# HSBC France

**Universal registration document and Annual Financial Report 2019**

HSBC

# Contents

## Presentation of information

This universal registration document was filed on 19 February 2020 with the *Autorité des Marchés Financiers* ('AMF'), as the competent authority under Regulation (EU) n°2017/1129, without prior approval in accordance with Article 9 of that Regulation.

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

AUTORITÉ
DES MARCHÉS FINANCIERS
AMF

## Declaration (Annex II - 1.2)

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## Reference to the Registration Document

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

## Cautionary statement regarding forward-looking statements

This Universal Registration Document 2019 contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group. Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements.

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

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

## Disclaimer about translation

The translation in English of the universal registration document and annual financial report 2019, filed with the *Autorité des marchés financiers* ('AMF') on 19 February 2020 under reference number D.20-0071, 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 2019 | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|---|---|
| **For the year (€m)** | | | | |
| Profit before tax (reported basis) | | **(22)** | 45 | 219 |
| Profit before tax (adjusted basis) | 1 | **240** | 89 | 333 |
| Net operating income before change in expected credit losses and other credit risk provisions (reported basis) | 2 | **2,227** | 1,736 | 1,907 |
| Profit/(loss) attributable to shareholders of the parent company (reported basis) | | **(39)** | (17) | 177 |
| **At year end (€m)** | | | | |
| Total equity attributable to shareholders of the parent company | | **8,443** | 6,555 | 5,676 |
| Total assets | | **237,680** | 180,946 | 167,544 |
| Risk-weighted assets | | **48,051** | 36,248 | 35,379 |
| Loans and advances to customers (net of impairment allowances) | | **56,956** | 46,997 | 44,856 |
| Customer accounts | | **57,550** | 41,906 | 38,277 |
| **Capital ratios (fully loaded)** | 3 | | | |
| Common equity tier 1 (%) | | **13.5** | 13.1 | 13.2 |
| Tier 1 (%) | | **15.0** | 14.5 | 13.8 |
| Total capital (%) | | **16.9** | 15.7 | 14.6 |
| **Performance, efficiency and other ratios (annualised %)** | | | | |
| Annualised return on average shareholders' equity (%) | 4 | **(0.5)** | (0.6) | 3.1 |
| Pre-tax return on average risk-weighted assets (adjusted basis) (%) | | **0.5** | 0.3 | 1.0 |
| Cost efficiency ratio (adjusted basis) (%) | 5 | **83.5** | 95.4 | 78.6 |
| Liquidity Coverage Ratio ('LCR') (%) | | **152** | 128 | 149 |
| Net stable Funding Ration ('NSFR') (%) | | **117** | 113 | 116 |

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 12 to 14.*
2 *Net operating income before change in expected credit losses and other credit and other credit risk provisions is also referred to as revenue.*
3 *Capital ratios as detailed on the capital section on pages 151 to 154.*
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 is defined as total operating expenses (adjusted) divided by net operating income before change in expected credit losses and other credit and other credit risk provisions (adjusted). Net operating income before change in expected credit losses and other credit and other credit risk provisions is also referred to as revenue.*

# Purpose and strategy

HSBC is one of the largest banking and financial services organisations in the world, with operations in 64 countries and territories.

## Our purpose

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.

### HSBC values

HSBC values define who we are as an organisation and what makes us distinctive.

**Open**

We are open to different ideas and cultures and value diverse perspectives.

**Connected**

We are connected to our customers, communities, regulators and each other, caring about individuals and their progress.

**Dependable**

We are dependable, standing firm for what is right and delivering on commitments.

### 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 far beyond simply being profitable. We seek to build trusting and lasting relationships with our many stakeholders to generate value in society.

### HSBC worldwide

HSBC France is part of HSBC Group, which has approximately 235,000 employees working around the world to provide more than 40 million customers with a broad range of banking products and services to meet their financial needs.

## HSBC Group strategy

### Distinctive advantages

The Group strategy is to be the world's pre-eminent international bank, focused on enabling business and trade between the developed world, the Middle East and the high growth economies of Asia. It is supported by its strategic advantage as a leading international bank with exceptional access to fast growing markets and balance sheet strength.

Leading international bank with access to high growth markets:

- Strong wealth business with client assets reaching $1.4tn, supported by a premier international wealth proposition and scale retail banking operations in Hong Kong, the UK and Mexico.
- Leading trade and payments and cash management bank with transaction banking activities generating over $17bn of adjusted revenue. This is supported by the international network of 64 markets, which covers approximately 90 per cent of global GDP, trade and capital flows.

Balance sheet strength:

- Continue to maintain a strong capital, funding and liquidity position with a diversified business model.
- Low earnings volatility.
- Foundation for sustained dividend; strong capacity for distribution to shareholders.

### Strategic outlook

In June 2018, HSBC Group set strategic priorities and financial targets amid an environment of rising interest rates, resilient global economic growth and reduced geopolitical risk.

In reviewing businesses and geographies today, it is clear that many parts are performing strongly, particularly in Asia and the Middle East, as well as HSBC market-leading transaction banking services globally. The Group's deep heritage has provided advantages, including a wholesale and personal client base located in the faster-growing, higher-return markets of the world. However, other parts of HSBC business have underperformed.

With the changed macroeconomic environment and interest-rate outlook, revenue growth expectations have been tempered and HSBC business plan has been adjusted accordingly. HSBC plans to upgrade the return profile of its assets and improve the Group's efficiency, which will in turn generate higher returns and more capacity for growth.

The business update enables HSBC to become a leaner, simpler, and more competitive Group that is better positioned to be the world's pre-eminent international bank. Changes to HSBC business model in Europe will seek to simplify the business, reduce cost base and continue to contribute to HSBC global network.

Detailed information on the HSBC Group strategy is available on the hsbc.com website.

## HSBC strategy implemented in Europe

HSBC Bank plc, including its subsidiaries and branches, operates in 20 markets in Europe following the opening of the Swedish branch in October 2019. In the current operating environment, HSBC will seek to implement a sustainable and profitable operating model in Europe that would be able to best serve its clients in the future.

Europe makes a significant, high value and growing contribution to HSBC's international network, by connecting European clients to international markets. However, despite growing international revenues, returns are well below cost of capital.

As a part of its business update, HSBC Group is changing its operating model in Europe. HSBC's future business model in Europe will focus on international wholesale banking clients linked to HSBC Group's global network, particularly in Asia and the Middle East. HSBC will simplify its model and the Continental European hub will be in France. The UK non-ring fenced bank will remain as a global hub for HSBC's Global Banking and Markets business, leveraging the depth of the London capital market and HSBC's existing capabilities.

# About HSBC France

## HSBC IN FRANCE

### OUR AMBITION

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

- **Businesses to thrive**
- **Economies to prosper**
- **People fulfil their hopes and realize their ambitions**

### THE WAY WE DO BUSINESS

#### OUR VALUES

Open | Connected | Dependable

#### 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[1] and enhance employability and financial skills.

#### OUR STRATEGY

**Leveraging HSBC Group's distinctive advantages…**

- **Leading** international bank
- Broad access to **high growth markets**
- **Balance sheet** strength

**To help clients to…**

1. Grow their activities in **the European single market**
2. Access **international markets**

**By…**

- **Providing transaction banking products** to help clients **trade and invest internationally**
- **Offering** our **broader European proposition** through **new banking products and services**
- **Leveraging international connectivity**, using the **HSBC Group's network** and **expertise**
- **Supporting** our clients to achieve their aims of **developing a sustainable future**

### OUR RESOURCES

**OUR HUMAN CAPITAL**

- **c. 900k clients** from individuals to large corporates
- **8,857 employees**[2] contributing to our expertise & know-how

**OUR FINANCIAL CAPITAL**

- **€2,227m** reported **net banking income**[3]
- **13.5% CET1 ratio**
- **€238bn total assets**

**OUR INDUSTRIAL CAPITAL**

- **126 years of expertise** in France*
- **11 branches** in Europe with strong international network
- **AA- / Aa3 / A+ top ratings** from the three main rating agencies

**OUR SOCIAL & ENVIRONMENTAL CAPITAL**

- **8 sustainability risk policies** applying to all financing activities*
- **>550 employees** trained on sustainable finance related issues*
- **#1** in France on **Sustainalytics' global ESG rating**[4]

**OUR CAPABILITIES**

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

* Only applies to France geographical perimeter

1. HSBC France intends to align its financing and investments to the standards set by the Paris Agreement.
2. Full Time Equivalent.
3. Net Banking Income before loan impairment charges.
4. Survey conducted by Sustainalytics in 2019, in which HSBC France is ranked #6 out #334 global banks, and ranked #1 in France. HSBC France received an overall assessment of 88/100, with respectively 89, 87 and 87 in environmental, social and governance aspects.

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...**
Large 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

- **$3.8bn** out of $45bn **of low carbon investment** funded by the Group since 2017[1] *
- **17% bonds issued** financing French public sector*
- **#4** in no. of **transactions** financing French regional authorities *
- **$1,327m green bonds** issued
- **€399m net inflows** of responsible investment
- **614 social entrepreneurs** & **start-ups** supported*
- **€3.9m** invested in **social impact funds** and **microfinance**

### SOCIAL

- **30% women** in senior executives positions*
- **11% hirings** vs. total FTEs*

### FINANCIAL EDUCATION

- **117,570 people** benefited from a programme supported by HSBC France*

### ENVIRONMENT

- **<1% coal-based energy** out of the total mix financed by HSBC France
- **142g$CO_2$/kWh emission** of the total mix financed by HSBC France
- **228 teq $CO_2$/$m** carbon intensity of bond portfolios
- **0.60teq $CO_2$ emissions** by FTE

### CLIENT SATISFACTION

- **84% recommendation rate** from retail clients*
- **#1** in terms of **level of service** in **branches** and **remotely**[2] *
- **9.2 /10 score** given by Private Banking clients to their RM*

### GOVERNANCE & SECURITY

- **96% employees** trained on Conduct
- **98% employees** trained on Financial Crime Risk
- **30 millions transactions analysed** every month
- **0** significant **cyber-security breach**

* Only applies to France geographical perimeter

1. On a $100bn target by 2025 defined by HSBC Group.
2. Survey conducted by OpinionWay for meilleurebanque.com on 5,035 respondents representative of the French population in terms of gender, age, and location.

HSBC Together we thrive

## A strategy implemented in France and Continental Europe

### HSBC France within HSBC Group

HSBC is one of the largest banking and financial services organisations in the world, with operations in 64 countries and territories. HSBC France has a clear and focused strategy that is consistent with the HSBC Group's strategy, which seeks to provide clients with high value-added products and services while improving efficiency and implementing the highest standards in terms of compliance.

Within the framework of the UK's withdrawal from the European Union and in addition to the 2018 transfer of 3 new Branches – HSBC Greece, HSBC Bank Polska S.A. ('HBPL') and HSBC Institutional Trust Services (Ireland) DAC ('HTIE') – from HSBC Bank plc to HSBC France, HSBC France acquired some of the branch activities of HSBC Bank plc in seven European Economic Area ('EEA') countries as described in the section 'Impact of UK's withdrawal agreement from the European Union on HSBC France'. As a result, HSBC France's strategy now integrates a broader European proposition that aims at helping clients achieve their goals, whether it is growing their businesses in the single market or breaking into international markets, notably through new banking products and services.

The HSBC Group's international network and expertise along with its extensive coverage and capabilities across Europe provide HSBC France with a strategic advantage to help clients achieve their goals, whether it is growing their businesses in the single market or breaking into international markets.

Retail banking operations in France are subject to a strategic review. This review is ongoing and will take some time to conclude. HSBC France remains focused on its clients and will continue to work with them during this period.

### Our strategy

Europe is home to some of the best performing, forward thinking companies, ranging from entrepreneurial start-ups to large multinationals. The European Union ('EU') is the world's largest trading bloc set in a dynamic market of more than 500 million consumers. Within this framework, HSBC France's strategic vision is based on the following key principles. Europe's largest trade corridor is with Asia, which accounts for more than a third (35 per cent) of its total trade; and Europe-US is the largest bilateral trade and investment relationship in the world.

#### Supporting our clients

HSBC France supports businesses of all sizes across France and Continental Europe. HSBC France offers a wide range of banking services including retail and private banking, corporate and investment banking, transaction banking, foreign exchange and fixed income. HSBC France has c. 7,472 employees (FTEs) in France and 1,385 employees in Continental Europe supporting HSBC Group and HSBC France clients' needs.

#### Connecting to the world

HSBC Group's global network enables to connect HSBC France's clients with opportunities in Continental Europe and across the world's trade corridors. The Group history and heritage gives HSBC an unrivalled ability to provide a bridge to Asia and the US for European businesses. HSBC also intends to support Asian and US businesses navigate growth opportunities in Europe.

#### Strengthening international connectivity

With intra-regional trade in the EU expected to grow by 4.6 per cent per year on average, HSBC France is committed to helping customers in the region flourish. With dedicated teams in France and 11 European markets, HSBC France has extensive European capability across traditional trade and structured trade finance, cash management, payments and financing to serve the needs of all customers from SMEs to global multinationals.

#### Driving sustainable growth

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. HSBC France shares these commitments and wants to help governments and businesses achieve their aims of developing a sustainable future for all. HSBC France supports its clients, corporates, retail and investors, in transitioning to a low carbon economy, through the deployment of services and dedicated products, and thus intends to align its financing and investment portfolio to the standards set by the Paris Agreement.

### Impact of UK's withdrawal from the European Union on HSBC France

The United Kingdom left the European Union on 31 January 2020 and entered a transition period until 31 December 2020, during which negotiations will take place on the future relationship between the UK and the EU. At this stage it remains unclear what that relationship will look like, potentially leaving firms with little time to adapt to changes which may enter into force on 1 January 2021. HSBC Group's programme – mainly applied to HSBC France – has focused on four main components: legal entity restructuring; product offering; customer migrations; and employees.

#### Legal entity restructuring

HSBC Group has worked on the assumption that passporting will no longer be possible following the United Kingdom's departure from the EU and therefore transferred HSBC Bank plc branch business to newly established branches of HSBC France. The transfer of branches has occurred in several steps and was completed in the first semester of 2019:

- Acquired the Greek branch of HSBC Bank plc on 1 January 2018;
- Acquired on 1 August 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;

- Acquired some of the branch activities of HSBC Bank plc in the Netherlands, Italy, Spain, the Czech Republic, Belgium and Ireland on 1 February 2019, and Luxembourg on 1 March 2019;
- On 1 April 2019, HSBC France merged two subsidiaries (HSBC Institutional Trust Services (Ireland) DAC and HSBC Bank Polska S.A) into its branches in Ireland and Poland respectively (HSBC France – Ireland branch and HSBC France – Poland branch);
- On 9 May 2019, HSBC France created a branch in Sweden, which was opened in October 2019.

**Product offering**

To accommodate for customer migrations and new business after the United Kingdom's departure from the European Union, HSBC France expanded and enhanced its existing product offering in France, the Netherlands and Ireland. New product capacities include Euroclearing, Global Markets product build-out in FX, Fixed income and Equities, and HSS activities.

**Customer migrations**

The United Kingdom's departure from the European Union is likely to have an impact on EEA incorporated clients' operating models, including their working capital requirements, investment decisions and financial markets infrastructure access. HSBC Group's priority is to provide continuity of service, and while the Group's intention is to minimise the level of change for its customers, some EEA-incorporated clients are required to move from the UK to HSBC France, or another EEA entity. HSBC France has now migrated most of the clients who could no longer be serviced out of the UK. HSBC Group and HSBC France are working in close collaboration with any remaining clients to make the transition as smooth as possible.

**Employees**

The migration of EEA-incorporated clients requires us to strengthen HSBC France's local teams. Given the scale and capabilities of HSBC Group's existing business in France, HSBC France is well prepared to take on additional roles and activities.

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

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

### Business lines

HSBC France's operating model is supported by HSBC Operations, Services and Technology, and 11 global functions, including risk, finance, compliance, legal, marketing and human resources.

### Global Banking and Markets ('GB&M')

HSBC France operates in twelve markets (France, Spain, Italy, Belgium, the Netherlands, Ireland, Greece, the Czech Republic, Poland, Luxembourg, Sweden, United Kingdom) offering clients geographical reach and deep local knowledge across Europe.

HSBC France is positioned as a key partner to major government, corporate and institutional clients, providing tailored financial solutions worldwide. Operating as a global business, HSBC France also contributes significant revenues to other regions through its European client base.

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

HSBC France continues to fully play its role as the strategic platform for Euro-denominated rates products and all currencies structured rates derivatives. Priorities for GB&M in France are to be positioned as a top bank in key advisory and financing mandates and help clients seize international growth opportunities, leveraging its expertise and global network, connecting emerging and developed economies. Cost discipline continues to be a priority as HSBC France strives to simplify the business through streamlining business lines, operations and technology. GB&M is underpinned by a focus on highest standards of conduct and financial crime risk management.

### Commercial Banking ('CMB')

HSBC France's Commercial Banking serves customers in 9 markets (France, Spain, Italy, Belgium, the Netherlands, Ireland, Greece, the Czech Republic and Poland), ranging from small enterprises focused on their local market to corporates operating across borders. Whether it is an SME banking at one of HSBC France's business centres in key French cities, or one of the multinationals HSBC France helps support across the region, CMB provides the tools and expertise that European businesses need to thrive.

HSBC France supports its customers with tailored financial products and services to allow them to operate efficiently and to grow. CMB provides working capital, term loans, payment services and international trade facilitation. HSBC France also offers expertise in mergers and acquisitions, and provides access to financial markets. CMB is fully committed to helping European businesses navigate change, from managing the uncertainties of Brexit to seizing export opportunities as the EU strikes new trade agreements.

In France, CMB can build on its momentum of growth and international connectivity with Large Corporates and Mid-Market companies thanks to enhanced collaboration with Global Banking; and Ensure a continued focus on international corridor opportunities and client acquisition, leveraging notably on Brexit. CMB will also continue to focus on its return on capital employed by developing business on strategic activities and clients.

### Retail Banking and Wealth Management ('RBWM')

In France and Greece, RBWM helps more than 0.8 million customers with their financial needs through Retail Banking, Wealth Management, Insurance and Asset Management. RBWM provides services to individuals under the different HSBC Global propositions (Premier, Fusion, and Jade by HSBC Premier) targeted at mass affluent and emerging affluent customers who value international connectivity. 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 protect their financial wealth.

In RBWM, HSBC France serves its customers through three main channels: branches, telephone service centres and digital services (internet and mobile banking). HSBC France is moving from having isolated interactions with its customers, to a world in which HSBC is always listening, learning and innovating to offer simple and helpful solutions.

HSBC France can rely on expert teams, specialised by client segment and on dedicated propositions to meet HSBC France client's specific needs.

### Global Private Banking ('GPB')

GPB offers tailored products and services, through the expertise of its discretionary and advisory management teams. Leveraging the HSBC Group's expertise and strongly tailored solutions, HSBC France provides a full range of private banking services, among which 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. In France, the Private Bank will continue to develop solutions through collaboration with other Global Businesses, notably in discretionary management and life insurance. The application of the highest international standards, enhanced risk management controls, tax transparency and simpler processes also remain priorities for Private Banking.

## Geopolitical, economic and regulatory background and outlook

### Economic background

The year 2019, which may post the weaker economic expansion since the global financial crisis at a world level, has been characterised by three main types of events.

First, regarding trade, protectionist tensions, mainly between mainland China and the US, have contributed to increase uncertainties and to lower the global activity level, due to higher tariffs introduced on some products. In addition, the cyclical economic slowdown has not been limited to these two countries, but also affected economies more open to international trade flows, in particular Germany. Finally, regarding monetary policy, a large number of central banks from either developed or emerging countries have eased their policy stance to limit the economic deceleration in an environment already marked by modest inflation pressures.

Indeed, heightened trade tensions has led to weaker GDP growth contributions from both business investment in the US and for the manufacturing sector in China. However, the robustness of labour market has enabled private consumption expenditure to remain a critical element of the economic expansion in the US, where the business cycle appeared mid-2009 beaten in 2019 the record of duration previously held by the 1991-2001 cycle. Regarding mainland China, several tax cuts and decreases in interest rates for banks and companies have contributed to support fixed capital formation in particular.

Nevertheless, although the economic activity has kept dynamic in several Asian economies, the European Union has been facing uncertainties linked to the Brexit. The euro area, specifically, has registered a recession of its industry, penalised by the situation of Germany, which is dependent towards its external trade, and of Italy, coping with a very low economic growth. France, on the contrary, has posted some resilience, as the robustness of corporate investment has permitted to offset a household consumption which still stayed limited despite an improvement noticed in purchasing power gains.

Against a backdrop of economic slowdown and modest inflation, very few central banks of advanced economies (Norway and Sweden) have risen their policy rates in 2019: while the Bank of Japan and the Bank of England have left the cost of money unchanged at respectively -0.10 per cent and 0.75 per cent, the US Federal Reserve has diminished three times its Fed funds rates, now back into the 1.50-1.75 per cent range after four hikes voted in 2018. As far as it is concerned, the ECB in September cut to -0.50 per cent, a new record low, the deposit facility rate and decided to restart in November, at a monthly pace of EUR 20 billion, its net purchases which were stopped end 2018.

Last, despite oil price slightly up (Brent barrel price increased by 23 per cent in 2019, ending the year at 66USD) and fears of an escalation in trade disputes or of a disorderly Brexit, financial markets eventually appeared to be reassured by the large move of monetary policy easing: not only has the entry into negative territory end August of the gap between ten and two years in US yields not really been interpreted as a leading indicator of an American recession, but the US Fed decided at that time to rise the size of its total balance sheet to limit tensions on short term rates. Stock markets closed the 2019 year with a marked progression: 22 per cent for the Dow Jones index, 29 per cent for the S&P500, 25 per cent for the world MSCI, 22% for the Europe MSCI and 26 per cent for the CAC40, with 10-year sovereign bond yields decreasing again: they reached 1.92 per cent at the end of 2019 in the US, -0.02 per cent in Japan, -0.19 per cent in Germany and 0.12 per cent in France. The euro exchange rate ended the year at 1.12USD and at 0.85GBP.

### Economic outlook

The economic outlook does not really lead to envisage a rebound in the world activity in 2020, while 2021 may see a situation close to the growth levels posted in 2019. Indeed, it is challenging to detect the factors which could enable to anticipate an acceleration in Chinese or American growth rates by 2021, in spite of a well-oriented activity in Japan, in India and in Indonesia notably on this horizon.

In Europe, leading indicators suggest the economic growth may reach a trough in 2020, ahead of a slight improvement expected in the following year. Germany and France, in particular, may face in 2020 an activity below the level registered in 2019, before registering a more sustained economic growth in 2021. As a whole, still accommodative monetary policy stances, in addition to fiscal policies often favourable to support the activity and to generally better positioned labour markets, should help households' consumption more sustain the economic growth, in France in particular.

However, uncertainties have not disappeared, regarding the coronavirus impact, world trade perspectives, currencies changes, stock markets or negotiations between the United Kingdom and the European Union, in addition to political uncertainties in some countries.

## 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, and under the remit of the Single resolution Board ('SRB'). 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.

Several important regulatory developments occurred since summer 2019.

At the international level, the Basel III package is broadly final since the completion of the recalibration of the market risk RWA regime, the Fundamental Review of the Trading Book ('FRTB'), in January 2019. The remaining element is the revision of the CVA framework, for which a consultation was launched by the Basel committee in November 2019.

The package aims for a 1 January 2022 implementation, with a five-year transitional provision for the output floor. This floor ensures that, at the end of the transitional period, banks' total RWAs are no lower than 72.5 per cent of those generated by the standardised approaches. The final standards will need to be transposed into EU law before coming into effect for HSBC France.

As described in the successive EBA impact assessment for European banks, the Basel III reforms may lead to a potential increase in RWAs. However, the final outcome is uncertain both in impact and timing, given the high number of parameters that still need to be clarified: the definition of some features of the agreement such as the output floor is still under discussion and a significant number of national discretions are embedded within the international agreement.

At the European level, the EU enacted in June 2019 the final rules amending the Capital Requirements Regulation, known as the CRR2. These rules implement the Financial Stability Board's ('FSB') requirements that large banks have a sufficient bail-in capacity (Total Loss Absorbing Capacity ('TLAC'), known in Europe as the Minimum Requirements for Own Funds and Eligible Liabilities ('MREL')). The CRR2 will also implement the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the FRTB, revisions to the standardised approach for measuring counterparty risk, changes to the equity investments in funds rules and new leverage ratio rules. The CRR2 rules will follow a phased implementation with significant elements entering into force in Q2 2021, in advance of Basel's timeline. Since Basel's review of the calibration of the FRTB came too late to be included in the final CRR2 text, the changes are being incorporated by way of a Delegated Act, which was published in near final format in December 2019. This introduces the FRTB in the EU as a reporting requirement only until a full impact assessment can be performed. A final date for the implementation of the FRTB in the EU has yet to be agreed.

The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the CRR ('CRR3'). In 2019, the European Commission ('EC') began consulting on the implementation of the CRR3, which will include reforms to credit risk, operational risk, and the output floor. The EC is expected to produce a draft CRR3 text in the second quarter of 2020. The EU implementation will then be subject to an extensive negotiation process with the EU Council and Parliament. As a result, the final form of the rules remains unclear.

Besides, as a result of the outcome of the referendum held on 23 June 2016, the UK left the EU on 31 January 2020. In order to smooth the transition, the UK remains subject to EU law during a transition period, which is currently expected to end on 31 December 2020. This period may be extended by a further 2 years, subject to political agreement. During that transition period, the UK will continue to be treated as a Member State from a prudential standpoint. At the end of the transition period, the UK will be treated as a non-EU third country, the treatment of which will be subject to equivalence assessments. The end of the transition period may also trigger additional MREL requirement under CRR2 for HSBC France as it becomes a subsidiary of a third-country parent entity.

In August 2019, the European Central Bank ('ECB') aligned its Pillar 2 expectations on non-performing loans ('NPLs'), the addendum to the ECB guidance on NPLs, with the Pillar I backstop which entered into force in April 2019. As a result, NPLs classified as such from 1 April 2018 are now subject to a single coverage expectation and overlapping between the ECB Pillar 2 expectations and the Pillar I backstop has been removed. The specific ECB requirements for the stock of NPLs as of 31 March 2018 remain unchanged.

In January 2020, the High Council for Financial Stability ('HCSF') confirmed its decision from April 2019 to increase the Countercyclical Capital Buffer applicable to French exposures from 0.25 per cent to 0.50 per cent, applicable as of April 2020, and also issued in December 2019 a set of recommendations to curtail lending for mortgages (especially loans longer than 25 years, and/or with a debt to net income ratio higher than one third).

As regards HSBC France specifically, the European Central Bank carried out a Supervisory Review and Evaluation Process ('SREP') in 2019, 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 13.75 per cent from the 1st of January 2020. That figure, which includes both the mandatory minimum capital figure of 8 per cent, a 2.5 per cent capital conservation buffer, a 0.25 per cent countercyclical buffer and the Pillar 2 requirement ('P2R') of 3 per cent, was published by HSBC France on the 7th of November 2019. The ECB also provided a Pillar 2 guidance ('P2G') to HSBC France.

## Management report

### 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 156 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' pages 229 and following.

# HSBC France Group's Consolidated Results

## Consolidated income statement

| | Footnotes | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|---|
| Net interest income | | **1,095** | 1,011 |
| Net fee income | | **778** | 593 |
| Net income from financial instruments held for trading or managed on a fair value basis | | **30** | 24 |
| Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss | | **1,277** | (638) |
| Changes in fair value of long-term debt and related derivatives | | **(1)** | (2) |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss | | **153** | 113 |
| Gains less losses from financial investments | | **12** | 14 |
| Dividend income | | **–** | – |
| Net insurance premium income | | **2,076** | 2,026 |
| Other operating income/(expense) | | **187** | 70 |
| **Total operating income** | 1 | **5,607** | 3,211 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | | **(3,380)** | (1,475) |
| **Net operating income before change in expected credit losses and other credit impairment charges** | 1 | **2,227** | 1,736 |
| Change in expected credit losses and other credit impairment charges | | **(128)** | 10 |
| **Net operating income** | | **2,099** | 1,746 |
| Total operating expenses | 1 | **(2,121)** | (1,701) |
| **Operating profit/(loss)** | | **(22)** | 45 |
| Share of profit in associates and joint ventures | | **–** | – |
| **Profit/(loss) before tax** | | **(22)** | 45 |
| Tax expense | | **(17)** | (63) |
| **Profit/(loss) for the period** | | **(39)** | (18) |
| – shareholders of the parent company | | **(39)** | (17) |
| – non-controlling interests | | **–** | (1) |

*1 Total operating income and expenses include significant items as detailed on pages 12 to 14.*

**Net interest income** was EUR 1,095 million at end-December 2019, from EUR 1,011 million in the previous year, including EUR 143 million variation related to the integration of the European entities. In an environment of persisting low interest rates and even negative interest rates, margins on deposits and interest income on bond portfolios of the life insurance subsidiary continued to decrease, although this was partly offset by positive volume effect on loans and deposits.

**Net fee income** was EUR 778 million in 2019, compared with EUR 593 million in 2018. The change was mainly the result of the integration of European branches for EUR 152 million and increased fees from Global Banking activities. This was partly offset by a decrease in fee income on Retail Banking & Wealth Management.

**Net income from financial instruments held for trading or managed on a fair value basis** was EUR 30 million in 2019 from EUR 24 million in 2018. This variation is mainly explained by:

- EUR 31 million favourable trading revenue in fixed income markets, despite a context of still weak client demand and margin compression on Eurozone sovereign debt;
- EUR 33 million increase related to the integration of European branches;
- partly offset by the change in the market value of the insurance company derivative instruments by EUR -58 million; the counterpart of that year-on-year decrease can be observed in the change in liabilities to policyholders (see below);

**Net income from assets and liabilities of insurance measured at fair value through profit and loss** was EUR 1,277 million compared with EUR -638 million in 2018. This variation reflects the change in the market value of assets held by the life insurance company on behalf of its customers, with respect to unit-linked and euro fund policies. The counterpart of that increase was the change in liabilities to policyholders (see below).

**Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss** totalled EUR 153 million, increasing by EUR 40 million compared to prior year, mainly due to favourable movements on insurance portfolio and favourable impact of loans and advances that failed the SPPI tests ('Solely Payment of Principal and Interests').

**Gains less losses from financial investments** were globally stable at EUR 12 million compared to EUR 14 million in 2018.

**Net insurance premium income** was EUR 2,076 million in 2019, compared to EUR 2,026 million in 2018.

**Other operating income** came to EUR 187 million compared with EUR 70 million the previous year, mainly reflecting:

- EUR 70 million change in life insurance PVIF (Present Value of In Force long-term insurance business). The variation of the accounting PVIF was EUR 113 million in 2019 compared to EUR 43 million in 2018;
- EUR 13 million related to the consolidation of the European branches;
- The recognition of recoveries from services recharged to Group entities as income instead of expenses;

**Net insurance claims incurred, benefits paid and movement in liabilities to policyholders** were EUR -3,380 million in 2019, from EUR -1,475 million in 2018. This change should be seen in the light of the increase in the market value of hedging instruments and assets recognised at fair value by the insurance subsidiary.

**Net operating income before change in expected credit losses and other credit impairment charges** was EUR 2,227 million for the year, from EUR 1,736 million in the previous year. The increase was mostly related to the transfer of the European branches, a favourable PVIF movement, a strong performance for Global Banking activities and resilient revenues in Retail Banking and Wealth Management particularly in Life Insurance activities, Private Banking and Commercial Banking. The increase was partly offset by still low revenues in Rates products for Global Markets, due to a weak customer demand and lower margins in the Eurozone sovereign debt markets.

**Change in expected credit losses and other credit impairment charges** was EUR -128 million versus a EUR 10 million credit in 2018. The variation was mainly explained by increased provision in Global Banking and Markets and

Commercial Banking, while cost of risk remained low on Retail Banking and Wealth Management.

**Operating expenses** amounted to EUR -2,121 million in 2019, compared with EUR -1,701 million in 2018. These included the costs of the HSBC France's European branches for EUR -277 million, a goodwill impairment in Commercial Banking for EUR -169 million, the contribution to the Single Resolution Fund for EUR -57 million which remained stable compared to 2018, and the costs related to the United Kingdom's proposal to leave the European Union for EUR -47 million stable compared to 2018.

**Loss before tax** was EUR 22 million, down from EUR 45 million profit in 2018, including a EUR 169 million goodwill impairment. The financial performance was subdued by the persisting historically low interest rates that impacted the net interest margin, despite the growth in the loan and deposit balances resulting from a robust commercial performance. Furthermore, Global Markets performance was low in a competitive environment. These elements were partly offset by the positive contribution from the European branches that displayed a reported profit before tax of EUR 131 million.

**Loss attributable to shareholders of the parent company** in 2019 was EUR 39 million, from EUR 17 million in the previous year.

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

| | Year ended 31 Dec 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Retail Banking and Wealth Management** | **Commercial Banking** | **Global Banking and Markets** | **Private Banking** | **Corporate Centre** | **Total** |
| | **€m** | **€m** | **€m** | **€m** | **€m** | **€m** |
| **Reported revenue** | **819** | **676** | **622** | **60** | **50** | **2,227** |
| Significant revenue items | **–** | **–** | **1** | **–** | **1** | **2** |
| – debit valuation adjustment | **–** | **–** | **1** | **–** | **–** | **1** |
| – fair value movement on non-qualifying hedges | **–** | **–** | **–** | **–** | **1** | **1** |
| **Adjusted revenue** | **819** | **676** | **623** | **60** | **51** | **2,229** |
| | Year ended 31 Dec 2018 | | | | | |
| 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 |

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

| | Year ended 31 Dec 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Retail Banking and Wealth Management** | **Commercial Banking** | **Global Banking and Markets** | **Private Banking** | **Corporate Centre** | **Total** |
| | **€m** | **€m** | **€m** | **€m** | **€m** | **€m** |
| **Reported operating expenses** | **(786)** | **(596)** | **(571)** | **(52)** | **(116)** | **(2,121)** |
| Significant cost items | **4** | **173** | **31** | **4** | **48** | **260** |
| – cost to establish UK – ring fenced bank (E&M) | **–** | **–** | **–** | **–** | **–** | **–** |
| – restructuring costs and other costs | **4** | **3** | **17** | **4** | **16** | **44** |
| – costs associated with the UK's exit from the EU | **–** | **1** | **14** | **–** | **32** | **47** |
| – Goodwill impairment | **–** | **169** | **–** | **–** | **–** | **169** |
| **Adjusted operating expenses** | **(782)** | **(423)** | **(540)** | **(48)** | **(68)** | **(1,861)** |
| | Year ended 31 Dec 2018 | | | | | |
| Reported operating expenses | (804) | (371) | (422) | (44) | (60) | (1,701) |
| Significant cost items | – | 2 | 15 | – | 32 | 49 |
| – cost to establish UK – ring fenced bank (E&M) | – | – | – | – | 1 | 1 |
| – costs to achieve and other provisions | – | – | – | – | – | – |
| – costs associated with the UK's exit from the EU | – | 2 | 15 | – | 31 | 48 |
| Adjusted operating expenses | (804) | (369) | (407) | (44) | (28) | (1,652) |

## 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 Dec 2019** | €m | €m | €m | €m | €m | €m |
| **Reported profit/(loss) before tax** | **34** | **11** | **(8)** | **8** | **(67)** | **(22)** |
| Significant revenue items | **–** | **–** | **1** | **–** | **1** | **2** |
| Significant cost items | **4** | **173** | **31** | **4** | **48** | **260** |
| **Adjusted profit/(loss) before tax** | **38** | **184** | **24** | **12** | **(18)** | **240** |
| **Net impact on reported profit and loss** | **4** | **173** | **32** | **4** | **49** | **262** |
| Year ended 31 Dec 2018 | | | | | | |
| 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 |

## Adjusted profit/(loss) for the period

| | Retail Banking and Wealth Management | Commercial Banking | Global Banking and Markets | Private Banking | Corporate Centre | Total |
|---|---|---|---|---|---|---|
| **Year ended 31 Dec 2019** | €m | €m | €m | €m | €m | €m |
| Net operating income before expected credit loss and other credit risk provisions | **819** | **676** | **623** | **60** | **51** | **2,229** |
| Change in expected credit loss and other credit risk provisions | **1** | **(69)** | **(59)** | **–** | **(1)** | **(128)** |
| **Net operating income** | **820** | **607** | **564** | **60** | **50** | **2,101** |
| Total operating expenses | **(782)** | **(423)** | **(540)** | **(48)** | **(68)** | **(1,861)** |
| **Operating profit** | **38** | **184** | **24** | **12** | **(18)** | **240** |
| Share of profit in associates and joint ventures | **–** | **–** | **–** | **–** | **–** | **–** |
| **Adjusted profit before tax** | **38** | **184** | **24** | **12** | **(18)** | **240** |
| Year ended 31 Dec 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 |

**Adjusted net operating income before change in expected credit losses and other credit impairment charges** was EUR 2,229 million in 2019, compared with EUR 1,731 million in 2018. This increase was mainly related to the integration of European branches which income increased by EUR 342 million and the favourable insurance company PVIF variation increasing by EUR 70 million. Excluding these two elements, net operating income before change in expected credit losses increase was driven by good performance of Insurance manufacturer and Global Banking activities, partly offset by the persisting low interest rates environment that continued to burden the net interest margin and the adverse market conditions that penalised Global markets activities.

**Adjusted change in expected credit losses and other credit impairment charges** totalled EUR -128 million charge compared with EUR 10 million credit in 2018. This situation reflects increased provision in Global Banking and Markets and Commercial Banking, while level of cost of risk on Retail Banking and Wealth Management remained low.

**Adjusted operating expenses** were EUR -1,861 million in 2019, compared with EUR -1,652 million in 2018, mainly impacted by the integration of HSBC France European entities for EUR -264 million. The pursuit of transformation projects and the costs to serve our customers in a post Brexit environment were partly offset by efficiency gains and rigorous costs management.

**Adjusted profit before tax** increased from EUR 89 million in 2018 to EUR 240 million in 2019. This included EUR 70 million PVIF movement and EUR 139 million Branches integration.

## Retail Banking and Wealth Management

Retail Banking and Wealth Management balances include RBWM Greece which reported Loans and advances to customers at EUR 0.3 billion (2018 : EUR 0.4 billion), Customer deposits at EUR 0.8 billion (2018 : EUR 0.6 billion) and adjusted profit before tax of EUR -8 million (2018 : EUR -7 million).

In France, loans and advances to customers, at EUR 20.7 billion, increased by 8 per cent year-on-year, above market trends, with a strong level of new home loans business at EUR 4.5 billion.

Total Assets under Management from customers at EUR 43.0 billion increased by 7 per cent benefiting from increase in Net New Money and from positive market effect. Retail Banking and Wealth Management business customer deposits at EUR 17.7 billion increased by 7 per cent mainly driven by growth in current accounts which increased by 11 per cent. Customer investment balances have increased to EUR 25.1 billion from EUR 23.6 billion mainly from life-insurance Net new money and favourable equity market movements

HSBC France Retail Banking and Wealth Management served 813 000 active customers at the end of 2019, steady to 2018.

The quality of the HSBC France's retail network was recognised by the French awards '*Trophées 2020 de la Qualité Bancaire*' that evaluated client satisfaction. HSBC France ranked 1st in the 'experience in branch' and 'online banking' categories, 2nd in the 'relationship manager' and 'expert relationship manager' categories and 3rd in the 'Internet website' category.

HSBC Assurance was awarded the *Trophée d'Or* of Life Insurance contracts *(Le Revenu)* for HSBC *Stratégie Patrimoine* for the fifth year in a row in recognition of its expertise and quality of life insurance, retirement and protection products for personal, professional and corporate clients.

Asset Management expertise was also recognised in 2019, notably with:

- 2nd rank on 'Fixed Income ESG' *(Gestion de Fortune)*
- Several trophies in Germany and UK on 'European Fixed Income'

The adjusted profit before tax was EUR 38 million, up from a loss of EUR -55 million in 2018, mostly thanks to a favourable PVIF movement of EUR 110 million and controlled cost management. The activity demonstrated a growth in customer balances supported by significant investments in marketing and digital. However, the historically low interest rates kept dampening the profitability of Retail Banking and Wealth Management.

Net operating income before change in expected credit losses were EUR 819 million in 2019 versus EUR 749 million EUR in 2018.

Bank net interest income was adversely impacted by low-rate environment leading to margin compression partly offset by the growth of deposit and loan balances. Net fee income was lower compared to prior year mainly caused by wealth activities in the first semester, when the second semester improved supported by more favourable equity market conditions.

Insurance revenues were up by EUR 86 million year-on-year benefiting mainly from PVIF (described in note n°21) and improved equity market in part offset by the lower interest rate environment.

Loan Impairment Charges were in line with prior year and remain very low.

Adjusted Operating Expenses at EUR 782 million compared to EUR 804 million in 2018 reflecting productivity gains and cost discipline.

## Commercial Banking

HSBC France is committed to supporting businesses in their development and increased its loan book mainly thanks to Brexit transfer. This increase included the impact of the integration of European branches for EUR 4.6 billion. On the comparable perimeter, excluding branches, increase in loan book represented 5 per cent. Deposits grew 93 per cent to EUR 22.7 billion; and 6 per cent excluding the impact of European branches for EUR 9.9 billion.

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

Adjusted net operating income before change in expected credit losses amounted to EUR 676 million, increasing by EUR 162 million versus 2018. The impact of the integration of European branches amounted EUR 154 million. On the comparable perimeter, excluding branches, adjusted revenue increased by 2 per cent, despite the unfavourable impact of historically low interest rates.

Revenue generated by French customers in other international HSBC Group entities represented a third of revenues generated by the same companies in France. In 2019, this international revenue rose by 10 per cent. HSBC remains a key partner for French companies seeking to set up abroad and for foreign companies seeking to expand in France.

