United Kingdom.

Copies of the Group financial statements may be obtained from the following address:

HSBC Holdings plc

8 Canada Square

London

E14 5HQ

All transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Key Management Personnel

The table below sets out transactions which fall under IAS 24 'Related Party Disclosures' between HSBC France and the Key Management Personnel of HSBC France and on one hand, their respective spouses and children living in the family home, and on the other hand, controlled companies.

Transactions and balances during the year with Key Management Personnel

	2018			2017		
	Number of persons	**Balance at 31 Dec**[2]	**Highest amounts outstanding during year**[2]	Number of persons	Balance at 31 Dec[2]	Highest amounts outstanding during year[2]
		€k	**€k**		€k	€k
Key Management Personnel[1]						
Advances and credits	**20**	**3,557**	**46,623**	18	11,872	4,490
Guarantees	**20**	**6,309**	**6,309**	18	40	10
Deposits	**20**	**40,012**	**167,943**	18	5,400	5,400

1 *Includes Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.*
2 *The highest balance during the year and the balance at 31 December are considered to be the most significant information to show the transactions during the year.*

Compensation to the Key Management Personnel of the group under IAS 24 is disclosed as follows:

Compensation of Key Management Personnel

	2018	2017
	€k	€k
Short-term employee benefits	**179**	175
Post-employment benefits	**78**	73
Other long-term employee benefits	**—**	—
Termination benefits	**49**	47
Share-based payments	**871**	765
Year ended 31 Dec	**1,177**	1,060

Shareholdings, options and other securities of Key Management Personnel

	2018	2017
Number of options held over HSBC Holdings ordinary shares under employee share plans	**—**	—
Number of HSBC Holdings ordinary shares held beneficially and non-beneficially	**1,196,578**	1,151,362
At 31 Dec	**1,196,578**	1,151,362

The Corporate governance report also includes a detailed description of Directors' remuneration (see pages 20 and the following ones).

Transactions with other related parties

There is no significant amount due to joint ventures and associates.

Transactions detailed below include amounts due to/from HSBC France group and fellow subsidiaries of the HSBC Group.

Transactions and balances during the year with subsidiaries

	2018		2017	
	Highest balance during the year	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec
	€m	**€m**	€m	€m
Assets				
Trading assets	**796**	**–**	10,551	796
Derivatives	**15,122**	**14,621**	18,687	14,546
Loans and advances to banks	**1,715**	**1,715**	715	472
Loans and advances to customers	**12**	**–**	20	12
Reverse repurchase agreement – non trading	**2,422**	**1,455**	2,230	1,031
Financial investments	**584**	**413**	586	584
Other assets	**7,802**	**1,071**	253	199
Prepayments and accrued income	**63**	**62**	56	56
Financial asset designated at fair value	**630**	**622**	344	312
Liabilities				
Deposits by banks	**5,500**	**4,118**	5,530	5,170
Customer accounts	**67**	**12**	62	43
Repurchase agreement – non trading	**7,422**	**6,178**	7,241	3,477
Trading liabilities	**1,608**	**20**	9,613	1,608
Derivatives	**14,247**	**13,975**	16,022	13,314
Other liabilities	**8,612**	**1,325**	85	75
Accruals and deferred income	**146**	**146**	119	88
Financial liabilities designated at fair value	**–**	**–**	—	—
Subordinated liabilities	**860**	**860**	560	560
Guarantees	**145**	**26**	165	145
Income Statement				
Interest income		**114**		44
Interest expense		**95**		71
Fee income		**108**		95
Fee expense		**107**		130
Gains less losses from financial investments		**–**		—
Other operating income		**3**		—
Dividend income		**–**		—
General and administrative expenses		**170**		112

38 Effects of reclassification upon adoption of IFRS 9

Reconciliation for Consolidated Balance Sheet as at 31 December 2017 under IAS 39 and 1 January 2018 under IFRS 9

				IFRS 9 reclassification to					
	IFRS 9 Measure-ment Category	IAS 39 Carrying Amount at 31 Dec 2017	Other Changes in Classification	Fair Value through Profit and Loss	Fair value through other compre-hensive income	Amortised cost	Carrying Amount Post Reclassifi-cation	IFRS 9 remeasure-ment and IFRS 9 Expected Credit Losses	IFRS 9 carrying amount at 1 Jan 2018 [1]
		€m	€m	€m	€m	€m	€m	€m	€m
Assets									
Cash and balances at central banks	Amortised cost	14,630	–	–	–	–	14,630	–	14,630
Items in the course of collection from other banks	Amortised cost	435	–	–	–	–	435	–	435
Trading assets	FVPL [2]	22,401	(5,975)	–	–	–	16,426	–	16,426
Financial assets designated and otherwise mandatorily measured at Fair Value through Profit or Loss	FVPL [2]	8,605	–	2,563	–	–	11,168	7	11,175
Derivatives	FVPL [2]	34,407	–	–	–	–	34,407	–	34,407
Loans & advances to banks	Amortised cost	4,843	(127)	(95)	–	–	4,621	(1)	4,620
Loans & advances to customers	Amortised cost	44,856	(12)	(79)	–	–	44,765	(42)	44,723
Reverse repurchase agreements – non-trading	Amortised cost	13,781	–	–	–	–	13,781	–	13,781
Financial investments	FVOCI [3]	20,331	–	(2,057)	–	(7)	18,267	–	18,267
	FVOCI [3]	217	–	(210)	–	–	7	–	7
	Amortised cost	–	–	–	–	7	7	–	7
Prepayments, Accrued Income & Other Assets/ Amortised cost	Amortised cost	1,915	6,114	(122)	–	–	7,907	–	7,907
Current tax assets	N/A	130	–	–	–	–	130	–	130
Interest in Associates and Joint Ventures	N/A	2	–	–	–	–	2	–	2
Goodwill and intangible Assets	N/A	766	–	–	–	–	766	–	766
Deferred tax assets	N/A	225	–	–	–	–	225	19	244
Total assets		167,544	–	–	–	–	167,544	(17)	167,527

1 *The opening balance at 1 January 2018, shows the amounts before the acquisition of HSBC Group's activities in Greece by the Greek branch of HSBC France, whose impact are presented in the movements of the exercise.*
2 *FVPL ('Fair Value Through Profit and Loss').*
3 *FVOCI ('Fair Value through Other Comprehensive Income').*

Reconciliation for Consolidated Balance Sheet as at 31 December 2017 and 1 January 2018 (continued)

	IFRS 9 Measure-ment Category	IAS 39 Carrying Amount at 31 Dec 2017	Other Changes in Classification	IFRS 9 reclassification to: Fair Value through Profit and Loss	Fair value through other comprehensive income	Amortised cost	Carrying amount post reclassification	Re-measurement including expected credit losses [3]	IFRS 9 carrying amount at 1 Jan 2018[1]
		€m	€m	€m	€m	€m	€m	€m	€m
Liabilities									
Deposits by banks	Amortised cost	13,297	–	–	–	–	13,297	–	13,297
Customer accounts	Amortised cost	38,277	(39)	–	–	–	38,238	–	38,238
Repurchase agreements - non trading	Amortised cost	6,586	–	–	–	–	6,586	–	6,586
Items in the course of transmission to other banks	Amortised cost	490	–	–	–	–	490	–	490
Trading liabilities	FVPL [2]	32,436	(9,073)	–	–	102	23,465	–	23,465
Financial liabilities designated at fair value	FVPL [2]	7,565	2,733	–	–	–	10,298	–	10,298
Derivatives	FVPL [2]	33,229	–	–	–	–	33,229	–	33,229
Debt securities in issue	Amortised	5,159	–	–	–	–	5,159	–	5,159
Accruals, deferred income and other liabilities	Amortised cost	2,086	6,379	–	–	(102)	8,363	–	8,363
Current tax liabilities	N/A	29	–	–	–	–	29	–	29
Liabilities under insurance contracts	N/A	21,853	–	–	–	–	21,853	–	21,853
Provisions	N/A	103	–	–	–	–	103	12	115
Deferred tax liabilities	N/A	152	–	–	–	–	152	2	154
Subordinated liabilities	Amortised	576	–	–	–	–	576	–	576
Total Liabilities		161,838	–	–	–	–	161,838	14	161,852

1 *The opening balance at 1 January 2018, shows the amounts before the acquisition of HSBC Group's activities in Greece by the Greek branch of HSBC France, whose impact are presented in the movements of the exercise.*
2 *FVPL ('Fair Value Through Profit and Loss').*
3 *The IFRS 9 transition impact on total debt is EUR 14 million and the opening balance on 1 January 2018 has been adjusted accordingly.*

	IAS 39 Carrying Amount at 31 Dec 2017	IFRS 9 reclassification	Carrying Amount Post reclassification	IFRS 9 remeasurement including expected credit losses [2]	Carrying amount at 1 Jan 2018[1]
	€m	€m	€m	€m	€m
Called up share capital	337	–	337	–	337
Share premium account	16	–	16	–	16
Other equity instruments	200	–	200	–	200
Other reserves	1,600	(59)	1,541	–	1,541
Retained earnings	3,523	59	3,582	(31)	3,551
Total Shareholders Equity	5,676	–	5,676	(31)	5,645
Non-controlling interests	30	–	30	–	30
Total Equity	5,706	–	5,706	(31)	5,675

1 *The opening balance at 1 January 2018, shows the amounts before the acquisition of HSBC Group's activities in Greece by the Greek branch of HSBC France, whose impact are presented in the movements of the exercise.*
2 *The impact on equity of the IFRS 9 transition is EUR (31) million.*

Reconciliation of impairment allowance under IAS 39 and provision under IAS 37 to expected credit losses under IFRS 9

	Reclassification		Remeasurement			
	Fair Value through Profit and Loss	Fair value through other comprehensive income	Amortised cost	Stage 3	Stage 1 & Stage 2	Total
	€m	€m	€m	€m	€m	€m
Financial assets at amortised cost						
IAS 39 impairment allowance at 31 Dec 2017						535
Cash and balances at central banks	–	–	–	–	–	–
Items in the course of collection from other banks	–	–	–	–	–	–
Loans and advances to banks	–	–	–	–	1	1
Loans and advances to customers	–	–	–	21	21	42
Reverse repurchase agreements – non-trading	–	–	–	–	–	–
Financial investments	–	–	–	–	–	–
Prepayments, accrued income and other assets	–	–	–	–	–	–
Expected credit loss allowance at 1 Jan 2018[1]	–	–	–	21	22	578
Loan commitments and financial guarantee contracts						
IAS 37 provisions at 31 Dec 2017						4
Provisions (loan commitments and financial guarantees)	–	–	–	–	12	12
Expected credit loss provision at 1 Jan 2018	–	–	–	–	12	16

1 *The opening balance at 1 January 2018, shows the amounts before the acquisition of HSBC Group's activities in Greece by the Greek branch of HSBC France, whose impact are presented in the movements of the exercise.*

Effects of reclassification upon adoption of IFRS 9

			Assuming no reclassification		
	Carrying amount at 31 Dec 2018	Fair value at 31 Dec 2018	Fair value gains/(losses) recognised in profit or loss	Fair value gains/ (losses) recognised in other comprehensive income	Interest revenue/ (expense)
	€m	€m	€m	€m	€m
Reclassified from available-for-sale to amortised cost					
Other financial assets held at amortised cost	6	6	N/A	–	N/A
Reclassified from fair value through profit and loss to amortised cost or fair value though other comprehensive income					
Debt securities in use	–	–	–	–	–
Subordinated liabilities	–	–	–	–	–

IFRS 9 Impacts

The adoption of IFRS 9 on January 1 2018 reduced HSBC France Group's net position by EUR 31 million net of taxes deferred, with an increase of EUR 5 million related to the 'Classification and Measurement' phase and a decrease of EUR 36 million in the 'Impairment' phase. The IFRS 9 transition reduced the transitional CET1 ratio by 2 basis points. The total amount of provisions for expected credit losses at 1 January 2018 is EUR 578 million for financial assets at amortised cost, EUR 16 million for commitments and guarantees and EUR 5 million for financial assets at fair value through other comprehensive income.

1. The reclassification of loans and advances which failed Solely Payment of Principal and Interest ('SPPI') test (loans with Cross Currency Swaps breakage costs) totalling EUR 296 million from amortised cost to fair value through profit and loss resulted in a remeasurement gain of EUR 7 million.
2. As required by IFRS 9, the Fair Value Option ('FVO') has been removed for external debt which are no longer subject to an accounting mismatch.
3. The reclassification of Available-For-Sale debt instruments which failed SPPI test of EUR 2.1 billion to fair value through profit or loss had no impact on net assets as these instruments were already measured at fair value.
4. The reclassification of Available-For-Sale equity instruments as required by IFRS 9 of EUR 210 million to fair value through profit or loss had no impact on net assets as these instruments were already measured at fair value.

Other impacts

Although not required by IFRS 9, the group HSBC France has adopted the following voluntary presentation changes:

- On the assets side:
  - Cash, margin calls and settlement accounts have been reclassified from 'Trading assets' and 'loans and advances to banks and customers' to 'Prepayments,accrued income and other assets'. The change in the presentation of financial assets had no impact on their measurement.
- On the liabilities side:
  - Cash collateral, margin and settlement accounts have been reclassified from 'Trading liabilities' to 'Deposits by banks and customer accounts' to 'Accruals, deferred income & other liabilities'. The change in the presentation of financial liabilities had no impact on their measurement.
  - On the liability side, structured liabilities originally classified as Held for Trading will be designated as at Fair Value Option. There is no change in measurement, although fair value gains and losses related to own credit movements will be recognised through Other Comprehensive Income rather than in profit and loss in the future.

39 Events after the balance sheet date

There was no material event subsequent to the reporting date that would require a correction or adjustment to the consolidated financial statements as at 31 December 2018.

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.

Capital increases

With the acquisitions described below, HSBC France made two new capital increases at the beginning of the year 2019: on 14 January 2019, an increase of EUR 949.6 million (of which EUR 61.8 million of share capital) and 1 February 2019, an increase of EUR 336.3 million (of which EUR 21.9 million of share capital).

Acquisition of the activities of European branches

As part of the structural changes to anticipate the consequences of the future exit of the United Kingdom from the European Union and in order to simplify the organization of activities in continental Europe, HSBC France acquired certain assets and liabilities of six HSBC Bank plc European branches (in Belgium, the Czech Republic, Ireland, Italy, the Netherlands and Spain). The acquisition of these assets and the liabilities of the branches has been effective since February 1, 2019 and has been effected by contributions in kind from HSBC Bank plc to HSBC France. At the end of these six contributions, the share capital of HSBC France was raised from 428,368,915 EUR to 450,250,220 EUR.

The acquisition of some assets and liabilities of the Luxembourg branch of HSBC Bank plc by HSBC France is scheduled for 1 March 2019.

Tier 2 issuance (Subordinated loan)

HSBC France issued a Tier 2 subordinated loan subscribed by HSBC Bank plc for EUR 400 million on 29 January 2019. This new issuance is a subordinated loan with a variable rate, for a 10 years maturity.

Except for the events mentioned, there has been no significant change affecting the financial or sales situation of HSBC France or its subsidiaries since 31 December 2018, until the Board of Director of 19 February 2019 approving these financial statements.

40 Group HSBC France subsidiaries, joint ventures and associates

The group HSBC France classifies investments in entities which it controls as subsidiaries. The group consolidation policy is described in Note 1.

Subsidiaries of HSBC France

Consolidated companies	Footnotes	Country of incorporation or registration	Consolidation method*	Main line of business	HSBC France group interest (%) 2018	2017
Retail and Commercial Banking						
HSBC Factoring (France)		France	FC	Financial company	**100.0**	100.0
SAPC Ufipro Recouvrement		France	FC	Services company	**99.9**	99.9
Global Banking and Markets						
Beau Soleil Limited Partnership		Hong Kong	FC	Financial company	**85.0**	85.0
CCF Charterhouse GmbH	7	Germany	FC	Services company	**100.0**	100.0
Elysées GmbH	7	Germany	FC	Financial company	**100.0**	100.0
CCF Charterhouse GmbH & Co Asset Leasing KG	7	Germany	FC	Financial company	**100.0**	100.0
DEM 5		France	FC	Financial company	**100.0**	100.0
DEM 9		France	FC	Financial company	**100.0**	100.0
DEMPAR 1		France	FC	Financial company	**100.0**	100.0
DEMPAR 4		France	FC	Financial company	**100.0**	100.0
Elysées Immo Invest		France	FC	Financial company	**100.0**	100.0
FDM 5		France	FC	Financial company	**100.0**	100.0
Finanpar 2		France	FC	Financial company	**100.0**	100.0
Finanpar 7		France	FC	Financial company	**100.0**	100.0
Foncière Elysées		France	FC	Real estate company	**100.0**	100.0
HSBC Leasing (France)		France	FC	Financial company	**100.0**	100.0
HSBC Real Estate Leasing (France)		France	FC	Financial company	**100.0**	100.0
HSBC Services (France)		France	FC	Financial company	**100.0**	100.0
HSBC SFH (France)		France	FC	Financial company	**100.0**	100.0
Euro Secured Notes Issuer (ESNI)	6	France	FC	Financial company	**16.7**	16.7
SAF Baiyun		France	FC	Financial company	**100.0**	100.0
SAF Chang jiang		France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi liu	2	France	FC	Financial company	**–**	100.0
SAF Chang jiang shi wu	2	France	FC	Financial company	**–**	100.0
SAF Guangzhou		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang ba	2	France	FC	Financial company	**–**	100.0
SAF Zhu jiang er	2	France	FC	Financial company	**–**	100.0
SAF Zhu jiang jiu		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang san	2	France	FC	Financial company	**–**	100.0
SAF Zhu jiang shi	2	France	FC	Financial company	**–**	100.0
SAF Zhu jiang shi ba		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi er		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi jiu		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi liu		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi qi		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi wu		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shiyi	2	France	FC	Financial company	**–**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Liquidation.*
2 *Merger.*
3 *Deconsolidation.*
4 *New entries in Perimeter.*
5 *Name change in 2018*
6 *HSBC France silo, which is 100%-owned by HSBC France and fully consolidated.*
7 *Dissolution without liquidation.*

Consolidated companies	Footnotes	Country of incorporation or registration	Consolidation method*	Main line of business	HSBC France group interest (%) 2018	2017
SFM	5	France	FC	Commercial company	**100.0**	100.0
Sopingest		France	FC	Financial company	**100.0**	100.0
SNC les Oliviers d'Antibes		France	FC	Financial company	**60.0**	60.0
Thasosfin		France	FC	Financial company	**100.0**	100.0
HSBC Bank Polska S.A.	4	Poland	FC	Financial company	**100.0**	—
HSBC Institutional Trust Services (Ireland) DAC	4	Ireland	FC	Service company	**100.0**	—
Somers Dublin - DAC	4	Ireland	FC	Service company	**100.0**	—
Asset Management						
CCF & Partners Asset Management Ltd		United Kingdom	FC	Financial company	**100.0**	100.0
HCM Holdings Ltd		United Kingdom	EM	Financial company	**51.0**	51.0
HSBC Epargne Entreprise (France)		France	FC	Financial company	**100.0**	100.0
Service Epargne Entreprise		France	EM	Service company	**14.4**	14.4
HSBC Global Asset Management (France)		France	FC	Asset management	**100.0**	100.0
HSBC Global Asset Management (Switzerland) AG		Switzerland	EM	Financial company	**50.0**	50.0
HSBC REIM (France)		France	FC	Service company	**100.0**	100.0
Insurance						
HSBC Assurances Vie (France)		France	FC	Insurance company	**100.0**	100.0
SCI HSBC Assurances Immo		France	FC	Financial company	**100.0**	100.0
ERISA Actions Grandes Valeurs		France	FC	Financial company	**100.0**	100.0
OPCVM6 – Elysees Ecrins FCP		France	FC	Financial company	**99.8**	99.9
HSBC Europe Small Mid CAP	4	France	FC	Financial company	**50.0**	—
OPCVM8 – Erisa Diversifié N2 FCP		France	FC	Financial company	**100.0**	100.0
OPCVM9 – Erisa Opportunités FCP		France	FC	Financial company	**100.0**	100.0
HSBC MIX DYNAMIQUE FCP3DEC		France	FC	Financial company	**60.6**	56.0
HSBC MUL.ASS.ST.FACT.S FCP3DEC		France	FC	Financial company	**100.0**	100.0
HSBC PTF WLD Select.4 A C.3DEC		France	FC	Financial company	**51.9**	55.1
HSBC SELECT DYNAMIC A FCP 2DEC		France	FC	Financial company	**71.3**	71.6
HSBC WORLD EQUITY FCP 3DEC		France	FC	Financial company	**60.1**	56.6
HSBC GIF EMERG.WEALTH A C.3DEC		France	FC	Financial company	**58.5**	55.0
HSBC ACTIONS EUR.C FCP 3DEC		France	FC	Financial company	**68.8**	62.4
HSBC SELECT EQUITY A FCP 4DEC		France	FC	Financial company	**60.3**	56.7
HSBC Special Situations Europe	4	France	FC	Financial company	**51.5**	—
HSBC Global Investment Funds - European Equity ZC	4	France	FC	Financial company	**60.2**	—
HSBC HORIZ.2016-2018 FCP 3DEC	4	France	FC	Financial company	**61.8**	—
Others						
Charterhouse Management Services Limited (CMSL)		United Kingdom	FC	Investment company	**100.0**	100.0
Charterhouse Administrators Ltd		United Kingdom	FC	Investment company	**100.0**	100.0
Keyser Ullmann Ltd		United Kingdom	FC	Investment company	**100.0**	100.0
Société Française et Suisse (SFS)		France	FC	Investment company	**100.0**	100.0
Flandres Contentieux		France	FC	Service company	**100.0**	100.0
Valeur Mobilières Elysées		France	FC	Investment company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Liquidation.*
2 *Merger.*
3 *Deconsolidation.*
4 *New entries in Perimeter.*
5 *Name change in 2018*
6 *HSBC France silo, which is 100%-owned by HSBC France and fully consolidated.*
7 *Dissolution without liquidation.*

Main changes in the scope of consolidation

Mergers[1]

SAF Zhu jiang shi

SAF Zhu jiang shiyi

SAF Chang jiang shi liu

SAF Chang jiang shi wu

SAF Zhu jiang ba

SAF Zhu jiang er

SAF Zhu jiang san

New Entries in Perimeter

HSBC Bank Polska S.A.