Change in expected credit losses amounted to EUR 69 million, to be compared to historical low level in 2018 with a net credit of EUR 0.3 million.

Adjusted operating expenses, at EUR 423 million, increased by EUR 54 million, including EUR 65 million explained by the integration of European branches. On a comparable perimeter, operating expenses decreased by 3 per cent compared to 2018, reflecting rigorous management of costs.

Commercial Banking's profit before tax amounted EUR 184 million versus EUR 145 million in 2018.

## Global Banking and Markets

In 2019, HSBC improved its market share as a bookrunner in the bond issuance market, while confirming its position as the leading international bank for French issuers and leader among European public sector issuers. 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 first globally[1].

Adjusted net operating income before change in expected credit losses increased significantly to EUR 623 million versus EUR 434 million in 2018, which was EUR 189 million higher than prior year, of which EUR 178 million were related to the integration of European entities.

Global Markets revenue slightly rose vs 2018 but was still impacted by a weak performance of Rates business. Global Banking revenues improved, thanks to a good performance in lending activities which made the most of transfers of European customers. Other GBM revenues remained strong and benefited from the new Euroclearing business in Paris.

Luxembourg, Spain and Italy entities have generated the highest revenue among European entities, for a combined revenue of EUR 138 million.

Revenue generated by French clients in international markets rose by 3 per cent relative to 2018 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 13 per cent.

Change in expected credit losses came to a charge of EUR -59 million, versus EUR 3 million in 2018.

Adjusted operating expenses amounted to EUR -539 million, up EUR 133 million versus 2018, of which EUR 115 million were related to the integration of European entities and necessary ramp-up in activities related to Brexit environnement.

Adjusted profit before tax in Global Banking and Markets was EUR 24 million, as opposed to EUR 30 million in 2018.

1 *Source Dealogic.*

## Private Banking

Adjusted profit before tax was EUR 12 million in 2019 vs EUR 13 million in 2018.

Adjusted net operating income before change in expected credit losses stood at EUR 60 million in 2019, increasing by 14 per cent versus 2018. Net interest income increased, driven by the lending portfolio growth, despite the unfavourable impact of historically low interest rate environment. Net fee income rose by 13 per cent benefited from strong momentum in Net New Money on life insurance and advisory activities.

Change in expected credit losses was a net release of EUR 0.1 million, to be compared to a net release in 2018 at EUR 4 million.

Adjusted operating expenses stood at EUR -48 million, increasing by EUR 5 million, due to IT and regulatory requirements.

## 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 loss before tax was EUR 18 million in 2019 compared with EUR 44 million the previous year.

Summary consolidated balance sheet

| | | At | |
|---|---|---|---|
| | | **31 Dec 2019** | 31 Dec 2018 |
| | *Footnotes* | **€m** | €m |
| **Total assets** | | **237,680** | 180,946 |
| Cash and balances at central banks | | **19,463** | 9,018 |
| Trading assets | | **14,837** | 16,966 |
| Financial assets designated and otherwise mandatorily measured at fair value through profit and loss | | **11,957** | 10,495 |
| Derivatives | | **45,724** | 31,777 |
| Loans and advances to banks | | **6,798** | 6,197 |
| Loans and advances to customers | | **56,956** | 46,997 |
| Reverse repurchase agreements – non-trading | | **45,973** | 32,835 |
| Financial investments | | **16,987** | 16,502 |
| Other assets | | **18,985** | 10,159 |
| **Total liabilities** | | **229,209** | 174,362 |
| Deposits by banks | | **12,113** | 10,828 |
| Customer accounts | | **57,550** | 41,906 |
| Repurchase agreements – non-trading | | **20,213** | 18,921 |
| Trading liabilities | | **23,262** | 23,145 |
| Financial liabilities designated at fair value | | **18,953** | 14,584 |
| Derivatives | | **45,115** | 31,298 |
| Debt securities in issue | | **9,782** | 2,472 |
| Liabilities under insurance contracts issued | | **23,292** | 21,335 |
| Other liabilities | | **18,929** | 9,873 |
| **Total equity** | | **8,471** | 6,584 |
| **Total shareholders' equity** | | **8,443** | 6,555 |
| Non-controlling interests | | **28** | 29 |

The consolidated balance sheet of HSBC France showed total assets of EUR 238 billion at 31 December 2019, increasing by EUR 57 billion versus 31 December 2018.

### Assets

HSBC France's deposits with the central bank grew by EUR 10.5 billion to EUR 19.5 billion in 2019 with increased cash coming from the European entities. The trading portfolio was reduced by EUR 2.1 billion to EUR 14.8 billion due to lower market maker activity on government bonds. Financial assets mandatorily measured at fair value through profit and loss stood at EUR 12 billion, with the EUR 1.5 billion growth driven by the Insurance company. Derivative instruments were EUR 13.9 billion higher at EUR 45.7 billion resulting from the interest rate decrease. The client loan book continued to grow by EUR 10 billion at EUR 57 billion, due to a good momentum across all businesses and the consolidation of European entities by EUR 5.5 billion. The securities held under repurchase agreements rose by EUR 13.1 billion to EUR 46 billion, in relation with the contribution of European entities for EUR 3 billion and the development of activities in France for EUR 10 billion. Financial investments were globally steady at EUR 17 billion.

### Liabilities

Deposits by banking counterparties increased by EUR 1.3 billion to EUR 12.1 billion. Customer deposits rose from EUR 41.9 billion to EUR 57.6 billion, mainly related to the increased balances from European entities by EUR 12.6 billion and growing deposits from

Retail Banking & Wealth Management and Commercial Banking customers in France. Repo securities increased by EUR 1.3 billion at EUR 20.2 billion, while the trading portfolio was globally steady. Derivatives increased by EUR 13.8 billion due to the interest rate decrease. The valuation of insurance policies taken out by clients was EUR 2 billion up to 23.3 billion.

### Equity

Shareholders' equity were up to EUR 8.4 billion. In 2019, HSBC France carried out several transactions described in the 'Capital management' chapter on page 151.

The total capital ratio was 16.9 per cent at 31 December 2019 versus 15.7 per cent at 31 December 2018. At 31 December 2019, the CET1 (Common Equity Tier 1) ratio was 13.5 per cent and the leverage ratio was 3.7 per cent.

### Liquidity and financing

Outstanding medium- and long-term financing and the bank's main financing transactions in 2019 are presented in the liquidity and financing management section on pages 119 to 121.

The short-term ratio (liquidity coverage ratio or LCR), calculated according to the EU's delegated act, was 152 per cent as opposed to the regulatory minimum figure of 80 per cent, and the long-term ratio (net stable funding ratio or NSFR), calculated according to the text of BCBS 295, was 117 per cent.

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 Dec 2019** | **49,550** | **27,666** | **140,835** | **2,757** | **16,872** | **237,680** |
| – *of which:* | | | | | | |
| *Loans and advances to customers* | ***21,034*** | ***18,378*** | ***15,411*** | ***2,739*** | ***(606)*** | ***56,956*** |
| *Customers accounts* | ***18,463*** | ***22,707*** | ***13,712*** | ***1,094*** | ***1,574*** | ***57,550*** |
| | | | | | | |
| At 31 Dec 2018 | 45,916 | 15,060 | 105,352 | 2,339 | 12,279 | 180,946 |
| – *of which:* | | | | | | |
| *Loans and advances to customers* | *19,477* | *13,137* | *12,608* | *2,325* | *(550)* | *46,997* |
| *Customers accounts* | *17,190* | *11,787* | *12,088* | *828* | *13* | *41,906* |

## Profit before tax by country

| | 31 Dec 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Banking and Wealth Management | Commercial Banking | Global Banking & Markets | Global Private Banking | Corporate Centre | Total |
| | €m | €m | €m | €m | €m | €m |
| France | **41** | **(63)** | **(78)** | **8** | **(62)** | **(154)** |
| Belgium | **—** | **—** | **1** | **—** | **—** | **1** |
| Czech Rep | **—** | **22** | **1** | **—** | **4** | **27** |
| Greece | **(8)** | **(2)** | **14** | **—** | **—** | **4** |
| Ireland | **—** | **16** | **9** | **—** | **—** | **25** |
| Italy | **—** | **2** | **8** | **—** | **—** | **10** |
| Luxembourg | **—** | **—** | **9** | **—** | **(1)** | **8** |
| Netherlands | **—** | **28** | **4** | **—** | **(3)** | **29** |
| Spain | **—** | **15** | **22** | **—** | **(1)** | **36** |
| Sweden | **—** | **—** | **(1)** | **—** | **—** | **(1)** |
| United Kingdom | **—** | **—** | **(4)** | **—** | **—** | **(4)** |
| Poland | **—** | **(7)** | **6** | **—** | **(3)** | **(4)** |
| Others | **1** | **—** | **1** | **—** | **(1)** | **1** |
| **Profit/(loss) before tax** | **34** | **11** | **(8)** | **8** | **(67)** | **(22)** |
| | 31 Dec 2018 | | | | | |
| France | (48) | 143 | 13 | 13 | (81) | 40 |
| Belgium | — | — | — | — | — | — |
| Czech Rep | — | — | — | — | — | — |
| Greece | (7) | (1) | 6 | — | 5 | 3 |
| Ireland | — | — | — | — | — | — |
| Italy | — | — | — | — | — | — |
| Luxembourg | — | — | — | — | — | — |
| Netherlands | — | — | — | — | — | — |
| Spain | — | — | — | — | — | — |
| Sweden | — | — | — | — | — | — |
| United Kingdom | — | — | — | — | — | — |
| Poland | — | 1 | 3 | — | (1) | 3 |
| Others | — | — | (1) | — | — | (1) |
| Profit/(loss) before tax | (55) | 143 | 21 | 13 | (77) | 45 |

## Net Interest Margin

Net interest margin is calculated by dividing net interest income as reported in the income statement by the average balance of interest-earning assets. Average balances are based on end of month balances of the group's activities.

Net interest margin was 78 basis points ('bps') in 2019 compared with 91 bps in 2018.

### Net Interest Income

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| Interest income | **1,951** | 1,622 |
| Interest expense | **(856)** | (611) |
| **Net interest income** | **1,095** | 1,011 |
| Average interest-earning Assets | **140,493** | 111,434 |
| Net Free Funds | **61,106** | 45,960 |
| Percentage Net Free Funds to Average interest-earning Assets | **43.49%** | 41.24% |
| Net interest spread | **0.30%** | 0.51% |
| Benefit of interest free funds | **0.48%** | 0.39% |
| Net interest margin[1] | **0.78%** | 0.91% |

1 *Net interest margin is net interest income expressed as an annualised percentage of average interest-earning assets.*

### Summary of interest income by asset type

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Average balance | Interest income | Yield[1] | Average balance | Interest income | Yield[1] |
| | €m | €m | % | €m | €m | % |
| Short term funds and loans and advances to banks | **22,933** | **49** | **0.21%** | 14,763 | 118 | 0.8% |
| Loans and advances to customers | **55,116** | **985** | **1.79%** | 45,702 | 807 | 1.77% |
| Reverse repurchase agreements – non trading | **34,308** | **26** | **0.07%** | 21,559 | 10 | 0.05% |
| Financial investments | **16,917** | **328** | **1.94%** | 17,351 | 337 | 1.94% |
| Other interest-earning assets | **11,219** | **563** | **5.02%** | 12,059 | 350 | 2.9% |
| **Total interest-earning assets** | **140,493** | **1,951** | **1.39%** | 111,434 | 1,622 | 1.46% |
| **Trading assets and financial assets designated or mandatorily measured at fair value** | **22,083** | **300** | **1.36%** | 21,705 | 333 | 1.53% |
| – *Trading assets*[2] | ***18,863*** | ***241*** | ***1.28%*** | *18,583* | *271* | *1.46%* |
| – *Other financial assets mandatorily measured at FVTPL* | ***3,220*** | ***59*** | ***1.84%*** | *3,122* | *62* | *1.99%* |
| Expected credit losses provision | **(690)** | | | (641) | | |
| Non-interest-earning assets | **68,442** | | | 44,743 | | |
| **Total** | **230,328** | **2,252** | **0.98%** | 177,241 | 1,955 | 1.10% |

1 *Yield calculations include negative interest on liabilities recognised as interest income in the income statement.*
2 *Interest income arising from trading assets is included within 'Net trading income' in the income statement.*

### Summary of interest expense by type of liability and equity

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Average balances | Interest Expense | Cost of Funds[1] | Average balances | Interest Expense | Cost of Funds[1] |
| | €m | €m | % | €m | €m | % |
| Deposits by banks | **12,569** | **42** | **0.33%** | 11,732 | 40 | 0.34% |
| Customer accounts | **20,176** | **135** | **0.67%** | 16,792 | 78 | 0.47% |
| Repurchase agreements – non trading | **18,160** | **3** | **0.01%** | 13,158 | — | — |
| Debt Securities in issue – non- trading | **17,619** | **16** | **0.09%** | 13,885 | 19 | 0.13% |
| – *Financial liabilities designated at fair value – own debt issued* | ***11,023*** | ***(3)*** | ***(0.03)%*** | *9,003* | *5* | *0.05%* |
| – *Debt securities in issue and subordinated debts* | ***6,596*** | ***19*** | ***0.29%*** | *4,882* | *14* | *0.28%* |
| Other interest-bearing liabilities | **10,174** | **660** | **6.5%** | 9,266 | 474 | 5.12% |
| **Total interest-bearing liabilities** | **78,698** | **856** | **1.09%** | 64,833 | 611 | 0.94% |
| Trading liabilities and financial liabilities designated at fair value (excluding own debt held) | **30,547** | **480** | **1.57%** | 23,510 | 335 | 1.42% |
| – *Trading liabilities*[2] | ***24,644*** | ***424*** | ***1.72%*** | *19,680* | *344* | *1.75%* |
| – *Financial liabilities designated at FV (excl own debt issued)* | ***5,903*** | ***56*** | ***0.95%*** | *3,830* | *(9)* | *(0.23)%* |
| Non-interest-bearing current accounts | **32,824** | | | 23,377 | | |
| Total equity and other non-interest bearing liabilities | **88,259** | | | 65,521 | | |
| **Total** | **230,328** | **1,337** | **0.58%** | 177,241 | 946 | 0.53% |

1 *Cost of funding calculations include negative interest on assets recognised as interest expense in the income statement.*
2 *Interest expense arising from trading liabilities is included within 'Net trading income' in the income statement.*

## Percentage of average balances and margin analysis

| | 2019 | 2018 |
|---|---|---|
| **Percentage of average interest bearing liabilities** | | |
| Current accounts | **13.94%** | 13.38% |
| Savings and deposits accounts | **9.89%** | 11.32% |
| Money market | **7.94%** | 9.94% |
| CDs and other money market | **14.01%** | 13.89% |
| Deposits | **48.34%** | 50.39% |
| **Percentage of average Interest Earning Assets** | | |
| Loans and advances to Customers | **39.23%** | 41.01% |
| Loans to banks | **16.32%** | 13.25% |
| Investments | **12.04%** | 15.57% |
| **Percentage of average liabilities** | | |
| Average interest-bearing liabilities including held for trading and designated at fair value | **47.43%** | 49.84% |
| Average non-interest-bearing liabilities | **52.57%** | 50.16% |
| **Percentage of average assets** | | |
| Average interest-earning assets including held for trading and designated at fair value | **70.29%** | 73.65% |
| Average non-interest-earning assets | **29.71%** | 26.72% |

## Post-balance sheet events

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

There has been no significant change affecting the financial or sales situation of HSBC France or its subsidiaries since 31 December 2019 until the Board of Directors of 18 February 2020 which approves these financial statements.

## Historical data (unaudited)

| | 2019 €m | 2018 €m | 2017 €m | 2016 €m | 2015 €m |
|---|---|---|---|---|---|
| **HSBC France Group** | | | | | |
| Profit before tax | **(22)** | 45 | 219 | 432 | 618 |
| Profit attributable to shareholders | **(39)** | (17) | 177 | 310 | 445 |
| **At 31 Dec** | | | | | |
| Shareholders' equity | **8,443** | 6,555 | 5,676 | 5,842 | 5,838 |
| Loans and advances to customers and banks | **63,754** | 53,194 | 49,699 | 44,706 | 43,184 |
| Customer accounts and deposits by banks | **69,663** | 52,734 | 51,574 | 46,281 | 39,897 |
| **Total Balance Sheet** | **237,680** | 180,946 | 167,544 | 169,423 | 168,458 |
| Number of employees (full-time equivalents) | **9,472** | 8,829 | 8,337 | 8,647 | 9,217 |
| Ratios | | | | | |
| – Total capital ratio[1] | **16.9%** | 15.7% | 14.1% | 13.2% | 14.9% |
| – Common Equity Tier One Ratio[1] | **13.5%** | 13.1% | 13.1% | 13.2% | 14.9% |
| – Cost efficiency ratio[2] | **95.2%** | 98.3% | 78.6% | 72.7% | 68.8% |

1 *Capital ratios from 2018 are reported under fully loaded and no longer under transitional.*
2 *The cost efficiency ratio in 2016 does not include the depreciation of goodwill.*

## 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 | A+- |
| Outlook | Negative | Negative | Stable |
| Short term Rating | A-1+ | P-1 | F1+ |
| Last update | 12 Nov 2019 | 18 Dec 2019 | 20 Dec 2019 |

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 HSBC Group.

HSBC France has met with all three agencies during the year 2019.

During the fourth quarter, each of the three agencies has undertaken actions together on HSBC Holdings plc, HSBC Bank plc and HSBC France. FitchRatings downgraded the Long term ratings by one notch while Moody's and Standard and Poor's lowered their outlook to negative.

Main reasons were the reduction of the HSBC Group's and US return targets and the expected announcement of material restructurings and associated costs in early 2020, aimed at addressing persistent earnings weakness and capital inefficiency in the US and the European non-ringfenced bank including HSBC France. In addition, due to reduced uncertainty on Brexit, FitchRatings have changed their outlook to stable.

# Other information on HSBC France

## Information on supplier payable amounts schedule

*(Articles L. 441-14 and D. 441-4 of the French Commercial code)*

Article D.441 – II: Received invoices by HSBC France S.A.[1] 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 | 40,929 | | | | | **8,925** |
| Amount of invoices including VAT (in k€) | 644,842 | 142,062 | 61,536 | 46,295 | 88,973 | 338,865 |
| Percentage of total purchasing in the year | 66% | 14% | 6% | 5% | 9% | 34% |
| **(B) Invoices excluded from (A) in respect of litigations or not accounted** | | | | | | |
| Number of invoices excluded | 2,834 | | | | | |
| Amount of excluded invoices including VAT (in k€) | 48,388 | | | | | |
| **(C) Suppliers' payment terms (contractual or legal terms)** | | | | | | |
| Payment terms used to assess the late payments | Contractual terms: 45 days | | | | | |

1 *Excluding the European branches of HSBC France SA.*

## Information on client receivable amounts schedule

*(Articles L. 441-14 and D. 441-4 of the French Commercial code)*

Article D.441 – I: Issued invoices by HSBC France S.A.[1] 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 | 19 | | | | | **454** |
| Amount of invoices excluding VAT (in k€) | 1,795 | 10,683 | 4,018 | 48 | 1,112 | 15,861 |
| Percentage of total revenue of the year | 0.06% | 0.34% | 0.13% | 0.00% | 0.04% | 0.50% |
| **(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)** | | | | | | |
| Payment terms used to assess the late payments | Contractual terms: 30 to 45 days | | | | | |

1 *Excluding the European branches of HSBC France SA.*

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.

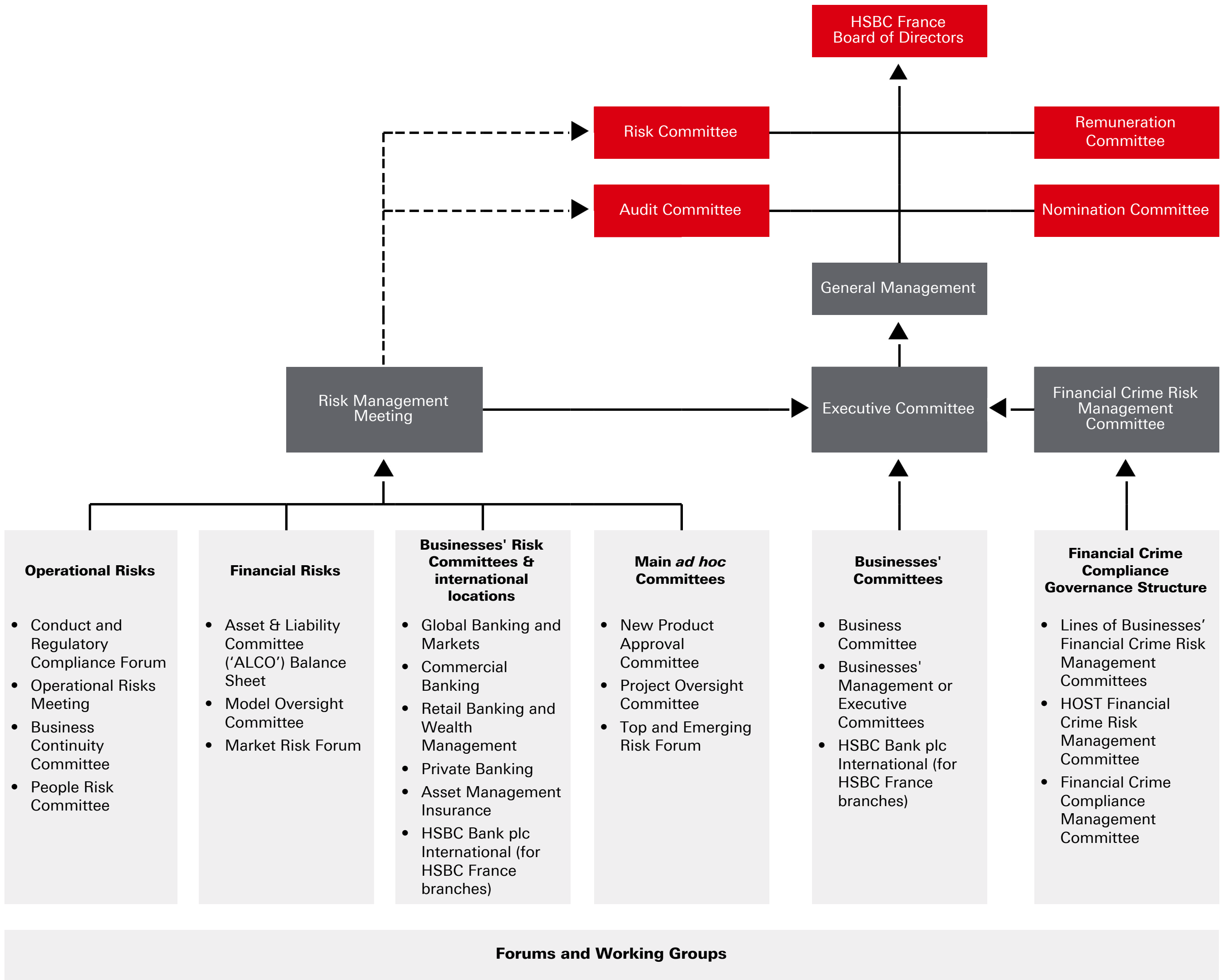
# Corporate governance report

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 30 January and 4 February 2020.

## Corporate governance bodies and regime

### Governance bodies structure




Board composition is detailed and commented on pages 22 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 32 to 36).

General Management and Executive Committee membership is detailed on pages 36 and following 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 Officers 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.

## 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[1]

## 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 2019, the Board reviewed and updated these internal rules at its meeting held on 8 February.

The Board's internal rules define the missions and 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.

## Chair of the Board of Directors

### 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.

### Presentation of the Chairman of the Board of Directors

## Samir Assaf

**Chairman of the Board of Directors**

*Member of the Nomination Committee and of the Remuneration Committee*

First elected: 2012. Last re-elected: 2019. Term ends: 2022

**Principal position:** Member of the HSBC Group Management Board. Chief Executive Officer Global Banking and Markets, HSBC Group[2]. 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[2]. Director, The Saudi British Bank[2].

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). From 1 March 2020, he will exercise the functions of Chairman of Global Banking of the HSBC Group.

| | |
|---|---|
| 2018 | **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. |
| 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. |

## Composition of the Board

At 31 December 2019, the Board of Directors comprised 18 Directors, of which 14 appointed by the Shareholders' General Meeting and four elected by employees. A representative of the Social and Economic Council attends Board meetings, without voting rights.

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

1 *As far as their direstorship at HSBC France is concerned, the address of HSBC France's Directors and Senior Executives is the company's registered office, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France.*

2 *Listed company.*

The Board membership complies with the policies the Board had implemented on the assessment of the suitability of members of the management body and key function holders and on diversity.

### Changes occurred in the Board composition during 2019 and early 2020

The Nomination Committee reviewed the position of the Directors whose term of office expired at the AGM on 15 March 2019: Samir Assaf, Paule Cellard, James Emmett, Lindsay Gordon, Philippe Houzé, Thierry Moulonguet, Dominique Perrier, Arnaud Poupart-Lafarge, Brigitte Taittinger, Jacques Veyrat and Andrew Wild. Further to the reassessment of their suitability and upon recommendation of the Board, the Board decided to propose their renewal. At the AGM held on 15 March 2019, shareholders re-elected those Directors.

Further to Anne Méaux's resignation from her directorship, the Board co-opted Fanny Letier as a Director at its meeting on 8 February 2019, who resigned on 15 April 2019.

On the Nomination Committee's proposal, the Board of Directors, at its meeting on 26 July 2019, co-opted Laurence Rogier as a Director, to replace Andrew Wild who had resigned. The Shareholders' general meeting on 5 September 2019 ratified this co-optation.

On 26 September 2019, Christine D'Amore, Laurent Lagueny and Lucie Thalamas Dit Barathe were elected as Directors by employees. They have replaced Ibtissam Bara, Ludovic Bénard and Xavier Bertrand.

At the Board meeting on 6 February 2020, Jacques Veyrat resigned from his directorship.

### Presentation of the Directors as of 7 February 2020

## Jean Beunardeau

**Director and Chief Executive Officer**

First elected: 2008. Last re-elected: 2017. Term ends: 2020[3]

**Principal position:** Chief Executive Officer, HSBC France. Group General Manager, HSBC Group[4].

**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:** 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, *Association du Golf de Saint-Cloud.* Member of the Great Council, *Cercle de l'Union Interalliée* (since June 2019). Directorship expired in 2019: Director, *Institut de la Gestion Déléguée*.

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 was Head of Global Banking and Markets, France from 2012 to April 2019.

| | |
|---|---|
| 2018 | **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). Treasurer: *Association du Golf de Saint-Cloud*. |
| 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.* |

3 *Director standing for re-election at the Annual General Meeting to be held on 13 March 2020.*
4 *Listed company.*

## Paule Cellard
**Independent Director**

*Member of the Risk Committee*

First elected: 2017. Last re-elected: 2019. Term ends: 2022

**Other directorships:** Director, CA Indosuez Wealth Management (Europe). Member of the Supervisory Board, Damartex[5]. Member of the Supervisory Board; Somfy[5].

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). Degree in International Law from the University Paris II-Assas and Corporate Director Certificate from the French Institute of Directors, issued by the *Institut d'Etudes Politiques de Paris*. 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.

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| 2018 | **Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex, Somfy. |
| 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 | – |

## Christine D'Amore
**Director elected by employees**

First elected: 2019. Term ends: 2022

**Principal position:** Sales Assistant, Corporate Banking *Center Toulouse Capitole*, Commercial Banking, 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 1971. Graduated with a Professional Certificate in 'Banking'. Master's degree in applied foreign languages English/Spanish, business and commerce. Since she joined HSBC in 2003, she held positions as branch supervisor, sales assistant and relationship manager within the Retail Banking and Commercial Banking networks.

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|---|---|
| 2018 | – |
| 2017 | – |
| 2016 | – |
| 2015 | – |

## James Emmett
**Director**

First elected: 2018. Last re-elected: 2019. Term ends: 2022

**Principal position:** Group General Manager, HSBC Group[5]. Chief Executive Officer, HSBC Bank plc and Europe.

**Other directorships in the HSBC Group:** Director, HSBC Bank plc. Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG[5].

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 Manchester University and BA degree in History from 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.

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|---|---|
| 2018 | **Directorship in the HSBC Group:** Director: HSBC France. Director: HSBC Bank plc. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG. |
| 2017 | – |
| 2016 | – |
| 2015 | – |

## Lindsay Gordon
**Independent Director**

*Chairman of the Risk Committee and Member of the Audit Committee*

First elected: 2013. Last re-elected: 2019. Term ends: 2022

**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.

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.

5 *Listed company.*

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| 2018 | **Directorships in the HSBC Group:**<br>Independent Director: HSBC France. Director: HSBC Bank Bermuda Limited.<br>**Directorships outside of the HSBC Group:**<br>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. |
| 2017 | **Directorships in the HSBC Group:**<br>Independent Director: HSBC France. Director: HSBC Bank Bermuda Limited.<br>**Directorships outside of the HSBC Group:**<br>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:**<br>Independent Director: HSBC France. Director: HSBC Bank Bermuda Limited.<br>**Directorships outside of the HSBC Group:**<br>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:**<br>Independent Director: HSBC France.<br>**Directorships outside of the HSBC Group:**<br>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: 2019. Term ends: 2022

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

**Other directorships**: Deputy Chairman and Chief Executive Officer, Motier. Chairman, Motier Domaines. Chairman of the Supervisory Board, *La Redoute*. Lead Director, Carrefour[6]. Director, Lafayette Anticipation – *Fondation d'entreprise Galeries Lafayette* (Founders College). Member of the Board, INSEAD. Member of the Supervisory Committee, BHV Exploitation. Member of the Steering Committee, U*nion 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 Great Council, Cercle de l'Union Interalliée. Chairman of the France Council, INSEAD. Chairman of the France Board of Governors, ESCP. Deputy Chairman, Association Alliance 46.2 *Entreprendre en France pour le Tourisme*. Directorships expired in 2019: Chairman, Guérin Joaillerie. Director, *Institut Français de la Mode*.

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 in 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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| 2018 | **Directorship in the HSBC Group:**<br>Independent Director: HSBC France.<br>**Directorships outside of the HSBC Group:**<br>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, Institut Français de la Mode. Chairman of the Supervisory Board: *La Redoute*. Member of the Steering Committee: *Union du Grand Commerce de Centre-Ville* ('UCV'). Elected member: C*hambre 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. Member of the Great Council: *Cercle de l'Union Interalliée*. |
| 2017 | **Directorship in the HSBC Group:**<br>Independent Director: HSBC France.<br>**Directorships outside of the HSBC Group:**<br>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. Member of the Great Council, *Cercle de l'Union Interalliée*. |
| 2016 | **Directorship in the HSBC Group:**<br>Independent Director: HSBC France.<br>**Directorships outside of the HSBC Group:**<br>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: U*nion du Grand Commerce de Centre-Ville* ('UCV'). Elected member: C*hambre 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.* |

[6] *Listed company.*

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|---|---|
| 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*. |

## Laurent Lagueny
**Director elected by employees**

*Member of the Remuneration Committee*

First elected: 2019. Term ends: 2022

**Principal position**: Head of Trade Finance Processing, Commercial Banking, 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 1966. Graduated from the *Institut d'Etudes Politiques de Paris*. He joined HSBC France in 1998 and held branch and business centre management positions within the Retail Banking and Commercial Banking networks then facilitator positions in the Training Department. After having exercised the functions of Head of Business Development from 2009 to 2013 within the Trade and Supply Chain department, he has been appointed Processing Trade Finance Director in 2018.

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|---|---|
| 2018 | – |
| 2017 | – |
| 2016 | – |
| 2015 | – |

## Thierry Moulonguet
**Independent Director**

*Chairman of the Audit Committee and member of the Risk Committee*

First elected: 2009. Last re-elected: 2019. Term ends: 2022

**Other directorships:** Managing Director, Revue Des Deux Mondes[7]. Chairman of the Supervisory Board, Webedia[7]. Director, Fimalac[7,8]. Director, Groupe Lucien Barrière[7]. Director, Valeo[8]. Director, Fimalac Entertainment[7].

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.

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| 2018 | **Directorships in the HSBC Group:** Independent Director: HSBC France, HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Chief Executive Officer then Managing Director: *Revue Des Deux Mondes*. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, Prodways Group, Valeo, Fimalac Entertainment. |
| 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. |

## Dominique Perrier
**Independent Director**

*Member of the Audit Committee*

First elected: 2018. Last re-elected: 2019. Term ends: 2022

**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 practising as external auditor at Peat Marwick and then, from 1988, as an 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.

[7] *Company owned by the Fimalac group.*
[8] *Listed company.*

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| 2018 | **Directorships in the HSBC Group**: Independent Director: HSBC France.<br>**Directorships outside of the HSBC Group:** Chairman *Moncey Arbitrage et Conseil*. Director: NaturaBuy. |
| 2017 | – |
| 2016 | – |
| 2015 | – |

## Arnaud Poupart-Lafarge

**Independent Director**

*Member of the Risk Committee*

First elected: 2016. Last re-elected: 2019. Term ends: 2022

**Principal position:** Chairman, Racilia (since July 2019).

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 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. He is Chairman of Racilia since July 2019.

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| 2018 | **Directorship in the HSBC Group:**<br>Independent Director: HSBC France.<br>**Directorship outside of the HSBC Group:**<br>Chief Executive Officer: Nexans. |
| 2017 | **Directorship in the HSBC Group:**<br>Independent Director: HSBC France.<br>**Directorship outside of the HSBC Group:**<br>Chief Executive Officer: Nexans. |
| 2016 | **Directorship in the HSBC Group:**<br>Independent Director: HSBC France.<br>**Directorship outside of the HSBC Group:**<br>Chief Executive Officer: Nexans. |
| 2015 | – |

## Philippe Purdy

**Director elected by employees**

First elected: 2004. Last re-elected: 2019. Term ends: 2022

**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.

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| 2018 | **Directorship in the HSBC Group:**<br>Director elected by employees: HSBC France. |
| 2017 | **Directorship in the HSBC Group:**<br>Director elected by employees: HSBC France. |
| 2016 | **Directorship in the HSBC Group:**<br>Director elected by employees: HSBC France. |
| 2015 | **Directorship in the HSBC Group:**<br>Director elected by employees: HSBC France. |

## Lucile Ribot

**Independent Director**

*Member of the Audit Committee*

First elected: 2016. Last re-elected: 2017. Term ends: 2020[9]

**Other directorships:** Director, Imerys[10]. Director, Kaufman & Broad SA[10]. Directorship expired in 2019: Director, SoLocal Group.

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 1966. Graduated 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.

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|---|---|
| 2018 | **Directorship in the HSBC Group:**<br>Independent Director: HSBC France.<br>**Directorships outside of the HSBC Group:** Director, SoLocal Group, Imerys, Kaufman & Broad SA. |
| 2017 | **Directorship in the HSBC Group:**<br>Independent Director: HSBC France.<br>**Directorships outside of the HSBC Group:**<br>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:**<br>Independent Director: HSBC France.<br>**Directorships outside of the HSBC Group:**<br>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 | – |

## Laurence Rogier

**Director**

First elected: 2019. Term ends: 2022

**Principal position:** Chief Financial Officer, HSBC France.

**Other directorships in the HSBC Group:** Chairman: HSBC SFH (France). Director: HSBC *Assurances Vie* (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 1964. Graduated from the *Ecole Supérieure de Commerce de Paris* and from the *Société Française d'Analyse Financière*. She joined HSBC France in 1987 and has served in various roles within support functions in Global Banking and Markets. From 2002 to 2005, she was Head of Finance Global

*9 Director standing for re-election at the Annual General Meeting to be held on 13 March 2020.*
*10 Listed company.*

Banking and Markets, France and from 2006 to 2010 Senior Project Manager of Global Banking and Markets activities.

She joined the Finance Department in 2010 and was appointed Chief Financial Officer of HSBC France in 2014.

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|---|---|
| 2018 | – |
| 2017 | – |
| 2016 | – |
| 2015 | – |

## 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[11].

**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[11].

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.

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|---|---|
| 2018 | **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. |
| 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. |

## Brigitte Taittinger

**Independent Director**

First elected: 2008. Last re-elected: 2019. Term ends: 2022

**Other directorships:** Member of the Board of Directors, Centre Georges Pompidou. Director, Fnac Darty[11]. Director, Suez[11].

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.

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|---|---|
| 2018 | **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, Suez. |
| 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. |

## Lucie Thalamas Dit Barathe

**Director elected by employees**

First elected: 2019. Term ends: 2022

**Principal position:** Sales Assistant, North Business Banking Center, Commercial Banking, 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.

[11] *Listed company.*

**Skills and experience:** Born in 1966. Graduated of a BTS in executive secretary. Since she joined HSBC in 1987, she held positions as branch supervisor and sales assistant as well as back-office manager in the Commitments department within the Retail Banking and Commercial Banking networks.

| | |
|---|---|
| 2018 | – |
| 2017 | – |
| 2016 | – |
| 2015 | – |

## Board diversity

The diversity policy of the management body updated by the Board at its meeting on 8 February 2019 aims to include a balance and a complementarity of age, gender, geographic provenance, professional and educational, independence, seniority in the mandate, and representation of employees.

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 58.7 at 31 December 2019 and their average seniority in the function is six years.

Excluding Directors elected by employees, the Board comprises six women and eight men, i.e. 43 per cent of women and 57 per cent of men.

## Independent Directors

With respect to the criteria on independence defined in the guidelines on the assessment of the suitability of members of the management body issued by the European Banking Authority ('EBA') and the European Securities and Markets Authority ('ESMA') and by the HSBC Group, 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 2019 in the light of these criteria. It considered that nine Directors can be deemed independent. Nonetheless, one Director has served on the Board for more than 12 years. Nevertheless, the Board of Directors found that this criterion alone did not call into question his independence vis-à-vis the company.

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

## Board evaluation

Pursuant to the Code's recommendations, a Board assessment was conducted internally in June 2019, under the responsibility of the Nomination Committee and on the basis of a questionnaire covering five themes: business performance; people, 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 26 July 2019.

The overall opinion regarding the Board and its operations remains broadly positive. Among improvements, the introduction of deep dives at the agenda of Audit and Risk Committees meetings was noted as an improvement. Directors also want to pursue the continued increase in time dedicated to topics related to business growth, strategy and people. In particular, the impacts of new technologies should be introduced in presentations on lines of businesses.

## 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 recommendation of the Nomination Committee, the Board updated the policy on training of the management body's members.

According to this policy, new Directors when taking up duty 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 training sessions with HSBC France's main executives in the business lines and functions. It is also offered to Directors in office to attend these sessions.

In 2019, a training session on corporate governance role and functioning and regulatory landscape and changes was facilitated by an outside audit and consulting firm. Furthermore, Directors took training in the form of e-learning on risk management at HSBC, heath, security and wellbeing, data privacy and cybersecurity, anti-money laundering and international sanctions, prevention of bribery and corruption, values and conduct, insider risk, and competition law.

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' remuneration

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

This remuneration is allocated according to the following rules, decided by the Board of Directors at its meeting on 6 February 2016. The remuneration paid to the Chairs of the Audit Committee and of the Risk Committee was reviewed by the Board of Directors at its meeting on 8 February 2019:

- 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 25,000 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 their remuneration in respect of their directorships held in HSBC Group companies. This recommendation has been implemented by the Directors and Executive Directors of HSBC France and its subsidiaries.

In 2019, in respect of 2018, Jean Beunardeau, James Emmett, Carola von Schmettow, Antonio Simoes and Andrew Wild renounced the payment of their remuneration in respect of their directorship in HSBC France. It has to be noted that, according to this rule, Samir Assaf, Chairman of the Board of HSBC France, does not receive any remuneration 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' remuneration.

The total Directors' remuneration net of social contributions, income tax prepayment and withholding tax to be paid in 2020 in respect of 2019 amounts to EUR 0.47 million, to be compared to EUR 0.49 million paid in 2019 in respect of 2018.