HSBC Institutional Trust Services (Ireland) DAC

Somers Dublin - DAC

HSBC Special Situations Europe

HSBC EUROPE SMALL MID CAP

HSBC Global Investment Funds - European Equity ZC

HSBC HORIZ.2016-2018 FCP 3DEC

1 *The entities SAF Zhu jiang shi, SAF Zhu jiang shiyi, SAF Chang jiang shi liu, SAF Chang jiang shi wu, SAF Zhu jiang ba, SAF Zhu jiang er SAF Zhu jiang san have been merged into HSBC Leasing (France).*

Non-consolidated entities

			HSBC France group interest (%)	
Non Consolidated Companies	Country of incorporation or registration	Reason of non-consolidation	**2018**	2017
SNC Nuku Hiva Bail	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SNCB/M6 2007 A	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SNCB/M6 2007 B	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SNCB/M6 2008 A	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SAS BOSQUET- AUDRAIN	France	Not consolidated in accordance with IFRS 10	**94.9**	94.9
SAS ORONA	France	Not consolidated in accordance with IFRS 10	**94.9**	94.9
SAS CYATHEAS PASTEUR	France	Not consolidated in accordance with IFRS 10	**94.9**	94.9
SCI KARUVEFA	France	Not consolidated in accordance with IFRS 10	**33.3**	33.3
SNC KEROUAN	France	Not consolidated in accordance with IFRS 10	**99.9**	99.9
SNC Les MERCURIALES	France	Not consolidated in accordance with IFRS 10	**99.9**	99.9
SNC MAKALA	France	Not consolidated in accordance with IFRS 10	**99.9**	99.9
SNC DORIQUE	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
GIE GNIFI	France	Not consolidated in accordance with IFRS 10	**25.0**	25.0
CCF Finance Moyen Orient SAL	Lebanon	In the course of liquidation since 2002	**99.9**	99.9
CCF Holding Liban SAL	Lebanon	In the course of liquidation since 2002	**75.0**	75.0

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75116 Paris

Statutory Auditor's report on the consolidated financial statements

(For the year ended 31 December 2018)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

HSBC France

103, avenue des Champs-Elysées

75419 Paris Cedex 08

To the shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of HSBC France for the year ended 31 December 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at 31 December 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from 1 January 2018 to the date of our report, and, in particular we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (Code de déontologie) for Statutory Auditors.

Emphasis of matter

Without qualifying our opinion, we draw your attention to:

– Notes 1 and 38 to the consolidated financial statements, which describe the impacts of the adoption of IFRS 9 "Financial Instruments" as from 1 January 2018 and specify that the published comparative data have not been restated as authorised by the standard's transitional provisions.

Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

Measurement of the present value of in-force insurance business (PVIF)

Description of risk	How our audit addressed this risk
Present value of in-force insurance business (PVIF) represents the present value of the profits expected to emerge from the book of in-force policies of HSBC Assurance Vie, a subsidiary of HSBC France. PVIF is recorded under balance sheet assets in HSBC France's consolidated financial statements. PVIF is measured using models that take account of thousands of possible outcomes to project the HSBC Assurances Vie insurance contract book over a defined time horizon based on the effective length of underlying policies. This estimate is based on economic assumptions such as market data (interest rates, equities, macro-economic scenarios, etc.), and non-economic assumptions including mortality, lapse rates and expense rates. These assumptions are determined based on observed historical mortality and lapse rates, and the investment strategies applied for HSBC Assurance Vie customers. PVIF may vary based on revisions to these assumptions as well as changes in regulations and accounting methods, or adjustments to the model. These revisions led the Group to recognise a pre-tax gain of EUR 43 million for the year ended 31 December 2018 (see Note 22 to the consolidated financial statements). Given the sensitivity of pre-tax profit to changes in PVIF, the complexity of the model and the underlying assumptions, we deemed the measurement of present value of in-force insurance business to be a key audit matter.	With the support of our risk modelling experts, we performed the following procedures: • Checking the actuarial model used to calculate PVIF in order to assess its appropriateness, notably the overall consistency of the changes in the model with the key assumptions used to determine PVIF. This mainly involved: – gaining an understanding of the model and assessing the consistency of the updated assumptions in relation to past observations and observable data, – analysing the modelling and the changes made to the modelling of economic data with regard to the characteristics of HSBC Assurances Vie investments, the asset allocation policy and market practices,and – analysing changes in PVIF in light of the assumptions used in the model inputs; • Testing internal controls deemed to be key to the audit and used by management to: – validate the appropriateness of the data and assumptions used as inputs for the model; – validate the projections and their consistency with the calculated PVIF.

At 31 December 2018, PVIF amounted to EUR 500million versus EUR 457 million at 31 December 2017.
See Notes 1 and 22 to the consolidated financial statements.

Complex derivative financial instruments measured at fair value and classified as level 3

Description of risk	How our audit addressed this risk
HSBC France's Global Banking and Markets (GB&M) business operates in key capital markets, providing transactional and financing solutions to major corporate and institutional customers. It provides services for the origination, sale and structure of market products including derivative financial instruments, for corporates, financial institutions and major issuers. Derivative financial instruments are financial assets or liabilities measured at fair value on the balance sheet. The offsetting entry for the remeasurement of financial instruments at fair value at the reporting date is recognised in profit or loss. The measurement of derivatives may require the use of internally-developed models using unobservable data such as long-term interest rates or volatilities for certain currencies. The measurement of more complex instruments may require several unobservable inputs such as volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors such as foreign exchange rates, interest rates and equity prices. It also takes account of adjustments for counterparty and liquidity risk. These instruments are classified as level 3 in the fair value hierarchy as defined in IFRS 13. Given the multiple inputs subject to management's judgement, we deemed the measurement of level 3 derivative financial instruments to be a key audit matter for HSBC France's consolidated financial statements.	We tested the effectiveness of the controls we deemed key to our audit, put in place by management to record, value and recognise complex derivative financial instruments, and specifically those regarding: • the independent validation of valuation models by the Independent Model Review – Markets department; • the independent verification of prices and valuations by the Product Control department; • the determination of fair value adjustments. We also sought the support of our risk modelling experts to carry out an independent valuation of level 3 instruments using their own models and market inputs in order to assess the valuations generated by the HSBC internal models. We examined the assumptions, methods and models used by the Bank to estimate the main valuation adjustments (counterparty and liquidity risk) in order to assess their relevance.

At 31 December 2018, derivative instruments classified as level 3 in the fair value hierarchy represented EUR 615 million recognised under assets and EUR 435 million recognised under liabilities.
See Notes 1.2, 13 and 16 to the consolidated financial statements.

Information systems access management

Description of risk	How our audit addresssed this risk
Due to the nature of their activities, HSBC France executes a large volume of transactions each day. Transactions are authorised, executed and recorded using complex information systems. The integrity of these systems is a key factor in the reliability of the consolidated financial statements. Since 2015, weaknesses associated with user access rights to operating systems, databases and certain applications contributing directly or indirectly to the preparation of the consolidated financial statements have been identified. This creates the risk that by omission or error, changes to financial information systems and processed data may not be appropriate. In 2017, management strengthened the control environment for user access rights. However, certain controls had not yet been installed on all information systems. In 2018, the weaknesses in relation to privileged user access remained. We deemed these weaknesses to constitute a key audit matter for the HSBC France consolidated financial statements.	User access rights were tested on the applications, operating systems and databases used for the consolidated financial statements and those relevant to our audit. More specifically, our work allowed us to assess whether: • new user access requests to information systems are duly examined and authorised; • user access rights are revoked in a timely manner following the reassignment of personnel or their departure from the Group; • user access rights to applications, operating systems and databases are controlled in a consistent manner; and • highly-privileged user access has only been granted to a very limited group of persons who require such access for the performance of their duties. Other areas were assessed independently, including password policies, security configurations and controls in place on modifications to applications and databases. We also tested controls intended to ensure that business users and developers do not have access to applications, operating systems or databases in the production environment. In view of the identified control weaknesses, additional procedures were carried out: • we analysed the nature of the access where inappropriate access had been identified and, where possible, obtained additional evidence of its legitimacy; • we performed additional tests on specific end-of-year reconciliations (custodians, bank accounts and reconciliation of suspense accounts) as well as requesting confirmations from external counterparties; and • we performed tests on other controls carried out by management, such as performance reviews by business line.

See page 76 of the management report.

Application of IFRS 9 in the calculation of impairment of loans to HSCB France customers

Description of risk	How our audit addressed this risk
As part of its lending activities to customers, at year end HSBC France estimates the risk of impairment of its portfolio and recognises any appropriate allowances. Since 2016, the cost of risk has been particularly low against a backdrop of favourable interest rates for corporates. Assessing the existence of a risk of non-recovery and the amount of the allowance set aside requires the Bank's management to exercise judgement. This primarily takes into account potential risk indicators such as payments that are contractually past-due or other factors such as indications of a deterioration in the financial condition and outlook of borrowers affecting their ability to pay, business sectors experiencing economic stress, the recoverable amount of guarantees, likely available dividends in the event of liquidation or bankruptcy, and the viability of the customer's business model. As 2018 was the first year of adoption of IFRS 9, the information available on observed losses compared to expected losses is limited. In addition, under the new methods for assessing allowances for asset impairment introduced by IFRS 9, the number of inputs used to calculate expected losses has significantly increased, which increases the risk regarding the reliability of the data used to determine the relevant assumptions and operate the models. The credit environment has remained relatively favourable for a long period, partly as a result of low interest rates and the relative strength of the European economy. However, even if the current level of outstandings and payment defaults remains low, there is still significant impairment risk. Given the material nature of these outstandings for the Bank, the significance of management's judgement, the multitude of assumptions in estimating the allowances and the higher historical cost of risk in an admittedly less favourable context, we deemed this to be a key audit matter.	Management has put in place controls designed to ensure the reliability of the calculation of expected losses. In this context, we tested the existing controls in order to assess the relevance of the impairment losses recorded. Accordingly, we performed the following tests on: • the monitoring and validation of the models' performance, including the revision of the documentation and independent reviews of the models, a posteriori verification of the models' performance and approval of the modifications made to the models; • the examination and comparative review of several economic scenarios by a group of experts and an internal governance committee; • the entering of critical data in the source system, as well as the flow and transformation of the data between the source systems and the engine for calculating deterioration; • user acceptance testing on the calculation of expected losses in order to assess its compliance with professional requirements. Regarding the impairment of individual loans, our tests concerned the controls in place for monitoring loans, regularly reviewing credit files and approving individual impairment. Additionally, we have performed tests on: • the risk-adjusted models, including the independent recalculation of certain assumptions; • the multiple scenarios and economic variables by using our experts to assess their reasonableness; • the critical data used in the calculation of end-of-year losses; • the consistency of the impairment calculations compared to the standard's requirements. Regarding individual impairment, we tested the appropriateness of the methods and policies used to determine allowances, using a sample of loans selected based on risk. Based on this sample, we independently assessed the level of allowances recognised.

Net outstanding customer loans stood at EUR 47 billion at 31 December 2018.
See Notes 1.1 and 1.2 to the consolidated financial statements and pages 89 to 106 of the management report.

Specific verifications

As required by legal and regulatory provisions and in accordance with the professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the management report includes the consolidated non-financial information statement required under article L.225-102-1 of the French Commercial Code. However, in accordance with article L.823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of HSBC France by the Annual General Meetings held on 23 April 2015 for PricewaterhouseCoopers Audit and on 10 May 2007 for BDO France - Léger & Associés.

At 31 December 2018, PricewaterhouseCoopers Audit and BDO France - Léger & Associés were in the fourth and eleventh consecutive year of their engagement, respectively.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the Group.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit.

They also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Report to the Audit Committee

We submit a report to the Audit Committee which includes, in particular, a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgement, were the most significant for the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Paris, 20 February 2019

The Statutory Auditors

PricewaterhouseCoopers Audit
Nicolas Montillot
Partner

BDO France – Léger & Associés
Fabrice Chaffois
Partner

Parent company financial statements

	Page
Income Statement	226
Balance sheet	227
Statement of reported net profit and movements in shareholders funds	227
2018 Highlights	228

Notes on the parent company financial statements

1	Principal accounting policies	229
2	Loan and advances to banks	234
3	Customer loans	235
4	Portfolio of trading, available-for-sale securities and held-to-maturity securities	236
5	Investments in subsidiaries and equity securities held for long-term	237
6	Intangible fixed assets	238
7	Tangible fixed assets	239
8	Loan impairment	239
9	Other assets	240
10	Prepayments and accrued income	240
11	Treasury and interbank transactions	240
12	Customer accounts	240
13	Bonds and other fixed income securities	241
14	Provisions	241
15	Other liabilities	241
16	Accrual and deferred income	242
17	Subordinated debt	242
18	Share capital	242
19	Equity	243
20	Pensions, post-employment benefits	243
21	Off-balance sheet items	244
22	Derivatives	245
23	Net interest income	246
24	Fixed-income securities	246
25	Breakdown of fees	247
26	Gains and losses on portfolio business transactions	247
27	Gains or losses on available-for-sale securities	247
28	General operating expenses	247
29	Gains or losses on disposals of fixed assets	248
30	Corporate income tax	248
31	Legal proceedings and regulatory matters relating to HSBC Group entities	249
32	Presence in non-cooperative States or territories	250
33	Events after the balance sheet date	250
34	Other information	251
35	Auditors' remuneration	254

Statutory auditors' report on the financial statements	255

Profit and loss accounts 2018–2017

(in millions of euros) **Income/(Expenses)**	Notes	**31 Dec 2018**	31 Dec 2017
Interest and similar income	*23*	**1,710**	1,496
Interest and similar expenses	*23*	**(1,079)**	(846)
Finance leases income		**172**	155
Finance leases expenses		**(171)**	(154)
Income from equities and other variable instruments	*24*	**165**	124
Commissions received	*25*	**730**	740
Commissions paid	*25*	**(220)**	(229)
Dealing profits	*26*	**223**	308
Gains or losses on available-for-sale securities	*27*	**22**	37
Other banking operating income		**21**	9
Other banking operating expenses		**(3)**	(1)
Net banking operating income		**1,570**	1,638
General operating expenses	*28*	**(1,452)**	(1,413)
Depreciation, amortisation and impairment of fixed assets		**(47)**	(42)
Gross operating income		**71**	183
Cost of risk	*8*	**(34)**	(10)
Net operating income		**37**	173
Gains or losses on disposals of long-term investments	*29*	**7**	15
Profit before tax		**44**	188
Exceptional items			—
Income tax	*30*	**34**	(16)
Gains and losses from regulated provisions		**—**	—
Net income		**78**	172

Balance sheets 2018–2017

Assets

(in millions of euros)	Notes	31 Dec 2018	31 Dec 2017
Cash and amounts due from central banks and post office banks		**507**	177
Treasury bills and money-market instruments	4	**21,796**	18,514
Loans and advances to banks	2	**91,381**	48,798
Loans and advances to customers	3	**70,074**	55,013
Bonds and other fixed income securities	4	**9,587**	8,450
Equities and other variable income securities	4	**161**	111
Investments in subsidiaries and equity securities held for long term	5	**81**	78
Interests in affiliated parties	5	**1,471**	1,358
Finance leases	7	**497**	465
Intangible fixed assets	6	**280**	174
Tangible fixed assets	7	**197**	196
Other assets	9	**16,191**	16,234
Prepayments and accrued income	10	**39,007**	40,178
Total assets		**251,230**	189,745
Off-balance sheet items			
Financing commitments given	21	**28,749**	23,349
Guarantees and endorsements given	21	**5,119**	4,989
Securities commitments (other commitments given)		**63,246**	28,727

Liabilities

(in millions of euros)	Notes	31 Dec 2018	31 Dec 2017
Central bank, CCP		**3**	50
Due to credit institutions	11	**81,456**	43,279
Customer accounts	12	**63,126**	46,619
Debt securities in issue	13	**13,310**	12,085
Other liabilities	15	**48,454**	43,235
Accruals and deferred income	16	**38,023**	38,695
Provisions for liabilities and charges	14	**312**	354
Subordinated liabilities	17	**1,377**	777
Share capital	18	**367**	337
Additional paid-in capital	19	**475**	16
Reserves	19	**1,041**	1,043
Special tax-allowable reserves	19	**–**	–
Retained earnings[1]	19	**3,209**	3,148
Net profit of the year	19	**78**	172
Interim dividend	19	**–**	(65)
Total liabilities		**251,230**	189,745
Off-balance sheet items			
Financing commitments received	21	**3,119**	2,782
Guarantees and endorsements received	21	**15,079**	14,720
Securities commitments (other commitments received)		**56,783**	38,822

1 *Before proposed appropriation submitted to Annual General Meeting's approval.*

The euro conversion of foreign currency denominated balance sheet amounted to EUR 22 billion at 31 December 2018 and to EUR 20 billion at 31 December 2017.

Statement of reported net profit and movements in shareholders' funds (Recommendation of the Stock Exchange Commission – Bulletin no. 79 of February 1976)

(in millions of euros)	31 Dec 2018	31 Dec 2017
Net profit for the year		
Total	**78**	172
– per share (in euros)[1,2]	**1.06**	2.55
Movements in shareholders' funds (excluding the net profit of 2018) (after appropriation of 2017 net profit)		
– change in revaluation difference	**–**	–
– transfer to reserves and change in retained earnings	**60**	(453)
– allocation of net profit for the previous year	**172**	117
– appropriation of net profit	**(112)**	(570)
– change in revaluation reserve and special tax-allowable reserves	**–**	–
Change in shareholders' funds	**60**	(453)
– per share (in euros)[1,2]	**0.82**	(6.72)
Proposed dividend		–
– total	**–**	112
– per share (in euros)[1,2]	**–**	1.66

1 *Number of shares outstanding at year end: 73,316,988 in 2018 and 67,437,827 in 2017.*
2 *Based on the weighted average number of shares outstanding, dividend per share amounted to EUR 0 in 2018 (73,316,988 shares) and EUR 1.66 in 2017 (67,437,827 shares).*

2018 Highlights

Business review

Net operating income was EUR 1,570 million in 2018, about 4 % lower than in 2017. It is mainly due to the decrease of income in the retail bank activities impacted by low interest rates environment and decrease of the trading income of interest-rate trading activities, particularly affected by the last unfavorable quarter in a context of low customer demand and a spread compression on sovereign debt in the Eurozone.
Operating expenses were EUR 1,452 million, about 3 % higher than 2017 take into account the Greece branch activities and are affected by the the increase of contribution to the Single Resolution Fund. HSBC France is continuing its programme of spending and investment for growth as part of the HSBC Group's strategic initiatives, particularly in the digital field.
Loan impairment charges were EUR 34 million compared to EUR 10 million in 2017. This change is mainly due to alignment of individual impairment methodology calculation on impaired loans (equivalent to stage 3 under IFRS 9) with the consolidated financial statements in accordance with IFRS9.
Profit before tax was EUR 44 million in 2018.
The current result before tax amounts for 44 million EUR in 2018.

Gains or losses on disposals of long term investments was EUR 7 million compared to EUR 15 million in 2017. This account includes a reversal of provision on Foncière Elysées for EUR 4.5 million EUR and a reversal of provision on SFM for EUR 3 million.
Profit attributable to shareholders was EUR 78 million compared to EUR 172 million in 2017.
On 31 December 2018, the balance sheet was EUR 251 billion compared to EUR 190 billion at 31 December 2017, mainly explained by the increase in the repo activity.

Acquisition of the Greek activities of HSBC Bank plc

The acquisition of the Greek activities of HSBC Bank plc was completed on January 1, 2018 and payment of EUR 1.
The opening balance sheet at January 1, 2018 represented a total balance sheet of EUR 1,685 million of which:
On the assets side EUR 690 million of loans and interbank loans, EUR 634 million of customer loans, EUR 300 million of securities.
On the liabilities side EUR 1,641 million of customer deposits.

Branches creation

Over the second semester of 2018, HSBC France created eight European branches in Belgium, the Czech Republic, Poland, Ireland, Italy, Luxembourg, the Netherlands and Spain. They have not been activated in 2018 and have not impacted financial statements as at December 31, 2018.

Single Resolution Fund (SRF) and Fonds de Garantie des Dépôts et de Résolution (FGDR)

HSBC France contribution amounted to EUR 58.8 million for 2018 of which EUR 8.8 million has been recorded under security deposits. Total of the contribution to Single Resolution Fund amounted to EUR 35.3 million in balance sheet.
Under the FGDR, the association and associate certificates represent an amount of EUR 15.3 million as of end of December 2018 after retrocession of EUR 1.6 million in 2018, security deposits amounted to EUR 17.7 million after retrocession of EUR 1.7 million payment commitments in 2018 and the retrocession of contribution accounted in the income statement amounted to EUR 1.3 million in 2018.

Capital increase

The Board of Directors at its meeting on 30 May 2018 decided, under the delegation granted by the shareholders' general meeting on 26 April 2017, to increase the HSBC France core capital by approximately EUR 100 million (of which EUR 6.2 million of share capital).

Following the completion of this operation on 25 July 2018, the HSBC France share capital has been increased from EUR 337,189,135 to EUR 343,410,030.

As part of the anticipation of activities transfers to the balance sheet of HSBC France, the Board of Directors decided, at its Meeting of 26 July 2018, an increase of HSBC France's capital of approximately EUR 388 million (of which EUR 23.2 million of share capital). This operation was approved by shareholders at the extraordinary general meeting on 10 August 2018. Following the completion of this operation on 30 August 2018, the HSBC France share capital has been increased from EUR 343,410,030 to EUR 366,584,940.

Tier 2 issuance (Subordinated debt)

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

Additional Tier 1 issuance (Other Equity Instrument)

HSBC France has issued a subordinated debt of Category 1 (Additional Tier 1 - AT1) subscribed by HSBC Bank Plc for EUR 300 million. The new AT1 Capital instrument is an undated subordinated loan callable by HSBC France on any interest payment dates falling 5 years after the date of issuance and is accounted for as Equity.

HSBC France Issuance

On 20 March 2018, HSBC France issued a senior variable rate debt with a nominal value of EUR 1.25 billion and a maturity of 5 years. On 28 August 2018, HSBC France issued a dual-tranche Senior Preferred transaction: the first of EUR 1.75 billion with a maturity of 3 years and the second of EUR 750 million with a maturity of 10 years.

Dividends related to 2018

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

Acquisition of EVPS (SEPA platform)

As part of the structural changes to anticipate the consequences of the future exit of the United Kingdom from the Union European, the European Volume Payment Solution (EVPS) platform, owned by HSBC Bank plc Paris Branch, was transferred on 1 December 2018 to HSBC France for an amount of EUR 17.2 million. EVPS is the intra-group platform used to automatically manage SEPA (Single Euro Payments Area) payments and flows in Europe enabling HSBC France and other European entities and branches to process their low-value payments through this platform.

1 Principal accounting policies

HSBC Holding plc whose head office is located in London establishes consolidated financial statements. HSBC France is part of it and establishes consolidated financial statements in the French perimeter. The head office of HSBC France is located in Paris. These consolidated financial statements are available on the website 'www.hsbc.fr' or 'www.hsbc.com'.

The presentation of the HSBC France financial statements complies with the 2014-03 and 2014-07 ANC regulations modified by 2016-07 ANC regulation of 4 November 2016 relative to the chart of accounts and 2015-06 ANC regulation of 23 November 2015 and the accounting policies generally accepted in France and applicable to credit institutions.

(a) Recognition and depreciation/amortisation of fixed assets

HSBC France applies the principles of articles 214-1 to 214-27 Assets assessments after their first recognition of the 2014-03 ANC regulation on the depreciation, amortisation and impairment of assets.

HSBC France applies the component approach in recognising, depreciating and amortising fixed assets.

Operating and investment fixed assets

For operating and investment fixed assets, HSBC France adopted the components approach as *a minimum* floor using the following components, methods and useful lives:

Components	Periods and depreciation and amortisation methods
Infrastructure	
Building	25 and 50 years on a straight-line basis
Civil engineering works	25 years on a straight-line basis
Technical installations	
Air conditioning Ventilation Heating	10 years on a straight-line basis
Electrical installations	10 years on a straight-line basis
Telephone and electrical fittings	10 years on a straight-line basis
Security fittings	10 years on a straight-line basis
Fittings	
Improvements and internal fittings	10 years on a straight-line basis

Goodwill

Acquired goodwill is subject to impairment on the basis of objective indicators.

Goodwill on merger

According to 2015-06 ANC new standard of 23 November 2015 which replaces 2014-03 ANC regulation prospectively applicable from 1st January 2016, HSBC France has affected the existing goodwill resulting from previous merger in accordance with the standard's guidelines to the corresponding assets (art 745-6) and recognised it in a specific account in the relevant asset category (art 745-7). The amortisation method and period are the same as those applied to amortised assets it is linked to (see Note 6).

Other fixed assets

For other fixed assets, depreciation periods are determined according to the remaining useful lives of the assets concerned:

Components	Periods and depreciation and amortisation methods
Office equipment	5 years, reducing or straight-line basis
Furniture	5 to 10 years, reducing or straight-line basis
IT hardware	3 to 7 years, reducing or straight-line basis
Software	3, 5 or 10 years, straight-line basis

Assets held under finance leaser

The assets held under the leasing activity are recognised in accordance with the French Urgent issues Committee of the CNC recommendation 2006-C of 4 October 2006 relating to the interpretation of CNC recommendation 2004-15 of 23 June 2004 relating to the definition, recognition and valuation of assets excluding from individual company accounts lease contracts in the sense of IAS 17 from the scope of articles 211-1 to 224-4 of 2014-03 ANC regulation. Depreciation is calculated using the straight-line method over the estimated useful life of the assets.

The depreciation periods are as follows:

- furniture and office equipment: 5 years;
- computer equipment: 3 years;
- tools and equipment: 5 to 7 years.

Depreciation and amortisation of fixed assets leased under operating leases are recognised as an expense on finance lease or operating lease.

In financial accounting, the financial contracts outstanding is substituted to net fixed assets leased. The difference between the outstanding amounts of financial assets and the net book value of fixed assets is represented by the unearned finance income.

(b) Securities portfolio

Securities transactions are recognised in accordance with the principles set out in articles 2311-1 to 2391-1 of 2014-07 ANC regulation.

Securities are categorised as follows:

- trading account securities;
- available-for-sale securities;
- held-to-maturity securities;
- portfolio activity securities;
- other long-term securities;
- interests in subsidiaries and associates.

Securities are recognised on the balance sheet at the date of settlement.

Trading account securities

Trading accounts securities are those securities traded on an active market originally acquired or sold with the intention that they will be resold or bought back within short timescale and are held for market activities or for the specialised management of the trading portfolio.

Trading securities are stated at cost (including accrued interest for fixed-income securities). At the balance sheet date, the securities are valued at market price, and changes in value are recognised through profit or loss.

Trading securities are measured mainly on the basis of quoted prices in an active market. However, if a market becomes inactive, the bank uses measurement techniques based on observable market inputs. In this case, an element of judgement is involved in determining fair value.

Available-for-sale securities

Available-for-sale securities are those securities not treated as trading account securities, neither portfolio activity securities nor as securities covered by articles 2351-1, 2351-2 and 2351-3 of 2014-07 ANC regulation, acquired for the purposes of income and liable to be resold within a relatively short timescale.

On the date of acquisition, they are recorded at cost price (excluding accrued income for fixed-income securities).

At the closing of the period, available-for-sale securities are valued individually at the lowest of their cost price or market value. The market value of equity and similar securities is represented by quoted prices at 31 December for listed securities and by probable trading prices for unlisted securities. The market value of fixed-income securities is the quoted price on the last working day of the period.

Unrealised losses give rise to the recognition of an impairment.

Realised or unrealised gains or losses on hedging instruments are taken into account by instrument for the calculation of any impairment.

Held-to-maturity securities

Fixed-income securities that were acquired for holding long term, and in principle to maturity, are categorised as held-to-maturity securities.

Portfolio activity securities are recognised on the date of acquisition price.

Held-to-maturity securities are valued at historical cost.

Where the acquisition price of fixed income securities is greater than their redemption value, the difference is amortised over the residual life of the securities.

Where the acquisition price of fixed income securities is less than the redemption price, the difference is recognised in income over the residual life of the securities.

In the event of counterparty risk, impairment is charged.

Portfolio activity securities

This category regroups investments made under normal arrangements with the sole objective of making medium-term capital gains with no intention of investing long-term in the business of the issuing entity, nor of taking an active part in the management of its operations. This is particularly the case for securities held in venture capital businesses.

Portfolio activity securities are recognised individually at the lower of their historical cost or value-in-use, determined with regard to the issuer's general prospects and the anticipated holding period.

The methods for assessing value-in-use are set out below.

Other long-term securities

'Other long-term securities' are equity shares and similar securities that HSBC France intends to hold long term to derive a satisfactory return within an undefined period of time, without however taking any part in managing the businesses in which the shares are held, but with the intention of fostering long-term business relationships by creating a special link with the issuing companies. These securities are recorded individually at the lowest of their acquisition value or their value-in-use.

The methods for assessing value-in-use are set out below.

Interests in subsidiaries and associates

The heading 'Interests in subsidiaries and associates' regroups securities held long-term (equity interests) and holdings in subsidiaries (shares in group companies).

Interests in subsidiaries and associates are valued individually at the lowest of their cost and their value-in-use, as determined below.

The assessment of the value-in-use of portfolio activity securities, other long term securities and interests in subsidiaries and associates is carried out using a comprehensive approach based on the combination of a number of criteria:

- economic and financial assessment of the company based mainly on the value of its revalued net assets;
- market appraisal based on research by financial analysts;
- movements in market prices for listed companies and for interests in subsidiaries and associates consideration of the specific relationships that may exist between HSBC France and each of the companies involved.

Recognition of gains and losses

Gains or losses on trading securities are recorded under the heading 'Dealing profits'.

Gains or losses on sale and changes in impairment of available-for-sale securities are recorded under the heading 'Gains or losses on available-for-sale securities'.

Concerning the other securities, gains or losses on sale and impairment charges are recognised under the heading 'Gains or losses on disposals of long-term investments' in the income statement, except for capital gains realised as part of restructuring operations, which are recognised as exceptional items.

Sale and repurchase agreements

Stock lending or temporary acquisition, governed for legal purposes by law no. 93-1444 of 31 December 1993, amended by law no. 2003-1311 of 30 December 2003, referred to as stock repurchase agreements, have no effect on the composition and valuation of the securities portfolio. For accounting purposes, in accordance with article 2411-1 to 2412-4 of 2014-07 ANC regulation, they are treated as financing transactions, with the counter-entries to cash movements being receivables or payables, depending on whether they involve stock lending or borrowing. Income and expenses received or borne by the transferee or transferor are recognised as interest.

Securities received or given under repurchase agreements

Repurchase transactions that do not fall within the scope of law no. 93-1444 are categorised under this heading in the balance sheet. Their treatment for accounting purposes is similar to that described above for securities under sale and repurchase agreements.

Similar treatment is applied to 'Buy and sell back' and 'Sell and buy back' transactions.

Bonds versus bonds

Bonds versus bonds transactions are recognised in accordance with the principles set out in the article 2361-2 of 2014-07 ANC regulation.

(c) Loans and advances

Loans assessed individually

Non-performing and impaired loans

Non-performing loans and impaired loans are recorded in accordance with the article 2222-1 of 2014-07 ANC regulation.

Non-performing loans include all types of receivables, even receivables with collateral, with a probable or certain risk of non-recovery, in full or in part.

Loans and receivables are classified according to HSBC France's internal loan rating system. Performing loans have a rating of between 1 and 8, non-performing loans have a rating of 9 and impaired loans, including unrecoverable loans not yet written off, have a rating of 10. External ratings do not have a direct influence on loan classification, except that a loan whose external rating reflects a position of default will be classified as 'non-performing' other than in exceptional circumstances.

The following are therefore categorised as non-performing loans:

- receivables overdue for more than three months for all types of loans and equipment leases, with this period rising to more than six months for property loans or leases and more than nine months for loans to local government bodies;
- receivables with known risk criteria;
- receivables which, before expiry of these time limits, appear to be at risk (insolvent administration, liquidation or personal bankruptcy, etc.);
- receivables deriving from debt restructuring for which the debtor is again in default.

HSBC France applies the provisions of articles 2221-2 of 2014-07 ANC regulation on identifying overdrafts at risk of default. For overdrafts, the overdue period starts when:

- the debtor exceeds an authorised limit that has been notified to him by HSBC France;
- or the debtor is notified that the amount outstanding exceeds a limit set by HSBC France under its internal control system;
- or the debtor withdraws amounts without overdraft authorisation.

The downgrade to non-performing loans immediately applies to all amounts outstanding and commitments for that debtor that are in the same category, on the contagion principle and, if applicable, the downgrade of counterparties belonging to the same group to non-performing debtors, on a case-by-case assessment.

In application of the article 2221-8 of 2014-07 ANC regulation on accounting treatment at credit risk, HSBC France has introduced a specific system for dealing with restructured debt and impaired loan.

In application of the articles 2221-8 of 2014-07 ANC regulation, impaired loans are those for which the prospect of recovery is very remote and for which a write-off is being considered. These include receivables which are long overdue or for which the contract has been terminated in case of leasing, and also receivables that have been categorised as non-performing for more than one year, unless final write-off is not being considered because of information on the prospects for recovery available at that stage. Interests on impaired loans are not recognised through profit or loss until the date of actual payment.

Reclassification into performing loans

In application of the article 2221-5 of the 2014-07 ANC regulation, a loan that has been classified as non-performing may be reclassified as performing when the original scheduled payments have been resumed without further incident and, in the case of restructured loans, the counterparty risk has been eliminated.

Risk mitigation instruments

The bank uses the customary risk mitigation instruments including guarantees and collateral (which is re-measured at least annually depending on its nature) and, to a minor extent, the purchase of credit default swaps (CDS). In this latter case, the risk mitigation impact is only recognised if the CDS meets the relevant regulatory conditions for recognition (term, currency, etc.).

Recognition of gains and losses

Charges for impairment against non-performing and impaired loans, included in the calculation of the banking result, are determined annually on the basis of the risk of non-recovery assessed by analysing each loan individually. In application of the article 2231-1 of the 2014-07 ANC regulation, impairment of non-performing and impaired loans has been calculated on the basis of the difference between the net present value of expected future recoveries and the carrying amount of the loan. Impairment may not be less than the amount of unpaid, recognised interest on the loan.

In 2018, as the accounting regulation, 2018-01 of 20 April 2018 modifying the ANC regulation 2014-03 relating to the general chart of accounts concerning the changes of method, change of estimate and corrections of error, authorizes us, the calculation of provisions for impairment of doubtful and non-performing loans (equivalent to Stage 3 under IFRS) has been aligned with the one made for the purpose of preparing the consolidated financial statements. In this respect, the provisions defined under IFRS9 concerning Stage 3 have been applied in the parent company financial statements (see paragraph (l) of the accounting principles applicable to the consolidated financial statements p 163).

In the income statement, charges and releases of provisions, losses on irrecoverable receivables and recoveries on receivables that had been written off are recognised in the 'Cost of risk' line.

Loans assessed on a portfolio basis

Non-performing loans are not measured on a portfolio basis. Impairment is individually assessed.

Discount on restructured debt

In application of articles 2221-5 and 2231-3 of the 2014-07 ANC regulation, HSBC France applies a specific system for dealing with restructured debt, when they have a significant impact.

On restructuring, any waived principal and interest, accrued or due, is written off.

Moreover, at the time of restructuring, a discount is provided for on the restructured debt for the difference between the present value of initially anticipated contractual cash flows and the present value of future flows of capital and interest arising from the restructuring plan. The discount rate used is the original effective interest rate for fixed interest loans, or the most recent effective rate before the restructuring calculated in accordance with contractual terms for floating-rate loans.

This discount is recognised in the net cost of risk on restructuring and is then written back through net interest income over the remainder of the period that the debt has to run.

Application of the effective interest rate

HSBC France has applied the articles 2111-1 to 2171-1 of the 2014-07 ANC regulation. HSBC France has recognised lending fees and costs on a time-apportioned basis, with effect to 1 January 2010.

(d) Due to credit institutions and customer accounts

All liabilities towards banks and customers are recognised at amortised cost. These headings include repurchase transactions. Accrued interest on these liabilities is recorded in the balance sheet in an accrued interest account.

(e) Debt securities in issue

Debt securities are classified according to their nature: certificates of deposit, interbank market securities, tradable debt securities, bonds and similar securities. This category does not include any subordinated securities, which are recorded under subordinated debt.

Accrued unpaid interest on these securities is recorded in the balance sheet in an accrued interest account with a corresponding amount recognised in profit or loss.

Issue or redemption premiums on bonds are amortised on an actuarial basis over the life of the bond. Issue expenses are deferred over the life of the bond on a straight-line basis.

(f) Provisions

In accordance with the article 3222 of 2014-03 ANC regulation, provisions are registered where it is probable that an outflow of resources, without an at least equivalent inflow being expected from the beneficiary (whether known or not), will be required to extinguish a legal or implicit obligation arising from past events and where the amount of the obligation can be reliably estimated.