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

| | Remuneration in respect of the directorship paid in 2018 in respect of 2017 | **Remuneration in respect of the directorship paid in 2019 in respect of 2018** | Other compensation paid in 2018[1] | **Other compensation paid in 2019[1]** |
|---|---|---|---|---|
| **Directors performing their principal position in another entity of the** | | | | |
| James Emmett[2,3] | – | **–** | GBP 375,451 | **GBP 1,839,695** |
| Carola von Schmettow[4] | – | **–** | – | **–** |
| Antonio Simoes[3, 5] | – | **–** | GBP 1,499,259 | – |
| **Directors elected by the employees** | | | | |
| Ibtissam Bara[6, 7] | EUR 28,980 | **EUR 28,980** | | |
| Ludovic Bénard[6, 7] | EUR 33,948 | **EUR 33,948** | | |
| Xavier Bertrand[6, 7] | EUR 28,980 | **EUR 28,980** | | |
| Christine D'Amore[8] | – | **–** | | |
| Laurent Lagueny[8] | – | **–** | | |
| Philippe Purdy[8] | EUR 28,980 | **EUR 28,980** | | |
| Lucie Thalamas Dit Barathe[8] | – | **–** | | |
| **Directors not performing executive duties within the HSBC Group[9]** | | | | |
| Paule Cellard | EUR 32,958 | **EUR 45,500** | – | – |
| Martine Gerow[10] | EUR 22,750 | **–** | – | – |
| Lindsay Gordon | EUR 63,220 | **EUR 63,200** | – | – |
| Philippe Houzé | EUR 34,300 | **EUR 34,300** | – | – |
| Anne Méaux[11] | EUR 24,500 | **EUR 24,500** | – | – |
| Thierry Moulonguet | EUR 187,681[12] | **EUR 50,750** | – | – |
| Dominique Perrier[13] | – | **EUR 20,417** | – | – |
| Arnaud Poupart-Lafarge | EUR 24,500 | **EUR 24,500** | – | – |
| Lucile Ribot | EUR 35,500 | **EUR 45,500** | – | – |
| Brigitte Taittinger | EUR 24,500 | **EUR 24,500** | – | – |
| Jacques Veyrat | EUR 32,900 | **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 Does not receive remuneration from controlled companies by HSBC France nor from companies which control HSBC France.*
*5 Resignation form his directorship on 17 September 2018.*
*6 End of Directorship on 26 September 2019.*
*7 Renounced remuneration to the benefit of a trade union organisation, net of social contributions.*
*8 Election by employees on 26 September 2019.*
*9 Amounts paid net of social contributions, income tax prepayment, and, where applicable, withholding tax.*
*10 Resignation from his directorship on 21 June 2017.*
*11 Resignation from her directorship on 23 January 2019.*
*12 Of which EUR 50,750 paid by HSBC France.*
*13 Co-optation on 20 February 2018.*

## 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 constructively challenges the strategy and determines strategic orientations, on the basis of the strategy formulated by HSBC France General Management and oversees and monitors their implementation. It approves strategic investments/divestments and all transactions liable to impact earnings significantly;
- it oversees and monitors management decision-making and actions and provides effective oversight of the effective managers and constructively challenges and critically reviews proposals and information provided by the effective managers, as well as their decisions;
- it oversees and monitors that HSBC France's strategic objectives, organisational structure and risk strategy, including its risk appetite and risk management framework, as well as other policies (e.g. remuneration policy) and the disclosure framework are implemented consistently. In particular,

regarding governance system oversight and risk supervision, it:

  - ensures and periodically assesses the effectiveness of HSBC France's internal governance framework 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 effective managers of all significant risks, of risk management policies and amendments made to them;
  - oversees the process of disclosure and communications;

- it monitors and supervises major risks and reviews regular risk management reports, setting out the risks involved in the HSBC France's business and results;
- it monitors that the risk culture of HSBC France is implemented consistently;
- it sets HSBC France's values and principles and oversees the implementation and maintenance of a code of conduct or similar and effective policies to identify, manage and mitigate actual and potential conflicts of interest;
- it oversees the integrity of financial information and reporting, and the internal control framework, including an effective and sound risk management framework;
- it ensures that the heads of internal control functions, namely the Chief Risk Officer, the Head of Regulatory Compliance, the Head of Financial Crime Compliance and the Head of Internal Audit, are able to act independently and, regardless the responsibility to report to other internal bodies, business lines or units, can raise concerns and warn the Board, where necessary, when adverse risk developments affect or may affect the institution;
- it deliberates on all questions pertaining to its legal and regulatory obligations and those stemming from its articles of association;
- it cares about HSBC Group reputation in France.

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

## Board of Directors' work

The Board of Directors met nine times during 2019. The average attendance rate was 80 per cent, compared to 73 per cent in 2018:

- 16 January 2019 (attendance rate: 74 per cent);
- 8 February 2019 (attendance rate: 89 per cent);
- 19 February 2019 (attendance rate: 79 per cent);
- 26 April 2019 (attendance rate: 94 per cent);
- 28 May 2019 (attendance rate: 56 per cent);
- 26 July 2019 (attendance rate: 78 per cent);
- 2 August 2019 (attendance rate: 78 per cent);
- 16 October 2019 (attendance rate: 83 per cent);
- 24 October 2019 (attendance rate: 94 per cent).

### 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. A detailed presentation of a different business line and an update on the modernisation project of the IT infrastructure initiated by HSBC France were 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 2019, the Board of Directors continued to monitor the risks related to the United Kingdom's withdrawal from the European Union and its work on the projects aiming at ensuring the continuity of activities and of the service to customers. Thus, it finalised in particular the implementation of the acquisition by HSBC France of certain assets and liabilities of HSBC Bank plc branches in Belgium, Spain, Ireland, Italy, Netherlands and Czech Republic on 1 February 2019 and in Luxembourg on 1 March 2019 (meetings on 16 January, 8 February and 26 April) and the merger with HSBC France of two subsidiaries acquired from HSBC Bank plc in Ireland and Poland in2018 with an effective date on 1 April 2019 (meeting on 16 January 2019).

In the meeting held on 26 July 2019, 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 and on strategic directions at its meeting on 24 October 2019.

As regards people, corporate values and culture, the results of the annual employee engagement and the action plans decided in response to this survey were presented to the Board (meeting 24 October 2019).

At its meeting on 16 October 2019, the Board approved the move of HSBC France's head office which will take place in 2020.

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 2019, 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 2019, the Board reviewed and approved the budget, the capital and liquidity plans and the risk appetite for 2019. At its meeting on 24 October 2019, it reviewed an initial version of the risk appetite for 2020.

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.

In view of the development of HSBC France's activities, the Board of Directors decided in 2019 to proceed with two capital increases, one for a total of EUR 299.4 million (meeting on 28 May 2019) completed on 27 June 2019 and another for a total of EUR 198 million (meeting on 2 August 2019) carried out on 27 September 2019.

The Board also reviewed and approved the dividend policy and the Internal Capital Adequacy Assessment Process ('ICAAP') and the Internal Liquidity Adequacy Assessment Process ('ILAAP') reports (meeting on 26 April 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. It decided to adjust certain risk appetite thresholds during the year. In addition to information given to the Board on a regular basis on these matters, specific presentations on risk models and changes in capital markets reference benchmarks were given to the Board (meetings on 26 July and 2 August 2019). The Directors have also access to the Risk Committee's supporting documentation.

Furthermore the Board was informed at each meeting of progress made in the Financial Crime Compliance area. At the meeting on 8 February 2019, the report to the Board on Financial Crime Compliance was given by the Head of Financial Crime Compliance.

As regards Regulatory Compliance, the Head of Regulatory Compliance reported to the Board on Regulatory Compliance at the meeting held on 26 April 2019. The Board approved the appointment of a new Head of Regulatory Compliance (meeting on 24 October 2019). The Board also reviewed the Ombudsman's report on his activity in 2018 (meeting on 24 October 2019).

The Board reviewed and approved where necessary the annual reports on internal control (meeting on 26 April 2019) and on the organisation of the financial crime internal control system (meeting on 26 July 2019), prepared in accordance with the French Government Order of 3 November 2014 and 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.

### Regulatory environment and supervision

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* the *Autorité des marchés financiers* and the *Agence française anti-corruption*, 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 supervision, accounting projects and matters, IT, risks, control and risk management system, internal audit, regulatory and financial crime compliance and permanent control.

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

In 2019, the Board approved several new policies or updates: the internal governance policy, the policy on individual and collective assessment of the management body, the nomination procedure of the management body, and the diversity policy of the management body.

Apart from these issues, the Board also discussed, on the basis of the works conducted by the Nomination and Remuneration Committees, various other issues which are its responsibility in accordance with the law and regulations in force, in particular as regards compensation, suitability assessment of the management body, composition of the Board, of the General Management 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 2018 (meeting on 19 February 2019), the Board's interim report at 30 June 2019 (meeting on 2 August 2019) as well as releases in respect of annual and interim results during the same meetings. Likewise, the Board authorised new related-party agreements (meetings on 8 and 19 February 2019) 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 24 October 2019).

## 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 as at 7 February 2020

| | |
|---|---|
| **Chairman** | |
| Thierry Moulonguet (independent) | Appointed in 2010<br>(Member from 2009 to 2010) |
| **Members** | |
| Lindsay Gordon (independent) | Appointed in 2013 |
| Dominique Perrier (independent) | Appointed in 2019 |
| 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, Chief Financial Officer, or Statutory Auditor.

Upon recommendation from the Nomination Committee, the Board of Directors decided at its meeting on 26 July 2019 to appoint Dominique Perrier as a member of the Audit Committee replacing Paule Cellard, in order to differentiate the membership of the Audit and Risk Committees. Cross-membership of the Audit and Risk Committees Chairs allows to ensure an appropriate interaction between both committees.

### 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, internal control of financial information, capital and liquidity ratios to support the Risk Committee, the dividend policy and capital allocation, management of the Finance function and Internal Audit.

The Committee in particular reviews:

- the integrity of the financial statements, Pillar 3 disclosures, formal announcements and disclosures relating to financial performance;
- the effectiveness of Internal Audit and the external audit process;
- the effectiveness of internal financial control systems.

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 2019

The Audit Committee met four times in 2019, with an attendance rate of 100 per cent, as in 2018:

- 5 February 2019;
- 24 April 2019;
- 19 July 2019;
- 21 October 2019.

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 one of the two Deputy Chief Executive Officers 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 and tax 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 and the impacts of the 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.

The Committee examined the budget for 2019 financial year (meeting on 5 February 2019) and then the update of performance forecast at year-end. Once throughout the year, it paid careful attention to monitoring the cost base, cost saving initiatives implemented and recharges processes in place in the HSBC Group.

A specific presentation on data management at HSBC France was given to the Committee, covering among others, the governance arrangements in place, challenges and action plans, in particular in relation with BCBS 239 application.

The Committee was kept informed of the situation in terms of solvability and capital of HSBC Assurances Vie (France) and of the changes in the models used to compute the Present Value of In-Force ('PVIF') as well as their impact on the P&L.

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 2018 financial statements. The Committee discussed the Statutory Auditors' audit programme and independence, approved the fees paid in 2018 by the HSBC France group to the Statutory Auditors. The Committee was informed of a change of signatory by one of the two statutory auditors and reviewed and authorised as necessary the non-audit services rendered by the statutory auditors.

Statutory Auditors presented their diligences on the financial statements at 31 March 2019, 30 June 2019 and 30 September 2019 (meetings on 24 April, 19 July and 21 October 2019), as well as their annual audit plan (meeting on 19 July 2019).

The Committee was also informed of the results of controls conducted on financial statements, in particular regarding the deficiencies identified by these controls and progress in action plans. Within this framework, it reviewed the work carried out as part of the application of Sarbanes-Oxley and 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 21 October 2019, the Committee examined the list of the related-party agreements authorised previously by the Board and still in force and made recommendations to the Board regarding the list update.

At its meeting on 19 July 2019, the Committee was given a presentation on the framework in place regarding whistleblowing.

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 2019 annual audit plan (meeting on 5 February 2019) and discussed on human resources of Internal Audit.

The Committee carried out the annual review of its terms of reference (meeting on 5 February 2019).

The Chairman of the Audit Committee reported on the key points discussed during Audit Committee meetings at the Board meetings held on 8 February, 26 April, 26 July and 24 October 2019.

## Risk Committee

Composition of the Risk Committee as at 7 February 2020

| | |
|---|---|
| **Chairman** | |
| Lindsay Gordon (independent) | Appointed in 2015<br>(Member from 2013 to 2015) |
| **Members** | |
| Paule Cellard (independent) | Appointed in 2017 |
| Thierry Moulonguet (independent) | Appointed in 2009<br>(Chairman from 2010 to 2015) |
| Arnaud Poupart-Lafarge (independent) | Appointed in 2019 |

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, Chief Operating Officer or Chief Financial Officer.

Upon recommendation from the Nomination Committee, the Board of Directors decided at its meeting on 26 July 2019 to appoint Arnaud Poupart-Lafarge as a member of the Risk Committee replacing Lucile Ribot, in order to differentiate the membership of the Audit and Risk Committees. Cross-membership of the Audit and Risk Committees Chairs allows to ensure an appropriate interaction between both committees.

**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 risk related matters and the enterprise risks impacting HSBC France and its subsidiaries, including risk governance and internal control systems (other than internal controls over financial reporting).

The Committee collaborates with other Board committees whose activities may have an impact on the risk strategy (in particular, audit and remuneration committees) and regularly communicate with the HSBC France's internal control functions, in particular the risk management function.

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 2019**

The Risk Committee met seven times in 2019, with an attendance rate of 100 per cent, compared with 90 per cent in 2018:

- 5 February 2019;
- 12 April 2019;
- 24 April 2019;
- 18 June 2019;
- 19 July 2019;
- 21 October 2019;
- 21 November 2019.

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 one of the two Deputy Chief Executive Officers attended Committee meetings to answer any questions. HSBC France executives also attend Committee meetings for subjects falling under their responsibility.

At the end of its quarterly meetings, the Risk Committee held regularly in camera sessions without HSBC France management attending or with the Chief Risk Officer only.

In early 2019, the Committee decided to introduce at each of its quarterly meetings a deep dive session on a particular topic of its choice depending on the course of events or the matters of particular attention. Matters covered under this format in 2019 included model risk management, cybersecurity and fair value adjustments.

The Committee approved HSBC France's risk appetite in the 2019 financial year (meeting on 5 February 2019) 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 21 October 2019, it examined a first draft regarding risk appetite for the year 2020. 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. The Committee was informed of the changes to the risk management framework.

At its meetings, the Risk Committee continued to carry out a review of financial risks, 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;
- 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 and inspections of supervisory bodies on market risks;
- Risk models, in particular with the monitoring of progress made in the programme in this area and of reviews and on-site inspections on models performed by supervisory authorities as well as their impact on risk weighted assets and the content and implementation of the recommendations issued by the various internal and external controlling bodies;
- Liquidity, capital and interest rate in the banking book risks. In particular, the Committee approved the Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') reports (meeting on 24 April 2019), after a session dedicated to the examination of these draft reports (meeting on 12 April 2019), as well as the capital and liquidity plans (meeting on 5 February 2019) and their execution afterwards;
- Stress testing, in particular the work carried out as part of 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.

Likewise, at each meeting, the Risk Committee continued to carry out a review of non-financial risks, each of the individuals in charge of controlling such risks spoke, in particular concerning:

- Operational losses and progress and action plans relating to the operational risks management framework;
- Legal risks, included emerging risks, and legal disputes;
- Security and fraud risk, including information security and business continuity. In addition the Committee paid particular attention to cybercrime risks and for example reviewed regularly the main threats in this area, changes in the organisation of this function, or the main successes and challenges;
- Information systems, including the main incidents and risks, the cloud outsourcing strategy, as well as progress in the key projects.

In 2019, 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.

The Committee was kept informed of the progress of the projects and of risks related to the exit of the United Kingdom from the European Union, in particular concerning changes in the legal structure of HSBC France. The Committee reviewed regularly developments in risks of the new perimeter made of HSBC France's branches.

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 the work being carried out by Operational Risk department, notably 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 changes to the management framework for outsourced services, in particular those deemed essential, whether these services are sub-contracted within HSBC Group or to external suppliers, in order to put it in conformity with the requirements of the guidelines on outsourcing issued by the European Banking Authority, as well as the results of controls carried out on outsourced essential services.

In the area of financial crime compliance, the Committee continued in 2019 to monitor carefully 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, engagement with control and supervisory authorities and missions performed by these authorities on these matters.

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 21 October 2019). It paid attention to matters regarding projects and staffing of the Regulatory Compliance Department. It was informed of the Regulatory Compliance plan for 2019 (meeting on 5 February 2019) and monitored trends in risk appetite indicators as regards Regulatory Compliance.

The Committee approved the annual reports to the *Autorité de contrôle prudentiel et de résolution* on internal control (meeting on 24 April 2019) and on the organisation of the financial crime compliance framework (meeting on 19 July 2019) 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 as the *Autorité des Marchés Financiers*, the European Central Bank, the *Autorité de Contrôle Prudentiel et de Résolution*, the Prudential Regulation Authority, or the *Agence Française Anticorruption* and received reports and follow-up letters and replies to them in relation to these assignments, as well as action plans initiated to implement their recommendations.

The Committee was informed of the works performed by HSBC France regarding recovery and resolution and carried out as part of the HSBC Group's obligations towards the Prudential Regulation Authority or of its own ones.

Again in 2019, the Committee remained attentive to developments in the regulatory and supervisory environment in which HSBC France operates and to their impacts.

In relation to other governance matters, the Committee reviewed the remuneration policy (meeting on 5 February 2019). It also carried out the annual review of its terms of reference (meeting on 5 February 2019).

The Chairman of the Risk Committee reported on the key points discussed during Risk Committee meetings at the Board meetings held on 8 February, 26 April, 26 July and 24 October 2019.

## Nomination Committee

### Composition of the Nomination Committee as at 7 February 2020

| | |
|---|---|
| **Chairman** | |
| Philippe Houzé (independent) | Appointed in 2009<br>(Member from 1999 to 2009) |
| **Members** | |
| Samir Assaf | Appointed in 2012 |
| Arnaud Poupart-Lafarge (independent) | Appointed in 2020 |

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.

At its meeting on 6 February 2020 and upon recommendation from the Nomination Committee, the Board of Directors decided to appoint Arnaud Poupart-Lafarge as a member of the Nomination Committee, replacing Jacques Veyrat.

### Nomination Committee's missions

The Nomination Committee reports to the Board and is responsible for leading the process 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.

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

### Nomination Committee's work in 2019

The Nomination Committee met three times in 2019, with an attendance rate of 100 per cent as in 2018. Its main work concerned:

- 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, with the development of a policy on the assessment of the suitability of members of the management body and key function holders (the 'suitability assessment policy') and the update of the policies regarding diversity and training of the management body (meetings on 1 February and 15 July 2019);
- the full assessment of the individual and collective suitability of the management body pursuant to the suitability assessment policy meeting on 15 July 219) and assessments and reassessments required by the criteria defined in this policy (meetings on 15 July and 13 December 2019);
- reflections on the membership of the management body in its supervisory and management functions, based on the suitability assessment and diversity policies, leading the Committee to propose to the Board the co-optation of two new Directors: Fanny Letier (meeting on 1 February 2019) and Laurence Rogier (meeting on 15 July 2019) and the appointment of a Deputy Chief Executive Officer: Chris Davies (meetings on 1 February and 15 July 2019);
- proposals to the Board on renewing Directors' term of office at the Annual General Meetings to be held in 2019 and 2020 (meetings on 1 February and 13 December 2019);
- the membership of the Board Committees (meetings on 15 July and 13 December 2019);
- the training plan of the management body for 2019 (meeting on 15 July 2019);
- the review of the results of the Board evaluation and actions to implement (meeting on 15 July 2019);

- the review and proposal to the Board to approve the updated register of potential situations of conflict of interest (meeting on 1 February 2019);
- the review of the first part of the new report on corporate governance (meeting on 5 February 2018);
- the review of the Board internal rules (meeting on 1 February 2019);
- the review of the framework in place regarding the management body succession planning (meeting on 15 July 2019).

The Chairman of the Nomination Committee reported to the Board on its work at the Board meetings on 8 February and 26 July 2019. All of the Committee's work was submitted to the Board for approval.

## Remuneration Committee

| Composition of the Remuneration Committee as at 7 Feb 2020 | |
|---|---|
| **Chairman** | |
| Philippe Houzé (independent) | Appointed in 2009<br>(Member from 1999 to 2009) |
| **Members** | |
| Samir Assaf | Appointed in 2012 |
| Laurent Lagueny (elected by employees) | Appointed in 2020 |
| Arnaud Poupart-Lafarge (independent) | Appointed in 2020 |

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.

At its meeting on 6 February 2020 and upon recommendation from the Nomination Committee, the Board of Directors decided to appoint Laurent Lagueny and Arnaud Poupart-Lafarge as members of the Remuneration Committee, replacing Ludovic Bénard and Jacques Veyrat.

### Remuneration Committee's missions

The Remuneration Committee has non-executive responsibility for matters related to remuneration. In exercising this responsibility, it is responsible for:

- supporting the Board in overseeing the implementation and operation of the HBFR's remuneration policy (the 'Policy') in compliance with HSBC's Group remuneration policy, as approved by the Group Remuneration Committee and the shareholders of the HSBC Holdings plc in general meetings;
- ensuring the Policy complies with all relevant local regulations;
- ensuring the Policy is appropriate to attract, retain and motivate directors and senior management of the quality required to run HSBC France successfully.

The Committee collaborates with other Board committees whose activities may have an impact on the design and proper functioning of remuneration policies and practices (in particular, risk committee).

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.

### Remuneration Committee's work in 2019

The Remuneration Committee met twice in 2019, with an attendance rate of 100 per cent as in 2018. Its main work concerned:

- the review HSBC's general remuneration policy in France, in respect of 2018 and 2019 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 1 February and 13 December 2019);
- the review of the 20 highest remunerations in respect of 2017 and 2018 years (meetings on 1 February and 13 December 2019);
- compensation proposals for the Chief Risk Officer and the Head of Regulatory Compliance (meeting on 13 December 2019);
- 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 2018 and 2019 and of Chris Davies in respect of 2019 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 1 February and 13 December 2019);
- the review of the section of the corporate governance report on remuneration (meeting on 1 February 2019).

The Chairman of the Remuneration Committee reported to the Board on its work at the Board meeting on 8 February 2019. All of the Committee's work was submitted to the Board for approval.

## General 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.

### Organisation of the General Management

General Management leads the Company and acts as its representative vis-a-vis third parties. General Management comprises the three Effective managers, i.e. the Chief Executive Officer, Jean Beunardeau, who is assisted by two Deputy Chief Executive Officers:

- Chris Davies, appointed as Deputy Chief Executive Officer on 8 February 2019 and then as Effective Manager on 26 July 2019;
- Andrew Wild, in office since March 2015.

### 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 or by the Articles of Association, but decisions involving the strategic orientation of company activities and investments/divestments are submitted to the Board of Directors for approval according to the Board Internal rules.

Furthermore, the Board of Directors has delegated powers to issue bonds to Jean Beunardeau (Chief Executive Officer), Chris Davies and Andrew Wild (Deputy Chief Executive Officers) 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.

## Presentation of the members of General Management

The biography of the Chief Executive Officer, Jean Beunardeau, is available on page 23.

### Christopher Davies
**Deputy Chief Executive Officer**

**Principal position:** Deputy Chief Executive Officer, HSBC France. Chief Executive Officer International Europe, HSBC Bank plc. Group General Manager, HSBC Group.

**Other directorships in the HSBC Group:** Director, HSBC Bank Bermuda Limited. Director, HSBC Bank Malta p.l.c. Director, HSBC Bank (RR) (Limited Liability Company). Director, HSBC Europe B.V. Director, Midcorp Limited. Directorship expired in 2019: Member of the Supervisory Board, HSBC Bank Polska S.A.

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 1962. British nationality. Bachelor (BA) degree in French and German literature and languages from the University of Oxford and graduate of the Chartered Institute of Bankers. Since he joined HSBC in 1985, he has served in various senior roles across the main HSBC's major business lines, principally in the United Kingdom, the United States and China.

Thus, he was Head of Commercial banking North America from 2007 to 2011 then Deputy Chief Executive Officer of HSBC Bank (China) Company Limited from 2011 to 2013. Since 2013, he has been Chief Executive Officer International Europe of HSBC Bank plc et Group General Manager of the HSBC Group since 2017. He was appointed as Deputy Chief Executive Officer of HSBC France in February 2019.

| | |
|---|---|
| 2018 | – |
| 2017 | – |
| 2016 | – |
| 2015 | – |

### Andrew Wild
**Deputy Chief Executive Officer**

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

**Other directorship in the HSBC Group:** Directorship expired in 2019: Director, HSBC France.

**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.

| | |
|---|---|
| 2018 | **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.* |
| 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. |

## Executive Committee

The General Management is assisted by an Executive Committee whose membership was as follows as at 6 February 2020:

| | |
|---|---|
| **Jean Beunardeau** | Chief Executive Officer |
| **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 |
| **Ewan Barr** | Chief Operating Officer |
| **Marine de Bazelaire** | Head of Corporate Sustainability |
| **Xavier Boisseau** | Head of Global Banking and Markets |
| **Myriam Couillaud** | Head of Human Resources |
| **Frédéric Coutant** | Co-Head of Banking |
| **Eric Emoré** | Head of Insurance |
| **François Essertel** | Head of Private Banking |
| **Lisa Hicks** | Head of Strategy and Organisation |
| **Franck Lacour** | Head of Global Markets |
| **Marc de Lapérouse** | Head of Legal |
| **Nathalie Léonard** | Head of Tax |
| **François Mongin** | Head of Internal Audit |
| **Matteo Pardi** | Head of Asset Management |
| **Antoine Pfister** | Head of Regulatory Compliance |
| **Hubert Preschez** | Co-Head of Banking |
| **Emmanuel Rémy** | Chief Risk Officer |
| **Laurence Rogier** | Chief Financial Officer |
| **Jacques Sourbier** | Head of Commercial Banking |
| **Simon Spilsbury** | Head of Financial Crime Compliance |
| **Thomas Vandeville** | Head of Retail Banking and Wealth Management |

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 2019 on these bases, including in respect of the members of the Executive Committee.Additional information on the diversity policy are available in the chapter on Sustainability on page 66.

## Additional information

### 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 24 October 2019 the Board conducted its annual review of agreements already entered into that it had authorised previously and still in force.

#### Agreements authorised in 2019

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 2019:

- A sale and purchase agreement between HSBC Bank plc and HSBC France relating to the contribution of the business of HSBC Bank plc, Luxembourg Branch to HSBC France (meeting on 8 February 2019). This agreement was signed on 19 February 2019.
- A business and sale agreement between HSBC Bank plc Paris Branch and HSBC France relating to the acquisition of its business relating to Equities and Equity Research as a going concern *('cession de fonds de commerce')* (meeting on 19 February 2019). As at 31 December 2019, this agreement was not signed.
- An indemnity agreement between HSBC France and HSBC Bank plc and HSBC Bank UK plc in order to cover HSBC Bank plc and HSBC Bank UK plc for any amount that they may have to pay under obligations in which they remain debtors to the beneficiaries, that is clients entered into a relationship with HSBC France as HSBC Bank plc and HSBC Bank UK plc would no longer be authorised to provide certain international trade instruments and services to companies located in the European Economic Area after the exit of UK from the European Union (meeting on 19 February 2019). This agreement was signed on 3 June 2019 with HSBC Bank plc and on 11 November 2019 with HSBC Bank UK plc.

#### Agreements entered into in prior years and still in force and effect during 2019

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 2019. 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 contribution agreements and related documents entered into in 2018 between HSBC France and HSBC Bank plc, concerning the contribution of certain assets and liabilities of six European branches (Spain, Italy, Ireland, the Netherlands, Czech Republic, Belgium) of HSBC Bank plc to HSBC France, remained in full force and effect during 2019.

The agreement renewed in 2015 between HSBC Holdings plc and HSBC France, granting HSBC France and its subsidiaries use at no charge of the HSBC brand, remained in full force and effect during 2019.

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 2019.

The agreement, entered into 2018 with effect as of 1 January 2019, 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, remained in full force and effect during 2019.

### Additional information about the members of General Management and of the Board of Directors

#### Absence of conflicts of interest

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 the record, it has to be noted that at 31 December 2019, 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.

#### Absence of convictions

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.

### 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 has the option at all times to reduce this period of time, as he so sees fit.

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

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

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 | August 10, 2018 |
| Expiry date | October 10, 2020 |
| Maximum nominal amount | EUR 800 million |
| Used amount | EUR 0 million |

## Compensation

### Compensation and benefits 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 benchmarks.

The variable component is determined on the basis of the overall HSBC holdings and HSBC France performance and indicators covering 'Financial Performance' targets (profit before tax, comparative growth between revenue and costs ('JAW'), return on capital, etc.), 'Strategic priorities' targets focused on sustainable profitability on optimized management of costs, a successful achievement of Brexit project, improvement of customer experience, strengthen of leadership capabilities and 'Risk and Compliance' targets  with focus in particular in Financial crime and operational risks management and in strengthen of conducts aligned to our values, 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. 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.

Both Deputy CEO of HSBC France, namely Head of CMB Europe and Head of International also have specific objectives related to their Business or scope of responsibility.

#### Award of shares

In 2019, 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 2019, 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 2019, Jean Beunardeau had accrued pension rights representing 10.5 per cent of his 2019 fixed remuneration and 5.0 per cent of his 2019 total remuneration. The provision corresponding to the present value of these HSBC France pension commitments has been recorded in the HSBC France accounts at 31 December 2019, for an amount of EUR 4.9 million.

Both Deputy CEO, Andrew Wild and Chris Davies are not entitled to this pension scheme, since they take benefit of a UK pension schemes linked to their employment contract.

#### Remuneration

Samir Assaf, Chairman of the Board of HSBC France, does not receive any compensation or fees from HSBC France. He is not a beneficiary of the HSBC France supplementary pension scheme. as 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, of Andrew Wild and of Chris Davies Deputy CEO of HSBC France are detailed on next page.

Lastly, in terms of fringe benefits, Jean Beunardeau uses a car made available to him by the company for his professional needs and Andrew Wild is provided with a company car.

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[12]. Tables 4, 5 et 9 of this recommendation are not applicable.

*[12] 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.*

## Summary of compensation awarded to each Executive Director

### Chief Executive Director[1]

| | 2016 | 2017 | 2018 | **2019** |
|---|---|---|---|---|
| | Compensation paid in 2016 | Compensation paid in 2017 | Compensation paid in 2018 | **Compensation paid in 2019** |
| | € | € | € | **€** |
| **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** |

| | 2016 | 2017 | 2018 | **2019** |
|---|---|---|---|---|
| | Compensation for 2016 | Compensation for 2017 | Compensation for 2018 | **Compensation for 2019** |
| | € | € | € | **€** |
| **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 | 244,033 | 272,000 | 251,697 | **239,112** |
| Variable remuneration in shares[4] | 244,033 | 272,000 | 251,697 | **239,112** |
| Deferred variable remuneration in cash[5] | 366,049 | 408,000 | 377,546 | **358,668** |
| Deferred remuneration in shares without performance conditions[6] | 366,049 | 408,000 | 377,546 | **358,668** |
| Deferred remuneration in shares with performance conditions[7] | | – | – | |
| Directors' fees[8] | – | – | – | **–** |
| Benefits in kind | – | – | – | **–** |
| **Total** | 2,329,990 | 2,469,826 | 2,368,312 | **2,305,386** |

*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 This allowance is awarded monthly in form of cash.*
*4 Shares that vest immediately and are subject to a month's retention period for those granted until 2016 and one year for those granted from 2017.*
*5 Variable remuneration in cash 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 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 Directors' fees by HSBC France (see page 29).*

### Deputy Chief Executive Officer[1]

| | 2016 | 2017 | 2018 | **2019** |
|---|---|---|---|---|
| | Compensation paid in 2016 | Compensation paid in 2017 | Compensation paid in 2018 | **Compensation paid in 2019** |
| | € | € | € | **€** |
| **Andrew Wild** | | | | |
| Fixed remuneration | 395,000 | 395,000 | 395,000 | **469,117** |
| Allowance 'Material Risk Taker[2,3] | 98,000 | 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 | 11,465 | **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 | **4,626** |
| **Total** | 753,878 | 807,626 | 879,816 | **1,023,843** |

| | 2016 Compensation for 2016 € | 2017 Compensation for 2017 € | 2018 Compensation for 2018 € | **2019 Compensation for 2019 €** |
|---|---|---|---|---|
| **Andrew Wild** | | | | |
| Fixed remuneration | 395,000 | 395,000 | 395,000 | **469,117** |
| Allowance 'Material Risk Taker[2,3] | 98,000 | 98,000 | 98,000 | **98,000** |
| Variable remuneration in cash | 93,000 | 114,657 | 135,630 | **133,500** |
| Variable remuneration in shares[4] | 93,000 | 114,657 | 135,630 | **133,500** |
| Deferred variable remuneration in cash[5] | 62,000 | 76,438 | 90,420 | **89,000** |
| Deferred remuneration in shares without performance conditions[6] | 62,000 | 76,438 | 90,420 | **89,000** |
| Directors' fees[7] | – | – | — | **—** |
| Benefits in kind[8] | 4,626 | 4,626 | 4,626 | **4,626** |
| **Total** | 807,626 | 879,816 | 949,726 | **1,016,743** |

1 *Deputy Chief Executive Officer since 1st 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 twelve months' retention period.*
5 *Variable remuneration in cash 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 over five years (20 per cent per year from year n+1) and subject to a twelve months' retention period.*
7 *Renounced the payment of his Directors' fees by HSBC France (see page 29).*
8 *Company car. Is also entitled to an annual accommodation allowance, a travel allowance, a medical cover and a tax assistance.*

## Deputy Chief Executive Officer[1]

| | 2016 Compensation paid in 2016 € | 2017 Compensation paid in 2017 € | 2018 Compensation paid in 2018 € | **2019 Compensation paid in 2019 €** |
|---|---|---|---|---|
| **Chris Davies** | | | | |
| Fixed remuneration | | | | **466,864** |
| Allowance 'Material Risk Taker[2,3] | | | | **77,831** |
| Variable remuneration in cash | | | | |
| Variable remuneration in shares[4] | | | | |
| Deferred variable remuneration in cash[5] | | | | |
| Deferred remuneration in shares without performance conditions[6] | | | | |
| Directors' fees[7] | – | – | — | **—** |
| Benefits in kind[8] | | | | |
| Total | | | | **544,695** |

| | 2016 Compensation for 2016 € | 2017 Compensation for 2017 € | 2018 Compensation for 2018 € | **2019 Compensation for 2019 €** |
|---|---|---|---|---|
| **Chris Davies** | | | | |
| Fixed remuneration | | | | **466,864** |
| Allowance 'Material Risk Taker[2,3] | | | | **77,831** |
| Variable remuneration in cash | | | | **146,623** |
| Variable remuneration in shares[4] | | | | **146,623** |
| Deferred variable remuneration in cash[5] | | | | **97,949** |
| Deferred remuneration in shares without performance conditions[6] | | | | **97,749** |
| Directors' fees[7] | – | – | — | **—** |
| Benefits in kind[8] | | | | |
| Total | | | | **1,033,439** |

1 *Deputy Chief Executive Officer since 8 February 2019.*
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 twelve months' retention period.*
5 *Variable remuneration in cash 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 over five years (20 per cent per year from year n+1) and subject to a twelve months' retention period.*
7 *As non Director he is not entitled to Directors' fees*
8 *Is entitled to an annual cost of living allowance, an accommodation allowance, a travel allowance, a medical cover and a tax assistance.*

## Shares awarded to each Executive Director in 2020 in respect of 2019

### 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 2020 | ND | EUR 358,668 | 20% on each following dates: | 20% on each following dates: |
| | | | | March 2021 | March 2022 |
| | | | | March 2022 | March 2023 |
| | | | | March 2023 | March 2024 |
| | | | | March 2024 | March 2025 |
| | | | | March 2025 | March 2026 |
| Jean Beunardeau | March 2020 | ND | EUR 239,112 | March 2020 | March 2021 |
| Andrew Wild | March 2020 | ND | EUR 89,000 | 20% on each following dates: | 20% on each following dates: |
| | | | | March 2021 | March 2022 |
| | | | | March 2022 | March 2023 |
| | | | | March 2023 | March 2024 |
| | | | | March 2024 | March 2025 |
| | | | | March 2025 | March 2026 |
| Andrew Wild | March 2020 | ND | EUR 133,500 | March 2020 | March 2021 |
| Chris Davies | March 2020 | ND | EUR 109,290 | 20% on each | 20% on each |
| | | | | March 2021 | March 2022 |
| | | | | March 2022 | March 2023 |
| | | | | March 2023 | March 2024 |
| | | | | March 2024 | March 2025 |
| | | | | March 2025 | March 2026 |
| Chris Davies | March 2020 | ND | EUR 163 935 | March 2020 | March 2021 |

### Performance shares which became available for each Executive Director in 2019 (Table 7)

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

### HSBC Holdings plc shares vested for each Executive Director in 2019 (Table 8)

| | Date of award | Number of shares vested[1] | Vesting conditions (in case of special conditions) |
|---|---|---|---|
| Jean Beunardeau | 10/3/2014 | 62,379 | Performance shares |
| Jean Beunardeau | 29/2/2016 | 18,668 | – |
| Jean Beunardeau | 27/2/2017 | 10,981 | – |
| Jean Beunardeau | 28/3/2018 | 11,503 | – |
| Jean Beunardeau | 25/3/2019 | 35,226 | – |
| Andrew Wild | 29/2/2016 | 4,296 | – |
| Andrew Wild | 27/2/2017 | 1,860 | – |
| Andrew Wild | 28/3/2018 | 2,155 | – |
| Andrew Wild | 25/3/2019 | 18,982 | – |

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 months after the vesting. The immediate 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 2016 were vested for 34 per cent in 2019.

The shares awarded in 2017 were vested for 20 per cent in 2019.

The shares granted in 2018 were vested for 20 per cent in 2019.

The shares awarded in 2019 were vested for 100 per cent in 2019.

### HSBC Holdings plc free shares, without performance conditions, awarded in 2019 in respect of 2018, 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) | 25/2/2019 | 541,699 | EUR 3,890,443 | 26.02.2021 for 66% and 26.02.2022 for 34% or 26.02.2019 for 100% | 26.02.2021 for 66% and 26.02.2022 for 34% or 26.08.2019 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 2019 in respect of 2018, 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) | 24/2/2020 | ND | EUR 3,336,365 | March 2022 for 66% and March 2023 for 34% | September 2022 or March 2023 for 66% and September 2023 or March 2024 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 the vesting.*

### HSBC Holdings plc free shares, without performance conditions, vested in 2019, 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 2019 (employees or former employees) | 421,818 | |
| Of which award 2016 | 89,100 | 13/3/2019 |
| Of which award 2017 | 88,384 | 13/3/2019 |
| Of which award 2018 | 7,741 | 12/3/2019 |
| Of which award 2019 | 236,593 | 25/2/2019 |

1 *The shares awarded in 2016 and 2017 are available for sale six months after the vesting; those granted in 2018 are available 12 months after the vesting and those granted in 2019 under the UK plan are available for sale six or 12 months after the vesting.*

### Other information required by the Corporate Governance Code (Table 2)

| **Executive Director**<br>Function<br>First appointed<br>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**<br>Chief Executive Officer[2]<br>1 February 2010[3]<br>2017 | Suspended | Yes | No | No | No |
| **Andrew Wild**<br>Deputy CEO<br>1 March 2015[4]<br>2017 | Not applicable | No | No | No | No |
| Chris Davies<br>Deputy CEO<br>8 February 2019<br>2020 | Not applicable | 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 independent 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 , the Deputy Chief Executive Officer in charge of the Commercial Banking, the Chief Risk Officer, the Head of Human Resources ), 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 local staff by the global business lines on the basis both of the overall performance of each business line and of the relative performance of local 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 review covers all aspects of 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 Regulatory 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 set variable compensation budgets, is the profit before tax before variable compensation and excluding the change in value of own debt 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'), return on capital, completion of Group strategic objectives (in particular increase of cross border revenues, etc.) or regional or local priorities (customer experience improvement, implementation of local transformation plan if any, strategic review, 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, operational losses, improvement of risk culture within the company, growth in women representation among GCB0-3. 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, 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 HSBC France level a list of 66 employees coming under this Material Risk Takers category (51 on France perimeter and 15 on International perimeter).

As these new criteria have to be applied both at a consolidated and an individual basis, an additional list of 64 employees (57 on France perimeter and 7 on International perimeter) who can have a significant impact on the company's risk profile at a local level was added to this list of Material Risk Takers identified at HSBC Group level.

This whole list of 130 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.

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 and lower than EUR100,000, 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 43 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 follows: 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 fund's 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 two members who have the status of external 'non executive' Director.*

In 2019, 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 2019, 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 mechanism 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

| | Full time Equivalent 2019 [1] | Total remuneration 2019 |
|---|---|---|
| Executive members | 3 | 4,497,636 |
| Global Banking and Markets | 580 | 86,148,532 |
| Retail Banking | 3,547 | 179,820,703 |
| Private Banking | 107 | 12,144,163 |
| Commercial Banking | 1,283 | 78,367,538 |
| Global Functions and Other | 1,953 | 137,898,606 |
| **Total (France perimeter)** | 7,472 | 498,877,177 |
| HSBC France, Athens Branch (Greece) | 350 | 18,489,362 |
| HSBC France, Spanish Branch (Spain) | 152 | 18,110,817 |
| HSBC France, Dublin Branch (Irland) | 138 | 14,778,335 |
| HSBC France, Pobocka Praha (Czech Republic) | 94 | 5,823,466 |
| HSBC France, Milan Branch (Italy) | 120 | 15,296,357 |
| HSBC France, Amsterdam Branch (Netherlands) | 62 | 6,787,063 |
| HSBC France, Luxembourg Branch (Luxembourg) | 271 | 25,906,019 |
| HSBC France, Poland Branch (Poland) | 167 | 9,971,442 |
| HSBC France, Brussels Branch (Belgium) | 26 | 2,785,728 |
| HSBC France, Stockholm Branch (Sweden) | 6 | 692,261 |
| **Total (international perimeter)** | 1,385 | 118,640,850 |
| **Total (France and International perimeter)** | 8,857 | 617,518,028 |

1 *HSBC Staff in France as of 31 December 2019 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 2019 € | Total fixed pay € | Total variable pay € |
|---|---|---|---|---|
| Executive members | 3 | 4,497,636 | 2,310,626 | 2,187,010 |
| Global Banking and Markets | 45 | 31,079,782 | 17,723,667 | 13,356,116 |
| Retail Banking | 12 | 7,135,880 | 3,598,794 | 3,537,086 |
| Private Banking | 5 | 2,267,453 | 1,121,000 | 1,146,453 |
| Commercial Banking | 9 | 3,014,575 | 1,790,000 | 1,224,575 |
| Global Functions and Other | 34 | 9,115,953 | 5,915,649 | 3,200,304 |
| **Total (France perimeter)** | **108** | **57,111,279** | **32,459,736** | **24,651,544** |
| **Total (international perimeter)** | **22** | **10,874,281** | **6,102,640** | **4,771,642** |
| **Total (France and International perimeter)** | **130** | **67,985,561** | **38,562,375** | **29,423,186** |

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

| | Payments in cash € | Payments in shares € | Total variable pay € |
|---|---|---|---|
| Executive members | 1,093,505 | 1,093,505 | 2,187,010 |
| Global Banking and Markets | 6,720,058 | 6,636,058 | 13,356,116 |
| Retail Banking | 1,583,252 | 1,953,834 | 3,537,086 |
| Private Banking | 606,602 | 539,851 | 1,146,453 |
| Commercial Banking | 565,347 | 659,227 | 1,224,575 |
| Global Functions and Other | 1,892,617 | 1,307,688 | 3,200,304 |
| **Total (France perimeter)** | **12,461,381** | **12,190,163** | **24,651,544** |
| **Total (international perimeter)** | **2,458,969** | **2,312,673** | **4,771,642** |
| **Total (France and International perimeter)** | **14,920,350** | **14,502,836** | **29,423,186** |

### Total variable pay: distribution between non deferred and deferred amount

| | Non-deferred amount € | Deferred amount € | Total variable pay € |
|---|---|---|---|
| Executive members | 1,073,094 | 1,113,916 | 2,187,010 |
| Global Banking and Markets | 7,434,899 | 5,921,217 | 13,356,116 |
| Retail Banking | 1,687,457 | 1,849,629 | 3,537,086 |
| Private Banking | 714,572 | 431,881 | 1,146,453 |
| Commercial Banking | 678,417 | 546,158 | 1,224,575 |
| Global Functions and Other | 2,133,651 | 1,066,653 | 3,200,304 |
| **Total (France perimeter)** | **13,722,090** | **10,929,454** | **24,651,544** |
| **Total (international perimeter)** | **2,805,963** | **1,965,678** | **4,771,642** |
| **Total (France and International perimeter)** | **16,528,053** | **12,895,132** | **29,423,186** |

## 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 | 556,958 | 556,958 | 1,113,916 |
| Global Banking and Markets | 2,956,609 | 2,964,609 | 5,921,217 |
| Retail Banking | 350,376 | 1,499,253 | 1,849,629 |
| Private Banking | 215,940 | 215,940 | 431,881 |
| Commercial Banking | 226,139 | 320,019 | 546,158 |
| Global Functions and Other | 482,069 | 584,585 | 1,066,653 |
| **Total (France perimeter)** | **4,788,091** | **6,141,363** | **10,929,454** |
| **Total (international perimeter)** | **978,989** | **986,689** | **1,965,678** |
| **Total (France and International perimeter)** | **5,767,080** | **7,128,052** | **12,895,132** |

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

| | Amount of unvested deferred variable pay in respect of previous financial years<br>€ |
|---|---|
| Executive members | 1,890,145 |
| Global Banking and Markets | 6,896,244 |
| Retail Banking | 1,005,136 |
| Private Banking | 361,300 |
| Commercial Banking | 302,443 |
| Global Functions and Other | 1,085,011 |
| **Total (France perimeter)** | **11,540,279** |
| **Total (international perimeter)** | **1,283,594** |
| **Total (France and International perimeter)** | **12,823,873** |

This table shows outstanding deferred variable pay corresponding to total unvested deferred remuneration before the 31 December 2018, 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 share value as at 31 December 2019. 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)<br>€ |
|---|---|---|
| Executive members | – | – |
| Global Banking and Markets | NC | 800,000 |
| Retail Banking and Private Banking | – | – |
| Commercial Banking | | |
| Global Functions and Other | | |
| **Total (France perimeter)** | **NC** | **800,000** |
| HSBC France Athens Branch (Greece) | – | – |
| HSBC Bank Polska S.A (Poland) | – | – |
| **Total (international perimeter)** | – | – |
| **Total (France and International perimeter)** | **NC** | **800,000** |

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

| | Number of people concerned | Amount of severance payments<br>€ |
|---|---|---|
| Executive members | – | – |
| Global Banking and Markets | NC | 2,093,997 |
| Retail Banking and Private Banking | – | – |
| Commercial Banking | – | – |
| Global Functions and Other | | |
| **Total (France perimeter)** | **NC** | **2,093,997** |
| HSBC France Athens Branch (Greece) | – | – |
| HSBC Bank Polska S.A (Poland) | – | – |
| **Total (international perimeter)** | – | – |
| **Total (France and International perimeter)** | **NC** | **2,093,997** |

## Contributions to defined benefit plan

| | Number of people concerned | Contribution to defined benefit plan<br>€ |
|---|---|---|
| Executive members | 1 | 507,436 |
| Global Banking and Markets | – | – |
| Retail Banking and Private Banking | – | – |
| Commercial Banking | | |
| Global Functions and Other | | |
| **Total (France perimeter)** | **1** | **507,436** |
| HSBC France Athens Branch (Greece) | – | – |
| HSBC Bank Polska S.A (Poland) | – | – |
| **Total (international perimeter)** | – | – |
| **Total (France and International perimeter)** | **1** | **507,436** |

### Information on highest remunerations

Total remuneration

| | Number of Material Risk Takers |
|---|---|
| Between 1 million and 1.5 million excluded | 7 |
| Between 1.5 million and 2 million excluded | 3 |
| Between 2 million and 2,5million excluded | 1 |
| **Total** | **11** |

## 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: 379) | 27,483,703 | 9,387,438 | 36,871,140 |
| Including employees who have a significant impact on the risk profile AIFMD (number: 43)[1] | 6,714,728 | 4,459,561 | 11,174,289 |
| Including Senior Managers (number: 19) | 2,850,741 | 1,582,719 | 4,433,460 |

1 *Including 3 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 pay | Total |
|---|---|---|---|
| | € | € | € |
| Employees identifies as Solvency II staff (number: 18)[1] | 4,298,151 | 3,682,864 | 7,981,015 |

1 *Including 11 Executive managers who are already in the CRD IV material risk takers.*

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75116 Paris, France

# Statutory Auditors' special report on related-party agreements

*This is a free translation into English of the Statutory Auditors' special report on related-party agreements 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.*

(Annual General Meeting for the approval of the financial statements for the year ended 31 December 2019)

**HSBC FRANCE**

103, avenue des Champs-Elysées

75419 Paris Cedex 08, France

To the Shareholders,

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

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of the agreements 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. 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 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 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 to be submitted for the approval of the Annual General Meeting

### Agreements authorised and entered into during the year

In accordance with article L.225-40 of the French Commercial Code, we were informed of the following agreements entered into during the year and authorised in advance by the Board of Directors.

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

*Nature and purpose:*

At its meeting on 8 February 2019, the Board of Directors authorised an agreement between HSBC France and HSBC Bank plc concerning the acquisition by HSBC France of the business activities of HSBC Bank plc's branch in Luxembourg.

*Terms and conditions:*

The agreement was entered into on 19 February 2019.

The two parties agreed on the terms and conditions of the transaction, notably regarding customer information, the management of customer agreements, the employees transferred, the determination and payment of VAT, as well as details of the methods used to determine the sale price.

*Reasons why the agreement is beneficial for the Company:*

The agreement was entered into to ensure the business continuity of the HSBC Group within the European Economic Area (EEA) following Brexit.

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

*Nature and purpose:*

At its meeting on 19 February 2019, the Board of Directors authorised an indemnification agreement between HSBC France and HSBC Bank plc and HSBC Bank UK plc.

The agreement was set up to indemnify HSBC Bank plc and HSBC Bank UK plc for any costs that they may still be required to pay pursuant to their obligations to their beneficiaries, who have become customers of HSBC France further to their transfer to the latter.

*Terms and conditions:*

The indemnification agreement was entered into on 3 June 2019 for HSBC Bank plc and 11 November 2019 for HSBC Bank UK plc.

The parties agreed on the terms and conditions of the indemnity to be paid to HSBC Bank plc and HSBC Bank UK plc by HSBC France.

*Reasons why the agreement is beneficial for the Company:*

The agreement was entered into to ensure the business continuity of the HSBC Group within the EEA following Brexit.

## Agreements authorised and entered into since the year end

We were informed of the following agreements, authorised and entered into since the year end, which were authorised in advance by the Board of Directors.

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

*Nature and purpose:*

Transfer of the Equities and Equity Research activities from HSBC Bank plc Paris Branch to HSBC France.

This agreement with HSBC Bank plc Paris Branch was authorised by the Board of Directors at its meeting on 19 February 2019. It concerns the sale of the business that provides financial services to customers in the EEA and Switzerland.

*Terms and conditions:*

The agreement was entered into on 31 January 2020.

The two parties agreed on the terms and conditions of the sale of the business, particularly the business assets covered by the sale, the liabilities transferred, the items excluded from the sale, the employees transferred, the applicable obligations and conditions, and the sale price.

The sale price of EUR 4,000,000 will be offset against the amount of the liabilities transferred.

*Reasons why the agreement is beneficial for the Company:*

The agreement was entered into to ensure the business continuity of the HSBC Group within the EEA following Brexit.

## Agreements already approved by the Annual General Meeting

**Agreements approved in prior years that remained in force during the year**

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

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

***Acquisition of the business activities of six European branches:***

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 that currently report to HSBC Bank plc (Spain, Italy, Ireland, the Netherlands, the Czech Republic and Belgium).

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.

The acquisition of the business activities was decided against a backdrop of the political and regulatory developments taking place in Europe related to Brexit.

**With HSBC Bank plc Paris Branch, a company controlling a shareholder company of HSBC France and 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 2019:

- 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 2019 amounted to EUR 20.8 million.

- A tax integration agreement between HSBC Bank plc Paris Branch and HSBC France. With respect to this agreement, tax income of EUR 53.9 million was recorded in 2019.

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

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.

The two parties agreed on the terms and conditions of the sale of the business, particularly the business assets covered by the sale, the liabilities transferred, the items excluded from the sale, the employees transferred, the applicable obligations and conditions, and the sale price.

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.

**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 2015 provides for the free use of the HSBC brand by HSBC France and its subsidiaries. It had no impact on the 2019 financial statements.

**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 benefit 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 2019 financial statements for EUR 0.4 million.

Neuilly-sur-Seine and Paris, 19 February 2020

The Statutory Auditors

| **PricewaterhouseCoopers Audit** | **BDO Paris Audit & Advisory** |
|---|---|
| Nicolas Montillot<br>Partner | Michel Léger<br>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 4.

#### 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 report (https://www.hsbc.com/investors/results-and-announcements).

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 2020 and in its annual Environmental, Social and Governance, or ESG report, the last of which was published in April 2019 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 February 2020.

### 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. It also relies on surveys involving employees and customers, dialogue with customers and investors, and the annual ESG survey carried out among investors.

In 2019, HSBC France reviewed the environmental, social and governance risk map that it had prepared in 2018, and found that it was still relevant and valid. This analysis of the most material ESG risks over the short, medium and long term identifies 12 ESG themes that present a material risk for HSBC France, along with three themes required by the July 19, 2017 order relating to the publication of non-financial information.

A correspondence has been established between the 15 risks identified and their thematic presentation in the Non Financial Performance Statement:

- Six themes involving sustainability risks in the banking business:
  - Risk of customer disappointment dealt with in theme 1: Listening to our customers to meet their needs (theme 1);
  - Risk of financial illiteracy dealt with in theme 2: Strengthening financial education among our customers, people and partners and a means of tackling exclusion ;
  - Risk linked to failure to support the real economy in theme 3: Contributing to the real economy;
  - Risk linked to the financing of an economy incompatible with the objectives of the Paris agreement dealt with in theme 4: Contributing to a low carbon economy;
  - Risk linked to the support of an unsustainable economy dealt with in theme 5: Managing the environmental risks related to banking activities (theme 5);
  - Risk related to the lack of control of the operational environmental footprint of the bank dealt with in theme 6 : Improving our environmental footprint.
- Three themes involving workforce-related risks:
  - Risk linked to the inadequacy of needs and human resources dealt with in theme 7: Recruitment;
  - Risk linked to the inadaptation of skills of employees dealt with in theme 8: Development and employability;
  - Risks related to lack of diversity among teams and psychosocial risks dealt with in theme 9: Diversity, equity and quality of life.
- Six themes involving governance risks:
  - Risk related to unfair business practices and failure to protect the interests of customers dealt with in theme 10: Fair business practices and protecting the client's interest (theme 10);
  - Financial crime risk management (theme 11);
  - Risk of corruption, dealt with in theme* 12: Anti-corruption;
  - Risk related to tax evasion, dealt with in theme* 13: Tax (theme* 13);
  - Cybersecurity risk management (theme 14);
  - Risks in terms of non-compliance with Human Rights dealt with in theme* 15: Human rights.

In 2019, rating agency Sustainalytics assessed HSBC France in terms of its management of ESG risks, putting it in the low-risk category, and named it as a 'Leader' in terms of ESG performance.

* *required by the directive on the Extra Financial Performance*

### Managing material ESG risks

Environmental risk management policies are detailed in the section 'Managing environmental risks from banking activity', page 60.

Social risk management policies are detailed in the section 'An inclusive and responsible HR policy', page 63.

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

- Risks of money laundering and financial crime: page 136;
- Risks of corruption: page 136;

- Risks in the areas of cyber-security and IT attacks: page 142.

### 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 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)

The HSBC Group remains committed to listening to customers, whose feedback has helped us improve our products and services.

We also 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.

The Bank will keep on working to simplify processes and optimise the customer experience, particularly in terms of being contactable, having pro-active relationship managers and improving the customer pathway.

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 fluid, fast and suited to their needs.

Our retail banking and wealth management operation in France is working on this, and its main projects are:

- rolling out a new system for managing calls to branches, to ensure that we are more easily contactable;
- looking at using email to improve response times and request monitoring;
- extending branch opening hours;
- managing and leading commercial campaigns highlighting the highly pro-active service that customers want;
- making ongoing efforts to train relationship managers in order to provide high-level banking services and comply with requirements as regards financial advice;
- rolling out new digital functionality via mobile innovations (e-documents on mobile devices, direct access to relationship managers' schedules in order to make appointments, instant payments, increased use of biometric technology etc.);
- analysing 'customer pathways', such as using e-signatures on insurance documents, adopting new channels for manual payments and reviewing procedures in the event of a customer's death.

*Monitoring customer recommendation and satisfaction rates*

We measure and report on customer data for all of our business lines within our ESG Report.

In France, in 2019, the bank surveyed more than 17,500 retail customers; 89 per cent said that they achieved what they wanted to achieve when visiting a branch. 84 per cent of the customers who know their relationship manager would recommend him. Customer perception of the Customer Relations Centre has improved constantly since 2018 and the approval rating was 7.7 out of ten at end-December 2019. These figures show high levels of customer loyalty and trust and also the commitment of the bank's Relationship and Customer Service teams.

This is confirmed by the five prestigious prizes won by HSBC France in the 2020 *Trophées de la Qualité Bancaire* banking quality awards. The survey carried out by meilleurebanque.com / meilleurtaux.com – involving more than 5,000 respondents representing France's entire population and territory in October 2019 – assessed levels of customer satisfaction with banks in six categories, and HSBC France ranks in the leading group in five out of the six retail banking categories:

- 1st for remote customer service (91 per cent satisfaction);
- Joint 1st for physical branches (87 per cent satisfaction);
- Joint 2nd for day-to-day relationship managers (83 per cent satisfaction);
- Joint 2nd for project relationship managers (78 per cent satisfaction);
- 3rd for the website (86 per cent satisfaction).

*Monitoring retail customer complaint management*

In 2019, the number of customer complaints slightly increased 2 per cent compared with 2018 for the Retail Banking and Wealth Management network in France.

The quality and speed with which complaints are handled are closely monitored. Response times have been significantly reduced. In 2019, 68 per cent of complaints (an increase of three points relative to 2018) were processed on the same day or the following day; 12 per cent (a decrease of two points) were processed in two-five working days; and 20 per cent (a decrease of 1 point) were processed in more than five working days.

The main causes of complaints among retail customers in 2019 were as follows:

- 30 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;
- 30 per cent related to payment methods: complaints concerning international and SEPA transfers, cheque deposits and bank cards;
- Customer service and support accounted for 13 per cent of the total, mainly concerning difficulties contacting the bank;
- 9 per cent related to life insurance, mostly delays in processing;

The number of complaints involving the ombudsman remained stable.

*Monitoring of customer satisfaction in Private banking*

HSBC Private Banking pays particular attention to the opinions and suggestions of its clients. It works tirelessly to improve its range of products and services, in which it aims to achieve excellence.

Every year, the Private bank invites its customers to take part in a survey to gain feedback on their experiences and identify areas for improvement, with two main themes:

- Satisfaction with the range of products and services;
- Trust in HSBC Private Banking.

The 2019 survey showed a significant improvement in satisfaction levels among Private banking clients in France, with a score of 8.2 out of 10 as opposed to 7.6 in 2018.

Clients' satisfaction levels increased as regards relationships with their key contacts and particularly with their dedicated relationship managers (score of 9.2 out of 10 versus 8.6 in 2018), in whom they expressed trust (80 per cent of respondents versus 64 per cent in 2018), but also with teams of specialist advisers (investment, loans, wealth management) and product specialists (average score of 8.7 out of 10 versus 8.3 in 2018).

Almost all clients taking the survey reported that they achieved their financial goals in 2019 (97 per cent versus 90 per cent in

2018) thanks to an increasingly clear and effective financial strategy (99 per cent of customers surveyed versus 94 per cent in 2018).

Clients reported that they entrust the majority of their assets to our Private Bank (among the clients surveyed, 67 per cent of their total assets are managed by our teams), thus confirming their trust in the bank's teams.

Despite a very slight increase in client satisfaction with the HSBC's online services and digital solutions provided (5.95 percent versus 5.39 per cent in 2018), efforts are still required in this area.

*Monitoring of customer satisfaction in Commercial Banking*

The Commercial Banking customers' satisfaction level is monitored as part of an annual survey regarding the entire relationship on one hand and by a monthly survey, part of an HSBC program on the moments of truth in the relationship such as opening an account or requesting credit, for example. The customers' feedback collected continuously feeds the reflection on the processes simplification but also on the quality plan built around the customer proximity development, value proposition and support of our customers' international activities.

*Commercial Banking customer complaints handling*

In Commercial Banking in France, the number of complaints fell 27 per cent in 2019 (1,577 in 2019 versus 2,170 in 2018). The top 14 reasons for complaints account for 69 per cent of the total. Of these, 24 per cent were about payments, 24 per cent about account management issues and 12 per cent about trade finance.

45 per cent of complaints were handled within five business days and 69 per cent in fewer than 15 business days.

After analysing these complaints, we have prepared and are implementing action plans to improve procedures and to raise both service quality and customer satisfaction.

Middle Office operational teams and project teams have optimised the process for initiating customer relationships both in France and abroad, cutting processing time by a factor of three across the two processes.

*Global Banking and Markets customer complaints handling*

To improve the process for reporting and handling customer complaints in Global Banking and Markets, the management of those complaints has been centralised since March 2018, regardless of the department concerned (Global Banking and Markets internal departments but also other departments such as Global Liquidity & Cash Management and Global Trade & Receivables Finance that work with Global Banking and Markets customers). To date, more than 99 per cent of complaints have received a response within the statutory timeframe of two months, and the average processing time is 10.6 days. As of 31 December 2019, the volume of complaints was very low compared with the number of transactions processed, and stood at 117. Complaints related mainly to the non-execution of transactions or the slow fulfilment of customer requests relating to current accounts or other banking services.

This ability to resolve customer problems quickly and efficiently is one of our core aims. To that end, HSBC France also established a Client Escalation Committee in 2019: this committee allows account managers to escalate customer problems to the highest level of the bank, within a forum that combines business lines and support functions, in order to find lasting solutions to them. The main aim is to maintain customer satisfaction and to ensure, through systematic analysis, that the underlying causes of issues are addressed and resolved.

*Investing in digital to better support customers*

Against a fast-moving economic, political and technological background, it is more important than ever to manage risks, achieve operational excellence and seize growth opportunities. The shift to digital technology, the challenges of the circular economy and new value chains mean that we have to rethink and reinvent the bank–customer relationship. The HSBC Group is fully aware of these issues and is investing heavily in solutions that will make our services ever more simple, fluid, transparent and immediate for our customers.

More than ever, our Retail Banking and Wealth Management business in France must become more efficient and get to know its customers better in order to maintain and improve its distinctive value proposition and service quality in a difficult market context.

- We are stepping up the digitalisation process:
  - the number of accounts opened online increased by 37 per cent in 2019;
  - customers can use e-signatures as part of the sign-up process for more than 90 per cent of our products;
  - third-party account aggregation is possible on mobile devices and desktop PCs;
  - prospective and existing customers can book appointments online;
- In strict compliance with laws and regulations related to the protection of personal data, many initiatives are carried out using customer data:
  - automated collection of customer data to save time for both our staff and customers (e.g. KYC Digital project);
  - greater use of appetite and risk scores in order to become more pro-active and combat attrition.

Commercial Banking has continued to improve its e-signature processes, and can now integrate new documents digitally in order to reduce the number of hard-copy documents sent through the post.

Also, Global Banking and Markets has invested in developing digital platforms that allow more efficient and responsible management:

- the Liquidity Management Portal is an international cash management solution using API technology and giving real-time access to data: it gives a treasurer a better overview of his/her company's liquidity in the countries in which it operates and in the currencies concerned. Customisable reports and analysis tools provide key performance indicators regarding liquidity management. Finally, the solution allows autonomous management of cash pooling (inter-company cash flows, transfer parameters etc.).
- My Deal is a multichannel digital platform that allows issuer customers to access information regarding roadshows, obtain feedback from investors and see the order book in real time. It is used by HSBC in the primary market when an issue is underway, whether we are acting as co-ordinator or global co-ordinator. The solution is particularly innovative in the market and transforms the experience for corporate customers when carrying out a bond issue, giving them real-time information in a fully secure way.
- Supply Chain Finance: this is a multi-currency and multi-country digital platform that allows suppliers, as part of contractual arrangements with their import customers, to obtain better financing terms by relying on the financial strength of their buyers, but also terms that vary according to sustainability performance criteria. The customer experience is enhanced through the use of digital technology. In this way,

HSBC France is addressing the desire of its own customers to fulfil their social and environmental commitments.

Finally, the Private bank, in partnership with Blackrock, uses the Aladdin Wealth solution to deliver a dynamic, proactive advisory management service and provide more detailed information to clients. Aladdin Wealth is a market risk modelling and portfolio analysis tool that gives clients an institutional-quality overview of their assets, including information about returns and associated risks. More than 200 financial institutions and almost 25,000 investment professionals are already using Aladdin Wealth in their asset management operations. This HSBC–BlackRock joint venture is a major innovation, providing private clients with technological tools that have traditionally been only available to institutional investors.

### Strengthening 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. HSBC France has set itself the objective of supporting 60,000 people on the subject of financial education by 2020.

Accordingly, HSBC France offers all of its retail customers a service that aggregates all of their bank accounts and classifies their transactions by type through the 'Personal Economy' app, helping them analyse and monitor their budget on a daily basis. Available since October 2016 via their mobile, the functionality is now accessible for customers via my Online Banking from the account summary.

In 2019, HSBC France held a series of conferences on key life events, such as 'buying your own home', 'protecting your loved ones', 'preparing for retirement', 'managing taxation' and 'preparing for your children's studies'.

As regards savings, HSBC Global Asset Management's teams in France have developed an innovative financial education programme for people responsible for employee savings plans among existing and prospective business customers, using an unprecedented educational technique involving an immersive two-day introduction to asset management. During this course, organised like a hackathon, 35 customers set up their own virtual investment funds and an awards ceremony took place on 15 December 2019. A second course is scheduled to take place in April 2020.

The Private bank also strives to help clients with estate planning through its 'Next Generation' programme. It includes workshops to help our clients' children become more aware of and deal with new issues facing our society, such as demographic change, new technologies, sustainable finance, corporate governance and climate change. More than 800 Private Bank clients around the world have access to this programme, including 100 in France.

To give us a better understanding of how, through our savings and socially responsible investments, we all can support companies that are helping to create a sustainable economy and preserve the planet, HSBC France has since 25 September been producing a podcast focusing on socially responsible investing entitled *'Les Voies de l'économie'*. The first episode had attracted about 5,600 listeners by end 2019. The next three episodes will cover the themes of water, carbon and waste management.

In 2019, HSBC France made greater efforts to raise customer awareness of financial fragility, via its monthly account statements and the HSBC.fr website. In particular, we send personalised letters to customers identified as fragile, informing them of the 'HSBC Service Initial' offering for fragile customers. Following a specific remediation initiative in late 2018, the number of those letters sent increased sharply, by 84 per cent in 2019 compared with 2018. Each week, HSBC France also sends customers who have signed up for this offering an account summary by text message, helping them to assess and monitor their budget.

In mid-2019, we also set up a partnership with the *Crésus* charity to help fragile customers, with the aim of identifying and supporting them more effectively.

The HSBC Foundation for Education also 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 different programmes:

- The first, launched in 2013, is a support and mediation platform for individuals, including our employees, in difficult situations;
- The second, launched in 2018, covers financial education through 'Dilemma', a board game examining budgeting and financial issues. In 2019, 125 of the charity's beneficiaries took part in sessions and 30 HSBC employees were trained in its deployment. To mark Responsible Finance week, 13 HSBC branches organised 'Dilemma' workshops for the children of customers and staff members, aiming to teach them the basics about managing a budget and about banking products and services.

Finally, since 2019, the *Fondation HSBC pour l'Education* is a member of France's *Institut pour l'Education Financière du Public* ('IEFP'): information on all of the IEFP's work can be found at lafinancepourtous.com. IEFP's aim is to help everyone acquire the basic knowledge required to feel comfortable with financial matters and understand the economic issues of the world we live in. The partnership between the HSBC Foundation for Education and the IEFP has made it possible to benefit from the high traffic of visitors to the *La finance pour tous* site, thus enabling HSBC France to reach around 59,000 people.

In 2019, 117,570 people were sensitised to financial education or supported through our programs and actions, this exceeding by 96 per cent 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)

HSBC France contributes to the financing of the economy and the smooth running of society. Through its 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, safeguards their future through investments, and ensures secure domestic and international transactions.

HSBC France – Breakdown of main operating income items

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| | **€m** | €m | €m |
| Levies and taxes | **402** | 514 | 448 |
| Dividend payment | **–** | – | 412 |
| Salaries and employee benefits (net of payroll tax) | **741** | 614 | 620 |

*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 2019, use of the bond markets by French local authorities and public-sector healthcare entities remained high, with issuance of EUR 1.56 billion. This represents a slight decrease on 2018 (EUR 1.91 billion), although the number of active entities and transactions increased. The slight fall in the issuance total was due to the reduced financing requirements of two entities that have historically been major players in this segment, i.e. *Région Ile-de-France* (no issues in 2019) and *Ville de Paris* (only one issue for EUR 250 million in 2019). The bond market alone continued to represent 9 per cent of the funding sources of local authorities and public-sector healthcare entities in 2019, alongside funding from European Investment Bank, *Agence France Locale, Caisse des Dépôts et Consignations, Banque Postale* and other commercial banks. In this market segment, HSBC France remains the long-standing leader, still ranking number one among lead managers for bond issues by French local authorities and public-sector healthcare entities. In 2019, HSBC France led five out of 79 transactions (and 160 transactions out of 608 since 2000).

In 2019, 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 27 in the market.

HSBC France is also directly involved in diversifying the financing of social housing in France, a sector currently seeing significant change. After an initial private placing for Vilogia in 2018, HSBC France lead-managed a private placing for Batigère in 2019.

HSBC Assurances Vie (France) maintained its commitment to funding French local authorities by increasing the size of a dedicated fund by EUR 38 million to EUR 165 million. In 2019, that investment fund financed hospital equipment, infrastructure improvements and social housing. The fund increased its ESG focus during 2019, and its most recent investments have been assessed with respect to the UN's Sustainable Development Goals (SDGs). Its investments in 2019 supported efforts to achieve the following five SDGs: sustainable energy (no. 7), reduced inequalities between countries (no. 10), open, safe and sustainable cities (no. 11), responsible consumption and production (no. 12) and the restoration of ecosystems on land (no. 15).

*Financing business and supporting entrepreneurship*

Commercial Banking supports companies around the world and has the financial capacity to support them in the transition to sustainability. Its geographical reach, range of products and knowledge of its customers 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, across all lines of business, went from EUR 47 billion at 31 December 2018 to EUR 58 billion at the end of 2019, the increase explained by the integration of branches in early 2019.

The Private bank has set up an 'Incubator' team to support entrepreneurs who are forging the new economy. This comprehensive service is based on a close collaboration between private, corporate banking and retail banking operations, putting clients in touch with leading investors and entrepreneurs in their sector. More than 120 high-potential entrepreneurs received expert advice from this HSBC team in 2019. More than 200 young entrepreneurs were also invited to business development events in France and abroad, with the support of HSBC.

In line with the HSBC Group's sustainability strategy*, the support provided by teams in France also focuses on job creation through entrepreneurship and sustainable performance at companies, including social and community enterprises. 615 entrepreneurs were supported in 2019, through eight dedicated programs. Since 2018, 1,249 entrepreneurs have been supported, which represents 83 per cent of the target of 1,500 entrepreneurs supported by 2020.

- 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.
- In the area of microfinance, the bank – through a partnership with ADIE *(Association pour le droit à l'initiative économique)*, launched in 2007 – makes available an annual budget of EUR 2.4 million (the same level as in 2017), which has enabled 448 people in financial difficulties to return to work and 83 micro-entrepreneurs to start a business.
- In order to provide the closest possible support to entrepreneurs through the ADIE partnership, 12 employees from the Commercial Banking division in Île de France, Rennes, Bordeaux and Marseille sit on the jury for the final stage of the *Je deviens Entrepreneur* ('Becoming an Entrepreneur') certification programme. Since 2018, 63 entrepreneurs have benefited from this programme; a majority of them have gone on to set up their own business.

Other support programmes designed to tackle inequality and barriers to access to entrepreneurship have been jointly set up with Commercial Banking in France. The Women International Program has been developed with the *Les Premières* network to enable six female entrepreneurs from disadvantaged areas to grow their businesses outside France.
Another initiative focusing on older entrepreneurs – *Les Eclaireurs*, a partnership with *Fondation Entreprendre* – will enable 12 people aged over 45 to get their careers moving again as entrepreneurs.

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

## Contributing to a low-carbon economy (theme 4)

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.

At 31 December 2019, HSBC achieved a medium ESG risk rating using the new Sustainalytics methodology. HSBC's rating outperformed compared with a peer set that included 10 global banks, three emerging markets based banks and one Asia-Pacific-based bank.

*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 62 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.

A progress report is available at https://www.hsbc.com/our-approach/building-a-sustainable-future/sustainable-finance.

*The HSBC France's contribution to Group's sustainable finance 2025 commitments*

HSBC France's contribution to the Group's USD 100 billion target amounted to USD 3.8 billion at 31 December 2019, a large part of which related to green bond issues.

*Green bonds*

HSBC France is heavily involved in developing the green bond market. In 2019, in the sovereign segment, HSBC France as Primary Advisor joint lead-managed the inaugural green bond issue by the Netherlands (via a DDA or Dutch Direct Auction) – the first green bond issue by a AAA-rated sovereign – for close to EUR 6 billion over a 20-year term. In the Agencies segment in France, HSBC France achieved a world first, lead-managing the first ever 100-year green bond issue, in an amount of EUR 100 million for SNCF *Réseau*. Again for SNCF *Réseau*, we joint lead-managed another 10-year benchmark green bond issue for EUR 500 million. For *Société du Grand Paris*, HSBC France joint lead-managed a 30-year benchmark green bond issue for EUR 1 billion and arranged two green bond private placings, one for 50 years and EUR 55 million and the other for 51 years and EUR 50 million. HSBC France joint lead-managed the *Caisse des Dépôts et Consignations'* inaugural Sustainability Bond issue in an amount of EUR 500 million and for a five-year term (at a negative interest rate). In the local authorities segment, HSBC France joint lead-managed the inaugural green and responsible bond issue by *Région Wallonne* in Belgium (EUR 1 billion across two tranches of seven and 15 years). In the covered bonds segment, we joint lead-managed CAFFIL's inaugural green bond issue, raising EUR 750 million over 10 years. We joint lead-managed CNP Assurances' inaugural subordinated green bond issue in an amount of EUR 750 million. Finally, in the corporate segment, HSBC France joint lead-managed three green bond issues for Engie (EUR 1 billion over six years, EUR 750 million over eight years and EUR 750 million over 20 years).

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

Meanwhile, despite the fall in yields reducing the potential investment universe, HSBC *Assurances Vie* continued to invest more in green bonds within its bond portfolio by subscribing EUR 14 million to new issues in 2019.

*Green lending and lending based 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 2019: loans of EUR 1.4 billion (equivalent) to Sodexo, EUR 3.9 billion to Carrefour, EUR 1.5 billion to Suez, EUR 2 billion to Solvay and EUR 3.5 billion to SNCF.

HSBC France also arranged a EUR 90 million green loan for a real-estate project boasting three types of certification relating to environmental quality and quality of life at work; the development's energy consumption will be 25-30 per cent lower than that required by France's RT 2012 thermal regulations.

*Growth of sustainable finance within Commercial Banking*

Continuing initial efforts to raise awareness of sustainable issues in 2018, Commercial Banking focused in 2019 on developing a structured customer approach, sales force and product range in order to meet new challenges (e.g. regulations, competition, employee expectations – particularly those of the youngest employees – and customer demands). The main parts of this strategy are as follows:

- New internal organisation to meet the needs of customers and the sales force more effectively.

Commercial Banking put together a team of four people focusing on sustainable finance, whose main aims are to adopt a structured approach to sustainable finance, co-operate with other HSBC Group entities to its account managers' skill levels and encourage the creation of new products in order to help finance a low-carbon economy. The aim is also to provide a highly operational response to demand from business clusters and ecosystems regarding the major issues of energy transition, duty of care requirements, the Sapin 2 act and ESG trajectories.

- New offering for customers.

In 2019, Commercial Banking launched various sustainable finance products:

  - 'Impact loans' (on which the margin varies according to the borrower's compliance with predetermined ESG criteria and/or changes in its extra-financial rating by an independent organisation). HSBC France took part in the very first impact loans in 2019.
  - A total 500 million EUR budget for discounted loans in partnership with the European Investment Bank, with an internally determined target of allocating part of that sum to 'green' projects or companies (based on certain criteria inspired by the existing and well-known Greenfin classification).
  - At the same time, we also offer the European Investment Fund's ('EIF') Innovfin guarantee facility to support innovative customers. These guarantees cover loans for European SMEs and mid-caps that meet the EIF's criteria, and particularly at least one of the 19 innovation criteria recognised by the fund. HSBC France also wants to use this budget to support environmental innovation and digitalisation among SMEs as defined by the European Commission.

To support its customers in the most effective way possible, HSBC France has also sought to forge closer ties with business clusters (by joining and/or signing partnerships with them), particularly those involving companies seeking to move towards a low-carbon economy (e.g. companies in the renewable energies sector, but also those involved in the 'sustainable cities' sector).

Finally, Commercial Banking launched a project involving partnerships with six specialists in energy transition, duty of care and CSR strategies in the broad sense to help its account managers raise these issues with all customers. These partnerships are intended to have a major impact at the operational level, and quantitative data regarding their impact will be available.Training.

We stepped up our training initiatives in 2019, with more than 400 people within Commercial Banking receiving training. Details of those initiatives can be found in the 'Building employees' expertise in sustainable finance issues' page 60.

### *Growth of responsible investment within Retail Banking and Wealth Management*

Having launched the first SRI equity fund in 2001, HSBC France has been committed to sustainable finance for almost 20 years. We are fully aware of the importance of Environmental, Social and Governance ('ESG') issues. Today, 100 per cent of our asset management products factor in ESG criteria alongside financial criteria when investment decisions are made.

In October 2019, HSBC France launched a range of products supplementing its SRI labelled funds, suitable for all risk profiles with three new multi-asset solutions. Those solutions – HSBC RIF-SRI Moderate, HSBC RIF-SRI Balanced and HSBC RIF-SRI Dynamic by increasing level of risk – are mainly invested directly in securities in the eurozone. This new diversified SRI range combines an SRI investment process with multi-asset investment expertise; the SRI approach is overseen by managers and analysts who use proprietary tools and a comprehensive ESG research platform that ensures the consistency of investment decisions.

The HSBC Responsible Investment Fund ('HSBC RIF')* French mutual fund now features seven SRI sub-funds covering all asset classes and offers five profiles ranging from the most cautious to the most dynamic. This unprecedented product allows customers to invest in the theme of sustainable finance according to their risk appetite. The fund also features an SRI-energy transition subfund called HSBC RIF-Europe Equity Green Transition, which has three recognised European labels: the French government's SRI label, the Greenfin-*France Finance Verte* label and the Belgian towards sustainability label created by Febelfin and awarded by the Belgian finance industry federation in November 2019.

Since 2017, HSBC France has offered 'lower-carbon' funds aiming to achieve both capital growth and income over the long term. The fund invests at least 90 per cent of its assets in the equity of companies of all sizes, and seeks to have a smaller carbon footprint than its benchmark index.

The investment process identifies and ranks the most attractive stocks in the fund's investment universe. To reduce exposure to carbon-intensive activities, the carbon footprint of all stocks in the portfolio is assessed. The process results in a portfolio that maximises its exposure to attractive stocks while reducing its carbon footprint.

Through these SRI and 'lower-carbon' products, investors can align their financial investments with their personal values, regardless of their risk profile, in order to support a sustainable economy. Money invested in the SRI range currently represents around 13 per cent of assets under management. Inflows into SRI products rose by 186 per cent between October 2018 and December 2019, while non-SRI funds saw outflows. This trend can be also seen across all responsible investments (including SRI, lower-carbon and Equity Green Transition products), where inflows rose 133 per cent over the same period.

### *Growth of sustainable finance within Private Banking*

In summer 2019, the Private bank launched its first HSBC Green Bond, an SRI ('Socially Responsible Investment') structured product based on the MSCI Europe Select index, which excludes controversial industries such as alcohol and tobacco. The product's underlying index factors in Environmental, Social and Governance ('ESG') criteria.

The Private bank also joined forces with the *SOS Villages d'Enfants* charity (https://www.sosve.org) to offer an investment solution with a charitable dimension, i.e. the *'Phénix Mémoire Dégressif WO CAC/SX5'* structured product, a 0.20 per cent donation of the EUR 10 million issue amount to the charity, which is a long-standing partner of the HSBC Group as part of the 'Youth Opportunities Programme' and aims to support orphans and abandoned children.

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

*ESG approach*

The financial importance of ESG issues is increasingly clear, as investors position their portfolios for the future. HSBC Global Asset Management is certain that ESG issues will have major repercussions on a company's fundamentals and long-term performance. In 2006, Asset Management signed the United Nations Principles for Responsible Investment and undertook to comply with those six key principles. Today, 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 examine ESG scores and analyse carbon intensity at a portfolio level in order to better understand and address the risks and opportunities (see 'Managing climate risk in asset management', page 61).

*Principles for Responsible Investment ('PRI')*

The quality of HSBC Global Asset Management's efforts in integrating ESG factors was underscored again by the most recent annual PRI evaluation, which rates and ranks signatories by the quality of their implementation of the six Principles for Responsible Investment. In 2019, HSBC Global Asset Management obtained an A+ score in all areas assessed (ESG strategy and governance, quality of the process integrating ESG into equity and bond management) and ranked in the top ten percentiles of the asset management league table.

*Socially Responsible Investment ('SRI') range*

In 2019, HSBC Global Asset Management launched a comprehensive range of SRI labelled solutions under the name HSBC Responsible Investment Fund ('HSBC RIF')* for institutional and retail investors. By doing so, it was responding to France's Pacte act, which requires asset managers to offer at least one SRI- or Greenfin-labelled fund or one social responsibility fund within life insurance policies by 2020, and all three types of fund by 2022. In addition, the fund features an employee savings feeder fund called HSBC *EE Actions Transition Verte*.

Net inflows*** into the SRI-labelled funds in the HSBC *Finance Durable* range rose very sharply in 2019 (by 164 per cent compared with 2018) to more than EUR 399 million****. Those funds include socially responsible employee savings mutual funds and the low carbon funds range.

As regards impact investing, the HSBC Group recognises its responsibility for meeting the United Nations' Sustainable Development Goals ('SDGs') and complying with the Paris Agreement. Asset Management is committed to finding innovative and effective investment solutions that allow its institutional clients to take part in this transition to a lower-carbon economy. As part of that effort, in June 2019 HSBC Global Asset Management started promoting a global fund dedicated to emerging-market green bonds in partnership with the IFC (International Finance Corporation): HSBC Real Economy Green Investment Opportunity ('REGIO') GEM Bond.

*Educating savers and raising their awareness about responsible investment*

In 2019, HSBC Global Asset Management continued the initiative it had started in 2018 to educate savers, in particular by helping to produce a series of educational podcasts about sustainable development and sustainable finance called *Les Voies de l'économie*. In the podcasts, a journalist at French TV news channel LCI, explains the major changes taking place in the economy in response to issues including climate change, the depletion of resources, waste management and the way in which Socially Responsible Investing ('SRI') contributes to a more sustainable way of developing the economy.

HSBC Global Asset Management also took part in several industry events in 2019 on the theme of sustainable finance. These included, for the second consecutive year, the Positive Investor Forum and the annual PRI conference called 'PRI in Person', in which one of HSBC's responsible investing specialists led the workshop about Climate Action 100+, a five-year initiative in which investors are seeking to forge contacts with the biggest greenhouse gas emitters. HSBC Global Asset Management is one of Climate Action 100+'s founding signatories and has a seat on its Steering Committee.