Retirement and other benefit liabilities

HSBC France has opted to adopt ANC recommendation 2013-02 on the rules for recognising and measuring obligations for retirement and similar benefits.

HSBC France provides some of its employees post-employment benefits such as pension plans, termination payments.

The costs recognised for funding these defined-benefit plans are determined using the projected unit credit method, with annual actuarial valuations being performed on each plan.

Actuarial gains or losses are recognised through profit or loss.

The current service costs and any past service costs, together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities, are charged to operating expenses.

The net defined-benefit liability recognised in the balance sheet represents the present value of the defined-benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of the scheme's assets. Any resulting asset from this is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined-contribution plans and state-managed retirement benefit plans, where HSBC France's obligations under the plans are equivalent to a defined-contribution plan, are charged as an expense as they fall due.

Provisions for French PEL and CEL home ownership plans and accounts

CEL home ownership accounts and PEL home ownership plans are special financial instruments introduced by law no. 65-554 of 10 July 1965. They combine a savings phase and a lending phase which are inextricably linked, the lending phase being contingent to the savings phase.

In accordance with articles 2621-1 to 2624-2 of 2014-07 ANC regulation on the accounting treatment of CEL and PEL home ownership plans and accounts with banks and institutions authorised to receive home ownership funds and to grant home ownership loans, HSBC France has provisioned against the adverse consequences of PEL/CEL commitments in its individual company accounts.

PEL commitments are measured by series, without any offset between series. CEL commitments are considered as one single series, distinct from the PEL series.

Provisions for the adverse consequences of these commitments are calculated using a model which takes into account:

- an estimate of future customer savings and credit behaviour, based on historical data;
- the value of various market parameters, particularly interest rates and volatility, determined from data available at the date of assessment.

Provision for share-based payments

HSBC Group share plan

The HSBC Group share plan is a performance reward plan for retaining high-achieving employees.

HSBC France has not entered into any specific arrangements for share-based payments. It benefits from HSBC Holdings plc stock option plans (hereafter referred to as 'HSBC share plans'), which set up awards of options and shares. In 2005, the HSBC Group conducted an in-depth review of its policy for awarding options and shares to its employees. The new arrangements for free option and share plans were submitted to its Annual General Meeting in May 2005. These arrangements introduced a French sub-plan (Schedule 3 of the general rule), which respected the legal and tax regulations applicable in France. This regulation was revised in 2011 firstly, to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the 'Group Performance Share Plan', which aim the Senior Executives. In this context, the French sub-plan (Schedule 5 of the new rules) has also been subject to a review to comply with local social and tax rules.

Since 2006, the HSBC Group set up free share award plans for certain employees, under which a fixed number of HSBC Holdings plc shares are awarded. The shares vest in the employees' ownership two or three years after they are awarded, conditional on continued employment within the HSBC Group.

No cover arrangements were put in place for the plans granted in 2009 and onwards by HSBC France. Delivery of the shares is therefore made by purchasing the shares on the market, at the plan expiry date at the latest.

In accordance with the article 624-1 of the 2014-03 ANC regulation:

- the expense is recognised on a straight-line basis over the vesting period with the counter-entry going to a provision account which is cleared on final employee vesting. The measurement of the expense is based on assumptions on the number of beneficiaries leaving and on performance conditions;
- the provision recognised is based on the closing quoted price of the HSBC Holdings plc stock.

(g) Foreign exchange position

Active and passive foreign currency exchange rate positions are remeasured at the rate prevailing at the end of the period, and the resulting gains or losses are included in the bank operating income or expense.

(h) Forward foreign exchange contracts

Forward exchange contracts that are open at the closing of the period and hedged with spot transactions are valued at the spot rate at the period end. Differences between spot and forward rates calculated on close out are recorded on a time-apportioned basis in the income statement. Outright forward exchange contracts and those hedged by forward instruments are restated at the rate for the remaining period.

(i) Financial derivatives

The HSBC France group operates on all financial instruments markets, whether on behalf of its customers or for the purposes of hedging balance sheet items or for arbitration purposes.

Interest rate and currency options

Options are contracts reached between two parties by which one, the buyer, is granted the right to buy or to sell an actual asset or another financial instrument called an 'underlying asset' at the expiry of a certain time period, at a price agreed at the time the contract was concluded.

Option contracts result in a premium being paid by the buyer to the seller. HSBC France has interest rate and currency options.

The basic accounting treatment principles for these various products are identical.

On closing out the contract, the notional amount of the 'underlying asset', which is the subject of the option, is recorded as an off-balance sheet item.

For income and expenses, a distinction is made between contracts for hedging, contracts entered into for market operations or for arbitration purposes:

- the income and expenditure on hedging operations is reported symmetrically to the income and expenditure of the item being hedged;
- for market transactions, the positions are revalued at each period end. For transactions quoted on an organised market or similar within the meaning of Articles 2511-1 to 2516-1 of Book II - Title 5 - Section 1 relating to the recognition of interest rate futures, Regulation No. 2014 -07 of the ANC, changes in the value of positions are recognised through profit or loss, either by means of margin calls, or directly by means of a mathematical calculation where the options are not quoted.

Interest-rate futures (tradable futures)

The accounting treatment is identical to that set out above for options.

Currency swaps and/or interest terms (swaps, FRAs)

Currency and/or interest rate swaps are recognised in accordance with the articles 2521-1 and 2529-1 of the 2014-07 ANC regulation.

The contracts are recorded separately depending whether their purpose is to:

- hold stand-alone open positions to take advantage of any beneficial changes in interest rates;
- hedge, demonstrably from the outset, in accordance with the above-mentioned article 4 of CRBF regulation 88-02 as amended, interest-rate risk affecting an item or a group of similar items or credit risk in the case of Credit Default Swaps ('CDS');
- hedge and manage the entity's overall interest rate risk on assets, liabilities and off-balance sheet items;
- provide for specialist investment management of trading portfolios (trading business).

On the accounting side, methodology varies depending on whether the transactions are for hedging or trading business purposes.

The results of the hedging of assets or liabilities are recorded pro rata *temporis*. This is particularly the case for swaps traded as part of the asset / liability management of overall interest rate risk.

Income on positions managed as part of a trading portfolio of swaps is recognised at market value after a reduction to reflect counterparty risk and future management expense.

In many market activities, the contracts negotiated by HSBC France are revalued at market conditions after the date of the trade.

The notionals are recorded as off-balance-sheet items.

Counterparty risk on derivatives

The fair value of contracts has to take into account counterparty risk linked to contracts.

The adjustment to value for counterparty risk is at least equal to the cost in equity determined under the terms of articles 2525-3 of 2014-07 ANC regulation.

(j) Deferred taxation

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

(k) Segment reporting

This information is not available on the parent company accounts but details are given on a consolidated base page 12 and following of the management report.

2 Loans and advances to banks

	31 Dec 2018	31 Dec 2017
	€m	€m
On demand deposits	**30,057**	29,845
Term deposits	**61,234**	18,901
≤ 3 months	**52,012**	13,954
> 3 months and ≤ 1 year	**5,447**	1,384
> 1 year and ≤ 5 years	**3,568**	3,327
> 5 years	**207**	236
Accrued interest	**91**	52
Total	**91,381**	48,798
of which securities received under repurchase agreements[1]	***72,717***	*26,580*
of which subordinated loans	***45***	*45*

1 *This is explained by the increase in the repo activity.*

3 Customer loans

Outstanding at 31 December

Breakdown of outstanding loans by type

	31 Dec 2018	31 Dec 2017
	€m	€m
Commercial loans	1,104	1,525
Ordinary accounts - debit balances	1,597	1,411
Other customer facilities[1]	67,373	52,077
Total	70,074	55,013
of which eligible loans for European Central Bank or Banque de France refinancing	*16,190*	*14,312*

1 *This is explained by the increase in the repo activity.*

Breakdown of outstanding loans by quality

	31 Dec 2018				31 Dec 2017
	Performing loans	Non-performing loans	Impairment on non-performing loans	Total	Total
	€m	€m	€m	€m	€m
Retail loans	15,088	226	(126)	15,188	14,267
Financial customer loans	1,872	—	—	1,872	1,628
Non-financial customer loans	24,845	643	(374)	25,114	24,657
Securities received under repurchase agreements	27,808	—	—	27,808	14,380
Accrued interest	92	—	—	92	81
Total	69,705	869	(500)	70,074	55,013
of which subordinated loans				*1*	*1*
of which gross non-performing loans				*310*	*333*
of which gross impaired loans				*539*	*594*
of which impairment on gross non-performing loans				*(158)*	*(75)*
of which impairment on gross impaired loans				*(341)*	*(385)*
of which restructured loans				*97*	*121*

Breakdown of outstanding loans by remaining contractual maturity

	31 Dec 2018	31 Dec 2017
	€m	€m
Repayable on demand	10,488	8,618
Term deposits	59,495	46,314
≤ 3 months	18,433	7,728
> 3 months and ≤ 1 year	8,342	6,709
> 1 year and ≤ 5 years	19,062	18,776
> 5 years	13,658	13,101
Accrued interest	92	81
Total	70,074	55,013

Breakdown by business sector

	31 Dec 2018	31 Dec 2017
	€m	€m
Retail	15,188	14,429
Industrial	1,524	1,813
Commercial and Services	9,199	11,041
Real estate	6,395	4,595
Finance	34,316	16,209
Others	3,452	6,927
Total	70,074	55,013

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities

	31 Dec 2018 Carrying amount €m	31 Dec 2017 Carrying amount €m
Treasury bills and other eligible bills	**21,796**	18,514
Trading account securities	**18,723**	14,651
Available-for-sale securities	**3,062**	3,846
Held-to-maturity securities	**—**	—
Accrued interest	**11**	16
Debt securities	**9,587**	8,450
Trading account securities	**7,356**	4,968
– bonds and other quoted securities	**7,356**	4,968
– unquoted bonds, interbank market securities and tradable debt securities	**—**	—
Available-for-sale securities	**1,751**	3,096
– quoted bonds	**1,745**	3,090
– unquoted bonds, interbank market securities and tradable debt securities	**6**	6
Held-to-maturity securities	**470**	370
– quoted bonds	**470**	370
– unquoted bonds, interbank market securities and tradable debt securities	**—**	—
Accrued interest	**10**	16
of which: subordinated debt	***370***	*270*
Equity shares and similar & portfolio equities	**161**	111
Trading account securities	**—**	—
– quoted shares	**—**	—
– unquoted shares and similar	**—**	—
Available-for-sale securities	**8**	8
– quoted shares	**—**	—
– unquoted shares and similar	**8**	8
Portfolio activity securities	**153**	104
– quoted portfolio activity shares	**—**	—
– unquoted portfolio activity shares	**153**	104
Total	**31,544**	27,075

Breakdown by remaining contractual maturity of treasury bills and government bonds

	31 Dec 2018 €m	31 Dec 2017 €m
Treasury bills and other eligible bills		
≤ 3 months	**6,199**	2,528
> 3 months and ≤ 1 year	**2,397**	2,149
> 1 year and ≤ 5 years	**4,191**	5,608
> 5 years	**8,998**	8,213
Accrued interest	**11**	16
Total	**21,796**	18,514
Debt securities		
≤ 3 months	**4,856**	2,518
> 3 months and ≤ 1 year	**567**	816
> 1 year and ≤ 5 years	**1,640**	3,434
> 5 years	**2,514**	1,667
Accrued interest	**10**	16
Total	**9,587**	8,450

Estimated value of the portfolio of financial investments and portfolio business securities

	31 Dec 2018		31 Dec 2017	
	Net carrying €m	Estimated €m	Net carrying €m	Estimated €m
Treasury bills and other eligible bills	**3,062**	**3,123**	3,846	3,976
Debt securities	**1,751**	**1,767**	3,096	3,125
Equity shares and similar and other portfolio equities	**161**	**196**	111	131
Total available-for-sale and portfolio activity securities (excluding related receivables)	**4,974**	**5,086**	7,054	7,232

The financial investments portfolio is made up mainly of fixed income securities for which the interest-rate risk is usually hedged. The portfolio valuation rules are given in Note 1b.

Unrealised gains and losses in financial investments and portfolio business securities

	31 Dec 2018		
	Before provisions	Provisions	Net amount
	€m	€m	€m
Unrealised gains in available-for-sale and portfolio business securities[1]	**110**	**1**	**111**
- treasury bills and other eligible bills	**59**	**–**	**59**
- bonds and other fixed-income securities	**16**	**1**	**17**
- equity shares and similar & portfolio equities	**35**	**–**	**35**
Unrealised losses in available-for-sale and portfolio business securities[1]	**8**	**6**	**2**
- treasury bills and other eligible bills	**3**	**1**	**2**
- bonds and other fixed-income securities	**–**	**–**	**–**
- equity shares and similar & portfolio equities	**5**	**5**	**–**

1 *Available derivatives of partners cover EUR -63 million.*

Additional information on the securities given in compliance with ANC 2014-07 regulation dated 26 November 2014

No held-to-maturity securities have been sold during the period.

The premium (Unamortised difference between the acquisition price and the redemption price of securities) of available-for-sale and held-to-maturity securities amounted to EUR 4 million in 2018 and to EUR 42 million in 2017.

No security was transferred from a portfolio to another portfolio in 2018 or in 2017.

5 Investments in subsidiaries and equity securities held for long term

	31 Dec 2018	31 Dec 2017
	Net carrying amount	Net carrying amount
	€m	€m
Interests in subsidiaries and associates	**71**	71
Listed securities	**–**	–
– banks	**–**	–
– others	**–**	–
Non-listed securities	**71**	71
– banks	**46**	45
– others	**25**	25
Other long-term securities	**10**	7
Listed securities	**–**	–
– banks	**–**	–
– others	**–**	–
Non-listed securities	**10**	7
– banks	**–**	–
– others	**10**	7
Interests in group companies	**1,471**	1,358
Listed securities	**–**	–
– banks	**–**	–
– others	**–**	–
Non-listed securities	**1,471**	1,358
– banks	**654**	563
– others	**817**	795
Accrued interests		–
Total (including the 1976 statutory revaluation)	**1,552**	1,436

	31 Dec 2018	31 Dec 2017
	€m	€m
Gross amounts at 1 January (excluding advances and accrued interests)	**1,551**	1,572
Changes in the year:		–
– acquisitions of securities/share issues	**110**	3
– disposals/capital reductions	**–**	–
– effect of foreign exchange differences	**–**	(1)
– other movements/merger[1]	**–**	(24)
Gross amounts at 31 December (excluding advances and accrued interests)	**1,661**	1,551
Impairments at 1 January	**(115)**	(113)
Changes in the year:		–
– new allowances	**(2)**	(3)
– release of allowances no longer required	**8**	1
– other movements	**–**	–
– effect of foreign exchange differences	**–**	–
Impairment at 31 December	**(109)**	(115)
Accrued interests	**–**	–
Net book value including accrued interests	**1,552**	1,436

1 *In 2017, relate mainly to reversal of provisions for EUR 17 million following the retroactive merger of Hervet Mathurin.*

6 Intangible fixed assets

	31 Dec 2018	31 Dec 2017
	€m	€m
Gross amounts at 1 Jan	**555**	526
Changes in the year:	**–**	–
– transfers and other movements	**2**	–
– fixed asset acquisitions[1]	**111**	50
– fixed asset disposals and other changes[2]	**(201)**	(20)
Gross amounts value at 31 Dec	**467**	555
Amortisation at 1 January	**382**	397
Changes in the year:	**–**	–
– charges for the period for amortisation and impairment[3]	**7**	5
– transfers and other movements	**–**	–
– fixed asset sales, disposals and other changes	**(202)**	(20)
Amortisation at 31 December	**187**	382
Net book value of fixed assets at 31 Dec	**280**	174

1 *Relate mainly to the internal costs on strategic initiatives and EVPS acquisition for EUR 20 million€.*
2 *Relate mainly to disposals of software totally amortized.*

Since 1 January 2016 and according to 2015-06 ANC new regulation of 23 November 2015 which modifies 2014-03 ANC regulation, the goodwill is recognised in a specific account in the relevant asset category after its affectation (art 745-6). The amortisation method and period are the same as those applied to amortised assets it is linked to (art 745-7).

According to the article 745-3 of 2015-06 ANC regulation, a goodwill, corresponding to the difference between the shares' book value of the merged company and the net asset value transferred, was recognised on the merger of HSBC Hervet with HSBC France in 2008, of HSBC Private Bank France with HSBC France in 2011 and SI Malesherbes Anjou with HSBC France in 2016.

In accordance with the article 745-7, goodwill is written back through profit or loss when the assets to which it was affected are realised.

Goodwill is impaired when the current value of one or more underlying assets, to which a portion of it was affected, is lower than the carrying amount of the asset(s) plus the attributed goodwill. The current value is the higher of the market value and the value-in-use (see articles 214-1 to 214-27 of 2015-06 ANC regulation).

Goodwill allocation of assets

	Gross amounts at 1 Jan 2018	Increases	Decreases	Carrying amounts at 31 Dec 2018
Intangible assets	**27.3**	**–**	**–**	**27.3**
Tangible assets	**6.0**	**–**	**0.9**	**5.1**
Financial assets	**0.2**	**–**	**–**	**0.2**
Total	**33.5**	**–**	**0.9**	**32.6**

Concerning HSBC Hervet

The goodwill on merger, amounting initially to EUR 140 million, was attributed proportionately to the unrealised gains (net of tax), to the following items:

The unrealised gain on the *Baecque Beau* HSBC securities	48
Unrealised gains in fixed assets	10
Unrealised gains in securities	–
Purchased goodwill (no attribution)	82
Total	**140**

At the end of 2018, because of the realisation of some assets (arising mainly from the merger between *HSBC de Baecque Beau* and HSBC France in 2008), according to the buildings amortisation and after the goodwill impairment for EUR 64 million, the remaining goodwill is about EUR 22.4 million at 31 December 2018.

Concerning HSBC Private Bank France

After impairment of the goodwill for an amount of EUR 63 million in 2016, the remaining goodwill was about EUR 8.8 million at the end of 2018

Concerning Société Immobilière Malesherbes Anjou

Société Immobilière Malesherbes Anjou merged with HSBC France in September 2016. The goodwill affected to the buildings was about EUR 3.5 million and EUR 1 million in 2018 after buildings amortisation.

7 Tangible fixed assets

	31 Dec 2018	31 Dec 2017
	€m	€m
Gross amounts at 1 Jan	**825**	839
Changes in the year:	**–**	–
– transfers and other movements	**–**	–
– fixed asset acquisitions[1]	**43**	43
– fixed asset disposals and other changes[2]	**(117)**	(57)
Carrying amount at 31 Dec	**751**	825
Depreciation at 1 January	**629**	639
Changes in the year:	**–**	–
– charges for the period for depreciation and impairment	**40**	46
– transfers and other movements	**–**	–
– fixed asset disposals and other changes	**(115)**	(56)
Depreciation at 31 December	**554**	629
Carrying amount at 31 Dec	**197**	196

1 Relate mainly fixed asset acquisition of greek branch for EUR 16 million, and renovations for EUR 21 million.
2 Relate mainly to write off on hardware, furniture and installations.

Breakdown of tangible fixed assets by type

	31 Dec 2018	31 Dec 2017
	€m	€m
Operating land and buildings	**46**	47
Non-operating land and buildings	**1**	1
Other tangible assets	**150**	147
Carrying amount at 31 Dec	**197**	196

Leasing and renting with buy option

	31 Dec 2018	31 Dec 2017
	€m	€m
Assets under construction	**4**	17
Gross values[1]	**864**	784
Amortisation	**(372)**	(336)
Related loans	**1**	1
Total	**497**	465

1 Main assets in 2018: road assets for EUR 359 million, public building and construction for EUR 97 million, machine tools for EUR 69 million.

At 31 December 2018, the financial outstanding amounts to EUR 473 million (EUR 434 million in 2017) and the negative unearned finance income before deferred tax to EUR 55 million (EUR 57 million in 2017).