- HSBC Responsible Investment Funds ('HSBC RIF') is a French mutual fund that acts as an umbrella for sustainable finance savings solutions accredited by the French government. This fund, which has had seven sub-funds since 30 September 2019, has more than EUR 1.4 billion of assets under management at end 2019.
- www.towards sustainability.be/fr/hsbc-europe-equity-green-transition
- Annual net inflows received by HSBC Global Asset Management (France) into open-end Sustainable Finance funds distributed in the markets listed below if those funds are registered there, or via socially responsible employee savings funds. The markets covered by HSBC Global Asset Management (France) are: France, Benelux, Spain, Italy, Nordic countries, Greece and Malta.
- Data at 30 December 2019. This amount includes the repositioning of 3 UCIs within the Sustainable Finance range labelled SRI, which occurred on July 12 and November 8, 2019, for a total amount of 135 million EUR.

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

In 2019, HSBC *Assurances Vie* (France) maintained its strong focus on environmental quality as part of its real-estate policy. That involves selecting properties that meet the highest environmental standards and carrying out works to enhance their environmental quality as confirmed by independent accreditation (HQE, *Effinergie Rénovation* and BREEAM labels).

HSBC *Assurances Vie* (France) has completed its additional investment of around EUR 37 million to renovate and expand Club Med's *Caravelle* village in *Guadeloupe*, which was acquired in October 2017, including a long-term lease signed with Club Med. The existing village has been renovated and expanded with new buildings accredited as meeting HSBC *Assurances Vie* (France) energy efficiency targets. As well as achieving climate-related targets, the project is having a positive impact on the regional economy; that impact has been recognised by the awarding of grants amounting to EUR 9.8 million by the European Regional Development Fund ('ERDF'), EUR 0.3 million by ADEME and EUR 0.3 million by EDF. The project has also created jobs: around 150 people have worked for an average of eight months each on renovating and expanding the village, and around 100 direct jobs within the village and roughly the same number of indirect jobs have been created.

*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, in which it invites a company to present its sustainability strategy to the bank's SRI investment customers. In 2019, these meetings were attended by sustainability directors from several major listed companies. There were also meetings in which financial analysts from HSBC France presented particular ESG themes (accounting optimisation, medicine prices in the United States, building insulation etc.) Investors were particularly interested in a fact-finding trip to Copenhagen to meet wind turbine manufacturers. As a result, 11 ESG events took place in 2019.

*Building employees' expertise in sustainable finance issues*

In order to help employees develop the expertise they need to meet sustainable finance challenges, the Sustainability Department, Asset Management's ESG analysis team and the sustainability champions in each business line organised more than 40 awareness-raising and training events in 2019, attended by more than 550 employees, including:

- A one-day 'Sustainable Finance Forum' at head office, open to all employees, including four workshops aiming to raise awareness of climate issues through a Climate Collage;
- Themed training events for business lines and the Risk Management function, dealing with various subjects such as ESG criteria and how asset managers analyse companies, biodiversity as the other urgent issue in sustainable finance, how the auto industry is addressing environmental transition, and the European taxonomy;
- Six two- or three-day off-site training sessions, jointly run by the Earthwatch NGO, with sessions explaining the theory, talks by external experts and experiments guided by National Institute of Agronomic Research ('INRA').

Commercial Banking teams also received specific training led by partners as part of the multi-partnership initiative mentioned in the 'Growth of sustainable finance within Commercial Banking' page 58.

It should also be noted that HSBC France is one of five pilot banks that have signed up to the Inveest (financing energy efficiency) programme in partnership with Agency for the Environment and Energy Management ('ADEME') and has in fact started to train employees on energy efficiency projects financing.

*Factoring sustainable finance criteria into remuneration*

The HSBC Group's management committee is responsible for implementing the sustainability strategy, which results in specific long-term targets for the Group's executive directors and chief executives. In 2017, executive directors' long-term targets included a total target of US$30-34 billion for financing and investing in clean energy and low-carbon technologies and projects that contribute to the attainment of the Paris Agreement and the United Nations' Sustainable Development Goals, over a three-year period ending on 31 December 2020. In 2018, the long-term incentive payment scorecards for executive directors included a criterion relating to the rating awarded by rating agency Sustainalytics, as an incentive to achieve Outperformer status.

These targets are adopted by the Group's subsidiaries. For HSBC France, targets such as the assessment of customer transition risk and training are also included in the annual scorecard in Commercial Banking, Retail Banking and Wealth Management and the Operations department.

## Managing the environmental risks related to banking activity (theme 5)

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 15 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.

The potential environmental and social impacts caused by customers conducting business in any of the sectors concerned by HSBC’s policies are assessed by account managers from Global Banking and Markets and Commercial Banking and by HSBC’s designated Sustainability Risk Managers from the Credit Department for risky project finance and lending transactions.

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 revision concerned the policy on the energy sector in April 2018: the areas in which HSBC restricts and withdraws its support were extended to cover various energy sources such as coal, Arctic drilling, oil sands projects, certain large hydroelectric dams and nuclear power stations.

The HSBC Group’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.

These proactive policies, which form the basis of a restrictive and transparent approach to financing carbon-intensive or potentially environmentally damaging sectors, have enabled the HSBC Group and HSBC France more specifically to avoid financing new thermal coal mines and coal-fired thermal power stations since the energy sector policy was revised in mid-2018. In 2019, coal represented less than 1 per cent of the energy mix financed by HSBC France; that proportion resulted from the energy mix of certain customers, not from our direct financing of coal-related activities, in line with our internal policy. HSBC France thus contributes to the financial sector’s collective commitment to withdrawing from financing the coal industry.

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 Article 173 of French 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. The HSBC Group has also undertaken to follow the recommendations of the Task Force on Climate-related Financial Disclosures (‘TCFD’) since they were published in 2017 and reports its progress in its annual ESG report available on the Group website.

HSBC France aims to refine its understanding of its exposure to transition risks in order to maintain the alignment of its financing in the energy sector with the projections of the 2°C scenario of the IEA for Europe.

HSBC France has worked with Carbone 4, a consultancy advising on energy transition and climate adaptation, to carry out top-down analyses of its loan book’s exposure to climate risks. We started with the most exposed sectors: Energy & Transport in 2016 and Real Estate & Industry in 2017, representing one-third of the loan book. In 2018, Commercial Banking analysed its entire loan book and confirmed that real estate and transport industries, along with producers of equipment for carbon-intensive industries, represent challenges for HSBC France. In 2019, HSBC France again assessed its loan book in the energy sector to see how it had changed since 2016. The study showed that the proportion of the loan book relating to fossil fuels (oil and gas) had fallen and that the proportion relating to electricity had risen, better aligning the energy mix financed by HSBC France with the requirements arising from the IEA’s 2°C Scenario for Europe. The emission factor of the electricity mix financed by HSBC France was 142g $CO_2$/kWh in 2018, less than the 335g $CO_2$/kWh proposed by the IEA’s 2°C Scenario for Europe for the same year.

This assessment of the HSBC France portfolio is being complemented by a company-by-company approach, designed by the Group for six 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. In France, 37 customers and 15 account managers have been involved in this process in 2019. It is part of the HSBC Group’s strategy to engage with customers to understand how a transition to a lower-carbon economy could affect their business and support them with that transition. More than 160 discussions on these themes have been recorded in the CRM tool used by commercial teams at Global Banking and Markets and Commercial Banking.

*More information on the HSBC Group’s transition risk assessment can be found in the* 2019 Group Annual Report and Accounts *available on hsbc.com.*

In 2019, to better understand how its loan book is exposed to physical risks related to climate change, HSBC France took part in Climinvest, a European programme aiming to develop climate services applied to the finance industry. The team of researchers assessed a sample of our loan book in the real-estate sector. The results showed that more than 55 per cent of the loan book is exposed to flood risk in the medium term (2041-2070) and more than 20 per cent to flood risk in the short term (2021-2050).

### *Managing climate risk in asset management*

Climate change is an important aspect of the way in which we factor sustainability issues into asset management. We manage climate risks at three levels:

- Assessment of climate issues at the company level: climate change-driven investments start by understanding the risks to management strategies, sectors and companies. ESG/climate research and analysis are integrated into systems and tools used for management and analysis purposes and give a greater understanding of a company or issuer’s risks and opportunities.
- Assessment of climate issues at the portfolio level: decision-making tools used by portfolio managers factor in ESG and carbon data. This means that, at any time, they can carry out very precise assessments of their exposure to climate risk (in absolute and relative terms) as part of their investment activities. The carbon analysis is used as a screening tool as part of Socially Responsible Investing (‘SRI’) and low-carbon strategies.

- Macro/sector research about climate issues: analysis of these issues, particularly the risks inherent in transition and their impact on the financial markets, is a rapidly developing area of research. It is a field in which HSBC Global Asset Management is a pioneer due to work including studies on the various scenarios of transitioning to a low-carbon economy, its collaboration with external experts and industry initiatives. Asset Management shares the conclusions of its work with all investment teams so that they can make the most informed decisions. Monitoring focuses on highly carbon-intensive industries, which are very vulnerable in certain scenarios.

An important step in the process is to engage with the companies in which HSBC Global Asset Management invests, to better understand and support their practices in terms of climate reporting, the management of risks and opportunities related to climate change and our policy in this area. Asset Management also adopts direct, collaborative engagement initiatives and uses its voting decisions to highlight any potential problems.

*Collaborative engagement initiatives*

HSBC Global Asset Management recognises that without concerted action to tackle climate change, the value of assets (including financial assets) and portfolios will be affected in the short term and even more so over the medium to long term. On 10 July 2019, following on from collective climate-related engagement initiatives (Climate Action 100+, IIGCC etc.), HSBC Global Asset Management joined eight of the world's largest asset managers to set up the One Planet Asset Managers initiative, committing to co-operate and factor climate criteria into its investments. This initiative supports the approach adopted in 2018 by the One Planet Sovereign Wealth Funds, six funds committed to combating climate change.

*Voting and shareholder engagement*

HSBC Global Asset Management is responsible for the proper management of the assets entrusted to it by its clients, and being an active shareholder is central to its responsible investment approach. In this way, it encourages companies to adopt best practice consistently, and it uses its voting rights to raise concerns about ESG issues and climate risks. After setting up a system for monitoring its engagement activities in 2016, Asset Management in 2019 developed an analysis tool to track its voting. It has seen a better understanding of the role of engagement in the investment process, and an increased desire to raise ESG concerns. In 2018, HSBC Global Asset Management initiated discussions about ESG issues with 1,279 companies in 58 countries. Teams of Credit and Equity asset managers and analysts based in France held discussions with almost 300 companies about ESG and/or climate issues, an increase of 50 per cent compared with 2017, particularly through the bond team's engagement activities. The companies concerned are mainly those that HSBC Global Asset Management holds in its portfolios or in which it has a strong interest. HSBC Global Asset Management is therefore one of the most active asset managers in terms of voting on climate issues, supporting 82 per cent of resolutions in favour of combating climate change between 2017 and 2019[*].

*Measuring the carbon intensity of portfolios*

HSBC Global Asset Management was one of the first institutions to sign the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures[**], and started to publish the carbon footprint of its equity portfolios in 2015 after signing the Montreal Carbon Pledge. In 2019, as well as covering equity and bond portfolios, carbon footprint analyses also covered diversified and real-estate portfolios managed in five major asset management centres (Paris, London, Hong Kong, New-York and Düsseldorf). Asset Management takes into account assets invested in emerging and developed markets, whether they are managed actively or passively. To analyse portfolios' carbon intensity, HSBC Global Asset Management used two recognised suppliers of carbon data in 2019: S&P Trucost and MSCI. Thus, compared to the previous year, over a larger perimeter, the weighted average carbon intensity (scopes 1 and 2) expressed in tonnes of $CO_2$ per million dollars in turnover was thus established, at the end of 2018, on the S&P Trucost database:

- 295 te$CO_2$/$m revenue for equity portfolios (280 end 2017);
- 228 te$CO_2$/$m revenue for bond portfolios (296 end 2017).

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

* *Voting Matters' study produced by UK-based NGO ShareAction*, looking at how asset managers voted in AGMs on resolutions relating to the fight against climate change: https://shareaction.org/wp-content/uploads/2019/11/Voting-Matters.pdf*

** *The TCFD was set up by the Financial Security Board ('FSB') in December 2015. It is chaired by Michael Bloomberg and consists of 32 members from the financial and non-financial sectors (asset managers, pension funds, private groups, audit and consulting firms, and rating agencies).*

## 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 2019, the main areas of action involved the ongoing policy of renovating buildings, 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* (46,000m$^2$ of office space) in 2011 and the '*NFHQE™ Bâtiments Tertiaires en Exploitation*' energy efficiency certification, under which it achieved an 'Excellent' rating in 2018, HSBC France achieved an 'Exceptional' rating in 2019, particularly because of its progress on the health theme:

- installation of LED lighting in bathrooms;
- 85 per cent of cleaning products featuring eco-labels;
- air quality analyses obtained from the lessor in line with requirements.

Lastly, business travel by employees in France in 2019 was 1.69 per cent higher than in 2018 in terms of kilometres travelled, although the related $CO_2$ emissions decreased by nearly 4 per cent. The increase in kilometres travelled was due to trips made as a result of Brexit and the relocation of certain banking activities to France, along with training sessions and staff representative meetings taking place centrally in Paris. The downward revision to DEFRA (Department for Environment, Food & Rural Affairs) emission factors in the last two quarters of the reference period had a positive impact on $CO_2$ emission figures in 2019. In total, transport-related $CO_2$ emissions per employee per year amounted to about 0.43 tonnes of $CO_2$ equivalent, down 36 per cent from 2018.

In accordance with French decree no. 2011-829 of 11 July 2011 on greenhouse gas emission footprints and the local climate energy plan, HSBC France compiled and published its carbon report for 2018, showing a slight increase in tonnes of $CO_2$ equivalent produced. Information on the company's 2019 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.

In 2018, HSBC France carried out an initial analysis for the *La Défense (Courbevoie)* site, which is our largest site in terms of the number of people working there, examining site accessibility and employee practice and expectations regarding their commute to work. The study led to the signature, in early 2019, of 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. HSBC France, as part of its effort to increase quality of life at work, has also adopted a proactive remote working policy, allowing an increasing proportion of employees to work in this way. As a result, 1,287 employees worked remotely in 2019 versus 1,163 in 2018, an increase of 10.7 per cent. In addition, a tool for approving occasional remote working – called 'flexiwork' – was set up to monitor and assess this new system. Between July and October 2019, 874 staff members took advantage of this system, working remotely for a total of 1,955 days.

*Circular economy*

HSBC France is maintaining its efforts to reduce waste production in general and production of non-recycled waste in particular. Production of waste went from 899 tonnes in 2018 to 849 tonnes in 2019, a more than 5 per cent decrease. It represents on average 96 kg per employee and per year in 2019 versus 97kg in 2018.

As regards reducing and recycling waste, several initiatives have been set up at the *La Défense* and *Champs Elysées* head offices, in particular to limit plastic waste. For example, the canteen in the *Rue Vernet* building in the 8th arrondissement of Paris now offers:

- 100 per cent compostable alternatives to replace plastic take-away boxes;
- the sale of glass bottles and cups in the cafeteria to reduce consumption of their plastic equivalents;
- new heat-recovery chillers to replace the previous units in the self-service restaurant, which consumed large amounts of energy.

Water fountains have been installed in the cafeterias on each floor and in the canteen to encourage employees to refill their own bottles rather than buying water in plastic bottles. In meeting and reception rooms, plastic has been eliminated completely, with plastic bottles and cutlery replaced by glass bottles and reusable cutlery.

In addition, during European Week for Waste Reduction in late November 2019, a series of initiatives took place to raise employees' awareness about reducing waste including a guide to best practice provided to employees to promote environmentally friendly behaviour throughout the working day.

HSBC France has been committed for many years to reducing its paper consumption. We thus observe a 6 per cent decrease in paper consumption between 2018 and 2019 (data from 01/10 to 30/09 of each year) with around 92kg of paper per employee and per year in 2019 compared to 93 kg in 2018. The implementation of good practices to reduce the quantity of documents printed both by better management of the fleet of our printers and the switch to e-statements of a certain number of customers has made it possible to reduce the consumption of paper in the long term. In 2019, new initiatives were implemented with this same objective. HSBC Factoring France has thus developed a new dematerialization system for invoices, credit notes and receipts sent by its customers which will allow a reduction of 500,000 to 700,000 pages printed over a full year and a reduction in the number of printers.

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

As a leading global employer, the HSBC Group's main aim is to develop an HR policy that helps to develop the employability of staff members, while helping them to give their best to the Bank.

In an environment where potential expresses itself in many different ways, the HSBC Group is convinced that employees' differences represent a source of wealth. As a result, it places a particular emphasis on diversity, so that it may be fully expressed within the bank in all its aspects, particularly regarding gender, age, skin colour, background, religion, disability, sexual orientation, appearance and opinions. All employees should be able to be themselves within an organisation that values the diversity of profiles and opinions. Accordingly, we work hard to turn that diversity into an asset for the Bank.

#### Recruitment (theme 7)

In a rapidly changing banking industry (digitalisation, regulatory developments, changes in the macroeconomic environment etc.), the HSBC Group aims to accompany the shift in occupations by attracting, recruiting and integrating the best talent.

As a Universal Bank and to support its development, HSBC France recruits staff from a variety of backgrounds and outlooks to contribute to the Bank's various business lines and functions.

*Key recruitment figures*

HSBC in France

| 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 | 412 | 16 | 8 | 18 | 454 | 53 |
| Men | 342 | 14 | 15 | 26 | 397 | 47 |
| Total | 754 | 30 (*) | 23 | 44 | 851 | 100 |
| **Business lines** | Permanent contract | | | | | |
| Retail Banking and | 451 | 25 | 10 | 0 | 486 | 57 |
| Commercial Banking | 137 | 0 | 1 | 6 | 144 | 17 |
| Global Banking and | 47 | 1 | 1 | 11 | 60 | 7 |
| Private Banking | 8 | 2 | 0 | 0 | 10 | 1 |
| Central | 111 | 2 | 11 | 27 | 151 | 18 |
| Total | 754 | 30 (*) | 23 | 44 | 851 | 100 |

- *of which 12 additional workload contracts and 18 replacement contracts*

International perimeter

| Gender | Total hiring (FTE) | % |
|---|---|---|
| Women | 55 | 52 |
| Men | 51 | 48 |
| Total | 106 | 100 |
| **Business lines** | | |
| Retail Banking and Wealth Management | 2 | 2 |
| Commercial Banking | 16 | 15 |
| Global Banking and Markets | 65 | 62 |
| Private Banking | — | 0 |
| Central functions | 23 | 21 |
| Total | 106 | 100 |

By posting all our job adverts on our careers website, we make sure that internal mobility remains our favoured recruitment method. Employees can then grow within HSBC France, within its subsidiaries and internationally. More than 550 people changed roles in this way in 2019.

*Targeted employer communication*

As employers compete for talent, one of the challenges for HSBC Group is to maintain its profile and raise awareness of the occupations which offers jobs in order to be more attractive to candidates.

Although HSBC remains a prestigious commercial brand that spontaneously attracts a number of applicants, it is continuing to strengthen its brand as an employer. It does so in particular through an increased presence on social media, through which we disseminate HR-related news such as our attendance at educational forums or internal events.

Events aiming to promote HSBC as an employer amongst young graduates are held throughout the year. In 2019 HSBC France took part in more than 50 events in targeted schools using a variety of formats.

Two programmes in particular were highly popular among students:

- the *Volontariat International en Entreprises* ('VIE') or international professional assignment programme: young graduates undertake assignments of between six and 24 months, mainly in London, New York and 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 new recruits to discover different business areas within a division as well as acquiring cutting-edge skills, which allows us to enrich our talent pool.

Over the course of 2019, HSBC recruited 246 apprentices, 484 interns, 37 people on the VIE programme and 20 graduates.

*A variety of channels to attract a wide range of candidates*

HSBC France aims to attract the best candidates, in a market seeing some pressure and in some cases scarcity. The Bank 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 help us identify candidates. Agencies are approved on the basis of their expertise and the quality of their services. They also undertake to respect the Bank's diversity charter, and must make sure that they present 'senior' candidates and respect the gender balance.

A co-opting programme has been launched, as we believe that HSBC employees are the best ambassadors of the company. The employees involved have been closely involved in recruiting new staff members by publicising job opportunities outside the Bank.

## Development and employability (theme 8)

Employability is a major theme in helping people adapt to internal organisational and technological changes, but also more broadly changes in the labour market. To lay the foundations for the bank of tomorrow, it is necessary to maintain and develop in-house skills but also prepare the know-how that the business will require in the future.

Accordingly, the HSBC Group strives to provide employees with the resources they need to develop and take control of their career. We help them in particular by developing an effective training ecosystem that helps them hone and develop their skills, making use of innovative content, appropriate formats and customised training courses.

The HSBC Group's aim is therefore to put employees in the driving seat in terms of determining their future career.

More information on the HSBC Group's initiatives is available at https://www.hsbc.com/our-approach/building-a-sustainable-future/ employability-and-financial-capability.

*Promoting internal mobility*

For HSBC France, internal mobility is a vital way of developing and retaining staff members. By offering in-house career development opportunities, it fosters and recognises the potential of its talented employees, makes them more versatile and increases their sense of trust.

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

A '*#RencontresCarrières*' forum was made available to employees at the main sites in France in 2019 (Paris, Fussy, Bordeaux, Marseille, Lille and Lyon). More than 600 staff members took part in the initiative.

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 vacancies and communicate directly, in an informal manner, with employees.

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

This initiative forms part of the Bank's career development and GPEC (career and skills development planning) processes.

*Promoting complementary learning formats: 70/20/10*

Because developing involves learning, HSBC France wants to find the best learning methods for its employees. Accordingly, it uses the 70/20/10 method, which combines formal and informal learning.

HSBC France is continuing its efforts to encourage uptake and recognition by managers and employees of this model, which combines three complementary training approaches:

- 70 per cent of the learning comes from day-to-day job-related experience. This informal method involves employees learning when they need to do so, using information available on our 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*

Training lies at the heart of our development methods: it gives meaning to the work our employees do, helps them develop new skills and makes them more employable. For HSBC, giving everyone access to training is a central aim, and so it has set up a group training platform called HSBC University for all its employees.

The platform is accessible to all 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.

External training resources covering themes such as Big Data, Artificial Intelligence and Leadership are also available to employees.

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, 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 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 put employees in the driving seat regarding their career development, HSBC France has for many years offered personalised support via coaching. The method aims to help employees with their personal development and individual performance, while being aligned with the Bank's strategy of enhancing collective performance. The support provided can be both individual and collective.

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 France 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 remote. In 2019, almost 30 individual coaching sessions took place, with 10 involving new digital coaching methods.

Collective coaching supports teams or employees sharing common development goals in areas such as change management and team-building.

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.

Since it was launched in 2017, 228 staff members have taken part in the programme, 44 per cent in 2019.

*Providing development opportunities within targeted programs*

HSBC is embracing innovative new programmes. The aim is to allow employees to experiment in order to learn, using business-line initiatives and dedicated programmes.

In 2019, several business lines set up 'shadow executive committees', allowing employees to work on projects to be put to their business line management. By doing so, the employees involved raised their profile and developed new skills. More than 50 staff members took part in these programmes in 2019.

*Preparing the future: from identifying talent to identifying talents*

HSBC is mindful that managing talent is of strategic importance. To ensure its longevity and to make progress over time, HSBC wants to back its most talented staff and help them develop.

Accordingly, HSBC is modernising its talent management policy, moving from a system of identifying talent through the line management structure to a system that requires collaboration with employees.

HSBC develops its talent pool at the group level, but also within France through the Explore and Inspire development programmes.

Explore is a group programme that helps staff members assess their potential to become future leaders of HSBC via various stages of evaluation, based on proven and acknowledged methods, by one of the leading firms in this area. In France, more than 100 employees have been invited to take part in the programme and almost a quarter of them have taken part in workshops in which they were debriefed about these assessments as part of their career development.

Inspire, launched in 2019, is a French leadership development programme. Around 30 leading employees take part in a one-year course consisting of several innovative and inspiring modules. Individual development targets are combined with collective targets to create a shared vision of leadership at HSBC in France.

Every year, HSBC also develops succession plans for positions considered 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 four 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.

*Promotion*

*Key figures – HSBC in France*

HSBC in France

| Gender | Number of promoted FTE | % |
|---|---|---|
| Women | 226 | 59 |
| Men | 159 | 41 |
| Total | 386 | 100 |

HSBC in France

| Business lines | Number of promoted FTE | % |
|---|---|---|
| Retail Banking and Wealth Management | 150 | 39 |
| Commercial Banking | 65 | 17 |
| Global Banking and Markets | 48 | 12 |
| Private Banking | 10 | 3 |
| Central functions | 113 | 29 |
| Total | 386 | 100 |

*Key figures – International perimeter*

International perimeter

| Gender | Number of promoted FTE | % |
|---|---|---|
| Women | 37 | 54 |
| Men | 31 | 46 |
| Total | 68 | 100 |

International perimeter

| Business lines | Number of promoted FTE | % |
|---|---|---|
| Retail Banking and Wealth Management | 8 | 12 |
| Commercial Banking | 19 | 28 |
| Global Banking and Markets | 22 | 32 |
| Private Banking | – | 0 |
| Central functions | 19 | 28 |
| Total | 68 | 100 |

## Diversity, fairness and quality of life at work (theme 9)

In a competitive and ever-changing industry, diversity and quality of life at work are crucial distinguishing features for the HSBC Group. As well as fostering commitment, they also represent an investment in the future of the business: we are confident that committed, healthy employees will help us to improve our economic performance and make the Group more appealing.

In this area, HSBC France has set itself the target of continuing to improve life quality at work and developing a shared culture of wellbeing at work.

An agreement on professional equality and quality of life at work was signed on 8 March 2018 for a four-year period.

This agreement has two priority themes:

- diversity, equality and inclusion;
- quality of life at work, flexibility of working arrangements and issues around logging off.

*Diversity, equality and inclusion*

The HSBC Group believes that its employees' differences are a source of wealth. The challenge is to foster and make the most of those differences with the aim of creating internal cohesion, increasing motivation and engagement, and making employees proud to belong to the Group.

*Tackling discrimination and promoting diversity*

Diversity and Inclusion have always been part of the HSBC Group's identity. In 2019, HSBC France continued to develop its business culture, notably through awareness building and training activities.

The continued deployment of the training programme on 'subconscious bias', launched in 2017, has seen more than 350 HR managers and professionals take part so far.

HSBC is a partner in the PHENIX programme, which allows Masters' students in human or physical sciences to work in the banking sector (four students on permanent contracts and one on work placement).

HSBC has also taken part, in association with the French Banking Association, in the inclusion of highly-qualified political refugees on work-study programmes.

Finally, HSBC France recruited 22 people for summer jobs in 2019, 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.

Many tutoring programmes – internal and external – are offered to employees taking volunteer roles, so that they may step out of their 'usual' settings and develop new expertise. In 2019, several mentoring programmes were running within HSBC, with around 40 mentors for Global Banking and Markets and around 30 for Commercial Banking. In addition, 117 employees are supporting talented young people from disadvantaged backgrounds through structures supported by the HSBC Foundation for Education *(Convention Prioritaire de Sciences Po, Fondation Egalité des chances, Article 1).*

HSBC France, through the HSBC Foundation for Education, also supports:

- learning, specifically initiatives that favour the acquisition of new skills leading to greater inclusion in the job market, such as the implementation of the '*Attestation de Compétences Acquises'* from the *Réseau des Ecoles* de la 2e chance, a passport for personal and professional inclusion;
- digital training such as that offered by the charity *Musique et Culture Digitales* ('MCD'), which has the Paris Code label.

*Gender Equality*

With women making up 52 per cent of executives at HSBC France, the Bank continued its efforts to promote gender equality in 2019.

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 2019, women held 29 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 ESG report available on hsbc.com.

*Inclusion of employees with disabilities*

With an employment rate of 4.3 per cent, HSBC in France continued to favour the recruitment and inclusion of employees with disabilities in 2019.

Internal and external initiatives help change perceptions of disabilities, such as first-person accounts by employees, workshops to raise awareness and detect hearing problems organised with the occupational health department during Disability Week.

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 around 40 employees received support for buying individual equipment and making adjustments to alleviate their disability.

*Improving quality of life at work to foster employee commitment*

Ensuring a good quality of life at work results in a committed workforce: accordingly, HSBC France's senior management focuses on this topic in order to increase employees' sense of fairness and belonging, to foster cohesion and to protect employees' mental and physical health.

Increasing employees' commitment is a strategic aim for HSBC, and employees' professional fulfilment is a key priority for the Bank.

*Awareness building and training regarding quality of life at work*

Since 2018, a one-day training course on promoting wellbeing at work has been part of the training catalogue. It involves role-playing sessions, case studies and discussions between participants. It focuses on developing high-quality relationships, preventing and resolving conflicts, and managing emotions.

HSBC is committed to communicating regularly about the importance of logging off from work, sharing best practice about the use of new information technologies and managing absences.

In June 2019, an awareness-raising initiative for managers on the topic of quality of life at work helped raise concrete questions such as: logging off during holidays, flexible working, work/life balance and wellbeing at work.

*Giving employees more flexibility*

HSBC France is keen to offer employees more flexible working arrangements to help improve their work-life balance.

The signature of a Group agreement on remote working on 27 July 2018 expanded the options for working at home, building on the fixed-schedule remote working system already in place in our companies and opening up new options for one-off remote working.

The agreement focuses particularly on maintaining social connections in the workplace, equal treatment of employees, respect for employees' privacy and the right to log off.

*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.

HSBC France's Executive Committee has made a commitment by drafting and signing a charter, which is sent to each employee. The charter establishes 10 major principles that aim to encourage staff members to adopt day-to-day behaviours and rules that help to reconcile their private and professional lives.

A guide to using digital tools was also made available to all of the Bank's employees. In 2019, right to log off has been reinforced using digital alerts on staff desktops.

*Strengthening the collective ability to manage change and measure employees' satisfaction and wellbeing*

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 the Bank.

The HSBC Group also regularly consults its staff all over the world via a brief 'Snapshot' survey. The survey aims to assess

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.

In the first half of 2019, HSBC France's scores were stable or slightly better than in the second half of 2018.

- The 'employee experience', work–life balance, ethics, responsibility, confidence in direct management and the culture of inclusion are regarded as HSBC France's strong points. There have been significant improvements in recognition-related indicators.
- The feeling of contributing to the Bank's strategy has also increased considerably, as has the leadership team's ability to set an example.
- The survey shows areas in which improvements are required regarding careers, customer focus, processes and communication regarding strategy.

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 2019, results for 2018 confirmed previous trends of a reduction in stress risk factors experienced by employees in most business lines. This is true for levels of stress, anxiety and depression, supported by improvements in the quality of working relationships with line managers and between colleagues, work-life balance, managerial recognition and level of independence. The proportion of respondents saying that their working conditions are good has been rising steadily, reaching 78 per cent in the October 2017 survey, the results of which were announced in 2018.

*Inclusive approach: Boost Ta Banque*

HSBC believes that performance is the result of work done by committed teams. The Group's management therefore invited employees from all over the world to contribute to a review.

In France, the review took the form of an approach called 'Boost *Ta Banque*' (Boost Your Bank), which started in late 2018 with around 30 interactive workshops involving more than 300 employees from all business lines and all regions.

Following those workshops, employees were able 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 commitment.

The proposals were immediately taken up, and others were further developed within the framework of co-construction work between volunteers and members of the executive committee.

*An attractive and fair remuneration policy*

In a highly competitive sector environment, an effective remuneration policy helps to attract, motivate and retain the best employees. It is a powerful driver of staff commitment, and one that the HSBC Group intends to make full use of.

HSBC France addresses this strategic priority with a remuneration policy that is both attractive and fair, giving each employee the sense that they are being treated justly.

Our remuneration policy recognises and rewards the effort, commitment, involvement, contribution and 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, welfare arrangements in the event of incapacity and the supplementary pension plan that has been in place for many 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. The approach is best illustrated with a few examples.

For more than 10 years, HSBC France's collective agreements have included an automatic salary review for people returning from maternity or adoption leave. Specific budgets over the last ten years (EUR 8.5 million) have helped establish wage fairness in several areas. Women's pay, over virtually the whole of the employment grade scale, was between 98.6 per cent and 100.6 per cent of men's pay in 2019.

## Ratio theoretical wage W/M

| Status | Convention Level | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Technician | C | – | – | **–** |
| | D | 96.0% | 98.2% | **NS** |
| | E | 98.1% | 98.4% | **98.6%** |
| | F | 101.1% | 101.2% | **100.6%** |
| | G | 101.7% | 100.1% | **100.2%** |
| Executive | H | 99.4% | 99.1% | **99.6%** |
| | I | 97.6% | 98.6% | **98.6%** |
| | J | 98.6% | 99.6% | **98.6%** |
| | K | 99.6% | 99.8% | **100.1%** |

Pay for employees working part-time, across different employment grades, was between 99.2 per cent and 104.9 per cent of that of full-time employees in 2019.

## Ratio theoretical wage Part Time W/M

| Status | Convention Level | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Technician | C | – | – | **–** |
| | D | – | – | **–** |
| | E | 103.1% | 102.9% | **104.6%** |
| | F | 105.0% | 104.5% | **104.9%** |
| | G | 102.2% | 100.4% | **101.7%** |
| Executive | H | 100.5% | 100.5% | **101.3%** |
| | I | 97.9% | 98.3% | **99.2%** |
| | J | 100.6% | 100.2% | **99.7%** |
| | K | 98.0% | 97.2% | **98.8%** |

The salary of disabled workers was between 97.3 per cent and 111.2 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.

## Ratio theoretical waged disabled employees / other employees

| Status | Convention Level | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Technician | C | – | – | **–** |
| | D | – | – | **–** |
| | E | 104.8% | 107.7% | **111.2%** |
| | F | 105.0% | 103.8% | **104.9%** |
| | G | 102.0% | 101.4% | **102.5%** |
| Executive | H | 99.7% | 100.5% | **100.8%** |
| | I | 97.1% | 97.5% | **97.3%** |
| | J | 99.6% | 98.7% | **98.9%** |
| | K | 97.9% | 98.6% | **100.3%** |

## Table of social performance indicators of HSBC France

| | Change | | |
|---|---|---|---|
| Indicators | **2019** | 2018 | 2017 |
| **1 – Workforce split by status, gender and contract of employment (FTE):** | | | |
| Total FTE – HSBC in France | **7,472** | 7,586 | 7,721 |
| *o/w unlimited term contracts* | **7,437** | 7,555 | 7,679 |
| *– o/w women managers* | **2,997** | 2,982 | 2,922 |
| *– o/w men managers* | **2,861** | 2,928 | 2,895 |
| *– o/w women clerical staff* | **1,205** | 1,257 | 1,411 |
| *– o/w men clerical staff* | **373** | 389 | 452 |
| *o/w Impatriate contracts* | **15** | 14 | 14 |
| *– o/w women* | **4** | 4 | 2 |
| *– o/w men* | **11** | 10 | 12 |
| *o/w fixed-term contracts* | **20** | 17 | 28 |
| *– o/w women managers* | **10** | 8 | 10 |
| *– o/w men managers* | **4** | 8 | 11 |
| *– o/w women clerical staff* | **3** | 2 | 4 |
| *– o/w men clerical staff* | **3** | – | 3 |
| Total female FTE | **4,220** | 4,252 | 4,349 |
| % women | **56.2%** | 56.1% | 56.3% |
| Total male FTE | **3,253** | 3,334 | 3,372 |
| % men | **43.3%** | 43.9% | 43.7% |
| | | | |
| Total FTE - Satellites Sites | **1,385** | 627 | – |
| Total female FTE | **700** | 360 | – |
| % women | **50.6%** | 57.4% | 0.0% |
| Total male FTE | **685** | 267 | – |
| % men | **49.4%** | 42.6% | – |
| | | | |
| Total FTE – HSBC in France + Satellites Sites | **8,857** | 8,213 | 7,721 |
| Total female FTE | **4,920** | 4,612 | 4,349 |
| % women | **55.5%** | 56.2% | 56.3% |
| Total male FTE | **3,937** | 3,601 | 3,372 |
| % men | **44.5%** | 43.8% | 43.7% |
| | | | |
| **2 – Hires and dismissals (FTE)** | | | |
| Recruitments (FTE) HSBC in France | **851** | 787 | 642 |
| % recruitments | **11.3%** | 10.4% | 8.3% |
| Dismissals (FTE) HSBC in France | **100** | 98 | 114 |
| % dismissals | **1.3%** | 1.3% | 1.5% |
| | | | |
| Recruitments (FTE) Satellites Sites | **106** | 55 | – |
| % recruitments | **7.6%** | 8.8% | – |
| Dismissals (FTE) Satellites Sites | **5** | – | – |
| % dismissals | **0.4%** | – | – |
| | | | |
| Recruitments (FTE) HSBC in France + Satellites Sites | **957** | 842 | 642 |
| % recruitments | **10.8%** | 10.3% | 8.3% |
| Dismissals (FTE) HSBC in France + Satellites Sites | **105** | 98 | 114 |
| % dismissals | **1.2%** | 1.2% | 1.5% |

| 3 – Equality of treatment | | | |
|---|---|---|---|
| % of women in management HSBC in France (FTE) | **30.0%** | 30.0% | 27,2% |
| % of women in management Satellites Sites (FTE) | **28.6%** | 47.6% | 0.0% |
| % of women in management HSBC in France + Satellites Sites (FTE) | **29.7%** | 31.0% | 27.2% |
| Number of persons with disabilities | **439** | 458 | 431 |
| % employees with disabilities | **5.2%** | 5.3% | 5.0% |
| % of employees less than 30 years old HSBC in France (FTE) | **11.2%** | 10.8% | 11.2% |
| % of employees over 50 years old HSBC in France (FTE) | **31.2%** | 30.4% | 29.8% |
| % of employees less than 30 years old Satellites Sites (FTE) | **8.9%** | 7.7% | – |
| % of employees over 50 years old Satellites Sites (FTE) | **15.6%** | 10.2% | – |
| % of employees less than 30 years old HSBC in France +Satellites Sites (FTE) | **10.8%** | 10.5% | 9.4% |
| % of employees over 50 years old HSBC in France + Satellites Sites (FTE) | **28.8%** | 28.9% | 28.8% |

### Governance policies adjusting to social changes

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)

HSBC Group established a global conduct framework expecting, through actions and decisions from all employees, to deliver fair outcomes for customers and not to disrupt the orderly and transparent operations for financial markets. These components included in HSBC global standards named 'Our global principles', are key to ensure long-term success and provide the best quality for customers. To achieve this, the bank reinforced clear policies and governance arrangements, notably regarding products and services, trainings, rewards and incentives, quality of services for customers and internal exchanges. Conduct is key to manage all activities from all business lines and functions.

As example, regarding product governance, HSBC France approved new products and services due to Brexit, in order to ensure continuity of services for its clients; those products represented 27 per cent of the volume of product submissions in 2018 and increased to 38 per cent of product submissions in 2019. The third annual global mandatory training course entitled 'Values, conduct and me' ?helping employees to better understand the impact of their decisions and actions regarding customers and other stakeholders?, had been completed by 96 per cent of HSBC France employees at the time of writing.

For more details, see Risks, Regulatory Compliance Risk Management page 134.

#### 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. Various programmes have been implemented and others are underway to improve systems and day-to-day practices for managing risks relating to money laundering, tax fraud, compliance with sanctions and corruption. Within HSBC France, every month, all transactions – more than 30 million across 1.7 million accounts – are analysed to detect signs of money laundering, tax avoidance and failure to comply with sanctions. In addition, 1.7 million names are screened on an ongoing basis using various surveillance lists. The Bank has cut links with customers, products, and countries where we deemed the financial crime risk too high to manage. The HSBC Group is also working with governments and other banks to advance its collective interests in this area. These steps are enabling us to reduce the risk of financial crime much more effectively.

To ensure that our policies are effective, an annual training course has been updated and is taken by 98 per cent of HSBC France employees, which is in line with the bank's Risk Appetite of having at least 98 percent mandatory training completion rate (the Risk Tolerance is set at 97 per cent).

For more details, see Risks Financial Crime Risk Management, page 136.

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 Cooperation and Development ('OECD') Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and Principle 10 of the United Nations Global Compact.

As regards combating corruption, HSBC France is committed to complying with France's *Sapin* 2 act and to adopting a zero-tolerance attitude to corruption.

In 2018, France's anti-corruption agency AFA carried out 47 audits in France, including one at HSBC France. Certain areas of concern were highlighted and efforts to resolve them are currently underway, to enable the Bank to comply with the *Sapin* 2 act's eight pillars such as risk mapping and internal control.

For more details, see Risks, page 135.

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.

For more details, see Tax Risks, page 138.

*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 France has not reported any significant security incidents in the last 12 months, thus meeting its objective.

For more details, see Security Risks, page 140.

## 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.

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. Thus, since March 2017, as part of the new contracts process and the renewal process of the contracts, suppliers are systematically asked to sign the code of ethical and environmental conduct established by the Group. At the end of December 2019, 97 per cent of the suppliers concerned had responded positively, thus meeting the objective of a supplier return rate close to 100 per cent.

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.

For more details on the 'Duty of Care' act, see page 76.

## 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 54 whistleblowing instances in 2019, a 35 per cent increase versus 2018. 29.6 per cent had been resolved by 31 December 2019. 85 per cent of instances included allegations relating to the working environment.

For more details on the 'Duty of Care' act, see page 76.

## Methodological details on corporate social and environmental information

### Scope of reporting

The HSBC Group's scope increased in 2019 with the integration of new branches, now in eleven countries: Belgium, Czech republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, United Kingdom, Spain and Sweden.

For the 2019 financial year, the scope of the Extra Financial Performance Declaration took into account the branches integrated in 2018 and in 2019 for the reporting of social information (themes 7 to 9). For the other risks, the perimeter retained is that of HSBC France, in accordance with the methodology established for the Declaration of extra-financial performance which grants a period of one to integrate the new perimeter. In 2018, the scope included two countries, Greece and Poland, made up of around 500 employees in total, representing a material portion of the total workforce of the HSBC Group in France (around 5 per cent).