8 Loan impairment

	Balance at 31 Dec 2017	Charges	Utilised releases	Available releases	Other changes[1]	Balance at 31 Dec 2018
	€m	€m	€m	€m	€m	€m
Impairment on interbank and customer non-performing loans (excluding doubtful interest)[1]	461	113	(75)	(115)	115	**499**
Impairment on securities	1	–	–	–	(1)	**–**
Provisions for commitments by signature	4	17	–	(12)	1	**10**
Total of impairment and provisions recognised in cost of risk	465	130	(75)	(126)	115	**509**
1 Discounting effect on impaired loans recognised in net operating income					–	
Effect on exchange rate variation					–	
Alignment of individual impairment methology calculation on impaired loans (equivalent to Stage 3 under IFRS), with consolidated accounts.					(21)	
Opening balance Greek Branch					94	

Loan impairment

	31 Dec 2018	31 Dec 2017
	€m	€m
Net impairment charge for the period:		
– interbank and customer non-performing and impaired receivables (excluding doubtful interest)[1]	(32)	(14)
– counterparty risk on securities		
– commitments by issuer[2]	(5)	1
– recoveries of amounts previously written off	3	3
Total cost of risk[3,4]	**(34)**	(10)
– of which:		
1 Of which unprovided losses on non-performing and impaired receivables.	(13)	(8)
2 Of which unprovided losses on commitments by issuer	–	–
3 Of which losses hedged by provisions.	(75)	(79)
4 Of which alignment of individual impairment methology calculation on impaired loans (equivalent to Stage3 under IFRS), with consolidated accounts.	(21)	N/A

9 Other assets

	31 Dec 2018	31 Dec 2017
	€m	€m
Securities transactions settlement accounts	889	717
Sundry debtors and other receivables	15,302	15,517
Total	**16,191**	16,234

10 Prepayments and accrued income

	31 Dec 2018	31 Dec 2017
	€m	€m
Items in course of collection from other banks	217	378
Other prepayments and accrued assets[1]	38,790	39,800
Total	**39,007**	40,178

1 *Including mark-to-market on derivatives instruments for EUR 37,698 million in 2018, versus 39,336 millions EUR en 2017.*

11 Treasury and interbank transactions

Deposits by banks

	31 Dec 2018	31 Dec 2017
	€m	€m
On demand deposits	**24,633**	2,495
Term deposits	**56,760**	40,744
≤3 months	42,085	27,664
>3 months and ≤ 1 year	3,525	896
>1 year and ≤5 years	8,350	8,301
>5 years	2,800	3,884
Accrued interest	63	40
Total	**81,456**	43,279
– of which: securities given under repurchase agreements[1]	***65,489***	*26,001*

1 *This is explained by the increase in the repo activity.*

12 Customer accounts

Outstanding at 31 December

Breakdown of customer credit balances by type of deposit

	31 Dec 2018	31 Dec 2017
	€m	€m
On demand deposits	25,123	22,686
Special demand accounts	7,311	7,089
Special term accounts	716	709
Term accounts	8,550	8,351
Total customer deposits (excluding repurchase agreements)	**41,700**	38,835
Securities given under repurchase agreements	21,398	7,765
Accrued interest	28	19
Total customer credit balance accounts	**63,126**	46,619

Breakdown of customer credit balances by remaining contractual maturities

	31 Dec 2018	31 Dec 2017
	€m	€m
On demand deposits	**32,434**	29,775
Term deposits	**30,664**	16,826
≤3 months	**26,639**	12,164
>3 months and ≤1 year	**3,963**	3,894
>1 year and ≤5 years	**32**	246
>5 years	**30**	523
Accrued interest	**28**	19
Total[1]	**63,126**	46,619

1 *This is explained by the increase in the repo activity.*

13 Bonds and other fixed income securities

	31 Dec 2018	31 Dec 2017
	€m	€m
Certificates of deposit (including accrued interest)	**—**	—
Interbank market securities and tradable debt securities	**3,038**	5,129
Bonds	**10,237**	6,929
Accrued interest	**35**	27
Total	**13,310**	12,085

Breakdown of debt securities by maturity

	31 Dec 2018	31 Dec 2017
	€m	€m
Debt securities	**13,275**	12,058
≤3 months	**18**	648
>3 months and ≤1 year	**2,526**	4,947
>1 year and ≤5 years	**6,036**	3,710
>5 years	**4,695**	2,753
Accrued interest	**35**	27
Total	**13,310**	12,085

Issuances premium yet paid off are EUR 11 million at 31 December 2018 and EUR 4 million at 31 December 2017.

14 Provisions

	Balance at 31 Dec 2017	Charges	Release for written off	Available releases	Other movements	Balance at 31 Dec 2018
	€m	€m	€m	€m	€m	€m
Provisions for commitments by signature and disputes	23	8	(11)	(2)	1	**19**
Other provisions[1]	331	58	(99)	(7)	11	**293**
Total	354	65	(110)	(9)	11	**312**

1 *Including employee benefits provision (see Note 20 'Pensions, post-employment benefits'), share-based payment provision (see the comments of Note 28 'General operating expenses') and restructuring provision.*

Provision on PEL/CEL home ownership products

	31 Dec 2018				
	PEL				
	≤ 4 years	> 4 years and ≤ 10 years	> 10 years	Total	CEL
	€m	€m	€m	€m	€m
Amounts collected	**173**	**83**	**426**	**682**	**91**
Outstandings collected	**—**	**1**	**1**	**2**	**—**
Provisions	**—**	**—**	**(6)**	**(6)**	**—**
Allocation to provisions/reversal	**—**	**—**	**—**	**—**	**—**

15 Other liabilities

	31 Dec 2018	31 Dec 2017
	€m	€m
Securities transactions settlement accounts	**624**	114
Sundry creditors[1]	**5,350**	5,489
Short position and securities received under repurchase agreements confirmed resold	**42,480**	37,633
Total	**48,454**	43,235

1 *Of which deposits on derivatives received in 2018: EUR 5,272 million and EUR 5,426 million in 2017.*

16 Accruals and deferred income

	31 Dec 2018	31 Dec 2017
	€m	€m
Items in course of collection from other banks	115	326
Accruals and deferred income[1]	37,908	38,369
Total	**38,023**	38,695

1 *Including mark-to-market on derivatives instruments : EUR 36,835 million in 2018 and EUR 37,998 million in 2017.*

17 Subordinated debt

This heading deals with the debts materialised or not by term or perpetual securities. The refund in the event of the liquidation of the payer is possible only in the case of the desinterest of the other creditors.

If the need arises, accrued interest on these subordinated securities are recorded in the balance sheet in an accrued interest account with a corresponding amount recognised in profit or loss.

	31 Dec 2018	31 Dec 2017
	€m	€m
Subordinated notes	—	—
Undated subordinated notes	16	16
Subordinated debts	1,360	760
Accrued interest	0.7	0.6
Total	**1,377**	777

Securities issued by HSBC France

Subordinated securities issued by HSBC France, in euros and other currencies, are liabilities which will only be repaid, in the event of liquidation, after the interests of other creditors have been extinguished but before repayment of the holders of participating securities or equity.

Participating securities: undated subordinated securities and debt

	Date of issue	Date of maturity	Interest type	Currency of issue	31 Dec 2018 €m	31 Dec 2017 €m
Undated subordinated securities	22.07.1985		TMO - 0.25	FRF	**16**	16
Accrued interest					—	—
Total (including accrued interest)					**16**	16

Participating securities are refunded at a price equal to the par only in the case of the liquidation of the company.

Subordinated debts

	Date of issue	Date of maturity	Interest type	Currency of issue	31 Dec 2018 €m	31 Dec 2017 €m
Subordinated debts[1]	22.12.2014	22.12.2029	Floating rate	EUR	**260**	260
Undated debts[2]	26.05.2017	perpetual	Fixed rate as defined on the contract	EUR	**200**	200
	28.03.2018	perpetual	Fixed rate as defined on the contract	EUR	**300**	—
Subordinated debts[3]	26.05.2017	26.05.2027	Floating rate	EUR	**300**	300
	21.06.2018	21.06.2028	Floating rate	EUR	**300**	—
Accrued interest					**1**	1
Total for securities issued by HSBC France (including accrued interest)					**1,361**	761

1 *A total or a part refund will be possible from December 2024.*
2 *Tier 1 : A total or a part refund (Additionnel Tier 1) will be possible, under certain conditions, from the 26 May 2022. The transformation in capital of these shares will be possible under certain conditions.*
3 *Tier 2 : A total or a part refund (Tier 2) will be possible, under certain conditions, from the 26 May 2022. The subordinated liabilities conversion in equity or in debt is not possible.*

18 Share capital

	31 Dec 2018		31 Dec 2017	
(shares of 5 euros)	Number of shares	Total (in thousands of euros)	Number of shares	Total (in thousands of euros)
At 1 Jan	**67,437,827**	**337,189**	67,437,827	337,189
– subscription options exercised	—	—	—	—
– new capital issued ? merger	**5,879,161**	**29,396**	—	—
– reduction of capital	—	—	—	—
At 31 Dec	**73,316,988**	**366,585**	67,437,827	337,189

Voting rights

At 31 December 2018, the total of voting rights stood at 73,316,988.

19 Equity

	31 Dec 2018	31 Dec 2017
	€m	€m
Called-up share capital	**367**	337
Share premium account	**475**	16
Reserves	**1,041**	1,043
– legal reserve	**38**	38
– long-term gains reserve	**406**	406
– revaluation reserve	**3**	5
– extraordinary and other reserve	**305**	305
– free reserve	**294**	294
– revaluation reserve on past service costs	**(5)**	(5)
Retained earnings[1]	**3,209**	3,148
Interim dividend	**—**	(65)
Special tax-allowable reserves	**—**	—
Net profit for the year	**78**	172
Equity	**5,170**	4,651

1 *Before proposed appropriation submitted to HSBC France Annual General Meeting's approval.*

Changes in equity in 2018

	2018
	€m
Balance at 1 Jan	**4,651**
Net profit for the year	**78**
New shares issued upon exercise of stock options	**—**
Capital increase	**489**
Interim dividend	**—**
Others	**(48)**
Balance at 31 Dec	**5,170**

Legal reserve

This reserve is built up by appropriating at least one-twentieth of the year's profit. This appropriation ceases to be mandatory once this reserve reaches one-tenth of share capital. It is not distributable.

Net long-term gains reserve

Distributing this reserve would lead to an additional tax charge equal to the difference between standard tax rate and reduced tax rate.

Revaluation reserve (1976 revaluation)

This reserve could be incorporated into capital, but it cannot be distributed or used to offset losses.

Other reserves

Amounts put into reserves over five years ago would be subject to a levy if they were to be distributed.

For distributions paid on or after 1 January 2000, HSBC France can charge the dividends against profits liable to corporate income tax for accounting periods ended at most five years ago, starting with the oldest, in application of the decree of 21 December 1999.

20 Pensions, post-employment benefits

	31 Dec 2018	31 Dec 2017
	€m	€m
Provision for employee-related commitments[1]	**154**	164

1 *Including defined benefits pension plans for Executive Board for EUR 3.4 million in 2018 and for EUR 3.3 million in 2017.*

Principal actuarial assumptions of the post-employment defined benefit plans

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2018, and the 2019 periodic costs, were :

(in %)	Discount rate	Expected rate of return on plan assets[1]	Inflation assumption	Rate of increase for pensions in payment and deferred pensions	Rate of pay increase	Mortality table[2]
At 31 Dec 2018	**1.7**	**1.7**	**1.50**	**1.50**	**2.61**	**—**
At 31 Dec 2017	1.35	1.35	1.50	1.50	2.61	—

1 *Expected rate of return on Equity.*
2 *HSBC France uses 'mortality tables' TGH/TGF05 for pension and TV 8890 for post-employments benefits.*

HSBC France determines discount rates in consultation with its actuaries based on the current average yield of high quality (AA-rated) debt instruments, with maturities consistent with that of the defined benefit obligation.

Provision recognised

	31 Dec 2018	31 Dec 2017
	€m	€m
Present value of benefit obligations	161	172
Fair value of plan assets	(8)	(8)
Net liability recognised	**154**	164

The components of the table below have been booked on profit & loss.

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets	Present value of defined benefit obligations	Net benefit asset/ (liability)
	€m	€m	€m
Net defined benefit liability at 1 January 2018	8	172	164
Current service cost	–	5	5
Net interest (income)/cost on the net defined benefit liability	–	2	2
Remeasurement effects recognised in other comprehensive income	–	(10)	(9)
Benefits paid	(1)	(9)	(8)
At 31 Dec 2018	8	161	154

Fair value of plan assets by asset classes

	31 Dec 2018			
	Fair value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC
	€m	€m	€m	€m
Fair value of plan assets	8	–	–	–
– equities	–	–	–	–
– bonds	8	–	–	–
– property	–	–	–	–
– derivatives	–	–	–	–
– other	–	–	–	–

21 Off-balance sheet items

	31 Dec 2018	31 Dec 2017
	€m	€m
A – Loan commitments		
Commitments given	**28,749**	23,349
Refinancing agreements and other financing commitments in favour of banks	**1,938**	598
In favour of customers	**26,811**	22,751
– confirmed credit facilities	**26,768**	22,697
– acceptances payable and similar instruments	**42**	53
Commitments received	**3,119**	2,782
Refinancing agreements and other financing commitments in favour of banks	**3,119**	2,782
B – Guarantee commitments		
Commitments given	**5,119**	4,989
– guarantees, acceptances and other securities to banks	**695**	515
– guarantees, acceptances and other securities to customers	**4,424**	4,474
Commitments received	**15,079**	14,720
– guarantees, acceptances and other security from banks	**15,079**	14,720

Loans pledged for Covered Bonds issues

	31 Dec 2018
	€m
Covered bonds	5,860
Loans pledged on guarantee 3G and TRICP	3,426
Loans pledged on guarantee CCBM	8,024
Securities pledged on guarantee	3,419
Total	**20,729**

22 Derivatives

Exchanges rate contracts

	31 Dec 2018				31 Dec 2017			
	Fair value at 31 Dec 2017	Hedging contracts[1]	Trading contracts[1]	Total[1]	Fair value at 31 Dec 2016	Hedging contracts[1]	Trading contracts[1]	Total[1]
	€bn	€bn	€bn	€bn	€bn	€bn	€bn	€bn
Unconditional transactions	**0.6**	**27**	**2,757**	**2,785**	1.4	24	2,148	2,172
Exchange traded	**—**	**—**	**139**	**139**	—	—	80	80
– interest rate	**—**	**—**	**139**	**139**	—	—	80	80
– exchange rate	**—**	**—**	**—**	**—**	—	—	—	—
– equity	**—**	**—**	**—**	**—**	—	—	—	—
Non-exchange traded	**0.6**	**27**	**2,618**	**2,646**	1.4	24	2,068	2,092
– futures	**—**	**—**	**180**	**180**	—	—	86	86
– interest rate	**0.5**	**27**	**2,274**	**2,301**	1.3	23	1,866	1,888
– exchange rate	**—**	**1**	**41**	**42**	—	1	37	38
– other contracts	**0.1**	**—**	**123**	**123**	0.1	—	80	80
Conditional transactions	**(0.9)**	**1**	**865**	**866**	(1.3)	—	750	750
Exchange traded	**—**	**—**	**36**	**36**	—	—	40	40
Interest rate	**—**	**—**	**—**	**—**	—	—	—	—
Exchange rate	**—**	**—**	**36**	**36**	—	—	40	40
Other contracts	**—**	**—**	**—**	**—**	—	—	—	—
Non-exchange traded	**(0.9)**	**1**	**829**	**830**	(1.3)	—	709	709
Caps and floors	**(0.3)**	**—**	**303**	**303**	(0.4)	—	238	238
Swaptions and options	**(0.6)**	**—**	**—**	**—**	(1.0)	—	—	—
– bought	**—**	**1**	**44**	**44**	—	—	43	43
– sold	**—**	**—**	**482**	**482**	—	—	429	429
Total derivatives	**—**	**28**	**3,622**	**3,651**	—	24	2,898	2,922

1 *Notional contract amounts.*

Other information on derivatives

	31 Dec 2018	31 Dec 2017
	€m	€m
Microhedge contract[1]	**22**	17
Macrohedge contract[2]	**5**	6
Trading	**2,274**	1,866
Other	**—**	—

1 *Interest rate swaps accounted for as micro-hedging are used to hedge interest and currency rate risk of an asset or a liability at the beginning of the transaction.*
2 *Interest rate swaps accounted for as macro-hedging are used to hedge and to manage the global interest rate risk of portfolio of assets and liabilities of the bank.*

Derivatives: maturity analysis

	31 Dec 2018			
	≤ 1 year	>1 year and ≤ 5 years	> 5 years	Total
(in billion euro)	€m	€m	€m	€m
Derivatives:				
– Exchange contracts	**5**	**20**	**17**	**42**
– Interest rate contracts	**1,111**	**1,521**	**853**	**3,485**
– Others	**111**	**12**	**1**	**124**
Total	**1,227**	**1,553**	**871**	**3,651**

Risk-weighted assets – Amount of Exposure At Default (EAD) for derivatives contracts

	31 Dec 2018	31 Dec 2017
	€m	€m
A – Contracts concluded under Master agreement with close-out netting	**10,500**	8,910
1. Transactions with banks from OECD countries	**10,427**	8,795
2. Transactions with customers and banks localised outside OECD countries	**73**	115
B – Other contracts	**2,036**	1,238
1. Transactions with banks from OECD countries	**1,987**	1,180
– interest rate contracts	**1,969**	1,153
– exchange contracts	**18**	27
– equity derivatives contracts	**–**	–
– credit derivatives contracts	**–**	–
– commodities contracts	**–**	–
2. Transactions with customers and banks localised outside OECD countries	**49**	58
– interest rate contracts	**14**	12
– exchange contracts	**35**	46
– equity derivatives contracts	**–**	–
Total Exposure At Default	**12,536**	10,148
Corresponding risk-weighted assets (RWA)	**2,032**	1,785

Clearing effect on Exposure At Default

	31 Dec 2018	31 Dec 2017
	€m	€m
Original exposure before credit risk mitigation (including close-out netting)	**65,416**	65,434
Exposure mitigation due to close-out netting	**(49,236)**	(50,353)
Exposure mitigation due to credit mitigation	**(3,644)**	(4,933)
Exposure value after credit risk mitigation	**12,536**	10,148

23 Net interest income

	31 Dec 2018	31 Dec 2017
	€m	€m
Interest and similar income		
Banks and financial institutions	**447**	377
Customers	**825**	822
Bonds and other fixed-income securities	**438**	297
Total	**1,710**	1,496
Interest and similar expenses		
Banks and financial institutions	**569**	503
Customers	**78**	75
Subordinated liabilities	**27**	12
Other bonds and fixed-income securities	**405**	257
Total	**1,079**	846

24 Fixed-income securities

	31 Dec 2018	31 Dec 2017
	€m	€m
Income		
Available-for-sale and similar & portfolio activity securities	**–**	–
Interests in subsidiaries and associates and other long-term securities	**–**	–
Interests in group companies	**165**	124
Total	**165**	124

25 Breakdown of fees

	31 Dec 2018	31 Dec 2017
	€m	€m
Fees		
Income	**730**	740
On transactions with banks	**5**	4
On transactions with customers	**82**	85
On foreign exchange transactions	**2**	2
On primary securities market activities	**52**	77
On provision of services for third parties	**457**	443
On commitments	**94**	93
Other commission	**38**	36
Expenses	**(220)**	(229)
On transactions with banks	**(6)**	(7)
On corporate actions	**(35)**	(41)
On forward financial instrument activities	**(9)**	(10)
On provision of services for third parties	**(154)**	(162)
On commitments	**(4)**	(4)
Other commission	**(12)**	(5)
Total fees	**510**	511

26 Gains and losses on portfolio business transactions

	31 Dec 2018	31 Dec 2017
	€m	€m
Gains or losses		
Trading securities	**(165)**	(551)
Foreign exchange transactions	**17**	35
Forward financial instruments	**371**	823
Total	**223**	308

27 Gains or losses on available-for-sale securities

	31 Dec 2018	31 Dec 2017
	€m	€m
Results for available-for-sale securities		
Gains or losses	**14**	38
Impairment :	**2**	(3)
– charges	**(5)**	(7)
– releases	**7**	4
Results for portfolio activity securities	**—**	—
Gains or losses	**—**	—
Impairment :	**6**	2
– charges	**(2)**	—
– releases	**8**	2
Total	**22**	37

28 General operating expenses

	31 Dec 2018	31 Dec 2017
	€m	€m
Employee compensation and benefits		
Salaries and wages, social security, taxes and levies on compensation	**(762)**	(731)
Pension expense	**(94)**	(92)
Profit sharing	**(4)**	(4)
Incentive plan	**(3)**	(16)
Compensation expense subtotal	**(863)**	(843)
Other administrative expenses[1]	**(589)**	(570)
Total operating expenses	**(1,452)**	(1,413)

1 *Including EUR 57 million for the Single Resolution Fund, against EUR 42 million in 2017.*

Share award plans

Allowance was 34 per cent released for the 2014 plan, 66 per cent released for the 2015 plan and 34 per cent released for the English sub-plan 2014, 33 per cent released for the English sub-plan 2015, 33 per cent released for the English sub-plan 2016, against shares attribution for EUR 7.6 million.