The work done by PwC in relation to the fairness review therefore looked at a scope identical to that used for 2018.

The scope of each indicator is shown in the table of sustainability performance indicators for 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* site, which accounts for less than 1 per cent of total floorspace.

### Change in scope

For environmental indicators, entities consolidated or de-consolidated during the year are accounted for in the data reported on the date they enter the Group and until the date they exit.

### Reporting period

The annual reporting period is the calendar year (from 1 January to 31 December). For environmental indicators, the 2019 data are based on figures covering the reporting period from 1 October 2018 to 30 September 2019.

### 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

$CO_2$ emissions result from the consumption of electricity, gas, fuel oil, urban heating and air conditioning. Transport-related $CO_2$ emissions correspond to journeys made by train and plane (which are purchased through travel agencies), by taxi, and by hired cars or the group car fleet. Energy consumption is partly estimated as invoicing and reporting periods do not overlap precisely.

#### Social indicators

The total workforce comprises employees under permanent and fixed-term employment contracts. Internship, temporary and suspended contracts, employees taking early retirement, employees on long-term sick leave, permanently disabled employees and expatriates are included. Holiday auxiliary staff are excluded. Recruitment and redundancy figures include employees under permanent and fixed-term employment contracts. An employee whose contract changes from a fixed-term contract to a permanent contract will be recorded as a hire.

## Table of sustainability performance indicators of the HSBC Group in France

### Policies of managing environmental and social risks

| Indicator as of 31 Dec 2019 | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Customers' satisfaction (theme 1)** | | | |
| RBWM 's customers recommendation rate | **84%** | 84% | NA |
| Share of RBWM's customers complaints receiving a response on same day or within 48 hours' | **68%** | 45% | NA |
| **Strengthening financial education among our customers, people and partners (theme 2)** | | | |
| Number of beneficiaries involved in the programmes supported by HSBC France | **117,570** | 26,366 | NA |
| Progress towards 2020 objective (%) | **196%** | 44% | NA |
| **Contributing to the real economy (theme 3)** | | | |
| Number of financing for regional authorities (including AFL and Public-sector Healthcare Establishments) | **5** | 13 | 22 |
| Bloomberg ranking among lead managers for French local authority issuers by number of transactions | **4** | 1 | 1 |
| Volume of financing for regional authorities (including AFL and Public-sector Healthcare Establishments) (USDm) | **111** | 422 | 811 |
| Bloomberg ranking among lead managers for French local authority issuers by volume of transactions | **4** | 4 | 1 |
| Number of entrepreneurs supported | **615** | 635 | NA |
| Progress towards 2020 objective (%) | **83%** | 42% | NA |
| **Contributing to a low carbon economy (theme 4)** | | | |
| Contribution to Group's sustainable finance 2025 objective (USDm) | **1,385** | 792 | 1,638 |
| Net new money in responsible investment funds (€m) [1] | **399** | 151 | 52 |
| Evolution of net new money in responsible investment funds year on year (%) | **164%** | 190% | NA |
| Number of Green Bonds | **10** | 6 | 14 |
| Ranking in the Dealogic League table by number | **5** | 4 | 2 |
| Green Bonds in volume (€m) | **1,327** | 669 | 2,600 |
| Ranking in the Dealogic League table by volume | **5** | 6 | 4 |
| **Managing the environmental risks related to banking activity (theme 5)** | | | |
| Share of coal in the energy mix financed by HSBC France | **<1%** | | |
| Emission factor of the electricity mix financed by HSBC France (in $gCO_2$/kWh) | **142** | | |
| **Improving our environmental footprint (theme 6)** | | | |
| $CO_2$ emissions[2] (thousands of tonnes equiv $CO_2$) per employee[3] | **0.60** | 0.66 | 0.64 |
| Evolution year on year (%) | **(10)%** | 3% | (3.0)% |
| Paper consumption (kg) per employee[3] | **92** | 93 | 89 |
| Evolution year on year (%) | **(1.0)%** | 4% | (8.0)% |
| Waste production (kg) per employee[3] | **96** | 97 | 104 |
| Evolution year on year (%) | **(1.0)%** | 1% | (36.0)% |

### People KPI

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Recruitment (theme 7)** | | | |
| Number of recruitments versus to total workforce (in FTE, HSBC in France + Branches) | **11%** | 10% | 8% |
| **Development and employability (theme 8)** | | | |
| Share of permanent employees who took part in the #CareerCounter forums | **11%** | 6% | NA |
| **Diversity, equity, quality of life (theme 9)** | | | |
| Share of women in senior executives positions (in FTE, HSBC in France + Branches) | **30%** | 31% | 27% |

### Governance KPI

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Fair business practices and protecting the client's interests (theme 10)** | | | |
| Share of staff members trained on theme 10 | **96%** | 92% | NA |
| **Financial crime risk management (theme 11)** | | | |
| **Anti-corruption (theme 12)** | | | |
| **Tax evasion risk management (theme 13)** | | | |
| Share of staff members trained on themes 11, 12 & 13 | **98%** | 96% | NA |
| **Cybersecurity (theme 14)** | | | |
| Number of significant security incidents over last 12 months | **–** | – | NA |
| **Human rights (theme 15)** | | | |
| Share of suppliers who signed the Code of Conduct in the renewal process | **97%** | 38% | NA |

1 *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 2019. 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.*
2 *CO2 emissions energy and transports.*
3 *Base: subject workforce.*

## Report by one of the Statutory Auditors, appointed as an independent third party, on the consolidated non-financial statement included in the Group management report

### For the year ended on the 31th of December of 2019

*This is a free translation into English of the Statutory Auditor's 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 accredited 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 statement for the year ended 31 December 2019 (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, including 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 guidance 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, 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 compliance 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 the entity's activities, the description of the social and environmental risks associated with their activities;
- 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;
- 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 entity's 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 outcomes List quantitative information (key performance indicators and outcomes) 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,
  - substantive tests, 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, HSBC France of La Défense and Champs-Elysées sites, and 100% 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 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 resources**

Our work was carried out by a team of 5 people between November 2019 and February 2020 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 twenty interviews with 21 people responsible for preparing the Statement, representing strategic management, sustainable development, human resources, marketing, supply chain and purchasing departments.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the non-financial statement is not in accordance with the applicable regulatory provisions and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, the 19th of February of 2020

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;
- Variation of the number of opening online accounts;
- Number of individual customers complaints handled the same day or the next day;
- Rate of increase in personalized mailings to clients in fragile sutations;
- Achieved against the 2020 target (% - number of program beneficiaries);
- Number of persons sensitized to financial education or supported through the Bank's programs and actions;
- Number and volume of investments allocated to territorial collectivities;
- Amount of subscriptions to the fund dedicated to local authorities for 2020;
- Share of coal in the energy mix financed by HSBC France;
- Ranking on green loans by number and by volume;
- PRI rating attributed to HSBC Global Asset Management ;
- Emissions factor of the electricity mix financed by HSBC France;
- Increase in net inflows into SRI labelled funds (HSBC Sustainable France range) including socially responsible investment funds;
- Number of loans linked to ESG criteria granted;
- Number of ESG events organized;
- Increase in the number of interactions with companies on purely ESG and/or climate issues;
- Amount of green bond subscriptions within the bond portfolio;
- Number of interactions with companies on purely ESG and/or climate issues;
- Dealogic Rankings;
- Rate of change in CO2 emissions per employee for business travel compared to 2018;
- Percentage reduction in paper consumption per employee compared to 2018;
- Waste generation ;
- Share of new hires/total workforce ;
- Percentage of employees with permanent contracts who participated in the #RencontresCarrières forum;
- Percentage of women at senior management levels;
- Percentage of employees with disabilities;
- Percentage of employees who have completed the "Values, Code of Conduct and Me" training course;
- Percentage of staff trained in the areas of financial crime, money laundering, corruption and tax evasion;
- Number of significant security incidents over the last 12 months;
- Percentage of suppliers having signed the Code of Conduct as part of contract renewals.

### Qualitative information (actions and results):

- Deployment of the Aladdin Wealth solution;
- Organization of a Hackaton;
- Implementation of the Women International Program;
- Analysis of air quality in the Cœur Défense building;
- Launch of the "Inspire" leadership program;
- Partnership of the PHENIX operation;
- Cybersecurity device;
- Continuation of the Code of Ethical and Environmental Conduct for suppliers of goods and services;
- Mentoring program in place;
- Global Graduate;
- HQE certification;
- One Planet Asset Managers Initiative;
- Launch of a new SRI-labeled Multi Asset range.

## France 'Duty of Care' act

### Implementation of HSBC France's Duty of Care Plan

HSBC France has implemented a Duty of Care 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.

HSBC France's Duty of Care Plan follows the framework defined by HSBC. Commitments have been made and rules and procedures adopted at the HSBC Group level* to mitigate risks and prevent serious infringements of human rights and fundamental freedoms, to safeguard the health and safety of individuals and to protect the environment. The framework applies to all HSBC Group companies worldwide, including HSBC France and its consolidated subsidiaries.

The Duty of Care Plan is implemented and monitored by a committee that meets twice yearly and consists of members of HSBC France's Legal Affairs Department, Regulatory Compliance Department, Human Resources Department, Purchasing Department, Operational Risks Department and Sustainability Department and is headed by HSBC France's Chief Risk Officer.

* *These statements and policies can be viewed on the 'Our Approach / ESG reporting and policies' page of the Group website.*

*https://www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies*

### Identification of risks relating to the Duty of Care

#### Scope of application

The Duty of Care Plan's geographical scope of application consists of HSBC France and its international branches, including those integrated in 2018 and 2019, now in eleven countries : Belgium, Czech republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, United Kingdom, Spain and Sweden.

Within that geographical scope, the Duty of Care Plan covers risks relating to HSBC France's employees and banking activities, as well as suppliers and subcontractors.

#### Identification and definition of risks relating to the Duty of Care

##### Occupational health and safety

As stated in its Health & Safety Policy* document, HSBC, as an employer, must provide a healthy, respectful working environment, as well as protecting and ensuring the physical safety of its employees at their workplace or when travelling for business purposes.

##### Respect for human rights

HSBC defines its approach to human rights in its 'Statement on Human Rights', which is based on various international texts including the UN's International Bill of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

As part of its approach to human rights, HSBC ensures that its employees, along with the employees of its suppliers and clients, are treated without discrimination or harassment because of their religion, social background, ethnicity, gender, age, disability, sexual orientation, marital status, pregnancy or involvement in charitable or union activities where authorised by national law, in both its professional relationships and employment practices.

HSBC is also committed to combating all forms of slavery, forced and compulsory labour, human trafficking and child labour, as stated in its Modern Slavery Act*. As regards labour standards, HSBC takes care to comply with local regulations and industry practices in terms of wages, working hours, freedom of association and the right to organise, disciplinary practices and conflict resolution procedures.

##### Environmental protection

HSBC prevents, mitigates and controls its material impacts on the environment and health in accordance with its Environmental Policy*. This includes complying with regulations concerning waste management, handling of hazardous materials and sourcing of raw materials. It pays particular attention to risks relating to climate change, which is defined as an urgent and potentially irreversible threat in HSBC's Statement on Climate Change*.

* *These statements and policies can be viewed on the 'Our Approach / ESG reporting and policies' page of the Group website.*

*https://www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies*

### Risk mapping and assessment procedures

Risks specific to the Duty of Care are mapped on the basis of the library of risks and controls used within HSBC. The risks associated with the Duty of Care are contained in the map of risks assessed by business lines and functions, which state all the risks to which they are exposed and mention first level key controls as well as the framework of second level controls to mitigate them.

The risk map and permanent control system are updated on an ongoing basis, based on the results of controls carried out by operational staff, operational risk management teams ('BRCM/ CCO'), Insurance teams, the conclusions of reports prepared by periodic control or by third parties (including regulators), internal or external incidents and whenever a material change takes place (requiring a review of the current risk assessment and the related control).

In 2019, the control system used within business lines and functions did not identify any critical failures connected with the Duty of Care.

### Plan to prevent risks related to suppliers and subcontractors

As regards monitoring suppliers and subcontractors, HSBC regularly updates its Ethical and Environmental Code of Conduct for Suppliers of Goods and Services in line with new developments. Since March 2017, when forming new contracts or renewing existing ones, HSBC France's suppliers are required to accept these principles by signing the code of conduct. By signing the document, the supplier confirms that it respects fundamental laws on human rights, health and safety and environmental protection. As of 31 December 2019, 97 per cent of the suppliers concerned had signed the Code of Conduct.

HSBC France is particularly careful regarding its strategic suppliers that represent an annual commitment of over US$500m. HSBC works with Sedex to assess ethical and environmental risks. 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. If a supplier has a 'high-risk' rating, the information is passed to the relevant purchasing staff member so that he/she can decide whether to continue or discontinue the business relationship between HSBC France and that supplier. HSBC France has not identified any supplier exposed to high risk to date.

## Plan to prevent risks relating to the Bank's activities

Regarding the impact of bank financing on potential breaches of human rights and environmental protection, the sustainability risk management policy adopted by HSBC for more than 15 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. HSBC has applied the Equator Principles since they were first developed in 2003, including the latest version ('EP3') since 2014. In addition, regarding six particularly carbon-intensive sectors (oil and gas, construction, chemicals, automotive, mining and metals), HSBC has developed a method to assess the climate strategies put in place by its business clients in order to oversee the impact of its financing more effectively.

For more details, see the 'Managing the environmental risks related to banking activity' section on page 60.

## Whistleblowing system

### Presentation of the system

HSBC strives to create a working environment in which all staff members feel free to share their concerns. It is aware that certain circumstances require particular discretion, and so it simplified its whistleblowing system in 2015 by setting up 'HSBC Confidential'.

The system is open to all staff members of HSBC France as well as external and occasional colleagues, who can use it to disclose a whole range of concerns where the usual channels for disclosing them are unavailable or inappropriate. Such concerns include:

- failure to comply with laws and regulations or with HSBC's internal policies and procedures;
- a breach of conduct rules or behaviour that is inappropriate or contrary to the conduct provisions of internal rules, including those regarding efforts to combat bribery and influence peddling;
- suspected fraud or financial crime;
- the existence or occurrence of factors that represent a risk to human rights and fundamental freedoms, people's health and safety or the environment, resulting from the activities of HSBC France and its subsidiaries as well as those of their subcontractors or suppliers.

The system may be used anonymously by whistleblowers and can be accessed, at any time, in French and English, through three channels (email, telephone hotline and form on the HSBC intranet). It is supervised by an independent team within the compliance function.

That function ensures that confidentiality – regarding the identity of the whistleblower, the person(s) implicated and the information disclosed – is maintained at all stages of the procedure, the aim being to protect whistleblowers against the risk of reprisals. Investigations are carried out confidentially, in depth and independently by dedicated investigation teams that are aware of and receive training regarding laws applicable to corporate whistleblowing systems.

The system is described in internal procedures and information about it is provided to staff members via the HSBC intranet and awareness-raising sessions aimed at encouraging a 'speak-up culture' within HSBC.

As regards governance, a forum organised every quarter by the compliance function's supervision team allows for discussion about activities, particularly through performance indicators.

### 2019 data

There were 54 whistleblowing instances in 2019, a 35 per cent increase versus 2018.

29.6 per cent had been resolved by 31 December 2019. 85 per cent of instances included allegations relating to the working environment.

* *These statements and policies can be viewed on the 'Our Approach / ESG reporting and policies' page of the Group website.*

*https://www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies*

## System for monitoring measures taken

HSBC France has adopted a process for managing inappropriate individual breaches. The process aims to identify all situations in which rules and procedures are not complied with, and to ensure that cases are treated consistently.

The breaches that HSBC France seeks to identify include cases of money laundering – which may involve activities such as terrorist financing, human trafficking or slavery – as well as cases where the physical safety of staff members is jeopardised and cases of harassment.

To deal with such situations, each of HSBC France's business lines and main functions hold breach committee meetings. For smaller functions and branches, ad-hoc committee meetings are held if a breach occurs. The aim of these meetings is to assess the risk level, the circumstances in which the breach occurred and the level of the breach. If appropriate, sanctions are applied; remedial action may also be taken to prevent the situation from recurring. Monitoring indicators have also been adopted.

In 2019, two breaches were dealt with in relation to the Duty of Care Act.

We investigate credible allegations of human rights violations as they are reported to us via engagement with stakeholders. They are then raised directly with the client company by the Relationship Manager and, if necessary, escalated to Senior Management both within HSBC and at the client company, up to the senior executive level. Where required, individual customer relationships are referred to and reviewed by Reputational Risk and Client Selection Committees on a case-by-case basis. These reviews may decide to restrict or end a customer relationship where it is unwilling or unable to meet HSBC's standards, including those relating to modern slavery and human trafficking.

# Risk



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 2019** | 31 Dec 2018 |
| | **%** | % |
| **Capital Ratios – fully-loaded** | | |
| Common equity tier 1 | **13.5** | 13.1 |
| Total tier 1 | **15.0** | 14.5 |
| Total capital | **16.9** | 15.7 |
| Leverage Ratio – fully-loaded | **3.7** | 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

| | RWAs | | Capital required | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **€m** | €m | **€m** | €m |
| Credit Risk | **36,425** | 25,972 | **2,914** | 2,078 |
| Counterparty Credit | **3,983** | 3,627 | **319** | 290 |
| Market Risk | **4,494** | 3,455 | **359** | 276 |
| Operational Risk | **3,149** | 3,194 | **252** | 256 |
| Basel 1 floor impact | **–** | – | **–** | – |
| **Total Risk-Weighted Assets** | **48,051** | 36,248 | **3,844** | 2,900 |

## Loan Impairment Charges / Impaired Loans

| | At | |
|---|---|---|
| | **31 Dec 2019** | 31 Dec 2018 |
| (in million of euros / %) | **€m** | €m |
| Total Gross loans | **64,436** | 53,788 |
| Total Impaired loans (B)[1] | **1,239** | 990 |
| Impaired loans % | **1.92%** | 1.84% |
| Total loan impairment charge at 31 December | **(128)** | 10 |
| Impairment allowances (A)[1] | **(589)** | (522) |
| Impairment ratio: A/B | **47.54%** | 52.73% |

*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

The United Kingdom left the European Union on 31 January 2020 and entered a transition period until 31 December 2020, during which negotiations will take place on the future relationship between the UK and the EU.

However, there is no certainty on the future relationship between the UK and the EU, or indeed an implementation period. This creates market volatility and economic risk, particularly in the UK. HSBC Group's global presence and diversified client base should help to mitigate the impact of the UK's withdrawal from the EU.

#### 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, HSBC Group has put in place a robust contingency plan. It is based on a scenario whereby the UK exits the EU on 31 January 2020, 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 January 2020 under the terms described above. HSBC Group's programme has now been largely completed, 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. As part of HSBC Group's stress testing programme, a number of internal macroeconomic and event-driven scenarios were considered alongside a scenario set by the Bank of England to support HSBC Group's planning for, and assessment of, the impact of the UK's withdrawal from the EU. The results confirmed that HSBC Group is well positioned in the event of potential shocks.

This risk is stable versus 31 December 2018.

### Ibor transition

The Financial Stability Board has observed that the decline in interbank short-term unsecured funding poses structural risks for interest rate benchmarks that reference these markets. In response, regulators and central banks in various jurisdictions have convened national working groups ('NWGs') to identify replacement rates for these interbank offer rates ('Ibors') and, where appropriate, to facilitate an orderly transition to these rates.

Following the announcement by the UK's Financial Conduct Authority in July 2017 that it will no longer persuade or require banks to submit rates for Libor after 2021, the NWGs for the affected currencies were tasked with facilitating an orderly transition of the relevant Libors to their chosen replacement rates. The EUR NWG is also responsible for facilitating an orderly transition of the Euro Overnight Index Average ('Eonia') to €STER as a result of the determination that Eonia cannot be made to comply with the European Benchmark Regulations ('BMR') and can therefore no longer be used beyond 2021. The EUR NWG is also tasked to issue recommendations on the contractual fallback clauses that should cater for the case where Euribor would cease to be published, whether temporarily or definitively. As a matter of fact, even if it is not expected at this stage that the Euribor will disappear as it has been recognised BMR compliant following the amendment of its methodology in 2019, robust fallback clauses should be defined for this index, as requested by the BMR. Lastly, although NWGs in other jurisdictions have identified replacements for their respective Ibors, there is no intention for these benchmark rates to be discontinued.

Given the current lack of alternatives, HSBC's portfolio of contracts with maturities beyond 2021 is increasing on Libor and stable on EONIA. HSBC established the Ibor transition programme with the objective of facilitating an orderly transition from Libor and Eonia for HSBC and its clients and of managing the evolution of Euribor. This global programme oversees the transition effected by each of the global businesses and is led by the Group Chief Risk Officer. In HSBC France, the programme is led by the HSBC France Chief Risk Officer.

The programme is currently focussed on developing alternative rate products, and the supporting processes and systems that reference the NWG-selected replacement rates and making them available to customers. Depending on the take up of these products by customers, this should reduce the current growth in Libor contracts being transacted with maturities beyond end 2021 and reduce the volume of Eonia contracts being transacted with maturities beyond end 2021, while the new product capabilities will also enable the transition of outstanding Libor, Euribor and Eonia products onto the replacement rates. A structured development plan is required given the widespread use of Libor and Eonia in a wide range of products, systems and processes across each of the four global businesses. The resulting execution risk is closely monitored by the programme.

The programme is concurrently developing the capability to transition, through repapering, outstanding Libor, Euribor and Eonia contracts, as well as EURIBOR contracts; indeed, even if the EURIBOR is not planned, for now, to be discontinued, the industry is working on developing robust fallback clauses for this index as required by the European Benchmark Regulation. We expect that ISDA's efforts in guiding the transition of derivatives contracts to reduce the risk of a non-orderly transition of the derivatives market with an estimated notional size in excess of $200tn. The process of implementing ISDA's proposed protocol and transitioning outstanding contracts is nonetheless a material undertaking for the industry as a whole and may expose HSBC to the risk of financial losses.

We intend to actively engage in the process to achieve an orderly transition of HSBC's Libor, Euribor and Eonia bond issuance and of those bonds where HSBC is the payment agent. At this stage we are confident that we will be able to transition the bulk of these exposures and we are actively engaged in industry working groups.

Although we have plans to transition multi-billion contractually Ibor-referenced loans onto replacement rates, our ability to transition this portfolio by the end of 2021 is materially dependent on the availability of products that reference the replacement rates and on our customers being ready and able to adapt their own processes and systems to accommodate the replacement products. This may give rise to an elevated level of conduct related risks. HSBC is engaging with impacted clients to ensure that customers are aware of the risks associated with the ongoing purchase of Libor and Eonia referencing contracts as well as the need to transition legacy contracts prior to the end of 2021.

In addition to the execution and conduct risk previously highlighted, the process of adopting new reference rates may expose the Group to an increased level of operational and financial risks, such as potential earnings volatility resulting from contract modifications, changes in hedge accounting and a large volume of product and associated process changes. We continue to engage with industry participants, the official sector and our clients to support an orderly transition and the mitigation of the risks resulting from the transition.

## Top and emerging risks

Our approach to identifying and monitoring top and emerging risks is described on page 93. During 2019, we made certain changes in the list of our top and emerging risks, reflecting the evolution of the issues facing HSBC. Our current top and emerging risks, as assessed by us,  are as follows.

## Externally Driven

### Macroeconomic risks

Rising trade tensions and the deceleration noticed in the US and the Chinese economies have weighted on the external environment in 2019. But despite this less favourable global backdrop, the French economy has posted a relative resilience compared to its main neighbours, notably Germany. Indeed, in France, business investment has accelerated over the first three quarters of 2019, while households' private consumption showed some weakness, considering policy measures taken by French governmental authorities to support purchasing power.

Actually, as they have benefited from still low bond yields and from a profit margin ratio at its highest level since mid-2008, companies have fuelled the economic activity not only through capital spending, but also via a more dynamic employment strategy, with more labour contracts being concluded for permanent jobs. Nevertheless, in spite of a better-oriented labour market and a still subdued inflation rate, purchasing power gains accordingly obtained by households have not translated into an acceleration in their consumption expenditure. On the contrary, household saving ratio, at around 15 per cent, has risen in 2019 to its highest since the end of 2012, being fuelled not only by rising revenues, but also through precautionary savings against an uncertain economic and social environment .In addition, the persistence of extremely low interest rates continues to heavily weigh on banks' revenues stemming from deposits, as well as those of some of their rates-driven markets activities.

However, as in 2018, 2019 may again see France posting a pace of expansion higher than those of Germany and the eurozone. In addition, the ECB monetary policy, made more accommodating again since decisions made in September (in particular the cut in the deposit facility rate and the restart of asset purchase programmes from November), should contribute to make borrowing conditions more attractive, thus contributing to a rise in the indebtedness ratio for some economic agents.

Regarding the French fiscal policy, the tax cuts that have been decided in favour of households and companies may help the economic activity reach a level close to its potential in 2019. Nonetheless, the European Commission, when assessing the 2020 draft budgetary plan, estimated in November that a risk of non-compliance with European fiscal rules exists, as the multiyear trajectory of the French public budget has deteriorated compared to the projections submitted to Brussels in the April stability programme.

#### Mitigating actions

Faced with these challenges, HSBC France has maintained its efforts to adapt itself to this new environment in order to offset its impact on its profitability and reinforce the sustainability of its economic model.

This adaptation requires maintaining a very strict cost control, while carrying-on with necessary modernisation efforts.

In Retail banking, the transformation of the distribution model in 2018, with the specialisation of the salesforce, combined with an accelerating modernisation of internet banking services, has been fully fruitful in terms of productivity and growth.

Regarding its global banking and markets operations, HSBC France has continued to grow its customer base, both through organic growth and by housing, ahead of Brexit, a number of its UK parent's (HSBC Bank plc's) European clients, and also through further  strengthened partnership with the other members of the worldwide HSBC network. Beside, the set of markets products that HSBC France can offer to its large clients got larger and more diverse, again with the aim of providing service continuity to those eurozone clients that are transferring their banking relationships from the UK to the Continent.

Itself confronted 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. In order to preserve its solvency ratio, HSBC Assurances Vie (France) has also made various adjustments, including on the sharing of distribution fees with its distribution channel, namely the HSBC France branch network.

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.

This risk has increased since 31 December 2018, essentially due to the unexpected absence of interest rate increase.

## Competition risk

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

### Market

Continued and increased competition notably in user-friendly wealth management solutions by incumbents and new entrants requires capital investments in order to remain competitive.

### Pricing

There is also increasing competitive pressure to provide digital and mobile products and services at lower prices. The low interest rate environment negatively impacts traditional banks' net interest income. Furthermore, customers are less willing to pay for simple operations. Traditional banks, for most of them, have been led to increase their fees on other products or services, while mobile banks and Fintechs rely on cutting-edge customer experience and products to increase both their customer base and revenues.

### Technology

The banking industry is facing accrued competition on its traditional banking products and services following the arrival on the market of new entrants such as mobile banks, tech companies and new non-banking entrants ('Fintechs', 'Insurtech', 'Supply Chain Specialists'…) which offer innovative and customer centric technologies. These potential competitors are capable of capturing part of the banking sector's value chain' by offering to their customers relatively more flexible and reactive services, leveraging new technologies (e.g. automated customer risk assessment using algorithms), attractive pricing, or more responsive online banking services via smartphones or tablets. Traditional players could be constrained by outdated platforms in an environment where customers expect exemplary service. Traditional players are trying to respond through partnerships, acquisitions, or the development of incubators and Labs.

This challenge is made further steeper by several regulations and market evolutions, both in the payment (European Payment Services Directive "PSD2", Instant Payment, NFC (Near Field Communication) 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 has opened up access to the bank's electronic payment platforms to two new types of entrants such as Account Information Service Providers ('AISP') and Payment Initiation Service Providers ('PISP'). AISP's are aggregators of data, who can process and centralise information relating to accounts held by the same account holder across different banks, whereas PISP's, receive and process payment requests for clients once authorised by them to do so. In addition, banks have had - or have - to quickly adapt their processes and their IT infrastructure to be able to propose instant payment to their clients.  Lastly, 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 materially change the way banks will use customer data. One of the major risks for traditional banks, who are less flexible than the new entrants, is to progressively lose part of their business as customers increasingly expect exemplary services from their bank.

### 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 that the bank complies with its obligations and is also looking at key business opportunities. GDPR is now applied in a structured manner within HSBC France. HSBC France has implemented Instant Payment and enhanced multichannel and digital features for its retail customers. HSBC France Labs are also looking at strategic solutions and technologies to accelerate readiness and 'digitalise' its products and services more quickly. Open Banking projects in the UK could be leveraged in France.

This risk is stable versus 31 December 2018.

## 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.

### 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. More specifically, many tests are conducted internally to raise the awareness of the HSBC employees of the risk of phishing.

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.

This risk is stable versus 31 December 2018.

## 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.

The risk has increased since 31 December 2018 given the increasing expectations from the tax authorities on documentation.

## Regulatory Compliance including Conduct

The Industry continues to operate under an increasing focus of regulators on Conduct matters, such as the fair treatment of customers with  specific attention paid on the protection of fragile customers and  compliance with conduct rules in financial markets (including the market abuse framework).

The ACPR also mentioned it was paying  particular attention to digital initiatives, artificial intelligence, FinTech developments and e-activities, reminding banks that these changes should aim at the clients' interest and allow enhanced traceability and control.

Otherwise the regulatory change environment combined with UK structural reforms have remained challenging in 2019. In the Brexit context, HBSC is facing an intense Regulatory scrutiny from the European Regulator. HSBC adjusted its European strategy to ensure the smoothest transition for its customers, as well as its organisation. Compliance with regulatory standards must be ensured in every step, towards our internal and external stakeholders.

The green finance and crypto-currencies have also been mentioned as emerging issues. The French law on energy transition and green finance will have to be reviewed following European initiatives, and preventing green-washing and pushing for a better harmonization of methodologies to define what green really is have been a big stake for the AMF. Regarding crypto-currencies, the French regulators are calling for a European initiative.

### Mitigating actions

In line with Group initiatives and the Global Conduct Policy, HSBC France has implemented the Conduct framework: all Lines of Business have taken full ownership of Conduct risk, like the other risks.

Regulatory Compliance oversees and provides advice to the lines of Business in their action plans, with a focus on employee training, to address any concern or possible delay in the application of the regulatory requirements. It engages with internal and external stakeholders, including Regulators, as part of its role as Risk Stewards in achieving HSBC's strategic priorities.

This risk has remained stable versus 31December 2018.

## 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, transfer money to sanctioned countries or individuals or facilitate tax evasion. The risk of financial crime remains a top risk for HSBC which continuously reinforces its framework to detect and deter 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'), Fraud Prevention and Tax Transparency 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 top management to each 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 Sapin 2 and the Agence Francaise Anticorruption ('AFA');
- Appropriate Fraud prevention systems to deter and detect ~~all~~ internal and external fraud attempts;
- Robust policies designed to meet the obligations related to tax fraud and tax evasion in line with art L561-15-11 of the  Code Monétaire et Financier as well as FATCA, CRS and DAC6 reporting requirements.

This risk is stable versus 31 December 2018.

## 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, $CO^2$ 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 $CO^2$ 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 is measured and monitored by the client facing teams and the credit teams, and exposure to Transition Risk is reported to the RMM including regular review of sensitive sectors/clients.

This process will help to align the Group's portfolio to a de-carbonation scenario.

This risk has remained stable versus 31 December 2018.

## IBOR Transition risk

Following the FSB recommendation to replace interbank offered rates ('IBORs') by Risk-Free Rates ('RFR') and the adoption of the EU Benchmark Regulation ('BMR'), public authorities have been leading the industry to obtain a robust and seamless transition. From 2 October 2019, the ECB started publishing the €STR, the RFR aiming at replacing the EONIA (overnight interest rate index in Euro). The EONIA still exists, computed as a tracker of the €STR; it will be discontinued on 3rd January 2022. The EURIBOR has transitioned to a new computation methodology which has been recognized BMR-compliant; it is therefore not planned, for now, to be replaced; however the BMR requires that robust fallback clauses be implemented in all contracts referring EURIBOR. Other IBOR indices are being replaced by RFRs (GBP LIBOR by SONIA, USD Libor by SOFR) and will be discontinued end 2021.

The HSBC Group has identified a number of prudential, conduct and systemic risks associated with the transition, in particular:

- Conduct Risk: the ongoing sale of LIBOR and EONIA based products (especially those with maturities beyond 2021), the sale of new RFR based products and the transition of legacy LIBOR & EONIA contracts to RFRs have the potential to result in actual or perceived adverse outcomes for both customers and the markets.
- Legal risks: contract frustration or force majeure may arise where legacy contracts are not transitioned prior to discontinuation.
- Execution risks: significant change in systems, processes and controls across accounting, models and operations are required to support the sale of RFR based products and the transition of legacy contracts.

### Mitigating actions

The HSBC Group has established a Global Programme to coordinate HSBC's transition activities and to manage the risks and impacts of the transition. A local governance has been set up for HSBC France and its European branches, involving all business lines and support functions notably Risk and Finance.

Within this programme, all business lines have designed and are rolling out detailed action plans with the following objectives: RFR product development and sale; de-risking sale of IBOR/EONIA based products; transition of the legacy book. In addition, the programme has implemented and will continue to strengthen a regular process to monitor the volume and value of customer exposures potentially impacted by the transition from IBORs.

The HSBC Group and HSBC France will continue to engage with industry participants and the regulators to support an orderly transition. In particular, HSBC France colleagues are participating into the EUR RFR Working Group.

This is a new Top & Emerging Risk for 2019.

## Business Model risk

The banking industry in Europe is impacted by low profitability, with some banks generating a return on Equity (RoE) which is below their estimated cost of equity. HSBC France's business model has been challenged by the prolonged period of low interest rates and intense competition impacting the ability to generate income, as well as by stable or rising costs given the regulatory requirements and the need for IT investments. Any worsening in the uncertain macroeconomic outlook will continue to put pressure on revenues.

### Mitigating actions

HSBC France has identified a number of initiatives to adapt its cost structure to the current environment. These are being tracked both at the local, European and Group level. Key projects (such as PSD2 and Brexit preparedness) are being implemented to support market developments.

This is a new Top & Emerging Risk for 2019.

## Reputational Risk

The need to adapt HSBC France's business model to the current operating environment has significantly increased the number of transformational projects. The intensity and the pace of transformation is an area of concern for HSBC France's reputation overall as well as for employees and client retention.

#### Mitigating actions

These risks are closely monitored and mitigation actions have been implemented, including an enhanced communication plan.

This is a new Top & Emerging Risk for 2019.

### Geo-political Risk

Financial markets around the world are increasingly being pushed and pulled by geopolitical dynamics. Heightened geopolitical risk has become the new normal, with uncertainty surrounding policy, international relations and political leadership are now a driving force behind financial market volatility.

US – China: Despite positive developments on trade negotiations between the U.S. and China in recent months, the changing nature of their relationship appears to be a more permanent phenomenon. In the short-term, the immediate risk of a tariff war has been minimised, but medium and long-term competition between the two superpowers will likely continue, with recent trade frictions marking the start of a changing bilateral relationship.

Middle East – US – Iran tensions are a threat to the entire region and global economy in the event of an all out war which is however considered unlikely. Whilst reduced, the risk from ISIS needs to be monitored closely.

Europe – Brexit dominated 2019. The United Kingdom left the European Union on 31 January 2020 and entered a transition period until 31 December 2020, during which negotiations will take place on the future relationship between the UK and the EU. Though risks of a no-deal Brexit have diminished, uncertainty will remain high and weigh on the UK economy. Weaker European economies remain a concern which could increase in the event of a general economic downturn.

#### Mitigations actions

We continue to closely monitor the evolving political and economic environments and portfolio quality to the sectors most affected. In particular, exposure is reviewed regularly for 'at risk' sectors or companies.
The risk has increased globally since 31 December 2018 despite the risk of a no deal Brexit having diminished.

## Internally driven

### IT risks & Operational 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. The use of Cloud services allows us to increase our resilience while maintaining control over our data, applications and architecture.

This risk has increased versus 31 December 2018.

### People risks

A more challenging external environment as well as the remodelling of the structure to keep competitive and transformation programs at HSBC France, impact the bank's staff which could create an environment that certain staff may feel as complex and more 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 in the banking industry modify the skills and expertise required 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 feedback 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.

The risk has increased versus 31 December 2018.

### 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, particularly in an environment where these resources are shared with the other parts of the HSBC Group at European and global level. 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 global, regional and local governance forums. The local governance, which is ensured by a dedicated monthly Oversight Project committee was launched on 1 January 2018.

The risk has remained stable versus 31 December 2018.

### Model risks

Model risk arises when business decision making includes some reliance on models, which are increasingly used across many areas of the bank in both financial and non-financial contexts.

While sound controls are already in place, in particular the maintenance of a model inventory and its extensive coverage by regular independent model validations, HSBC France has identified a number of areas in its processes where further progress is required in order to effectively manage model risk. Failure to do so could expose the bank to reliance on ill-controlled models, impact strategic objectives especially in terms of efficient use of capital, and bring reputational risk to HSBC France.

On the development side, models are used by businesses on a wider and wider scope, with more sophisticated modelling approaches linked to technical developments in machine learning. While this is expected to result in increased efficiency, there is a risk that model controls might not follow the pace of developments, leading to lower visibility on actual model risks.

For regulatory capital models specifically, HSBC France's supervisors continue to raise their expectations regarding model quality and control, especially in the context of the European Central Bank's Targeted Review of Internal Models. Supervisory Authorities have expressed reservations on the quality of some current or future models, which generates a risk that unfavourable conditions may be imposed for the calculation of Risk Weighted Assets based on internal models; and, beyond, this makes the usage of internal models uncertain over the longer term for some client segments.

The deep changes in rate benchmarks ('IBOR') that are due to happen over the next few years, can cause model-related challenges in areas such as Traded Risk and Markets Valuation, in particular due to uncertainties related to the timing and exact nature of the transition period. Lack of awareness of the impact on the model landscape and model risk, could result in ineffective prioritisation of coordinated activities, and partial inability to cope with some aspects of the transition.

On the longer term, several changes are planned, are ongoing or being considered by supervisors: enhanced definition of default, reassessment of models used for Probability of Default and Loss Given Default, CRR2 and 3, Fundamental Review of the Trading Book. This leads to uncertainty on the long-term regulatory framework for regulatory capital models, which might need significant redevelopments, entailing risks of regulatory approval issues, and of capital impacts in case of defects in the new models' performances.

**Mitigating actions**

HSBC France is actively improving its model risk management capabilities beyond independent model validation, by creating a Model Risk Management function, acting as a second line of defence on model risk. The monitoring of model risk control is being redefined to enable a better understanding and improved translation to the different modelling areas of the bank. The model risk policy is being refined to drive focus on the most significant areas of model risk, and a comprehensive risk assessment and approval procedure is being elaborated.

Model Risk Management in HSBC Group is working in conjunction with the global businesses and functions to master the advanced analytic developments and technologies, actively reaching out to new Artificial Intelligence-Machine Learning ('AI-ML') programs which are in the process of being developed.

For regulatory capital models specifically, HSBC France is actively engaging with supervisory bodies to ensure their concerns are addressed and expectations are being met. Development of enhanced models for the main areas of concern is planned to be completed in 2020.

Concerning rate benchmarks, a model risk working group has been set up at the level of HSBC Group to conduct gap assessment and give a consolidated of the transition view from the model risk perspective. Global businesses, model owners and Model Risk Management are devising plans to implement model changes and assess model risk during the transition period.

The consequences of future regulation changes on models are reviewed in formal project planning and working groups established, as required, to address regulatory change, including the Fundamental Review of the Trading Book and Basel III reforms. Review of broader regulatory guidance for model implications will continue, and be addressed in conjunction with established HSBC working groups and governance. Active engagement with regulatory bodies will continue.

The risk has increased versus 31 December 2018.

## Data management risks

The HSBC Franceuses a large number of systems and applications to support key business processes and operations. As a result, we often need to reconcile multiple data sources, including customer data sources, to reduce the risk of error. HSBC, along with other organisations, also needs to meet external/regulatory obligations such as the General Data Protection Regulation ('GDPR') which required implementation of data privacy and protection capabilities across our customer data systems since May 2018.

**Mitigating actions**

- We continue to improve data quality across a large number of systems globally. Our data management, aggregation and oversight continues to strengthen and enhance the effectiveness of internal systems and processes. We are implementing data controls for critical processes in the 'front-office' systems to improve our data capture at the point of entry. We have achieved our objectives of meeting a 'largely compliant' rating in support of the Basel Committee for Banking Supervision ('BCBS' 239) principles and have now embedded them across the key markets and regions.
- Through our Global Data Management Framework, we continue to expand and improve our data governance processes to proactively monitor the quality of critical customer, product, reference and transaction data and resolving associated data issues in a timely manner. We have also implemented data controls in order to improve the reliability of data used by our customers and staff.
- We are also modernising our data and analytics infrastructure through investments in advanced capabilities in cloud, visualisation, machine learning and artificial intelligence platforms.
- HSBC has implemented a global Data Privacy Framework that establishes data privacy practices, design principles and guidelines that demonstrate compliance with Data Privacy Laws and Regulations in the jurisdictions in which HBFR operates such as the GDPR in EU.
- We have also initiated efforts to modernize our data architecture and infrastructure through adoption of big data, cloud, machine learning, advanced analytics and visualization technologies. To help our employees keep abreast of Data Management and Data Privacy Laws and Regulations we continue to hold annual data symposiums and data privacy awareness training highlighting our commitment to protect personal data for our customers, employees and stakeholders.

The risk has increased versus 31 December 2018.