Regarding the ongoing plans, the final charge for HSBC France is not yet known as the attributed shares were not bought by the Trust.

The allowance defined is hence accounted on a linear basis on the employees' grant acquisition period based on quoted price as 31 December 2018.

At 31 December 2018, allowance stood at EUR 0.1 million for the 2012 plan, at EUR 0.3 million for the 2013 plan, at EUR 0.2 million for the 2014 plan, at EUR 2.4 million for the 2015 plan, at EUR 4.5 million for the 2016 plan and at EUR 3.5 million for the 2017 plan.

2018 share award plans

The allowance defined is hence accounted on a linear basis on the employee's grant acquisition period based on awarding hypothesis.

At 31 December 2018, allowance stood at EUR 2.0 million.

29 Gains or losses on disposals of fixed assets

	31 Dec 2018	31 Dec 2017
	€m	€m
Gains or losses on held-to-maturity securities	**–**	–
Gains or losses on tangible and intangible fixed assets	**5**	–
Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies[1]	**2**	15
Total	**7**	15

30 Corporate income tax

	31 Dec 2018	31 Dec 2017
	€m	€m
Current tax		
At standard rate	**13**	15
At reduced rate	**–**	–
Deferred taxation	**21**	(31)
Total	**34**	(16)

Deferred tax is calculated according to the principles set out in Note 1.

The rates used for calculating taxes are:

	Echéance 2018	Echéance 2017	Echéance 2016
	%	%	%
Standard rate	**33.33**	33.33	33.33
Reduced rate (PVLT gains rate)	**4.0**	4.0	4.0
Reduced rate (gains on disposal of property to SIIC)	**19.0**	19.0	19.0
Reduced rate (common funds on risk placement)	**15.0**	15.0	15.0
Tax contribution			
CSB	**3.3**	3.3	3.3
Exceptional contribution	**–**	30.0	–
Deferred taxation			
Standard rate on DT if assumption of recovery on 2018	**NA**	33.33	33.33
Standard rate on DT if assumption of recovery on 2019	**31.00**	31.00	33.33
Standard rate on DT if assumption of recovery on 2020	**28.00**	28.00	33.33
Standard rate on DT if assumption of recovery on 2021	**26.50**	26.50	28.00
Standard rate on DT from 2022	**25.00**	25.00	28.00
Reduced rate on DT if assumption of recovery on 2018	**NA**	4.0	4.0
Reduced rate on DT if assumption of recovery on 2019	**3.7**	3.7	4.0
Reduced rate on DT if assumption of recovery on 2020	**3.4**	3.4	3.4
Reduced rate on DT if assumption of recovery on 2021	**3.2**	3.2	3.4
Reduced rate on DT from 2022	**3.0**	3.0	3.4

To which are added the applicable tax contributions.

At the end of December 2018, the deferred taxes were recorded on taxation gaps generated by temporary differences.

The deferred tax rate at 31 %, 28 %, 26.5 % or 25 % (more CSB) is applicable according to the assumptions of recovery of these deferred taxes.

Tax group

Since 2001, the parent company of the tax group has been HSBC Bank plc Paris branch.

In 2018, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 61.5 million. The proportion of benefits passed on to HSBC France was EUR 37 million.

In 2017, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 63.4 million. The proportion of benefits passed on to HSBC France was EUR 23.5 million.

Deferred tax in the balance sheet

The net deferred tax receivable recognised in the balance sheet at 31 December 2018 was EUR 88 million compared with EUR 67 million at 31 December 2017.

At 31 December 2018 this receivable is made up of deferred tax assets of EUR 119 million against EUR 97 million at 31 December 2017 and a deferred tax liability of EUR 32 million compared with EUR 30 million at 31 December 2017.

CICE allocation

On 1 January 2013 the competitiveness and employment tax credit (CICE) became effective. The CICE is accessible to all French companies, and provides a substantial tax savings. For 2018, it equates to 6% of payroll, excluding salaries exceeding 2.5 times the SMIC.

The CICE is equivalent to a reduction in payroll taxes. As such, HSBC France recognises the CICE as a reduction in employee compensation and benefits.

As such, the HSBC France group has chosen to recognize the CICE as a reduction of general expenses in application of IAS 20.

HSBC France group benefited from a EUR 7.2 million tax credit in respect of Crédit d'Impôt Compétitivité Emploi ('CICE') during the fiscal year of 2018 (in 2017 : EUR 7.8 million).

Within the framework of the allocation of CICE, HSBC France group backed the profit of the tax credit to a pool of expenses and investments dedicated to the improvement of products and services to customers as well as enhancement of the bank's efficiency. Those expenses are broken down into the following categories:

- Information and technology innovative investments: significant expenses have been engaged during the year 2018 dedicated to the development of enhanced and better integrated commercial software, notably the complete reshape of workstation in branches, faster deployment of digital tools and services to customers as well as continuous improvement of financial crime compliance processes;
- Training: Staff benefited from numerous courses during the year 2018 with certificated courses, language training courses as well as compliance and risk management;
- Premises: investments in the development and refurbishment of the branch network and headquaters, energy saving schemes.

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

HSBC group entities, including HSBC France group entities, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and in the section 2.19 a. Legal Risks and Litigation management of the 2018 Registration Document, HSBC France considers that none of these matters is significant. HSBC France recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2018.

Anti-money laundering and sanctions-related

In December 2012, among other agreements, HSBC Holdings, entered into an agreement with the office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions, consented to a cease-and-desist order with the FRB and agreed to an undertaking with the UK Financial Conduct Authority ('FCA') to comply with certain forward-looking AML and sanctions-related obligations and to retain an independent compliance monitor (who is, for FCA purposes, a 'skilled person' under section 166 of the Financial Services and Markets Act) to produce annual assessments of the Group's AML and sanctions compliance programme (the 'Independent Consultant'). The Independent Consultant will continue working in his capacity as a skilled person and independent consultant for a period of time at the FCA's and FRB's discretion.

Through his country-level reviews, the Independent Consultant identified potential AML and sanctions compliance issues that HSBC is reviewing further with the FRB and/or FCA.

The Independent Controller will continue to work as a "Qualified Person" and independent consultant for a period of time to be determined by the FCA and the FRB.

Bernard L. Madoff Investment Securities LLC:

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

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

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

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

The HTIE and/or its subsidiary Somers Dublin DAC are involved in Madoff-related proceedings as described below.

Defender case:

In November 2013, Defender Limited brought an action against HSBC Institutional Trust Services (Ireland) Limited ('HTIE') and others, based on allegations of breach of contract and claiming damages and indemnification for fund losses. The trial commenced in October 2018. In December 2018, the Irish Court issued a judgment in HTIE's favor on a preliminary issue, holding that Defender Limited had no effective claim against HTIE. This judgment concluded the trial without further issues in dispute being heard. Defender Limited has the right to appeal.

Osus Case:

In December 2014, SPV OSUS filed an action against HTIE and HSBC Securities Services (Ireland) Limited alleging breach of contract and claiming damages and indemnification for fund losses which was dismissed on the basis of a preliminary issue by the Irish High Court in October 2015. In July 2018, following further appeal by SPV OSUS, the Irish Supreme Court affirmed the dismissal, on a final basis.

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.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the EU, Switzerland, Brazil and South Africa, are conducting civil and criminal investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including continuing to cooperate with authorities and implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC Holdings agreed to pay a financial penalty and restitution.

32 Presence in non-cooperative States or territories

HSBC France does not hold any direct or indirect presence in any non-cooperative States or territories in accordance with the article 238-0 A of the General Tax Code.

33 Events after the balance sheet date

There was no material event subsequent to the reporting date that would require a correction or adjustment to the social financial statements as at December 31, 2018.

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.

Capital increases

With the acquisitions described below, HSBC France made two new capital increases at the beginning of the year 2019: on 14 January 2019, an increase of EUR 949.6 million (of which EUR 61.8 million of share capital) and 1 February 2019, an increase of EUR 336.3 million (of which EUR 21.9 million of share capital).

Acquisition of the activities of European branches

As part of the structural changes to anticipate the consequences of the future exit of the United Kingdom from the European Union and in order to simplify the organization of activities in continental Europe, HSBC France acquired certain assets and liabilities of six HSBC Bank plc European branches (in Belgium, the Czech Republic, Ireland, Italy, the Netherlands and Spain). The acquisition of these assets and the liabilities of the branches has been effective since February 1, 2019 and has been effected by contributions in kind from HSBC Bank plc to HSBC France. At the end of these six contributions, the share capital of HSBC France was raised from 428,368,915 EUR to 450,250,220 EUR.

The acquisition of some assets and liabilities of the Luxembourg branch of HSBC Bank plc by HSBC France is scheduled for 1 March 2019.

Tier 2 issuance (Subordinated loan)

HSBC France issued a Tier 2 subordinated loan subscribed by HSBC Bank plc for EUR 400 million on 29 January 2019. This new issuance is a subordinated loan with a variable rate, for a 10 years maturity.
Except for the events mentionned, there has been no significant change affecting the financial or sales situation of HSBC France or its subdsidiaries since 31 December 2018, until the Board of Director of 19 February 2019 approving these financial statements.

34 Other information

34.1 Appropriation of net profit

	31 Dec 2018	31 Dec 2017
	€m	€m
Results available for distribution		
– retained earnings	**3,209**	3,148
– net profit for the year	**78**	172
Total (A)	**3,287**	3,320
Appropriation of income		
– dividends	**–**	112
– legal reserve	**–**	–
– free reserve	**–**	–
Total (B)	**–**	112
Retained earnings (A - B)	**3,287**	3,208

34.2 Five-year highlights

(Articles R. 225-81 and R. 225-102 of the French Commercial Code)

	2018	2017	2016	2015	201
	€m	€m	€m	€m	€m
Share capital at year end					
Called up share capital	**367**	337	337	337	337
Number of issued shares	**73,316,988**	67,437,827	67,437,827	67,437,827	67,437,827
Nominal value of shares in euros	**5**	5	5	5	5
Results of operations for the year					
Sales	**3,043**	2,869	2,847	3,020	2,903
Profit before tax, depreciation and provisions	**59**	238	292	459	698
Profit after tax, depreciation and provisions	**78**	172	117	281	393
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**1.3**	3.3	4.5	6.0	8.6
Profit after tax, depreciation and provisions	**1.1**	2.5	1.7	4.2	5.8
Dividend paid per ordinary share, eligible as of 1 January	**–**	1.66	4.00	4.15	2.23
Employees (France)					
Number of employees[1]	**8,377**	8,080	8,382	8,979	9,144
Average number of employees (excluding employees available)	**8,341**	8,202	8,652	9,056	9,158
Salaries and wages	**543**	515	515	529	534
Employee benefits	**249**	249	249	259	258
Payroll and other taxes	**64**	61	63	60	70
Incentive schemes and/or employee profit-sharing scheme[2]	**20**	23	23	25	27

1 *Banking status employees, registered as at 31 December of each year.*
2 *Based on previous year's profits.*

34.3 List of equity shares and debt securities held at 31 December 2018 (excluding trading securities)

Held-on maturity, available-for-sale and portfolio activity securities

	31 Dec 2018
	€m
A – Held-to-maturity securities	**470**
Debt securities	**470**
Treasury bills and other eligible bills	–
Other public sector securities	–
Money market instruments	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Bonds and similar assets	470
Accrued interest	–
B – Available-for-sale and portfolio activity securities	**4,994**
Debt securities	**4,833**
Treasury bills and other eligible bills	–
Other public sector securities	3,062
Money market instruments	–
Commercial paper	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Asset-backed securities	–
Bonds and similar	1,751
Negotiable medium-term notes issued by banks	–
Accrued interest	20
Equity shares	**161**
Equity shares and similar	161
Mutual fund units	–
Total held-to-maturity, available-for-sale and portfolio activity securities	**5,464**

Interests in related parties, other participating interests and long-term securities

	31 Dec 2018
	€m
A – Other participating interest and long-term securities	**81**
Securities listed on a recognised French exchange	–
Unlisted French securities	81
Foreign securities listed on a recognised French exchange	–
Foreign securities listed elsewhere	–
Unlisted foreign securities	–
Accrued income	–
B – Interests in related parties	**1,471**
Listed French securities	–
Unlisted French securities	1,455
Listed foreign securities	–
Unlisted foreign securities	16
Accrued income	–
Total interests in related parties, other participating interests and long-term securities	**1,552**

34.4 Interests in subsidiaries and related parties at 31 December 2018

(in thousands of euros unless otherwise stated)	Legal status	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %	Book value of securities held: Cost	Book value of securities held: Net	Loans and advances granted by HSBC France[1]	Guarantees given by HSBC France[1]	Last year's sales	Last year's net profit or loss	Dividends received by HSBC France in the last financial
A – Information on companies whose book value at cost exceeds 1% of HSBC France's share capital												
1 – Subsidiaries (over 50%)												
HSBC SFH (France) (ex – HSBC Covered Bonds), 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Financial company	113,250	526	100.00	113,239	113,239	—	—	64,001	925	831
HSBC Factoring (France) 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Factoring	9,240	88,485	100.00	39,236	392,236	2,163,509	—	37,645	10,113	—
Société Française et Suisse, 64, rue Galilée – 75008 Paris (France)	Limited company (SA)	Investment company	599	8,855	100.00	60,384	9,397	—	—	—	37	—
SAPC UFIPRO Recouvrement 39, rue de Bassano – 75008 Paris (France)	Limited liability company (SARL)	Dept collecting company	7,619	1,595	99.98	16,260	9,211	—	—	—	(5)	—
HSBC Epargne Entreprise (France), 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Limited company (SA)	16,000	6,272	100.00	15,148	15,148	—	—	6,462	(3,270)	—
HSBC Global Asset Management (France) 4, place de la Pyramide – La Défense 9, 92800 Puteaux	Limited company (SA)	Asset management	8,050	22,690	93.67	134,546	134,546	—	—	204,263	30,296	31,107
HSBC Services (France) (ex - HSBC Securities) 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Commercial company	2,442	2,475	100.00	36,877	3,075	—	—	—	(1,847)	—
Valeurs Mobilières Elysées (ex - Nobel) 109, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Limited company (SA)	41,920	8,210	100.00	67,757	67,757	—	—	—	16,810	32,147
HSBC Leasing (France) 39, rue de Bassano – 75008 Paris (France)	Simplified join-stock company	Leasing	168,528	54,048	100.00	281,756	281,756	258,716	—	18,436	19,660	61,635
Société Financière et Mobilière, 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Holding company	40,000	33,342	100.00	84,053	77,926	36,516	—	67	11,602	—
Foncière Elysées S.A. 103, avenue des Champs-Elysées – 75008 Paris (France)	Simplified join-stock company (SAS)	Real estate	14,043	14,655	100.00	44,478	44,039	—	—	3,609	311	907
Charterhouse Management Services Ltd, 8 Canada Square – London E14 5HQ (United Kingdom)	Limited company under English law	Investment company	11,149	—	100.00	11,179	11,179	—	—	57	35	—
HSBC Real Estate Leasing (France) 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Crédit-bail immobilier	38,255	49,609	80.98	37,190	37,190	—	—	129,789	8,574	4,769
CCF & Partners Asset Management Ltd 8 Canada Square – London E14 5HQ (United Kingdom)	Limited company under English law	Investment holding	5,574	—	100.00	4,735	4,735	—	—	—	(9)	—
HSBC Assurances Vie (France), 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Insurance company	115,000	467,227	100.00	513,999	513,999	—	—	2,026,042	46,933	25,000
B – Aggregate data concerning companies whose book value at cost does not exceed 1% of HSBC France's share capital												
1 – Subsidiaries not included in paragraph 1												
a) French subsidiaries (aggregated)	—					30	30					
b) Foreign subsidiaries (aggregated)	—					1,818	1,300					
2 – Related party companies not included in paragraph 2												
a) French companies (aggregated)	—					4	4					
b) Foreign companies (aggregated)	—					—	—					

34.5 Transactions with subsidiaries and other related parties

	31 Dec 2018	
	Subsidiaries	Other related parties
	€m	€m
Assets		
Treasury bills and money-market instruments	–	5,353
Loans and advances to banks	3,462	22,489
Loans and advances to customers	148	1,060
Bonds and other fixed income securities	482	4,451
Liabilities		
Due to credit institutions	5,039	30,193
Customer accounts	632	–
Debt securities	–	–
Other liabilities	–	8,937
Subordinated liabilities	–	1,360
Off-balance sheet items		
Financing commitments given	1,290	–
Guarantees and endorsements given	17	146
Securities commitments (other commitments given)	–	–

35 Auditors' remuneration

	PricewaterhouseCoopers Audit		BDO France – *Léger & Associés* Audit		Others	
	Amount		Amount		Amount	
2018 Financial year	€k	%	€k	%	€k	%
Account certifications	2,758	95	368	93	–	–
Other services	154	5	29	7	–	–
Remuneration paid in 2018	2,912	100	397	100	–	–

Services other than the account certification at 31 December 2018 for PricewaterhouseCoopers Audit and BDO France – *Léger & Associés* mainly concern comfort letters related to the programs of issuances, legal or regulatory services and also services from PricewaterhouseCoopers Audit related to specific reports (ISAE 3000).

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

BDO France – Léger Et Associés
43-47, avenue de la Grande Armée
75116 Paris

Statutory Auditors' report on the financial statements

(For the year ended 31 December 2017)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

HSBC France

103, avenue des Champs-Elysées

75419 Paris Cedex 08

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of HSBC France for the year ended 31 December 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at 31 December 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from 1 January 2018 to the date of our report, and, in particular we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

Complex derivative financial instruments measured at fair value based on unobservable data

Description of risk	How our audit addressed this risk
HSBC France's Global Banking and Markets (GB&M) business operates in key capital markets, providing transactional and financing solutions to major corporate and institutional customers. It provides services for the origination, sale and structure of market products including derivative financial instruments, for corporates, financial institutions and major issuers. Derivative financial instruments are financial assets or liabilities measured at fair value on the balance sheet. The offsetting entry for the remeasurement of financial instruments at fair value at the reporting date is recognised in profit or loss (except for hedging instruments). The measurement of more complex instruments may require several unobservable inputs such as volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors such as foreign exchange rates, interest rates and equity prices. It also takes account of adjustments for counterparty and liquidity risk. In view of the multiple inputs subject to management's judgement, we deemed the measurement of derivative financial instruments based on unobservable data to be a key audit matter for HSBC France's financial statements.	We tested the effectiveness of the controls we deemed key to our audit, put in place by management to record, value and recognise complex derivative financial instruments, and specifically those regarding: • the independent validation of valuation models by the Independent Model Review - Markets department; • the independent verification of prices and valuations by the Product Control department; • the determination of fair value adjustments. We also sought the support of our experts in modelling risk to carry out, on a sample basis, an independent valuation of instruments measured based on unobservable data using their own models and market inputs in order to assess the valuations generated by the HSBC internal models. We examined the assumptions, methods and models used by the Bank to estimate principle valuation adjustments (counterparty and liquidity risk) in order to assess their appropriateness.

At 31 December 2018, derivative instruments measured based on unobservable data represented EUR 613 million recognised under assets and EUR 307 million recognised under liabilities.
See Notes 10, 16 and 22 to the financial statements.

Information systems access management

Description of risk	How our audit addressed this risk
Due to the nature of their activities, HSBC France executes a large volume of transactions each day. Transactions are authorised, executed and recorded using complex information systems. The integrity of these systems is a key factor in the reliability of the financial statements. Since 2015, weaknesses associated with user access rights to operating systems, databases and certain applications contributing directly or indirectly to the preparation of the financial statements have been identified. This creates the risk that by omission or error, changes to financial information systems and processed data may not be appropriate. In 2017, management strengthened the control environment for user access rights. However, certain controls had not yet been installed on all information systems. In 2018, the weaknesses in relation to privileged user access remained. We deemed these weaknesses to constitute a key audit matter for the HSBC France financial statements.	User access rights were tested on the applications, operating systems and databases used for the financial statements and those relevant to our audit. More specifically, our work allowed us to assess whether: • new user access requests to information systems are duly examined and authorised; • user access rights are revoked in a timely manner following the reassignment of personnel or their departure from the Group; • user access rights to applications, operating systems and databases are controlled in a consistent manner; and • highly-privileged user access has only been granted to a very limited group of persons who require such access for the performance of their duties. Other areas were assessed independently, including password policies, security configurations and controls in place on modifications to applications and databases. We also tested controls intended to ensure that business users and developers do not have access to applications, operating systems or databases in the production environment. In view of the identified control weaknesses, additional procedures were carried out: • we analysed the nature of the access where inappropriate access had been identified and, where possible, obtained additional evidence of its legitimacy; • we performed additional tests on specific end-of-year reconciliations (custodians, bank accounts and reconciliation of suspense accounts), as well as requesting confirmations from external counterparties; and • we performed tests on other controls carried out by management, such as performance reviews by business line.

See page 76 of the management report.

Individual impairment of consumer loans in Commercial Banking

Description of risk	How our audit addressed this risk
As part of its wholesale lending businesses, at year end HSBC France estimates the risk of impairment of its portfolio and recognises any appropriate allowances. Since 2016, the cost of risk has been particularly low against a backdrop of favourable interest rates for corporates. Assessing the existence of a risk of non-recovery and the amount of the allowance set aside requires the Bank's management to exercise judgement. This primarily takes into account potential risk indicators such as payments that are contractually past-due or other factors such as indications of a deterioration in the financial condition and outlook of borrowers affecting their ability to pay, business sectors experiencing economic stress, the recoverable amount of guarantees, likely available dividends in the event of liquidation or bankruptcy, and the viability of the customer's business model. Given the material nature of these outstandings for the Bank, the significance of management's judgement in estimating the allowances and the higher historical cost of risk in an admittedly less favourable context, we deemed this to be a key audit matter.	Management has put in place controls designed to ensure the reliability of the calculation of individual impairment. In this context, we tested the existing controls in order to assess the relevance of the impairment losses recorded. Our tests concerned the controls in place for monitoring loans, regularly reviewing credit files and approving individual impairment. We performed a critical assessment of the tests management to verify that the estimated allowances determined using internally-developed models were proportionate to the effective losses observed in prior periods. We also tested the appropriateness of the methods and policies used to determine allowances, using a sample of loans selected based on risk. Based on this sample, we independently assessed the level of allowances recognised.

Net outstanding non-financial customer loans stood at EUR 25.1 billion at 31 December 2018.
See Notes 1, 3 and 8 to the financial statements.

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

Information given in the management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements, with the exception of the following item.

Concerning the fair presentation and the consistency with the financial statements of the information given with respect to the payment terms referred to in article D.441-4 of the French Commercial Code, we have the following matter to report:

As indicated in the management report, this information does not include banking transactions and certain related transactions, as your Company has decided that such transactions do not fall within the scope of the required information.

Report on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by articles L.225-37-3 and L. 225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of article L.225-37-3 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of HSBC France by the Annual General Meetings held on 23 April 2015 for PricewaterhouseCoopers Audit and on 10 May 2007 for BDO France - *Léger & Associés*.

At 31 December 2018, PricewaterhouseCoopers Audit and BDO France - *Léger & Associés* were in the fourth and eleventh consecutive year of their engagement, respectively.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements presenting a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it expects to liquidate the company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the financial statements

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit. They also:

- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes, in particular, a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgement, were the most significant in the audit of the financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Paris, France, 20 February 2019

The Statutory Auditors

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

HSBC France's principal subsidiaries and investment policy

HSBC France group's principal subsidiaries at 31 December 2018

Commercial Banking

Distribution	HSBC Factoring (France) (100%)

Global Banking and Markets

Real estate	Foncière Elysées (100%) HSBC Real Estate Leasing (France) (100%)
Structured financing and Global Banking	HSBC SFH (France) (100%) SFM (100%) HSBC Leasing (France) (100%)

Asset Management

France	HSBC Global Asset Management (France) (100%) HSBC Epargne Entreprise (France) (100%) HSBC REIM (France) (100%)
Abroad	HSBC Global Asset Management (Switzerland) (50%)

Insurance

France	HSBC Assurances Vie (France) (100%)

Subsidiaries and equity investments

France	Valeurs Mobilières Elysées (100%) Société Française Suisse (100%)
Abroad	Charterhouse Management Services Ltd (100%)

European Subsidiaries

Poland	HSBC Bank Polska S.A (100%)
Ireland	HSBC Institutional Trust Services (Ireland) DAC (100%)

Stated percentages indicate the group's percentage of control.
The subsidiaries are classified in the area where they principally operate.

Summary business activities of HSBC France group's principal subsidiaries at 31 December 2018

Commercial Banking

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
HSBC Factoring (France)	**2,968,913**	2,372,048	**107,837**	97,724	**10,113**	7,517	**100.0**	100.0
	HSBC Factoring (France)'s activity increased in 2018, with gross turnover of EUR 16.9 billion at the end of December 2018, increasing by 12 per cent compared to 2017. Net profit increase by 35 per cent, driven by an 21 per cent increase of the net operating income mainly explain by the acquisition of new customers as well as a better management of attrition. The result also benefited from the positive impact of the cost of risk, with a reversal of provisions mainly explained by an improvement in expected credit losses on performing loans. At December 31, 2018, the structure's operating ratio is 50 per cent.							

Global Banking and Markets

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
HSBC SFH (France)	**4,561,115**	3,723,074	**114,700**	114,606	**925**	1,042	**100.0**	100.0
	HSBC SFH (France) is a company dedicated to refinancing HSBC France by issuing covered bonds secured by home loans (cover pool). HSBC SFH (France) launched its first issue on 20 January 2010. On 17 April 2018, a new issue for an amount of EUR 1 billion has been performed with a coupon to investors of 0.5 per cent with a maturity at 17 April 2025. On 7 September 2018, the issue for an amount of CFH 200 million, issued on 7 April 2010, matured and has been repaid. At 31 December 2018, issues totaled EUR 4.4 billion secured by a cover pool of EUR 5.9 billion.							
HSBC Leasing (France)	**1,266,624**	1,498,187	**242,236**	284,211	**19,660**	88,279	**100.0**	100.0
	HSBC Leasing (France) specialises in lease finance for major corporates. The company holds subsidiaries intended for leasing activities with a call option. It operates more particularly in the aeronautics sector by financing assets on behalf of airlines. The equity interests in 2018 totaling EUR 1.2 billion, a decrease of 16 per cent compared to 2017.							
HSBC Real Estate Leasing (France)	**1,304,627**	1,408,200	**96,437**	92,633	**8,574**	9,539	**100.0**	100.0
	The net income of this subsidiary specialized in real estate leasing financing decreased by 10% compared to 2017. In a context of significant decline in market activity over the past three years, loan production for the year amounted to EUR 57 million compared with EUR 148 million in 2017. The cost efficiency ratio of the subsidiary is maintained at 14%. The portfolio consists of 380 buildings of which 4 are under construction.							

Asset Management

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
HSBC Global Asset Management (France)	**139,754**	145,690	**61,037**	63,949	**30,296**	37,595	**100.0**	100.0
	Profit before tax fell, reflecting the impact of the fall in the equity markets in the second half of the year, and the Mifid square 2. Assets managed and distributed amounted to EUR 74 billion compared with EUR 77 billion at end 2017. HSBC Global Asset Management (France) continued to leverage on its expertise within HSBC Group to develop its "cross border" customer base and to win in 2018 some awards such as : • best international development (Boursorama) ; • label Régularité in category Diversifié - Défensifs (Mieux Vivre Votre Argent) • Label Performance' in category stocks Asia excluding Japan stocks (Mieux Vivre Votre Argent) - 'Meilleure Gestion Action' over 5 years (mieux Vivre Votre Argent) - 'Corbeille Long-Terme' : ranking 1st : performance overs 5 years (all products)							
HSBC Epargne Entreprise (France)	**70,438**	80,516	**24,522**	26,107	**(3,270)**	(1,585)	**100.0**	100.0
	HSBC Epargne Entreprise (France) is an investment company, wholly-owned by HSBC France, specialising in employee savings & pensions accounts administration for the HSBC Group in France. It has a clientele of 2,800 companies and manages 212,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totaling EUR 3.4 billion as of 31 December 2018, making the Group the seventh-largest employee savings manager in France. Its products are distributed via the HSBC Group distribution network in France, covering the needs of companies of all sizes.							
HSBC REIM (France)	**14,118**	12,281	**7,605**	8,097	**4,007**	4,011	**100.0**	100.0
	HSBC REIM (France) is the subsidiary of the Asset Management business specializing in real estate management on behalf of third parties. As of 31 December 2018, the market value of assets under management was EUR 2.9 billion. The main fund managed, Elysées Pierre is a Classic Real Estate Investment Placement Company which celebrated its 30th anniversary in 2016. Its capitalization of more than EUR 2 billion ranks it among the top 3 REITs on the market and the 123 component buildings its assets are mainly offices in Ile-de-France, one of the deepest and most liquid markets in Europe And in the world. This fund has a return and valuation strategy that results in an internal rate of return (IRR) over 5 years as at 31 December 2018 at 8%. The specialized press regularly praised the management qualities and the long-term performance of the SCPI.							

Insurance

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
HSBC Assurances Vie (France)	**22,090,382**	21,806,436	**761,855**	736,639	**46,932**	65,686	**100,0**	100,0
	HSBC Assurances Vie (France) manufactures a wide range of products and services to meet HSBC Group customer's needs (individuals, professionals and companies) in terms of life insurance, pension and protection. In 2018, despite the context of strong volatility of the equity market over the last quarter, insurance manufacturing gross written premium on saving stands at EUR 1,934 million (+8 per cent compared to 2017), including EUR 464 million on unit-linked contracts, which account for 24% of new money compared to 26% last year. The net new money remained positive for HSBC France Retails Network and amounted to +EUR 569 million in 2018, of which +EUR 253 million (44%) related to unit-linked contracts. The assets managed by the insurance company now stand at EUR 19.7 billion compared to EUR 19.6 billion last year (+0.5 per cent). Within these, unit-linked contracts represent 19.1 per cent, decreased by 5% compared to 2017 (20.2 per cent), mainly due to the impact of unfavorable market conditions on the fair value of contracts. The arbitrage movement towards unit-linked contracts amounts to +EUR 61 million on the HSBC France Retails Network.							

Own investments

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Société Française et Suisse (SFS)	**9,515**	9,461	**9,490**	9,454	**37**	937	**100.0**	100.0
	Société Française et Suisse realised a significantly lower profit during 2018 compared to 2017 which was an exceptional year of received dividends. The total balance sheet is mainly composed of liquid assets.							
Valeurs Mobilières Elysées	**68,448**	90,099	**66,940**	82,277	**16,810**	32,148	**100.0**	100.0
	Valeurs Mobilières Elysées is a subsidiary in which are booked investments in principal of the HSBC Group in France. These investments include listed midcaps and Private Equity funds. The HSBC Group having decided in 2009 not to make any more investments in listed midcap shares, *Valeurs Mobilières Elysées* manages a portfolio of listed shares gradually declining. No new Private Equity investments will be booked in *Valeurs Mobilières Elysées* and in consequence this portfolio will be also gradually declining. The total assets of the Private Equity and listed securities totalised EUR 55 million in January 2017 and account for only EUR 9.1 million at the end of December 2018.							

Investment policy

2014

- Subscription by HSBC Leasing (France), a wholly-owned subsidiary of HSBC France, to capital increase made by Beau Soleil Limited Partnership.

  Cost: EUR 22.1 million.
- Capital decrease of Valeurs Mobilières Elysées.

  Proceeds: EUR 51.7 million.
- Capital decrease of Société de Financement de l'Economie Française.

  Proceeds: EUR 4.7 million.
- Capital decreases of HSBC Trinkhaus Gesellschaft für Kapitalmarketinvestments oHG, owned up to 90 per cent by Société Financière et Mobilière, a wholly-owned subsidiary of HSBC France.

  Proceeds: EUR 299.7 million.

2015

- Subscription by HSBC Leasing (France), a wholly-owned subsidiary of HSBC France, to capital increase made by HSBC Middle East Leasing Partnership.

  Cost: USD 150.5 million.
- Capital decrease of Valeurs Mobilières Elysées.

  Proceeds: EUR 50.0 million.
- Capital decrease of HSBC Services (France).

  Proceeds: EUR 20.9 million.

2016

- Capital decrease of CCF Charterhouse GmbH & Co. Asset Leasing KG, owned up to 99% by HSBC Leasing (France).

  Proceeds: EUR 36.8 million.
- Sale of Visa Europe share to Visa Inc.

  Capital gain: EUR 108 million.

2017

- Investment increase by HSBC Leasing (France), a wholly-owned subsidiary of HSBC France, in the joint operation HSBC Middle East Leasing Partnership.

  Cost: USD 100.3 million.

2018

- Acquisition by HSBC France of certain assets and liabilities held by HSBC Bank plc Athens Branch.

  Amount of the investment: EUR 1.
- HSBC France acquires 100% of the capital of HSBC Institutional Trust Services (Ireland) DAC from HSBC Securities Services Holdings (Ireland) DAC, itself a subsidiary of HSBC Bank plc.

  Amount of investment: 21.5 million USD.
- HSBC France acquires 100% of the share capital of HSBC Bank Polska S.A. from HSBC Bank plc Paris Branch.

  Amount of the investment: EUR 88.4 million.

Proposed resolutions to the Ordinary General Meeting to be held on 15 March 2019

First resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the Statutory Auditors' report on the financial statements for the year ended 31 December 2018, and the report on corporate governance and the Statutory Auditors' report relating thereto, the shareholders hereby approve the company's financial statements for that year as presented, together with the business operations reflected therein and summarised in the reports.

Second resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders, having noted that the year ended 31 December 2018 shows a net profit of EUR 77,939,343.08, hereby approve the proposed distribution of this net profit made by the Board of Directors and resolve to appropriate it as follows:

Net profit for the year	EUR 77,939,343.08
Plus retained profits	EUR 3,208,193,820.66
Total sum available for distribution	EUR 3,286,133,163.74

To be distributed as follows:

Retained earnings	EUR 3,286,133,163.74

The shareholders duly note that dividends paid in respect of the three previous financial years were as follows:

Year	Net dividend per share
2015	EUR 4.15
2016	EUR 4.00
2017	EUR 1.66

Dividends paid in respect of the three previous years are eligible for the tax deduction referred to in article 158 paragraph 3.2 of the General Tax Code.

Third resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors and the report of the Statutory Auditors regarding the consolidated statements for the year ended 31 December 2018, the shareholders hereby approve the consolidated financial statements for that year as presented.

Fourth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the Statutory Auditors' report on regulated agreements governed by article L. 225-38 of the French Commercial Code, the shareholders hereby approve successively the agreements described therein under the conditions referred to in article L. 225-40 of said Code.

Fifth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby ratify the co-optation of Mrs Fanny Letier decided by the Board on 8 February 2019 to replace Mrs Anne Méaux, who resigned, for the remainder of the term of office of her predecessor, that is until the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2020.

Sixth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mr Samir Assaf, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Seventh resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mrs Paule Cellard, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Eighth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mr James Emmett, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Ninth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mr Lindsay Gordon, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Tenth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mr Philippe Houzé, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Eleventh resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mr Thierry Moulonguet, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Twelfth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mrs Dominique Perrier, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Thirteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mr Arnaud Poupart-Lafarge, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Fourteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mrs Brigitte Taittinger, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Fifteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mr Jacques Veyrat, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Sixteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mr Andrew Wild, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Seventeenth resolution

Voting under the quorum and majority conditions to transact ordinary business, in accordance with article L. 511-73 of the French Monetary and Financial Code, the shareholders hereby issue a favourable opinion on the aggregate amount of compensation of all kinds paid in 2018 to executive members and employees having a significant impact on risks, which amounts to EUR 64,461,975.

Eighteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, pursuant to the Article L. 225-37-2 of the French Commercial Code, the shareholders hereby approve the principles and criteria for determining, allocating and attributing the fixed, variable and exceptional components of total compensation and benefits of any nature, due to their mandate, attributable to the Chief Executive Officer and Deputy Chief Executive Officers, as detailed in the corporate governance report.

Nineteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, pursuant to the Article L. 225-100 of the French Commercial Code, the shareholders hereby approve the fixed, variable and exceptional components of the total compensation and benefits of any nature paid or awarded to the Chief Executive Officer, in respect of the year ended 31 December 2018, as described in the corporate governance report.

Twentieth resolution

Voting under the quorum and majority conditions to transact ordinary business, pursuant to the Article L. 225-100 of the French Commercial Code, the shareholders hereby approve the fixed, variable and exceptional components of the total compensation and benefits of any nature paid or awarded to the Deputy Chief Executive Officer, in respect of the year ended 31 December 2018, as described in the corporate governance report.

Twenty-first resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby confer full powers on the bearer of an original, copy or abstract of the minutes of this meeting for the purpose of completing any formalities required by law.

Information on HSBC France and its share capital

Information on the company

Name

HSBC France. New name of CCF since 1 November 2005.

Commercial name

HSBC and, for the Private Banking business, HSBC Private Banking.

Date of incorporation

1894.

Registered office

103 avenue des Champs-Elysées – 75008 Paris – France.

Legal Form

Société Anonyme incorporated under the laws of France, governed notably by the French Commercial Code. The company is a credit institution and authorised bank, and as such is also governed by the French Monetary and Financial Code.

Term

The company's term ends on 30 June 2043, unless previously wound up or extended.

Corporate purpose (article 3 of the Articles of Association of HSBC France)

The company's corporate purpose is the transaction in all countries of any and all banking, finance, lending, guarantee, trading, brokerage or fee-earning business together with the provision of any and all investment services and related services within the meaning of articles L. 321-1 and L. 321-2 of the French Monetary and Financial Code, and more generally, to conduct within the limits permitted by law any and all commercial, industrial or agricultural, securities or real estate, financial or other operations as well as to provide any and all services directly or indirectly connected with or which may facilitate the achievement of the foregoing object.

Trade and companies Register, APE code and LEI

775 670 284 RCS Paris - APE 6419Z.

LEI: F0HUI1NY1AZMJMD8LP67.