## Third Party Risk

HSBC France utilises third parties for the provision of a range of services, in common with other financial service providers. Risks arising from the use of third-party service providers may be less transparent and therefore more challenging to manage or influence. It is critical that we ensure we have appropriate risk management policies, processes and practices. These should include adequate control over the selection, governance and oversight of third parties, including Cloud, particularly for key processes and controls that could affect operational resilience. Any deficiency in our management of risks arising from the use of third parties could affect our ability to meet strategic, regulatory or client expectations.

### Mitigating actions

We continued to embed our delivery model in the first line of defence through several dedicated teams. Processes, controls and technology to asses third party service providers against key criteria and associated control monitoring and assurance have been developed.

Oversight capabilities in the second line of defence has been enhanced to monitor and embed policy requirements and performance against risk appetite. Within the second line of defence, the Resilience Risk is in charge of defining the strategy and the policy for an effective management of the Third Party Risk.

Governance : Any outsourcing of a material service is formally approved by the Bank Risk Management Meeting prior to the contract commencement date.

A dedicated Cloud Committee is implemented to review each project to outsource on a Cloud to ensure adherence to the Group Cloud strategy and to review data privacy, regulatory compliance, Legal and IT aspects.

A quarterly Third Party Risk Forum is in place to ensure that third parties are managed in line with Group standards and regulatory expectations.

The risk has increased versus 31 December 2018.

## Risk Factors

We have identified a list of risk factors that cover the 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.

| Category | Risk Factors | Probability (Unlikely/Possible/ Likely) | Impact (Low/Moderate/ Significant) |
|---|---|---|---|
| Macroeconomic risk | Current economic and market conditions may adversely affect HSBC France's results. | Likely | Significant |
| 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. | Likely | Moderate |
| Macro-prudential, regulatory and legal risks | HSBC France is exposed to the risks associated with the replacement of benchmark indices. | Unlikely | Significant |
| Risks related to our business, business operations, governance and internal control systems | The delivery of our strategic actions is subject to execution risk. | Likely | Significant |
| | HSBC France is exposed to a risk of attrition along with a skills retention risk. | Likely | Significant |
| | We may not achieve any of the expected benefits of our strategic initiatives. | Possible | Significant |
| | HSBC France remain susceptible to a wide range of cyber-risks that impact and/ or are facilitated by technology | Possible | Significant |
| | HSBC France's operations utilise third-party and intra group suppliers and service providers. | Possible | Significant |
| | HSBC France's operations are highly dependent on our information technology systems. | Unlikely | Significant |
| | HSBC France's data management policies and processes may not be sufficiently robust. | Unlikely | Significant |
| | We have significant exposure to counterparty risk. | Unlikely | Significant |
| | HSBC France's reputational risk is highly linked to its current organisational evolution. | Likely | Moderate |
| | HSBC France could incur losses or be required to hold additional capital as a result of model limitations or weaknesses. | Likely | Moderate |
| | Risks concerning borrower credit quality are inherent in our businesses. | Likely | Moderate |
| | Market fluctuations may reduce our income or the value of our portfolios. | Likely | Moderate |
| | HSBC France's operations are subject to the threat of fraudulent activity. | Likely | Moderate |
| | HSBC France's financial statements are based in part on judgements, estimates and assumptions that are subject to uncertainty. | Likely | Moderate |
| | Liquidity, or ready access to funds, is essential to our businesses. | Unlikely | Moderate |
| | Third parties may use us as a conduit for illegal activities without our knowledge. | Unlikely | Moderate |

## Macroeconomic risk

**Current economic and market conditions may adversely affect HSBC France's results.** Probability: Likely / Impact: Significant

Due to its affiliation to a banking group present in significant number of countries, a large part of HSBC France's customer base is composed of international firms or firms having a strong international activity. In a context of stressed trade relations between the US and China and a global rise of protectionist tendencies, a progressive downturn of international trade could not be excluded, which could adversely affect the volume of business along with the financial results of HSBC France.

Furthermore, the low and, even negative rate environment, that prevails in the Euro zone for the past several years generally affects all banks as historically a portion of the revenues were derived from customers' deposits. These rates, close to zero, and, more generally, the monetary easing policy led by the ECB, have also resulted in reducing the volume of fixed income transactions, contributing to an erosion of banking intermediation margins , which were beyond the effect induced by the development of electronic trading platforms.

If the above were to persist durably, and if the HSBC France markets activities diversification along with the re-organisation of its retail bank should not be in line with the plan , the economic and market conditions could represent a particular challenge for the bank, as fixed income activities were the historical bedrock of its "Global Markets" division.

## 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.** Probability: Likely / Impact: Moderate.

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.

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 completed) and the migration of impacted businesses and clients from the UK to its EEA subsidiaries, in particular HSBC France (largely completed).

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

**HSBC France is exposed to the risks associated with the replacement of benchmark indications.** Probability: Unlikely / Impact: Significant.

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, such as changes to benchmark indexes 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 to what extent 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.

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

**The delivery of our strategic actions is subject to execution risk.** Probability: Likely / Impact: Significant.

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 in addition to the already mentioned project related to the UK's departure (RBWM New Distribution Model and Regulatory Programmes) 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.

The failure to successfully deliver key strategic actions or other regulatory programmes could have a significant impact on HSBC France's financial condition, profitability and prospects, as well as wider reputational and regulatory implications. Execution Risk linked to the ongoing number of projects is being managed and mitigated through a Project Oversight Committee.

**HSBC France is exposed to a risk of attrition along with a skills retention risk.** Probability: Likely / Impact: Significant.

The demands being placed on the human resources of the bank remain at a very high level. The workload arising from evolving regulatory reform programs places increasingly complex and conflicting demands on the workforce. At the same time, the human resources operate in an employment market where expertise in key markets is often in short supply and mobile. The continued success of HSBC France depends in part on the retention of key members of its management team and wider employee base. The ability to continue to attract, train, motivate and retain highly qualified professionals and talented people who embrace HSBC core values is a key element of our strategy. The successful implementation of our growth strategy depends on the availability of skilled management in each of our businesses and functions, which may depend on factors beyond our control, including economic, market and regulatory conditions.

If businesses or functions fail to staff their operations appropriately or lose one or more of their key senior executives/ talent and fail to successfully replace them in a satisfactory and timely manner, or fail to implement successfully the organizational 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.

**We may not achieve any of the expected benefits of our strategic initiatives.** Probability: Possible / Impact: Significant.

HSBC Group's strategy is built around two trends: the continued growth of international trade and capital flows, and wealth creation. With regards to the current operating environment in Europe, the HSBC Group is reviewing its strategy and operations in order to implement a sustainable and profitable operating model that would be able to best serve its clients in the future. Within the framework, HSBC France's strategic vision is to be the leading international wholesale bank in Continental Europe. The HSBC Group's international network and expertise along with HSBC France's coverage and capabilities across Continental Europe provide us with a strategic advantage to help clients achieve their goals, whether it is growing their businesses in the single market or breaking into international markets. 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 to fully embed HSBC France's Continental Europe positioning by increasing the cross-business and cross-border synergies between HSBC Group's different entities in the world, while conducting efficiency measures across Continental Europe's entities.

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

**HSBC France remains susceptible to a wide range of cyber-risks that impact and/or are facilitated by technology.** Probability: Possible / Impact: Significant.

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 2019, the bank was subject to a small number of DDOS attacks on our external facing websites across the Group and no ransomware attacks. Although cyberattacks had a negligible effect on our customers or services due to the increasing sophistication of cyber-attacks potential future attacks could have a material adverse effect on our business, prospects, our capital, reputation and our profit.

**HSBC France's operations utilise third-party and intra group suppliers and service providers.** Probability: Possible / Impact: Significant.

HSBC relies on external and intra-group third parties to supply goods and services. Regulators have increased their scrutiny regarding the use of third-party providers by financial institutions, including the ones related to outsourcing decisions and how key relationships are managed. Risks arising from the use of third-parties may be 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 consequences, including regulatory or civil penalties or damage both to shareholder value and to our reputation, which could have a negative impact on our business, clients, capital and profit. To answer regulatory evolutions related to the implementation of new European Banking Authority guidelines on outsourcing, HSBC France enhanced in 2019 its third party risk management framework in order to deal with those risks in a consistent and efficient way within its perimeter. This new framework, applicable within the whole perimeter of HSBC France, is currently being deployed and still needs support from the businesses. Furthermore, remediation works related to pre-existing third-parties are being deployed.

**HSBC France's operations are highly dependent on our information technology systems.** Probability: Unlikely / Impact: Significant.

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. No noticeable incidents or disruptions were reported for HSBC France in 2019. In addition HSBC France management considered the financial control environment and reviewed action taken to enhance controls over IT access management.

**HSBC France's data management policies and processes may not be sufficiently robust.** Probability: Unlikely / Impact: Significant.

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.

**We have significant exposure to counterparty risk.** Probability: Unlikely / Impact: Significant.

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 system 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.

**HSBC France's reputational risk is highly linked to its current organisational evolution.** Probability: Likely / Impact: Moderate.

Reputational risk has significantly increased in the context of HBFR business model reshaping: The path of transformation and the intense activity linked to an important number of strategic projects concurrently managed have attracted media pick up, which could affect directly HSBC France, financially or not, along with partners and clients' trust. Simultaneously the level of uncertainty has increased for both customers and employees and our ability to hire or retain may be impacted by a long lasting period of lack of visibility on businesses and operations moving forward.

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 could incur losses or be required to hold additional capital as a result of model limitations or weaknesses.** Probability: Likely / Impact: Moderate.

HSBC France uses models for a range of purposes in managing its business, including calculation of risk-weighted assets, loan impairment charges, fair valuation of some financial instruments, financial crime and fraud risk management, stress testing, and credit approvals.

HSBC France could in some cases face adverse consequences as a result of decisions by management based on the use of models. This can happen when models have been inadequately designed or implemented, when their outcome is misunderstood or used beyond the model's intended use case, or as a result of random events whose probability was neglected in the model design.

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. In case of significant model deficiencies, regulators may require model re-developments or impose capital add-ons. 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.

**Risks concerning borrower credit quality are inherent in our businesses.** Probability: Likely / Impact: Moderate.

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.

**Market fluctuations may reduce our income or the value of our portfolios.** Probability: Likely / Impact: Moderate.

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 realized 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.

**HSBC France's operations are subject to the threat of fraudulent activity.** Probability: Likely / Impact: Moderate.

The risk of fraud has increased and been made more complex by the digital transformations operated within HSBC, fraudsters may target any of our products, services and delivery channels (especially the online on-boarding), including lending, internet banking, payments, bank accounts and cards, and cyber attacks against the bank's infrastructure are increasing in frequency and force. This may result in financial loss to HSBC France, an adverse customer experience, reputational damage and potential regulatory action depending on the circumstances of the event, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations. There is consumer association pressure to make banks liable for substantially more of consumer fraud losses in absence of comprehensive fraud prevention solutions and controls. In addition, fraud related litigation against the bank is increasing, be it where HSBC is banking the client or the fraudster.

**HSBC France's financial statements are based in part on judgements, estimates and assumptions that are subject to uncertainty.** Probability: Likely / Impact: Moderate.

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.

**Liquidity, or ready access to funds, is essential to our businesses.** Probability: Unlikely / Impact: Moderate.

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

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.

Nevertheless, number of contingent actions and procedures – including business actions - are in place in HSBC France's Contingency Funding Plan in order to tackle such a situation should it happen, which materially reduces the impact of this risk should it materialise.

**Third parties may use us as a conduit for illegal activities without our knowledge.** Probability: Unlikely / Impact: Moderate.

We are required to comply with applicable AML laws, Sanctions, AB&C, Fraud Prevention and Tax Transparency regulations, and have adopted HSBC Group policies and procedures, as well as additional local legislative and 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 and at mitigating HSBC exposition to Financial Crime risks.

A major focus of US and UK government policy relating to financial institutions in recent years has been preventing, detecting and deterring money laundering and enforcing compliance with US and EU economic sanctions at Group level. This focus is reflected in part by our agreements with US and UK authorities relating to various investigations regarding past inadequate compliance with AML, and sanctions. These consent orders do not preclude additional enforcement actions by bank regulatory, governmental or law enforcement agencies or private litigation.

Our local French regulator remains strongly focused on AML-CTF and, more recently, AB&C and Tax Fraud/Tax Evasion matters within the French Banking industry. Furthermore, French anticorruption requirements have been issued through the *loi n °2016-1691 du 9 décembre* 2016 said « *Sapin II* ». In addition to this, the *'Agence Française Anticorruption'* ('AFA') have been established to supervise French companies.

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

In recent years, we have experienced a substantial rise in the volume of new regulation impacting our operational processes, along with increasing levels of compliance risk as regulators and other authorities pursued reviews and investigations into the bank's activities. It is important to note that France on-site visit and plenary discussions for a mutual evaluation is scheduled by FATF in 2020. In line with the Group's heightened standards and organisation, HSBC France has continued to improve the 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, Sanctions, AB&C, Fraud Prevention and Tax Transparency 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) or for financing terrorism, sanctions violation, corruption, fraud or tax fraud and tax evasion. Becoming a party to money laundering, association with, or even accusations of being associated with, money laundering, sanctions violation, corruption fraud or tax fraud/evasion 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.

## ESG Risks – Environmental, Social and Governance

Refer "Non-financial performance statement" within "Sustainability".

## Key developments and risk profile

### Key developments in 2019

In 2019, HSBC France has continued to enhance its risk management framework. These included:

- The reinforcement of HSBC Third Party Risk Management Framework with the implementation of the EBA Guidelines on Outsourcing in 2019 Q4;
- the continuous strengthening of our risk culture, with a particular focus on subjects related to Cyber security through trainings that are designed to enhance employees' perception and management of risks related to safety and IT systems;
- the implementation of a Resilience Risk Team with the aim of maintaining the trust of our clients, shareholders and regulators, being able to provide critical services during a period of operational disruption of our IT systems;
- the 'Conduct' Framework, which sets forth the commitments made by HSBC with respect to the fair treatment of customers and the financial market integrity, has been expanded and integrated into the Enterprise Risk Management Framework, strengthening the understanding of Roles and Responsibilities within the Three Lines of Defence (explained later on in 'The Control Framework');
- the integration of the new HSBC France European branches, in Spain, Italy, Luxembourg, Netherlands, Belgium, Czech-Republic and Sweden 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 and clearly defined responsibilities allow an effective risk management. The HSBC risk management framework fosters the continuous monitoring and assessment of the risks. The risk appetite framework, stress testing exercise, risk map and the identification of top and emerging risks are entirely part of the risk management framework.

The HSBC France risk management framework is designed to provide appropriate risk monitoring and assessment.

The Risk Committee is composed of independent members and has the responsibility to oversight for the Board, bank's risk appetite and tolerance, its risk management, the internal control or compliance framework, and it is in charge to give some advice for those perimeters.

The Risk Committee maintains and supports a culture that foster risk management, appropriately embedded by executive management through procedures, trainings and leadership actions.

In compliance with the requirements of the French order of 3 November 2014 and HSBC Group requirements, HSBC France Group has established a permanent control and risk management framework detailed in the following chapters.

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, the Head of Financial Crime Compliance and the Head of Regulatory Compliance, with other business functions for risks within their respective areas of responsibility.

## Risk governance

HSBC France Risk Management Meeting ('RMM'), is the overarching committee of risk management, next to the committee in charge of overseeing more specifically the Financial Crime Risk and Sanctions Risk (ensuring the supervision of risks related to financial criminality and disrespect of international sanctions): the Financial Crime Risk Management Committee.

Chaired by the Chief Risk Officer ('CRO'), the RMM gathers monthly the members of the Executive Committee in order to examine major risks faced by HSBC France following a previously agreed agenda. HSBC France Branches CEO and Deputy CEO of HSBC France is a member of the HSBC France RMM since July 2018. This committee is also supported by the RMM HSBC Bank plc International, where the HSBC France CRO is participating, along with works over risk management committees that are specific to businesses and some functions from the second line of defence (Legal, Regulatory Compliance and Financial Crime Compliance). It reviews monthly operational risks of businesses and functions, the ones from HOST, the evolution of action plans put in place in order to mitigate identified risks, and operational losses. The HSBC France RMM reports functionally to its European equivalent in the HSBC Group: the HSBC Bank plc RMM.

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

## The control framework

In compliance with the requirements of the French Order of 3 November 2014 and the HSBC Group requirements, the HSBC France Group has established a permanent control and risk management framework.

The CRO of HSBC France is responsible of the permanent control within group's perimeter.

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. This framework is detailed in the part 'Operational Risk Management Framework'. HSBC Group risk management framework is defined through the 'Three Lines of Defence' as described hereafter.

### Operational risks or non-financial risks

The operational risk or non-financial risk, is the risk that might be the result of inadequacy, ineffectiveness or failure of internal processes, performed manually or automatically and external events.

HSBC France manages its non-financial risks following Risk Stewards recommendations and under the supervision of Operational Risks function that ensures a holistic vision of non-financial risks for the bank.

### 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.

## Tools

In compliance with the French Order of 3 November 2014 related to bank permanent control, each entity has set up a framework to monitor its 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.

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. Businesses, and most of the Functions risk profile is presented formally at least annually to the CRO in attendance of concerned Risk Stewards, the Head of Operational Risk function and Audit. The objective of the exercise is to ensure that assessment and management of non-financial risks is consistent across Businesses and Functions in respect of HSBC operational risk management framework and French regulation.

## 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

Risk culture refers to HSBC's norms, attitudes and behaviours related to risk awareness, risk taking and risk management.

HSBC has long recognised the importance of a strong risk culture, the fostering of which is a key responsibility of senior executives. This culture is seen through the HSBC Values and our Global Principles that are available for every HSBC employee. These documents help to align individual behaviours with HSBC risk management framework to ensure that our risk profile remains in line with our fixed framework.

Strategic communication from Senior management on risk subjects are clear and transparent for all HSBC Group employees. Mandatory trainings are also rolled out, on risk and compliance topics to embed skills and understanding of employees, to strengthen our risk culture and reinforce the attitude towards risk in the expected behaviour of employees, as described in our risk management policy.

Since 2016, the programme 'Embedding FCC Culture' allowed HSBC France to strengthen employees' knowledge and the effectiveness of the framework enabling the bank to better identify financial crime risks and to terrorism risks from the first line of defence and HOST.

The 'Conduct Program', launched in 2015 and applicable to every HSBC employee, aims to ensure that actions and decisions taken as part of our activities are in compliance with Group's objectives. Trainings and communications are regularly deployed in order to enhance employees' knowledge completing a mandatory training for all employees called 'Values, Conduct and Me'. Furthermore, a handbook from the 'Values, Conduct and Me' program has been elaborated, highlighting for employees, the best ways to take into account clients' objectives and market transparency in their decisions.

The risk culture is reinforced by HSBC Group's approach to remuneration through individual awards in variable pay, including those for senior executives, that are based on compliance with the HSBC Values and the achievement of both financial and non-financial objectives, that are aligned to our risk appetite and global strategy.

The objectives, as a whole, are documented at the beginning of the year in the annual employees' scorecards.

## Risk function

The Risk function is headed by the Chief Risk Officer, which is responsible for the risk management framework of HSBC France. This responsibility includes establishing risk policy, monitoring risk profiles, and forward-looking risk identification and management. Risk is made up of sub-functions covering all risks of our activities. Risk function is part of the second line of defence. It is independent from commercial activities.

## 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, Capital (including leverage ratio), 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 2019, HSBC France achieved a range of stress tests within the stress testing programme, examining both capital and liquidity adequacy in line with the assessed top and emerging risks. 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. The results of these stress tests were reported to senior management and to the other governance committees of the bank.

In addition to locally driven scenarios, HSBC France also contribute to the HSBC Group stress testing programme, including a Global Internal Stress Test and a 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. To ensure an appropriate coverage of the specific risks faced by HSBC France, scenarios specific to France are also 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.

In 2019, HSBC France, HSBC Bank plc and HSBC Group took part in the Bank of England's 2019 stress test programme, involving all major UK banks. The Annual Cyclical Scenario ('ACS') used was similar to the one used in 2018, with a synchronised global downturn with a significant rise in unemployment rates, a contraction in private consumption, a general fall in property prices. 2019 PRA Stress Test results for the Group were published by the Bank of England in the fourth quarter of 2019, confirming the absence of capital inadequacy. In addition to the ACS, HSBC France, HSBC Bank and HSBC Group are currently participating in the Bank of England Exploratory Scenario, which examined the impact of a market-wide liquidity crisis. The results of this exercise are expected to be finalised by the Bank of England in the first half of 2020. HSBC France also participated in the ECB Liquidity Stress Test ('LiST').

## 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**<br>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:<br>• **measured** as the amount that could be lost if a customer or counterparty fails to make repayments;<br>• **monitored** within limits approved by individuals within a framework of delegated authorities; and<br>• **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**<br>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:<br>• **measured** using a range of different metrics including the liquidity coverage ratio and net stable funding ratio;<br>• **monitored** against the group's liquidity and funding risk framework; and<br>• **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**<br>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:<br>• trading portfolios; and<br>• non-trading portfolios. | Market risk is:<br>• **measured and monitored** using VaR, stress testing and other measures, including the sensitivities of the portfolio value to the different market data; and<br>• **managed** using risk limits approved by the Risk Management Meeting ('RMM'). |
| **Operational risk**<br>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:<br>• **measured** using the risk and control assessment process, which assesses the level of risk and the effectiveness of controls;<br>• **monitored** using key indicators and other internal control activities; and<br>• **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. |
| **Regulatory compliance risk**<br>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:<br>• **measured** by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our Regulatory Compliance teams;<br>• **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<br>• **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. |

Description of risks – banking operations

| Risks | Arising from | Measurement, monitoring and management of risk |
|---|---|---|
| **Financial crime risk**<br>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 related to Fraud and Tax Fraud and/or Bribery & Corruption activities are not observed. | Financial Crime risk may arise when:<br>• our services are used to transform the profits of crime and corruption into legitimate assets, or to finance terrorism;<br>• the bank services are used to try and transfer money to sanctioned countries or individuals.<br>• our employees are exposed to active, passive corruption and any form of corruption. | 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.<br>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.<br>HSBC France has carried out FCC transformation and organisation's setting programs in 2019, particularly focusing on Transaction Monitoring framework. |
| **Model risk**<br>The risk of business decisions being made on the basis of unreliable model output. | Model risk arises when business decision making includes some reliance on models, which are increasingly used across many areas of the bank in both financial and non-financial contexts.Models are characterised by predictive elements and are at best only a proxy for uncertain real-world behaviours and outcomes.<br><br>Model risk can be caused by errors in methodology or design of models, by errors in how they are implemented in systems, by being used outside of the business context for which they were intended, or simply by failure to take into account the full complexity of real-world phenomena. | Model Risk is:<br>• Measured by a regular independent model validation activity, resulting in identification of deficiencies (findings) and overall performance assessment. Aggregate metrics allow to measure the reliance on non-validated models or models with serious identified issues.<br>• Monitored by ongoing performance controls from the first line of defence (model owner and user functions) and control activities from the second line of defence (Model Risk Management function). Targeted internal and external audits and regulatory reviews are also taken into account in the bank's surveillance of its model risk.<br>• Managed by ensuring appropriate actions are taken to lower, mitigate or control identified risk for each model, by creating and communicating appropriate policies, procedures and guidance, and monitoring their delivery to ensure operational effectiveness. |
| **Resilience risk**<br>Resilience risk is the risk of our inability to provide critical services to our customers, affiliates, and counterparties as a result of sustained and significant operational disruption. | Resilience risk can arise from a myriad of failures or inadequacies in processes, people, systems or external events. Operational resilience threats have been exemplified in recent years. Examples of drivers of heightened resilience focus include: rapid technological innovation, changing behaviours of our consumers, increasing cyber-threats and attacks, crossborder dependencies, and third party relationships. | Resilience risk is:<br>• Defining maximum acceptable impact tolerances;<br>• Oversight of risk and control environment;<br>• Continuous monitoring and thematic review. |

### Other material risks

| Risks | Arising from | Measurement, monitoring and management of risk |
|---|---|---|
| **Reputational risk**<br>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:<br>• **measured** by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees;<br>• **monitored** through a reputational risk management framework that is integrated into the bank's broader risk management framework; and<br>• **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**<br>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:<br>• market risk affecting the fair values of financial assets or their future cash flows;<br>• credit risk; and liquidity risk of entities not being able to make payments to policyholders as they fall due. | Financial risk is:<br>• **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;<br>• **monitored** through a framework of approved limits and delegated authorities; and<br>• **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**<br>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:<br>• **measured** in terms of life insurance liabilities and economic capital allocated to insurance underwriting risk;<br>• **monitored** though a framework of approved limits and delegated authorities; and<br>• **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; and
- 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; and
- 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 2019, for HSBC France, four groups individually exceeded 10 per cent of the net capital (31 December 2018: eight 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 category 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 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 2019 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).

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 borrower's 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*

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. *Credit Logement* can insure the risk of default of a borrower for property loans.

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 2019 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 % |
| 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.
- 'Good': exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory': exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard': exposures require varying degrees of special attention and default risk is of greater concern.
- 'Credit 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 | 25,541 | 12,162 | 16,512 | 2,184 | 1,239 | 57,638 | (682) | 56,956 |
| – personal[1] | 17,376 | 2,519 | 1,879 | 107 | 472 | 22,353 | (183) | 22,170 |
| – corporate and commercial | 6,312 | 8,333 | 13,344 | 1,860 | 712 | 30,561 | (452) | 30,109 |
| – non-bank financial institutions | 1,853 | 1,310 | 1,289 | 217 | 55 | 4,724 | (47) | 4,677 |
| Loans and advances to banks held at amortised cost | 6,547 | 172 | 76 | 3 | – | 6,798 | – | 6,798 |
| Cash and balances at central banks | 19,323 | 50 | 90 | – | – | 19,463 | – | 19,463 |
| Items in the course of collection from other banks | 774 | 1 | – | – | – | 775 | – | 775 |
| Reverse repurchase agreements – non-trading | 42,851 | 3,010 | 112 | – | – | 45,973 | – | 45,973 |
| Financial investments | – | – | 6 | – | – | 6 | – | 6 |
| Prepayments, accrued income and other assets | 14,286 | 282 | 943 | 4 | 12 | 15,527 | (1) | 15,526 |
| – endorsements and acceptances | 18 | – | – | – | – | 18 | – | 18 |
| – accrued income and other | 14,268 | 282 | 943 | 4 | 12 | 15,509 | (1) | 15,508 |
| Debt instruments measured at fair value through other comprehensive income[2] | 12,762 | 1,863 | 621 | – | 1 | 15,247 | (6) | 15,241 |
| **Out-of-scope for IFRS 9** | | | | | | | | |
| Trading assets | 14,677 | 50 | 110 | – | – | 14,837 | – | 14,837 |
| Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss | 1,152 | 265 | 1,797 | – | – | 3,214 | – | 3,214 |
| Derivatives | 34,818 | 5,267 | 5,630 | 9 | – | 45,724 | – | 45,724 |
| Assets held for sale | – | – | – | – | – | – | – | – |
| **Total gross amount on balance sheet** | 172,731 | 23,122 | 25,897 | 2,200 | 1,252 | 225,202 | (689) | 224,513 |
| Percentage of total credit quality | 76.7% | 10.3% | 11.5% | 1.0% | 0.5% | 100% | | |
| Loan and other credit related commitments | 62,824 | 14,279 | 10,269 | 991 | 59 | 88,422 | (23) | 88,399 |
| Financial guarantee and similar contracts | 640 | 188 | 257 | 115 | 9 | 1,209 | (5) | 1,204 |
| **In-scope for IFRS 9: Irrecoverable loan commitments and financial guarantees** | 63,464 | 14,467 | 10,526 | 1,106 | 68 | 89,631 | (28) | 89,603 |
| Loan and other credit related commitments | 348 | 646 | 266 | 11 | – | 1,271 | – | 1,271 |
| Financial guarantee and similar contracts | 3,503 | 1,906 | 3,400 | 364 | 83 | 9,256 | (33) | 9,223 |
| **Out-of-scope for IFRS 9: Non-financial** | 3,851 | 2,552 | 3,666 | 375 | 83 | 10,527 | (33) | 10,494 |
| **Total nominal amount off-balance sheet** | 67,315 | 17,019 | 14,192 | 1,481 | 151 | 100,158 | (61) | 100,097 |
| **At 31 Dec 2019** | 240,046 | 40,141 | 40,089 | 3,681 | 1,403 | 325,360 | (750) | 324,610 |

1 *Of which EUR 13,087 million EUR guaranteed loans by Credit Logement as at 31 December 2019.*
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.*

## 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] | 15,340 | 2,962 | 1,651 | 163 | 478 | 20,594 | (206) | 20,388 |
| – corporate and commercial | 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 |
| Financial investments | 6 | — | — | — | — | 6 | — | 6 |
| Prepayments, accrued income and 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% | | |
| Loan and other credit related commitments | 72,091 | 12,261 | 1,244 | 201 | 41 | 85,838 | (12) | 85,826 |
| Financial guarantee and similar contracts | 768 | 189 | 46 | 78 | 5 | 1,086 | (2) | 1,084 |
| 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[3] | 317 | — | — | — | — | 317 | — | 317 |
| Financial guarantee and similar contracts | 4,072 | 3,038 | 329 | 226 | 38 | 7,703 | (10) | 7,693 |
| Out-of-scope for IFRS 9: Non-financial | 4,389 | 3,038 | 329 | 226 | 38 | 8,020 | (10) | 8,010 |
| 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 guaranteed loans by* Crédit Logement *as at 31 December 2018.*
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 *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.*

## Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation

| | 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 | **25,541** | **12,162** | **16,512** | **2,184** | **1,239** | **57,638** | **(682)** | **56,956** |
| – stage 1 | **25,540** | **12,004** | **13,953** | **1,405** | **–** | **52,902** | **(43)** | **52,859** |
| – stage 2 | **1** | **158** | **2,559** | **779** | **–** | **3,497** | **(50)** | **3,447** |
| – stage 3 | **–** | **–** | **–** | **–** | **1,195** | **1,195** | **(578)** | **617** |
| – POCI[3] | **–** | **–** | **–** | **–** | **44** | **44** | **(11)** | **33** |
| Loans and advances to banks at amortised cost | **6,547** | **172** | **76** | **3** | **–** | **6,798** | **–** | **6,798** |
| – stage 1 | **6,522** | **171** | **76** | **–** | **–** | **6,769** | **–** | **6,769** |
| – stage 2 | **25** | **1** | **–** | **3** | **–** | **29** | **–** | **29** |
| – stage 3 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| – POCI[3] | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Other financial assets measured at amortised cost | **77,234** | **3,343** | **1,151** | **4** | **12** | **81,744** | **(1)** | **81,743** |
| – stage 1 | **77,234** | **3,341** | **1,151** | **–** | **–** | **81,726** | **–** | **81,726** |
| – stage 2 | **–** | **2** | **–** | **4** | **–** | **6** | **–** | **6** |
| – stage 3 | **–** | **–** | **–** | **–** | **12** | **12** | **(1)** | **11** |
| – POCI[3] | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Total on balance sheet excluding debt instrument at FVOCI** | **109,322** | **15,677** | **17,739** | **2,191** | **1,251** | **146,180** | **(683)** | **145,497** |
| Loan and other credit-related commitments | **62,824** | **14,279** | **10,269** | **991** | **59** | **88,422** | **(23)** | **88,399** |
| – stage 1 | **62,824** | **14,149** | **9,608** | **420** | **–** | **87,001** | **(6)** | **86,995** |
| – stage 2 | **–** | **130** | **661** | **571** | **–** | **1,362** | **(3)** | **1,359** |
| – stage 3 | **–** | **–** | **–** | **–** | **59** | **59** | **(14)** | **45** |
| – POCI[3] | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Financial guarantees[1] | **640** | **188** | **257** | **115** | **9** | **1,209** | **(5)** | **1,204** |
| – stage 1 | **640** | **188** | **218** | **75** | **–** | **1,121** | **(1)** | **1,120** |
| – stage 2 | **–** | **–** | **39** | **40** | **–** | **79** | **(4)** | **75** |
| – stage 3 | **–** | **–** | **–** | **–** | **6** | **6** | **–** | **6** |
| – POCI[3] | **–** | **–** | **–** | **–** | **3** | **3** | **–** | **3** |
| **Total off balance sheet** | **63,464** | **14,467** | **10,526** | **1,106** | **68** | **89,631** | **(28)** | **89,603** |
| **Total on balance sheet and off balance sheet excluding debt instrument at FVOCI** | **172,786** | **30,144** | **28,265** | **3,297** | **1,319** | **235,811** | **(711)** | **235,100** |
| Debt instruments at FVOCI[2] | **12,762** | **1,863** | **621** | **–** | **1** | **15,247** | **(6)** | **15,241** |
| – stage 1 | **12,707** | **1,853** | **588** | **–** | **–** | **15,148** | **(5)** | **15,143** |
| – stage 2 | **55** | **10** | **33** | **–** | **–** | **98** | **(1)** | **97** |
| – stage 3 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| – POCI[3] | **–** | **–** | **–** | **–** | **1** | **1** | **–** | **1** |
| **At 31 Dec 2019** | **185,548** | **32,007** | **28,886** | **3,297** | **1,320** | **251,058** | **(717)** | **250,341** |

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'.*

## Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation

| | 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[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 2019 | | 31 Dec 2018 | |
|---|---|---|---|---|
| | **Gross carrying/ nominal amount** | **Allowance/ provision for ECL[1]** | Gross carrying/ nominal amount | Allowance/ provision for ECL[1] |
| | **€m** | **€m** | €m | €m |
| Loans and advances to customers at amortised cost: | **57,638** | **(682)** | 47,591 | (594) |
| – personal[2] | **22,353** | **(183)** | 20,594 | (206) |
| – corporate and commercial | **30,561** | **(452)** | 24,932 | (387) |
| – non-bank financial institutions | **4,724** | **(47)** | 2,065 | (1) |
| Loans and advances to banks at amortised cost | **6,798** | **—** | 6,197 | — |
| Other financial assets measured at amortised costs: | **81,744** | **(1)** | 49,961 | (1) |
| – cash and balances at central banks | **19,463** | **—** | 9,019 | (1) |
| – items in the course of collection from other banks | **775** | **—** | 437 | — |
| – reverse repurchase agreements – non trading | **45,973** | **—** | 32,835 | — |
| – financial investments[3] | **6** | **—** | 6 | — |
| – prepayments, accrued income and other assets[4] | **15,527** | **(1)** | 7,664 | — |
| **Total gross carrying amount on balance sheet** | **146,180** | **(683)** | 103,749 | (595) |
| Loans and other credit related commitments: | **88,422** | **(23)** | 85,838 | (12) |
| – personal | **1,189** | **(1)** | 1,180 | — |
| – corporate and commercial | **36,798** | **(21)** | 25,902 | (12) |
| – financial | **50,435** | **(1)** | 58,756 | — |
| Financial guarantees[5]: | **1,209** | **(5)** | 1,086 | (2) |
| – personal | **30** | **—** | 36 | — |
| – corporate and commercial | **573** | **(5)** | 982 | (2) |
| – financial | **606** | **—** | 68 | — |
| **Total nominal amount off-balance sheet[6]** | **89,631** | **(28)** | 86,924 | (14) |
| **Total nominal amount on balance sheet and off-balance sheet** | **235,811** | **(711)** | 190,673 | (609) |

| | **Fair value** | **Memorandum allowance for ECL[7]** | Fair value | Memorandum allowance for ECL[7] |
|---|---|---|---|---|
| | **€m** | **€m** | €m | €m |
| **Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')** | **16,967** | **(6)** | 16,485 | (6) |

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Of which EUR 13,087 million guaranteed by* Crédit Logement *as at 31 December 2019 (2018: EUR 11,347 million).*
3 *Includes only financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 158 includes financial assets measured at amortised cost and debt and equity instruments measured at fair value through other comprehensive income.*
4 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 158 includes both financial and non-financial assets.*
5 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
6 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
7 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2019

| | Gross carrying/nominal amount[1] | | | | | Allowance for ECL | | | | | ECL coverage % | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI[2] | Total | Stage 1 | Stage 2 | Stage 3 | POCI[2] | Total | Stage 1 | Stage 2 | Stage 3 | POCI[2] | Total |
| | €m | €m | €m | €m | €m | €m | €m | €m | €m | €m | % | % | % | % | % |
| Loans and advances to customers at amortised cost | 52,902 | 3,497 | 1,195 | 44 | 57,638 | (43) | (50) | (578) | (11) | (682) | 0.1 | 1.4 | 48.4 | 25.0 | 1.2 |
| – personal[3] | 20,769 | 1,112 | 472 | – | 22,353 | (4) | (21) | (158) | – | (183) | – | 1.9 | 33.5 | – | 0.8 |
| – corporate and commercial | 27,518 | 2,331 | 668 | 44 | 30,561 | (36) | (28) | (377) | (11) | (452) | 0.1 | 1.2 | 56.4 | 25.0 | 1.5 |
| – non-bank financial institutions | 4,615 | 54 | 55 | – | 4,724 | (3) | (1) | (43) | – | (47) | 0.1 | 1.9 | 78.2 | – | 1.0 |
| Loans and advances to banks at amortised cost | 6,769 | 29 | – | – | 6,798 | – | – | – | – | – | – | – | – | – | – |
| Other financial assets measured at amortised cost | 81,726 | 6 | 12 | – | 81,744 | – | – | (1) | – | (1) | – | – | 8.3 | – | – |
| Loan and other credit-related commitments | 87,001 | 1,362 | 59 | – | 88,422 | (6) | (3) | (14) | – | (23) | – | 0.2 | 23.7 | – | – |
| – personal | 1,145 | 41 | 3 | – | 1,189 | – | (1) | – | – | (1) | – | 2.4 | – | – | 0.1 |
| – corporate and commercial | 35,519 | 1,223 | 56 | – | 36,798 | (5) | (2) | (14) | – | (21) | – | 0.2 | 25.0 | – | 0.1 |
| – financial | 50,337 | 98 | – | – | 50,435 | (1) | – | – | – | (1) | – | – | – | – | – |
| Financial guarantees[4] | 1,121 | 79 | 6 | 3 | 1,209 | (1) | (4) | – | – | (5) | 0.1 | 5.1 | – | – | 0.4 |
| – personal | 29 | – | 1 | – | 30 | – | – | – | – | – | – | – | – | – | – |
| – corporate and commercial | 486 | 79 | 5 | 3 | 573 | (1) | (4) | – | – | (5) | 0.2 | 5.1 | – | – | 0.9 |
| – financial | 606 | – | – | – | 606 | – | – | – | – | – | – | – | – | – | – |
| **At 31 Dec 2019** | **229,519** | **4,973** | **1,272** | **47** | **235,811** | **(50)** | **(57)** | **(593)** | **(11)** | **(711)** | **–** | **1.1** | **46.6** | **23.4** | **0.3** |

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
2 *Purchased or originated credit-impaired ('POCI').*
3 *Of which EUR 13 087 million guaranteed by* Crédit Logement *as at 31 December 2019.*
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 2019

| | Gross carrying amount | | | Allowance for ECL | | | ECL coverage % | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage 2 | *Of which: 1 to 29 DPD[1]* | *Of which: 30 and > DPD[1]* | Stage 2 | *Of which: 1 to 29 DPD[1]* | *Of which: 30 and > DPD[1]* | Stage 2 | *Of which: 1 to 29 DPD[1]* | *Of which: 30 and > DPD[1]* |
| | €m | *€m* | *€m* | €m | *€m* | *€m* | % | *%* | *%* |
| Loans and advances to customers at amortised cost | 3,497 | *60* | *44* | (50) | *(1)* | *(3)* | 1.4 | *1.7* | *6.8* |
| – personal | 1,112 | *44* | *38* | (21) | *(1)* | *(1)* | 1.9 | *2.3* | *2.6* |
| – corporate and commercial | 2,331 | *16* | *6* | (28) | – | *(2)* | 1.2 | – | *33.3* |
| – non-bank financial institutions | 54 | – | – | (1) | – | – | 1.9 | – | – |
| Loans and advances to banks at amortised cost | 29 | – | – | – | – | – | – | – | – |
| Other financial assets measured at amortised cost | 6 | – | – | – | – | – | – | – | – |

1 *Days past due ('DPD'). Current accounts in stage 2 are not shown in amounts presented above.*

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

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

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

## Stage 2 days past due analysis at 31 December 2018

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

1 *Days past due ('DPD'). Current accounts in stage 2 are not shown in amounts presented above.*

### Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk with respect to financial instruments, before taking account of any collateral held or other credit enhancements, unless such credit enhancements meet offsetting requirements defined in the accounting policies and principles. For financial assets recognised in the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the group would have to pay if the 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 2019 | | |
|---|---|---|---|
| | **Maximum exposure** | **Offset** | **Net** |
| | **€m** | **€m** | **€m** |
| Loans and advances to customers held at amortised cost | **56,956** | **—** | **56,956** |
| – personal[1] | **22,170** | **—** | **22,170** |
| – corporate and commercial | **30,109** | **—** | **30,109** |
| – non-bank financial institutions | **4,677** | **—** | **4,677** |
| Loans and advances to banks at amortised cost | **6,798** | **(446)** | **6,352** |
| Other financial assets held at amortised cost | **81,836** | **(9,327)** | **72,509** |
| – cash and balances at central banks | **19,463** | **—** | **19,463** |
| – items in the course of collection from other banks | **775** | **—** | **775** |
| – reverse repurchase agreements – non-trading | **45,973** | **(9,327)** | **36,646** |
| – financial investments | **6** | **—** | **6** |
| – prepayments, accrued income and other assets | **15,619** | **—** | **15,619** |
| Assets held for sale | **3** | **—** | **3** |
| Derivatives | **45,724** | **(45,217)** | **507** |
| **Total on-balance sheet exposure to credit risk** | **191,317** | **(54,990)** | **136,327** |
| Total off-balance sheet | **100,097** | **—** | **100,097** |
| – financial and other guarantees[2] | **10,427** | **—** | **10,427** |
| – loan and other credit-related commitments | **89,670** | **—** | **89,670** |
| **Total on and off-balance sheet amount** | **291,414** | **(54,990)** | **236,424** |