Legal and regulatory framework

Subject to the laws and regulations relating to credit institutions, including articles in the French Monetary and Financial Code applicable to them, the company is governed by commercial law, including articles L. 210-1 and following of the French Commercial Code and its Articles of Association.

HSBC France is a credit institution licensed as a bank. As such, the company may conduct all banking operations. It is, moreover, authorised to perform any services or related investment mentioned in articles L. 321-1 and L. 321-2 of the French Monetary and Financial Code, with the exception of operating a multilateral trading facility. In its capacity as provider of investment services, it is subject to the regulations applicable to them under the supervision of the *Autorité des marchés financiers*.

It is particularly subject to compliance with a number of prudential rules and controls by the *Autorité de contrôle prudentiel et de résolution* and the European Central Bank. Its Senior Management and all the people it employs are bound by professional secrecy, violation of which is punishable by law. It is also an insurance broker.

Documents and information on display

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

HSBC France – 103 avenue des Champs-Elysées, 75419 Paris Cedex 08, France.

The Articles of Association of the Company can be found in the "About HSBC" section of the HSBC France website www.hsbc.fr.

Financial year

From 1 January to 31 December.

Distribution of profits

A minimum of 5 per cent of the net profit for the year, less any prior year losses, is transferred to the legal reserve until such time as it has reached one tenth of the company's share capital and at any time after that should it fall back below the minimum requirement.

The balance, plus any retained earnings, less any sums which the shareholders deem expedient to transfer to new or existing reserves or to retained earnings, comprises the profit available for distribution among the shareholders.

However, except in the event of a reduction of the company's share capital, no distribution may be made if total shareholders' funds are, or would as a result, become lower than the amount of the company's share capital plus any non-distributable reserves.

By way of derogation to the provisions of this article, sums may be transferred to a special employee profit-sharing reserve, as provided for by law.

Form of shares

Shares have to be registered. They result in registration on an individual account pursuant to the conditions and according to the methods stipulated by the legal and regulatory provisions in force.

Voting rights

Each fully paid up share entitles the holder to one vote.

Transfer of shares

The transfer of shares takes place by way of a transfer from one account to another.

There are no restrictions on disposals of shares or negotiable securities giving access to the share capital in cases of inheritance or liquidation of matrimonial property, or on disposals to a spouse, descendant or ascendant.

Any other disposals or transfers of shares or negotiable securities giving access to the capital, including between shareholders, whether free of charge or for valuable consideration, whether the said disposals or transfers take place by way of donation, exchange, disposal, capital contribution, merger, demerger, partial asset transfer, distribution following the liquidation of a shareholding company, universal asset transfer from a company, realisation of a security, or by way of compulsory or voluntary public tender, and whether they relate only to legal or beneficial ownership, shall be subject to the approval of the Board of Directors according to the conditions described below.

The transferor's request for approval, which must be served on the company, shall state the name, forenames, profession and address of the transferee, or the company name and registered office in the case of a company, the number of shares or negotiable securities giving access to the capital of which the disposal or transfer is envisaged, the price offered or an estimate of the value of the shares or negotiable securities giving access to the capital. This request for approval must be countersigned by the transferee.

Approval will be given in the form of a notice, or will be deemed to have been given, in the absence of a reply within three months of the date of the request for approval.

The approval decision will be made by the Board of Directors, by a majority of the Directors present or represented. The transferor shall be entitled to vote, if he is a Director. The decision will not be justified, and in the event of a refusal, shall never give rise to any claim.

If the proposed transferee is approved, the transfer will be completed in favour of the transferee upon presentation of the supporting documents, which must be supplied within one month of service of the decision of the Board of Directors, failing which a fresh approval will be required.

If the company does not approve the proposed transferee, the transferor will have a period of eight days from the date of service of the refusal to notify the Board whether or not he abandons his proposal.

If the transferor does not expressly abandon his proposal under the conditions set out above, the Board of Directors shall be obliged within a period of three months from the date of service of the refusal, to arrange for the purchase of the shares or negotiable securities giving access to the capital, by a shareholder, a third party, or, with the transferor's consent, by the company, with a view to a reduction of the capital.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by shareholders or third parties, the Board of Directors shall inform the transferor of the names, forenames, profession and address of the purchasers, or of the company name and registered office in the case of a company. The sale price shall be fixed by agreement between the purchasers and the transferor.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by the company, the Board of Directors must first ask for the transferor's consent. The transferor must give his answer within eight days of receiving this request.

In the absence of agreement between the parties, the price of the shares and negotiable securities giving access to the capital shall be determined by an expert valuation, under the conditions provided by article 1843-4 of the French Civil Code.

If, upon the expiry of a period of three months, the purchase has not been completed, approval shall be deemed to have been given. However, this period may be extended by the courts on an application by the company.

The transferor may, at any time, and at the latest within a period of eight days of determination of the price by the expert, abandon the disposal of his shares or negotiable securities giving access to the capital.

Disposals to the purchaser or purchasers nominated by the Board of Directors shall be completed by means of a transfer order signed by the Chairman of the Board of Directors, who shall serve it to the transferor within eight days of its date, with an invitation to attend the registered office to receive the sale price, which shall not bear interest.

All notices, requests, answers, opinions, waivers, information and consents provided for by this article shall be validly given if sent by extrajudicial instrument or by registered letter with proof of receipt requested.

When an expert is used to determine the price of the shares or negotiable securities giving access to the share capital under the conditions provided by article 1843-4 of the French Civil Code, the expert's fees shall be paid in equal shares by the assignor and assignee.

This approval clause, which is the purpose of this article, also applies to disposals of allocation rights in the event of capital increases by way of incorporation of reserves, profits or issue premiums, and disposals of subscription rights in respect of capital increases in cash or individual waivers of subscription rights in favour of named individuals.

In these cases, the rules governing approval and the buyback conditions shall apply to the securities subscribed, and the time given to the Board of Directors to notify the third party subscriber whether it accepts him as a shareholder shall be three months from the date of final completion of the capital increase.

In the event of a buyback, the price shall be equal to the value of the new shares or negotiable securities giving access to the capital determined under the conditions provided by article 1843-4 of the French Civil Code.

Custodian and financial service

CACEIS Corporate Trust.

History of the company

1894: The Banque Suisse et Française ('BSF') is founded. It will become the Crédit Commercial de France ('CCF').

1987: CCF privatisation. Apart from its national network, CCF has progressively created a group of regional banks operating under their own brand.

1994: Centenary of CCF.

2000: CCF joins the HSBC Group and becomes the European platform of the HSBC Group.

2002: Crédit Commercial de France changes its legal name to CCF.

2005: CCF becomes HSBC France and certain of its subsidiaries change their legal name and adopt the HSBC brand. HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie constitute the new HSBC network.

2008: Disposal by HSBC France of its regional banking subsidiaries (Société Marseillaise de Crédit, Banque de Savoie, Banque Chaix, Banque Marze, Banque Dupuy, de Parseval, Banque Pelletier and Crédit Commercial du Sud-Ouest).

2008: Merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France.

2011: Merger of HSBC Private Bank France with HSBC France.

2013: HSBC France acquires HSBC Assurances Vie (France).

2017-2018: Creation of branches in Greece, the United Kingdom, Belgium, Luxembourg, Ireland, Italy, Poland, the Czech Republic, the Netherlands and Spain.

January 2018: Acquisition of certain assets and liabilities from the HSBC Bank plc branch in Greece and launch of the activities of the HSBC France branch in Greece.

August 2018: Acquisition of HSBC Bank Polska S.A. and HSBC Institutional Trust Services (Ireland) DAC.

February 2019: Acquisition of certain assets and liabilities from the HSBC Bank plc branches in Belgium, Ireland, Italy, the Czech Republic, the Netherlands and Spain and launch of the activities of the HSBC France branches in those countries.

Material contracts

HSBC France currently has no material contracts, other than those concluded as part of the normal course of its business, that gives any member of the Group a right or obligation having a material impact on the issuer's ability to fulfil its obligations to holders of issued securities.

Information on the share capital

At 31 December 2018, the share capital amounted to EUR 366,584,940 divided into 73,316,988 fully paid up shares, each with a nominal value of EUR 5.

Movements in share capital

	Number of shares	Share capital in euros	Share premium in euros
At 1 Jan 2018	**67,437,827**	**337,189,135**	–
Increase (Reduction) during the year	**5,879,161**	**29,395,805**	**458,901,794.06**
At 31 Dec 2018	**73,316,988**	**366,584,940**	**458,901,794.06**
At 1 Jan 2017	67,437,827	337,189,135	—
Increase (Reduction) during the year	—	—	—
At 31 Dec 2017	67,437,827	337,189,135	—
At 1 Jan 2016	67,437,827	337,189,135	—
Increase (Reduction) during the year	—	—	—
At 31 Dec 2016	67,437,827	337,189,135	—
At 1 Jan 2015	67,437,827	337,189,135	—
Increase (Reduction) during the year	—	—	—
At 31 Dec 2015	67,437,827	337,189,135	—
At 1 Jan 2014	67,437,827	337,189,135	—
Increase (Reduction) during the year	—	—	—
At 31 Dec 2014	67,437,827	337,189,135	—

Ownership of share capital and voting rights at 31 December 2018

HSBC Bank plc has owned 99.99 per cent of the share capital and voting rights since 31 October 2000. This percentage has not varied since then. HSBC Bank plc is a wholly-owned subsidiary of HSBC Holdings plc, a company quoted in London, Hong Kong, New York, Paris and Bermuda.

Dividend and payout policy

	2018	2017	2016	2015	2014
Number of shares at 31 December	**73,316,988**	67,437,827	67,437,827	67,437,827	67,437,827
Average number of shares outstanding during the year	**69,531,366**	67,437,827	67,437,827	67,437,827	67,437,827
EPS [1]	**EUR (0.24)**	EUR 2.63	EUR 4.61	EUR 6.61	EUR 2.94
Net dividend	**—**	EUR 1.66	EUR 4	EUR 4.15	EUR 2.23
Exceptional dividend	**—**	EUR 4.45	—	—	—
Dividend + tax credit	**—**	—	—	—	—
Payout [2]	**—**	232.3%	86.8%	62.8%	75.9%

1 *Calculated on the weighted average number of shares outstanding after deducting own shares held.*
2 *Dividend paid as a percentage of reported earnings.*

At the Annual General Meeting to be held on 15 March 2019, the Board will propose not to distribute a dividend in respect of year 2018. Dividends which are not claimed within five years of the payment date lapse and become the property of the French Treasury.

Persons responsible of the Registration Document and for auditing the financial statements

Person responsible for the Registration Document

Mr Jean Beunardeau, Chief Executive Officer

Statement by the person responsible for the Registration Document

I declare, after taking all reasonable measures for this purpose and to the best of my knowledge, that the information contained in this Registration Document is in accordance with the facts and that it makes no omission likely to affect its meaning.

I declare, to the best of my knowledge, that the accounts have been prepared in accordance with applicable accounting standards and are a fair reflection of the assets, liabilities, financial position and profit or loss of the company and all the undertakings included in the consolidation scope, and that the Management Report of which the cross reference table can be found on page 271 presents a fair view of the company's business, results and financial position and that of all the undertakings included in the consolidation scope, as well as a description of the main risks and uncertainties to which they are exposed.

I have received a completion letter from the Auditors stating that they have audited the information contained in this Document about the financial position and accounts and that they have read this Registration Document in its entirety.

Paris, 20 February 2019

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

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

1 *Member of the Compagnie Régionale des Commissaires aux comptes of Versailles.*
2 *PwC represented by Nicolas Montillot as of financial year 2015.*
3 *Member of the Compagnie Régionale des Commissaires aux comptes of Paris.*
4 *BDO represented by Fabrice Chaffois as of financial year 2013.*

Statutory Auditors' fees paid in 2018 within the HSBC France group are available in Note 8 to the consolidated financial statements on page 177.

Cross-reference table

This cross-reference table refers to the main headings required by the European Regulation 809/2004 (Annex I) implementing the directive known as 'Prospectus'.

Sections of Annex I of the EU Regulation 809/2004		Pages in this Registration Document 2018
1	**Persons responsible**	page 268
2	**Statutory auditors**	page 269
3	**Selected financial information**	
3.1.	Historical informations	page 18
3.2.	Interim informations	N/A
4	**Risk factors**	pages 72 to 145
5	**Information about the issuer**	
5.1.	History and development of the issuer.	page 266
5.2.	Investments	pages 212 and 262
6	**Business overview**	
6.1.	Main activities	pages 3 to 18 and 228
6.2.	Main markets	pages 3 to 18 and 228
6.3.	Exceptional factors	N/A
6.4.	Potential dependence	N/A
6.5.	Founding elements of any statement by the issuer concerning its position	pages 3 and 18
7	**Organizational structure**	
7.1.	Brief description of the group	pages 2 to 19, 253 and 259 to 262
7.2.	Issuer's relationship with other group entities	pages 260 to 267
8	**Property, plants and equipment**	
8.1.	Existing or planned material tangible fixed assets	pages 200 to 201 and 239
8.2.	Environmental issues that may affect the issuer's utilisation of the tangible fixed assets.	N/A
9	**Operating and financial review**	
9.1.	Financial condition	pages 147, 149, 226 to 227
9.2.	Operating results	pages 11 to 18, 147 and 226
10	**Capital resources**	
10.1.	Issuer's capital resources	pages 151 and 243
10.2.	Sources and amounts of the issuer's cash flows	page 150
10.3.	Borrowing requirements and funding structure	pages 72, 109 to 111, 142
10.4.	Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect the issuer's operations	N/A
10.5.	Sources of funds needed	N/A
11	**Research and development, patents and licences**	N/A
12	**Trend information**	page 17
13	**Profit forecasts or estimates**	N/A
14	**Administrative, management, and supervisory bodies and senior management**	
14.1.	Administrative and management bodies	pages 21 to 29
14.2.	Administrative and management bodies conflicts of interests	page 30
15	**Remuneration and benefits**	
15.1.	Amount of remuneration paid and benefits in kind granted	pages 39 to 49, 172 to 177
15.2.	Total amounts set aside or accrued by the issuer or its subsidiaries to provide pension, retirement or similar benefits	pages 39 to 49, 172 to 177
16	**Board practices**	
16.1.	Date of expiration of the current term of office	pages 21 to 29
16.2.	Information about members of the administrative, management or supervisory bodies' service contracts	N/A
16.3.	Information about the issuer's audit committee and remuneration committee	pages 34 to 35, 38
16.4.	Country's of incorporation corporate governance regime	page 29
17	**Employees**	
17.1.	Number of employees	page 172
17.2.	Shareholdings and stock options	page 43
17.3.	Arrangements involving the employees in the capital of the issuer	N/A
18	**Major shareholders**	
18.1.	Shareholders holding more than 5% of the share capital or voting rights	pages 265 to 267
18.2.	Different voting rights	page 265
18.3.	Control of the issuer	pages 29 and 269
18.4.	Arrangements, known to the issuer, which may at a subsequent date result in a change in control of the issuer	N/A
19	**Related party transactions**	pages 50 to 52, 211 to 212, 217 to 219
20	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**	
20.1.	Historical financial information	pages 18 and 251
20.2.	Pro forma financial information	N/A
20.3.	Financial statements	pages 146 to 219 and 225 to 254
20.4.	Auditing of historical annual financial information	pages 220 to 224 and 255 to 258
20.5.	Age of latest financial information	page 18
20.6.	Interim and other financial information	N/A
20.7.	Dividend policy	page 180

20.8.	Legal and arbitration proceedings	pages 129 to 130
20.9.	Significant change in the issuer's financial or trading position	pages 216 and 250
21	**Additional information**	
21.1.	Share capital	pages 208, 242 and 266
21.2.	Memorandum and articles of association	pages 265 to 266
22	**Material contracts**	page 266
23	**Third party information and statement by experts and declarations of any interest**	N/A
24	**Documents on display**	page 265
25	**Information on holdings**	pages 217 to 219, 259 to 261, 272

According to article 28 of the European Regulation 809/2004, are included by reference in this Registration Document:

- the consolidated financial statements for the year ended 31 December 2017 and the Statutory Auditors' report on the financial consolidated statements, presented on pages 126 to 187 and 188 to 193 of the Registration Document filed with the AMF on 22 February 2018 under reference number D.18-0068;
- the parent company financial statements for the year ended 31 December 2017 and the Statutory Auditors' report on the parent company financial statements, presented on pages 194 to 227 and 228 to 231 of the Registration Document filed with the AMF on 22 February 2018 under reference number D.18-0068;
- the consolidated financial statements for the year ended 31 December 2016 and the Statutory Auditors' report on the financial consolidated statements, presented on pages 190 to 287 and 288 to 289 of the Registration Document filed with the AMF on 1 March 2017 under reference number D.17-0118;
- the parent company financial statements for the year ended 31 December 2016 and the Statutory Auditors' report on the parent company financial statements, presented on pages 290 to 332 and 333 to 334 of the Registration Document filed with the AMF on 1 March 2017 under reference number D.17-0118.

This Registration Document includes the annual financial report:	**2018**
Parent company financial statements	pages 225 to 254
Consolidated financial statements	pages 146 to 219
Management report Refer to the Management report cross ref table Statement by person responsible	page 270
Statutory Auditors' report	pages 220 to 224 and 255 to 258

Cross table on Management report:	
Analyses of the activity, results and financial situation	pages 3 to 19, 167 and 228
Risk factors	pages 72 to 141
Capital and Leverage Management	pages 142 to 145
Authorities to increase the share capital	page 267
Corporate, social and environmental responsibility	pages 53 to 71
Corporate governance report	pages 20 to 52
Remuneration policy compensation and other advantages to the executive Director	pages 39 to 49
Mandates and functions of the Executive Directors	pages 21 to 29
Activities of the subsidiaries and Investment policy	pages 217 to 219 and 259 to 262
Five year highlights	pages 18 and 251
Information on supplier payable amounts schedule	page 19
Information on inactive banking accounts	page 19
Other legal documents relating to the Annual General Meeting to be held on 15 March 2019	pages 263 to 264
Information on HSBC France and its share capital	pages 265 to 267

Network of offices

HSBC network in France

HSBC France

291 locations
103 avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40
www.hsbc.fr

HSBC France subsidiaries

Distribution

HSBC Factoring (France)
103 avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 72 00

Asset Management

HSBC Global Asset Management (France)
4 place de la Pyramide - La Défense 9
92800 Puteaux
Mail address: 75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40

HSBC Epargne Entreprise (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 27 17

HSBC Reim (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 39 44

Assurance

HSBC Assurances Vie (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 41 02 40 40

Other locations of the HSBC Group in France

HSBC Bank plc Paris Branch

15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40

Other locations of the HSBC France Group abroad

Belgium

HSBC France
branch
Square de Meeûs 23
1000 Brussels
Telephone: +32 2 761 2670

Czech Republic

HSBC France - pobočka Praha
Na Florenci 2116/15, Nové Město
110 00 Prague 1
Telephone: +42 (0)22 5024 555

Greece

HSBC France
branch
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Telephone: 30 2106961113

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HSBC Institutional TrustServices (Ireland) DAC
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1 Grand Canal Square, Grand Canal Harbour
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HSBC France

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20124 Milan

Telephone: +39 02 72437600

Luxembourg

HSBC France

branch

16, boulevard d'Avranches

L-1160 Luxembourg

Telephone: +352 27 12 33 1

Netherlands

HSBC France

branch

De Entree 236,

1101 EE Amsterdam ZO

Telephone: +31 (0) 20 567 1230

Poland

HSBC Bank Polska S.A.

subsidiary

Rondo ONZ 1

00-124 Varsovie

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HSBC France (Spotka Ackyjna) Oddziat w Polsce

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HSBC Global Asset Management (France)

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HSBC France Sucursal

branch

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Torre Picasso planta, 33

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HSBC Global Asset Management (Suisse) AG

co-company

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CH-8027 Zürich

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HSBC France

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8 Canada Square

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Telephone: 44 (0) 20 7991 8888

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The FSC® logo identifies products which contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council®.

FSC

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