1 *Of which EUR 13,087 million guaranteed by* Crédit Logement *as at 31 December 2019.*
2 *'Financial and other guarantees' represents 'Financial guarantees' and 'Performance and other guarantees' as disclosed in Note 31.*

## 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 and other guarantees[2] | 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.*
2 *'Financial and other guarantees' represents 'Financial guarantees' and 'Performance and other guarantees' as disclosed in Note 31.*

## Measurement uncertainty and sensitivity analysis of ECL estimates

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

### Methodology

HSBC has adopted the use of three economic scenarios representative of HSBC's view of forecast economic conditions, sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome', (the Central scenario) and two, less likely, 'Outer' scenarios on either sides of the Central one, referred to as an Upside and a Downside scenario respectively. Each outer scenario is consistent with a probability of 10 percent while the Central scenario is assigned the remaining 80 percent, 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 the UK, the Eurozone, Hong Kong, China and the 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 2019** | **80,597** | **(31)** | **4,270** | **(47)** | **1,016** | **(527)** | **19** | **(3)** | **85,902** | **(608)** |
| Transfers of financial instruments | (641) | (25) | 390 | 29 | 251 | (4) | – | – | – | – |
| – Transfers from Stage 1 to Stage 2 | (3,964) | 4 | 3,964 | (4) | – | – | – | – | – | – |
| – Transfers from Stage 2 to Stage 1 | 3,322 | (29) | (3,322) | 29 | – | – | – | – | – | – |
| – Transfers to Stage 3 | – | – | (283) | 7 | 283 | (7) | – | – | – | – |
| – Transfers from Stage 3 | 1 | – | 31 | (3) | (32) | 3 | – | – | – | – |
| Net remeasurement of ECL arising from transfer of stage | – | 19 | – | (12) | – | (1) | – | – | – | 6 |
| New financial assets originated or purchased | 32,705 | (19) | – | – | – | – | 3 | (2) | 32,708 | (21) |
| Asset derecognised (including final repayments) | (9,410) | 2 | (755) | 8 | (242) | 87 | (8) | 2 | (10,415) | 99 |
| Changes to risk parameters - further lending/repayments | (8,530) | 12 | (266) | (2) | 185 | 35 | 9 | 12 | (8,602) | 57 |
| Changes to risk parameters - credit quality | – | 8 | – | (22) | – | (233) | – | (26) | – | (273) |
| Changes to model used for ECL calculation | – | – | – | – | – | – | – | – | – | – |
| Assets written off | – | – | – | – | (98) | 98 | (88) | 88 | (186) | 186 |
| Credit related modifications that resulted in derecognition | – | – | – | – | (3) | 2 | – | – | (3) | 2 |
| Foreign exchange | 35 | – | 3 | – | – | – | – | – | 38 | – |
| Others | 1,377 | (5) | 507 | 2 | 13 | (1) | (1) | – | 1,896 | (4) |
| Transfer-in[2] | 7,555 | (11) | 818 | (13) | 138 | (48) | 113 | (82) | 8,624 | (154) |
| **At 31 Dec 2019** | **103,688** | **(50)** | **4,967** | **(57)** | **1,260** | **(592)** | **47** | **(11)** | **109,962** | **(710)** |
| ECL release/(charge) for the period | | 22 | | (28) | | (112) | | (14) | | (132) |
| Recoveries | | – | | – | | 4 | | – | | 4 |
| Others | | – | | – | | – | | – | | – |
| **Total ECL release/(charge) for the period** | **–** | **22** | **–** | **(28)** | **–** | **(108)** | **–** | **(14)** | **–** | **(128)** |

| | At 31 Dec 2019 | | 12 months ended 31 Dec 2019 |
|---|---|---|---|
| | Gross carrying/ nominal amount | Allowance for ECL | ECL release/ (charge) |
| | €m | €m | €m |
| **As above** | **109,962** | **(710)** | **(128)** |
| Other financial assets measured at amortised cost | 81,744 | (1) | – |
| Non-trading reverse purchase agreement commitments | 44,105 | – | – |
| **Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary consolidated income statement** | **235,811** | **(711)** | **(128)** |
| Debt instruments measured at FVOCI | 16,967 | (6) | – |
| **Total allowance for ECL/total income statement ECL charge for the period** | **252,778** | **(717)** | **(128)** |

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

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

| | Non-credit impaired | | | | Credit impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | POCI | | Total | |
| | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL |
| | €m | €m | €m | €m | €m | €m | €m | €m | €m | €m |
| At 1 Jan 2018 | 73,626 | (38) | 3,376 | (46) | 1,071 | (504) | — | — | 78,073 | (588) |
| Transfers of financial instruments | (457) | (34) | 271 | 40 | 186 | (6) | — | — | — | — |
| – Transfers from Stage 1 to Stage 2 | (3,973) | 5 | 3,973 | (5) | — | — | — | — | — | — |
| – Transfers from Stage 2 to Stage 1 | 3,514 | (39) | (3,514) | 39 | — | — | — | — | — | — |
| – Transfers to Stage 3 | — | — | (193) | 7 | 193 | (7) | — | — | — | — |
| – Transfers from Stage 3 | 2 | — | 5 | (1) | (7) | 1 | — | — | — | — |
| Net remeasurement of ECL arising from transfer of stage | — | 26 | — | (15) | — | (1) | — | — | — | 10 |
| Changes due to modifications not derecognised | — | — | — | — | — | — | — | — | — | — |
| Changes to risk parameters (model inputs) | (6,699) | (9) | 661 | (22) | (23) | (60) | (3) | 16 | (6,064) | (75) |
| Changes to model used for ECL calculation | — | — | — | — | — | — | — | — | — | — |
| Net new and further lending / (repayments)[2] | 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[3] | 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 | | 12 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 *The 31 December 2018 comparative 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers' disclosure presents 'New financial assets originated or purchased', 'Assets derecognised (including final repayments)' and 'Changes to risk parameters – further lending/repayments' under 'Net new lending and further lending/(repayments)'. To provide greater granularity, these amounts have been separately presented in the 31 December 2019 disclosure.*
3 *Transfer-In includes amounts related to transfer of HSBC Group activities in Greece to the Greek branch of HSBC France on 1 January 2018 and related to acquisition of two subsidiaries in Ireland & Poland with effect from 1 August 2018.*

## 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.

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 | – | – | 51 | – | 51 |
| – first lien residential mortgages | – | – | 36 | – | 36 |
| – other personal lending | – | – | 15 | – | 15 |
| Wholesale | 134 | 48 | 103 | 43 | 328 |
| – corporate and commercial | 134 | 48 | 103 | 43 | 328 |
| – non-bank financial institutions | – | – | – | – | – |
| **At 31 Dec 2019** | 134 | 48 | 154 | 43 | 379 |
| **Allowance for ECL** | | | | | |
| Personal | – | – | (14) | – | (14) |
| – first lien residential mortgages | – | – | (10) | – | (10) |
| – other personal lending | – | – | (4) | – | (4) |
| Wholesale | (2) | – | (46) | (10) | (58) |
| – corporate and commercial | (2) | – | (46) | (10) | (58) |
| – non-bank financial institutions | – | – | – | – | – |
| **At 31 Dec 2019** | (2) | – | (60) | (10) | (72) |

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 provide 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 | **27,518** | **2,331** | **668** | **44** | **30,561** | **(36)** | **(28)** | **(377)** | **(11)** | **(452)** |
| – Industrial | **6,479** | **550** | **88** | **42** | **7,159** | **(8)** | **(6)** | **(62)** | **(9)** | **(85)** |
| – Commercial, international trade | **13,138** | **947** | **437** | **2** | **14,524** | **(12)** | **(13)** | **(249)** | **(1)** | **(275)** |
| – Commercial real estate | **4,814** | **785** | **55** | **—** | **5,654** | **(10)** | **(9)** | **(20)** | **(1)** | **(40)** |
| – Other property-related | **423** | **20** | **76** | **—** | **519** | **(1)** | **—** | **(36)** | **—** | **(37)** |
| – Governments | **933** | **—** | **—** | **—** | **933** | **—** | **—** | **—** | **—** | **—** |
| – Others | **1,731** | **29** | **12** | **—** | **1,772** | **(5)** | **—** | **(10)** | **—** | **(15)** |
| Non-bank financial institutions | **4,615** | **54** | **55** | **—** | **4,724** | **(3)** | **(1)** | **(43)** | **—** | **(47)** |
| Loans and advances to banks | **6,769** | **29** | **—** | **—** | **6,798** | **—** | **—** | **—** | **—** | **—** |
| **At 31 Dec 2019** | **38,902** | **2,414** | **723** | **44** | **42,083** | **(39)** | **(29)** | **(420)** | **(11)** | **(499)** |
| | | | | | | | | | | |
| 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] 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 | **36,005** | **1,302** | **61** | **3** | **37,371** | **(6)** | **(6)** | **(14)** | **—** | **(26)** |
| Financial | **50,943** | **98** | **—** | **—** | **51,041** | **(1)** | **—** | **—** | **—** | **(1)** |
| **At 31 Dec 2019** | **86,948** | **1,400** | **61** | **3** | **88,412** | **(7)** | **(6)** | **(14)** | **—** | **(27)** |

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

## Total wholesale lending for loans and other credit-related commitments and financial guarantees[1] by stage distribution (continued)

| | 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.*

## Wholesale lending: other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral by stage

| | **Total** | |
|---|---|---|
| | **Gross carrying/ nominal amount** | **ECL coverage** |
| | **€m** | **%** |
| Stage 1 | | |
| Not collateralised | **59,452** | **(0.1)** |
| Fully collateralised | **4,118** | **(0.1)** |
| LTV ratio: | | |
| – less than 50% | **940** | **–** |
| – 51% to 75% | **1,419** | **(0.1)** |
| – 76% to 90% | **888** | **(0.1)** |
| – 91% to 100% | **871** | **(0.1)** |
| Partially collateralised (A): | **2,265** | **(0.1)** |
| ***– collateral value on A*** | ***1,786*** | |
| **Total** | **65,835** | **(0.1)** |
| Stage 2 | | |
| Not collateralised | **2,698** | **(0.7)** |
| Fully collateralised | **173** | **(1.7)** |
| LTV ratio: | | |
| – less than 50% | **21** | **–** |
| – 51% to 75% | **54** | **–** |
| – 76% to 90% | **13** | **–** |
| – 91% to 100% | **85** | **(3.5)** |
| Partially collateralised (B): | **65** | **0.0** |
| ***– collateral value on B*** | ***38*** | |
| **Total** | **2,936** | **(0.8)** |
| Stage 3 | | |
| Not collateralised | **524** | **(67.6)** |
| Fully collateralised | **36** | **(27.8)** |
| LTV ratio: | | |
| – less than 50% | **11** | **(36.4)** |
| – 51% to 75% | **14** | **(28.6)** |
| – 76% to 90% | **9** | **(11.1)** |
| – 91% to 100% | **2** | **(50.0)** |
| Partially collateralised (C): | **92** | **(22.8)** |
| ***– collateral value on C*** | ***11*** | |
| **Total** | **652** | **(59.0)** |
| POCI | | |
| Not collateralised | **39** | **(20.5)** |
| Fully collateralised | **–** | **–** |
| LTV ratio: | | |
| – less than 50% | **–** | **–** |
| – 51% to 75% | **–** | **–** |
| – 76% to 90% | **–** | **–** |
| – 91% to 100% | **–** | **–** |
| Partially collateralised (D): | **5** | **(40.0)** |
| ***– collateral value on D*** | ***4*** | |
| **Total** | **44** | **(22.7)** |
| **At 31 Dec 2019** | **69,467** | **(0.7)** |

## 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 | **3,033** | **265** | **196** | **—** | **3,494** | **(1)** | **(6)** | **(76)** | **—** | **(83)** |
| Other personal lending | **17,736** | **847** | **276** | **—** | **18,859** | **(3)** | **(15)** | **(82)** | **—** | **(100)** |
| – other[1] | **17,440** | **817** | **258** | **—** | **18,515** | **(2)** | **(13)** | **(82)** | **—** | **(97)** |
| – credit cards | **296** | **30** | **18** | **—** | **344** | **(1)** | **(2)** | **—** | **—** | **(3)** |
| – second lien residential mortgages | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| **At 31 Dec 2019** | **20,769** | **1,112** | **472** | **—** | **22,353** | **(4)** | **(21)** | **(158)** | **—** | **(183)** |

1 *Of which EUR 13,087 million guaranteed by* Crédit Logement *as at 31 December 2019.*

**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.*

### 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 mortgage 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. Valuations of financial collateral are updated on a daily basis for those portfolios held by HSBC France and on annual basis for those held externally. 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

| | 31 Dec 2019 | | 31 Dec 2018 | |
|---|---|---|---|---|
| | **Gross carrying/ nominal amount** | **ECL coverage** | Gross carrying/ nominal amount | ECL coverage |
| | **€m** | **%** | €m | % |
| **Stage 1** | | | | |
| Fully collateralised | **2,918** | **–** | 2,769 | – |
| LTV ratio: | | | | |
| – less than 50% | **1,307** | **–** | 1,133 | – |
| – 51% to 60% | **622** | **–** | 542 | – |
| – 61% to 70% | **495** | **–** | 509 | – |
| – 71% to 80% | **340** | **–** | 372 | – |
| – 81% to 90% | **105** | **–** | 144 | – |
| – 91% to 100% | **49** | **–** | 69 | – |
| Partially collateralised (A): | **115** | **–** | 140 | – |
| LTV ratio: | | | | |
| – 101% to 110% | **32** | **–** | 37 | – |
| – 111% to 120% | **21** | **–** | 26 | – |
| – greater than 120% | **62** | **–** | 77 | – |
| – *collateral value on A* | ***111*** | | *137* | |
| **Total** | **3,033** | **–** | 2,909 | – |
| **Stage 2** | | | | |
| Fully collateralised | **250** | **(1.6)** | 263 | (1.5) |
| LTV ratio: | | | | |
| – less than 50% | **123** | **(0.8)** | 115 | (0.9) |
| – 51% to 60% | **41** | **(2.4)** | 43 | (2.3) |
| – 61% to 70% | **35** | **(2.9)** | 42 | (2.4) |
| – 71% to 80% | **37** | **(2.7)** | 41 | (2.4) |
| – 81% to 90% | **10** | **–** | 18 | – |
| – 91% to 100% | **4** | **–** | 4 | – |
| Partially collateralised (B): | **16** | **(6.3)** | 21 | (14.3) |
| LTV ratio: | | | | |
| – 101% to 110% | **6** | **(16.7)** | 6 | (16.7) |
| – 111% to 120% | **3** | **–** | 5 | (20.0) |
| – greater than 120% | **7** | **–** | 10 | (10.0) |
| – *collateral value on B* | ***15*** | | *20* | |
| **Total** | **266** | **(1.9)** | 284 | (2.5) |
| **Stage 3** | | | | |
| Fully collateralised | **123** | **(27.6)** | 159 | (30.2) |
| LTV ratio: | | | | |
| – less than 50% | **68** | **(30.9)** | 65 | (16.9) |
| – 51% to 60% | **20** | **(20.0)** | 21 | (23.8) |
| – 61% to 70% | **12** | **(25.0)** | 27 | (37.0) |
| – 71% to 80% | **12** | **(25.0)** | 16 | (43.8) |
| – 81% to 90% | **5** | **(20.0)** | 7 | (28.6) |
| – 91% to 100% | **6** | **(33.3)** | 23 | (56.5) |
| Partially collateralised (C): | **74** | **(56.8)** | 60 | (75.0) |
| LTV ratio: | | | | |
| – 101% to 110% | **32** | **(53.1)** | 10 | (40.0) |
| – 111% to 120% | **17** | **(64.7)** | 13 | (53.8) |
| – greater than 120% | **25** | **(56.0)** | 37 | (91.9) |
| – *collateral value on C* | ***58*** | | *50* | |
| **Total** | **197** | **(38.6)** | 219 | (42.5) |
| **At 31 Dec 2019** | **3,496** | **(2.3)** | 3,412 | (2.9) |

## Analysis of Asset-Backed Securities

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

| | 2019 | 2018 |
|---|---|---|
| | **€m** | €m |
| – Fair value through profit and loss | **–** | – |
| – Financial investments | **–** | – |
| – Held to maturity | **–** | – |
| – Loans and receivables | **–** | – |
| **Total of Asset-Backed Securities** | **–** | – |

## Counterparty Credit Risk

### Counterparty Credit Risk exposure

Counterparty credit risk ('CCR') means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

### The Calculation of the Counterparty Credit Risk Exposure

HSBC France applies the Internal Model Method ('IMM') of CRR Article 283 to determine the CCR exposures for OTC transactions.

SFTs are all excluded from the IMM, capital requirements for those products shall remain under the Title II chapter 4 method as allowed by CRR article 111(2).

Exchange Traded Derivatives ('ETDs') are also all excluded, the Mark-to-Market Method of CRR Article 274 is then used.

Apart from that, a small portion of OTC products, the most complex ones, shall remain outside of the scope because of modelling issues. The Mark-to-Market Method is then used.

### Framework/Limits and Monitoring

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').

CCR exposures are monitored intraday at close of business by the TCR team.

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 performs the second level analysis and escalates 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 TCR are reported for Business Committee ('BCC')/Key Indicators ('KRI') in accordance with the Group policy.

### 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).

At the request of the local Relationship Manager and potentially 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 recommendations highlight the main risk drivers and is based on the in depth analysis of the existing portfolio which includies  views on contingent market risk and stress exposure and potentially include proposals to reduce the portfolio risk or mitigate proposed transaction.

### Credit limit set up for CCR management

Two groups of limits are used at TCR level in the management of CCR:

- Counterparty-level limits;
- Portfolio-level traded credit risk limits.

### A) Counterparty-level limits

- Group Credit Risk Capacity ('GCRC')

HSBC's aggregated credit appetite to the client is reflected in the GCRC. The GCRC is set during the Global Annual Review ('GAR') process. It is comprised of two elements, (i) limits (Cat A, Cat B, Cat S) which are already approved or proposed for approval in the CARM application and, (ii) the Unallocated Appetite ('UA') which represents an 'Indication of Appetite' for pipeline transactions or generic headroom that supports the Global Relationship Banker's ('GRB') business development strategy over the next 12 months.

- Category A ('Cat A') limits

Cat A facilities are those for which a credit limit is typically recorded at the full notional amount of the facility, the bank being actually or potentially at risk for 100% of the committed amount. Cat A facilities include on-balance sheet assets such as loans or lines of credit, as well as bond investments and trading lines. They may be either funded (loans, money market advances, bond trading) or unfunded such as guarantees and underwriting limits.

Cat A limits are set according to maturity bands.

- Category B ('Cat B') limits

Cat B limits cover key counterparty credit exposures arising from off-balance sheet products and are used for the monitoring of the PFE (Potential Future Exposure). Usage under Cat B represents the cost of replacement of the OTC contracts. In most instances, Cat B limits are set at entity level (known as the parent level) according to maturity bands. For Funds, risk is controlled at both an umbrella fund and individual fund level. Some complex corporates are mainly controlled at entity level but may have shared limits under the total relationship.

- Loan Look-Alike ('LLA') limits

LLA exposure is a parallel measure used to complement Cat B exposure measurement for a subset of exposures. The exposure measure is used for trades with characteristics analogous to a bank borrowing facility but for which exposure is primarily being monitored under a Cat B facility. Exposure is measured as the amount financed to the counterparty.

- Category S ('Cat S') limits

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.

- Fluctuation Risk ('FLU') limits

Commodity and cash securities trading give rise to counterparty credit exposure due to the potential price fluctuation in the pre-settlement period between undertaking of the transaction and settlement of the contract. This is a standard, albeit typically very short-dated, risk of a market price-contingent replacement cost whereby a counterparty defaults and is hence unable to honour its obligations. The FLU process is used by TCR to monitor this risk.

- Intra-group limits

The processes for recording the limit for, and monitoring of, Intra-Group exposures are the same as for third party bank exposures.

**B) Portfolio-level limits**

TCR has established a number of portfolio-level limits to monitor risk at an aggregate level. These are formalised through a mandate shared with the Trading Heads of Global Banking & Markets ('GBM') and Balance Sheet Management ('BSM'), subject to annual review and ongoing monitoring routines.

The traded credit metrics covered by this mandate are:

- MtM limits

MtM exposure is the sum of positive MtM across all counterparties.

- Current Exposure ('CE') limits

CE is the sum of positive MtM net of collateral across all counterparties.

- Specific Wrong Way Risk ('SWWR') limits

SWWR transactions are self-referencing 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.

- General Wrong Way Risk ('GWWR') limits

GWWR occurs when a counterparty's probability of default is positively correlated with moves in general market risk factors such as foreign exchange rates. For example, the default probability of a counterparty may increase with a depreciation of the domestic currency if the depreciation affects their business model. Trading OTC contracts with such a counterparty which become more valuable to the bank as the currency depreciates represents GWWR.

- Default Fund ('DF') limits

DF limits covers HSBC's funded and unfunded DF contribution to CCPs.

- Initial Margin ('IM') limits

IM limits covers HSBC's IM contribution to CCPs.

- Stressed Mutualisation Loss limits

In addition to the usual counterparty credit risk exposure, HSBC also has additional exposure to CCPs via their rights to mutualise losses among Clearing Members.

In the context of monitoring risk through stress test, a stressed mutualisation loss is computed to assess the potential loss arising during a stress period from Clearing activities not measured through the stressed current exposure.

**Mitigating actions for counterparty credit risk**

In order to reduce its counterparty credit risk, HSBC France has signed with the majority of its counterparties, close-out 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 is subject to close monitoring. Specific controls exist to ensure the correct settlement / margin calls are made.

**Credit Valuation Adjustment**

Credit Valuation Adjustment ('CVA') means an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the institution, but does not reflect the current market value of the credit risk of the institution to the counterparty.

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 following methods to determine the CVA capital charge:

- The advanced approach on all eligible OTC derivatives.
- The standardised approach on all other transactions that are not in the IMM scope.

**Credit Valuation Adjustment ('CVA') hedges**

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 ('CEM') Desk. Since 2018, this desk trades CDS hedges which are eligible for the mitigation of the CVA own funds requirements. Only single name or index CDS are used as hedging instruments. The monitoring of eligible hedges is made on a daily basis by Traded Risk.

**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. Wrong-Way Risk occurs when exposure is materially adversely correlated with the credit quality of the counterparty and arises when default risk and credit exposure increase strongly together.

HSBC distinguishes two types of Wrong-Way Risk:

- General Wrong-Way Risk
- Specific Wrong-Way Risk

HSBC France Traded Risk team uses a range of limits and procedures to monitor and control WWR on a daily basis, including requiring deal pre-approvals before undertaking WWR transactions outside pre-agreed guidelines.

**Counterparty risk – by type of exposure and by product**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | RWAs | Capital required | RWAs | Capital required |
| | €m | €m | €m | €m |
| **By exposure class** | | | | |
| IRB advanced approach | 955 | 76 | 1,383 | 111 |
| – Central governments and central banks | 75 | 6 | — | — |
| – Institutions | 880 | 70 | 1,383 | 111 |
| – Corporates | — | — | — | — |
| IRB foundation approach | 1,478 | 118 | 859 | 69 |
| – Corporates | 1,478 | 118 | 859 | 69 |
| Standardised approach | 506 | 40 | 505 | 40 |
| – Central governments and central banks | 6 | — | 1 | — |
| – Regional government or local authorities | — | — | 5 | — |
| – Institutions | 411 | 33 | 489 | 39 |
| – Corporates | 89 | 7 | 10 | 1 |
| CVA advanced | 571 | 46 | — | |
| CVA standardised | 314 | 25 | 683 | 55 |
| CCP standardised | 159 | 13 | 197 | 16 |
| **By product** | | | | |
| – Derivatives (OTC and Exchange traded derivatives) | 2,710 | 217 | 2,040 | 163 |
| – Securities financing transactions | 322 | 26 | 887 | 71 |
| – Others | 1 | — | — | — |
| – CVA advanced | 571 | 46 | — | — |
| – CVA Standardised | 314 | 25 | 683 | 55 |
| – CCP default funds | 65 | 5 | 17 | 1 |
| **At 31 Dec** | 3,983 | 319 | 3,627 | 290 |

## 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.

HSBC Group has an internal liquidity and funding risk management framework ('LFRF') which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. The management of liquidity and funding is undertaken in France in compliance with the Group's LFRF, and with practices and limits set through by the RMM and approved by the Board. HSBC France's policy is that it should be self-sufficient in funding its own activities.

The liquidity coverage ratio ('LCR') and net net stable funding ratio ('NSFR') are key components of the LFRF.

The elements of the LFRF are underpinned by a robust governance framework, the two major elements of which are:

- Asset, liability and capital management management committees ('ALCOs'); and
- Annual individual liquidity adequacy assessment process ('ILAAP') used to validate risk tolerance and set risk appetite.

The HSBC Group's operating entities are predominantly defined on a country basis to reflect the local management of liquidity and funding. In this context, liquidity and funding risk is managed by HSBC France on a standalone basis with no implicit reliance assumed on any other Group entity unless pre-committed. HSBC Group's general policy is that each defined operating entity should be self-sufficient in funding its own activities.

### Liquidity and funding risk profile

#### Liquidity coverage ratio

The Liquidity Coverage Ratio ('LCR') 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.

At 31 December 2019, HSBC France remained within the LCR risk limits established by the Board and applicable under the Group's LFRF.

The following table displays the LCR levels for HSBC France consolidated on an EC LCR Delegated Regulation basis.

**Liquidity coverage ratio**

| | At 31 Dec | |
|---|---|---|
| | 2019 | 2018 |
| | % | % |
| HSBC France | 152 | 128 |

#### 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.

At 31 December 2019, 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 | |
|---|---|---|
| | **2019** | 2018 |
| | **%** | % |
| HSBC France | **117** | 113 |

For information, based on CCR2 (Regulation EU 2019/876) which will enter into force in June 2021, the NSFR is estimated at the level of 127 per cent as at end 2019.

### 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.

These risks are monitored by ALCO in line with the risk appetite approved by the Board.

### 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 Dec | |
|---|---|---|
| | **2019** | 2018 |
| | **€m** | €m |
| Level 1 | **38,176** | 17,277 |
| Level 2a | **880** | 485 |
| Level 2b | **1** | 26 |

*Level 1 liquid assets include HSBC France balances with its central bank (excluding non-withdrawable reserves) and notes and coins.*

### 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 bank 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.

## Sources of funding

Our primary sources of funding are customer current accounts, repo and wholesale securities.

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.

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.

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.

The main financing transactions in 2019 are presented in the Significant events during the year section on page 172.

### Funding sources and uses

| | **2019** | 2018 | | **2019** | 2018 |
|---|---|---|---|---|---|
| | **€m** | €m | | **€m** | €m |
| **Sources** | | | **Uses** | | |
| Customer accounts | **57,550** | 41,906 | Loans and advances to customers | **56,956** | 46,997 |
| Deposits by banks | **12,113** | 10,828 | Loans and advances to banks | **6,798** | 6,197 |
| Repurchase agreements – non-trading | **20,213** | 18,921 | Reverse repurchase agreements – non-trading | **45,973** | 32,835 |
| Debt securities in issue | **9,782** | 2,472 | Cash collateral, margin and settlement accounts | **13,786** | 6,488 |
| Cash collateral, margin and settlement accounts | **12,865** | 6,180 | Assets held for sale | **3** | 30 |
| Liabilities of disposal groups held for sale | **–** | – | Trading assets | **14,837** | 16,966 |
| Subordinated liabilities | **1,376** | 876 | – reverse repos | **1** | – |
| Financial liabilities designated at fair value | **18,953** | 14,584 | – stock borrowing | **–** | – |
| Liabilities under insurance contracts | **23,292** | 21,335 | – other trading assets | **14,836** | 16,966 |
| Trading liabilities | **23,262** | 23,145 | Financial investments | **16,987** | 16,502 |
| – repos | **–** | – | Cash and balances with central banks | **19,463** | 9,018 |
| – stock lending | **–** | – | Net deployment in other balance sheet assets and liabilities | **13,074** | 11,798 |
| – other trading liabilities | **23,262** | 23,145 | | | |
| Total equity | **8,471** | 6,584 | | | |
| **At 31 Dec** | **187,877** | 146,831 | **At 31 Dec** | **187,877** | 146,831 |

### 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. The increase of EUR 16.8bn is mainly due to EEA branches integration for EUR 6.8bn and business transferred from HSBC Bank plc.

HSBC France's contractual exposures as at 31 Dec monitored under the contingent liquidity risk structure

| | At | |
|---|---|---|
| | **31 Dec 2019** | 31 Dec 2018 |
| | **€bn** | €bn |
| **Commitments to customers** | | |
| – Corporates | **37,311** | 23,123 |
| – Retail and SME | **1,871** | 1,257 |
| – Financials | **3,069** | 2,938 |
| – Others | **2,467** | 579 |
| **Commitments to customers** | | |
| – 5 largest[1] | **3,689** | 3,118 |

1 *Sum of the undrawn balance of the five 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 bank 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)

| | **2019** | 2018 |
|---|---|---|
| | **€m** | €m |
| **Total on balance sheet assets as at 31 Dec** | **237,680** | 180,946 |
| Less: | | |
| – reverse repo/stock borrowing receivables and derivatives assets | **(91,698)** | (64,613) |
| – other assets that cannot be pledged as collateral[1] | **(32,513)** | (30,038) |
| **Total on-balance sheet assets that can support funding and collateral needs as at 31 Dec** | **113,469** | 86,295 |
| Add: | | |
| – fair value of collateral received in relation to reverse repo/stock borrowing/derivatives that is available to sell or repledge | **79,915** | 79,329 |
| **Total assets that can support funding and collateral needs as at 31 Dec** | **193,384** | 165,624 |
| Less: | | |
| – on-balance sheet assets pledged | **(31,930)** | (28,584) |
| – re-pledging of collateral received in relation to reverse repo/stock borrowing | **(68,465)** | (78,791) |
| **Total assets available to support funding and collateral needs as at 31 Dec** | **92,989** | 58,249 |

## 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

At the HSBC Group level, 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 department 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 a formal review at least annually 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.

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 the main areas of attention of the Market Risk Forum are reported to the HSBC France RMM on a monthly basis.

### 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.

### 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 its strategy and its 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 submits it for approval to the Head of WMR France, by delegation from the Chief Risk Officer, 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

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 .

### 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 Head of Product Control for EMEA (Europe, Middle-East & Africa).

### 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 2019

The tensions between the United States and China still animated financial markets with impacts gradually spreading over the global commercial flows.

Global growth slowed down throughout 2019 leading Central Banks to accommodate their monetary policy.

The European Central Bank ('ECB') announced in September a new cut of the deposit rate and a new asset purchase programme.

The Federal Open Market Committee cut twice Fed Funds rates with a total 0.5% decrease over the year.

In this context, eurozone debt yields decreased in 2019. Volatility on Italian debt remained firm but overall Italian rates followed the downward trend.

Stock Markets had a euphoric year. On top of the support from central banks action, optimism on potential resolution of commercial tensions and hope on the end of Brexit turmoil prevailed.

In order to have the capability to maintain the best access to financial market for the HSBC Group's clients moving their markets business from the UK to France in preparation for the Brexit, HSBC France received temporary tolerances from the European Central Bank to use the UK internal models for its own fund requirement computation, pending their formal review.

ECB launched and planned on-site visits to determine whether a permanent validation could be granted for those models.

## Market risk measures

### Market Risk monitoring system

The objective of HSBC France is to manage and control market risk exposures while maintaining a market profile consistent with its risk appetite. HSBC uses a range of tools to monitor and contain market risk exposures including sensitivity analyses, Value at Risk monitoring 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 (French Banking Law) desks which in turn receive a set of limits from MRM after submission of a Trading Desk Profile by the desk Head. 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.

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.

HSBC France faced several back testing exceptions in 2019.

These were triggered mostly by the market conditions. Indeed, in March first and then in August, European Central Bank's change of tone on the monetary policy and the future level of rates took the market by surprise and triggered significant rates shocks as the participants changed their view. Severe decrease moves of the US rates volatilities have also been observed at the end of August. As a result, this regime change triggered some exceptions as the shocks reached the 99% percentile on Euro swap curve, asset swap yields and US rates implied volatilities.

### Risk not in VaR framework

VaR captures directly observable traditional risk factors 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

HSBC France calculates a Stressed VaR. Like VaR, it is calculated using historical simulations and a 99 per cent confidence level. However, unlike VaR, Stressed VaR is based on a 10 day period and a stressed period historical dataset. Stressed VaR can be rescaled to a one-day equivalent holding period by dividing it by the square root of 10.

### Stress Testing

Stress testing is an important tool which is fully part of the Group's risk management framework. Their purpose is to assess the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such scenarios, losses can be much greater than those predicted by VaR modelling.

Stress testing is implemented at the legal entity, regional and 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, which consider the largest move in each risk factor without consideration of any underlying market correlation;
- hypothetical stress scenarios, which 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, which incorporate historical observations of market movements during previous periods of stress which would not be captured within VaR.

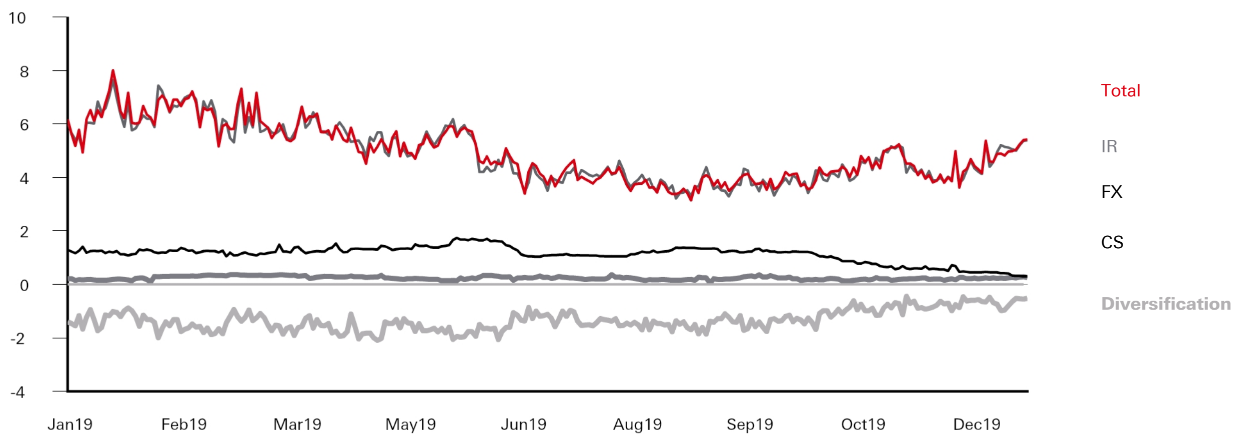
Other scenarios are designed locally to take into account activities that are specific to HSBC France and are presented to the MRF on top of selected Group stress tests. Indeed, the whole set of scenarios with a significant impact on portfolio valuations are discussed and reviewed during the monthly 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 distortion 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 on average. Portfolio exposures were rather light on Flow Rates business. The integration of continental European branches and the extension of credit business on euro financial debts did not increase significantly VaR levels as exposures remain limited in both case.

Trading VaR by risk type (€m)



## Trading VaR by risk type

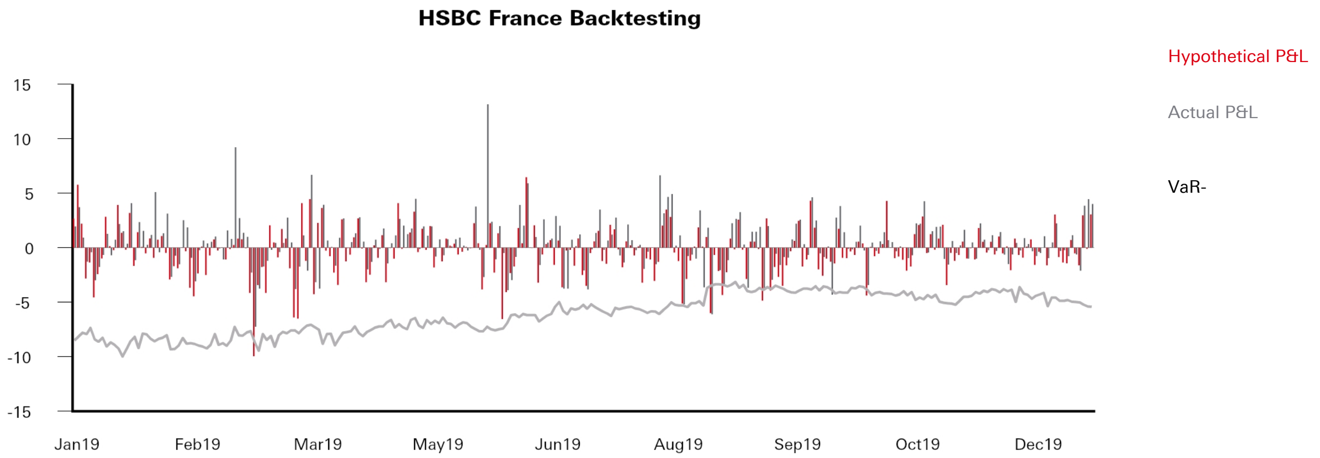
| | Foreign exchange (FX) and commodity | Interest rate (IR) | Equity (EQ) | Credit Spread (CS) | Portfolio Diversification | Total |
|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m |
| **Balance at 31 Dec 2019** | **0.26** | **5.38** | **—** | **0.30** | **(0.53)** | **5.42** |
| Average | **0.24** | **4.90** | **—** | **1.12** | **(1.33)** | **4.93** |
| Maximum | **0.37** | **7.64** | **—** | **1.74** | **(2.10)** | **8.00** |
| | | | | | | |
| **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 |

## 1D SVaR of the Trading portfolio

Similar to the VaR, the Stressed VaR levels remained limited.

## 1D SVaR of the Trading portfolio

| | 31 Dec 2019 |
|---|---|
| | €m |
| Average | **11.38** |
| Maximum | **26.06** |
| Minimum | **4.43** |
| **At 31 Dec 2019** | **16.84** |




## Non-Trading portfolios

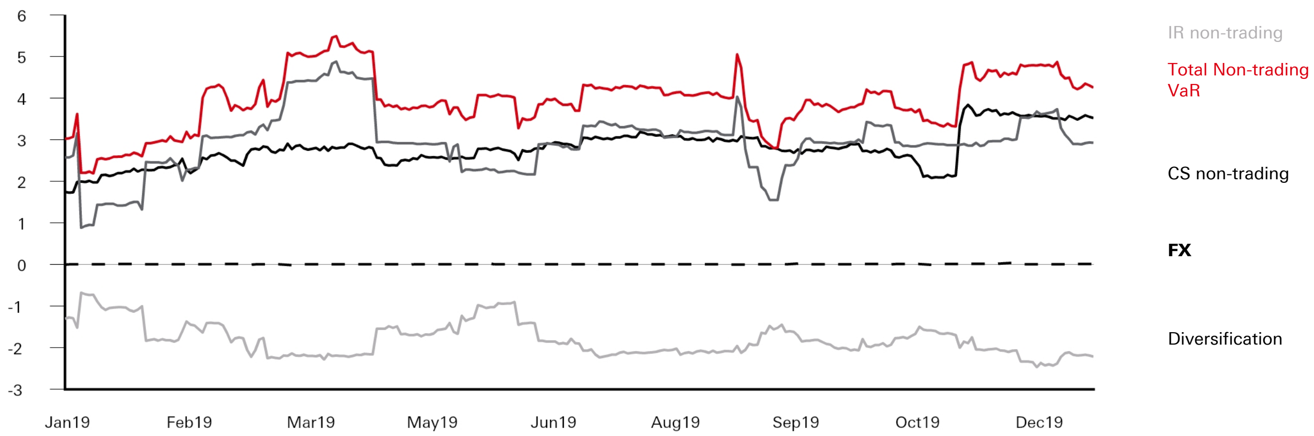
### *Value at Risk of the non-trading portfolio*

The VaR of the non-trading portfolio remained pretty stable during the year as risk profile of the Asset Liquidity Buffer remained limited

## 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 2019** | **0.01** | **2.93** | **—** | **3.52** | **(2.21)** | **4.25** |
| Average | **0.01** | **2.94** | **—** | **2.79** | **(1.80)** | **3.94** |
| Maximum | **0.03** | **4.88** | **—** | **3.83** | **(2.47)** | **5.49** |
| | | | | | | |
| **Balance at 31 Dec 2018** | 0.01 | 3.75 | — | 1.74 | (1.69) | 3.80 |
| Average | — | 3.39 | — | 5.60 | (1.51) | 7.49 |
| Maximum | 0.01 | 6.08 | — | 15.86 | (4.33) | 17.85 |

Total non trading VaR by risk type (€m)




Market risk under standardised approach

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **RWAs** | **Capital required** | RWAs | Capital required |
| | | **€m** | **€m** | €m | €m |
| | **Risk type** | | | | |
| 1 | Interest rate risk (general and specific) | **128** | **10** | 403 | 32 |
| 2 | Equity risk (general and specific) | **—** | **—** | — | — |
| 3 | Foreign exchange risk | **127** | **10** | 142 | 11 |
| 4 | Commodity risk | **—** | **—** | — | — |
| | **Options** | | | | |
| 5 | Simplified approach | **70** | **6** | 44 | 4 |
| 6 | Delta-plus method | **—** | **—** | — | — |
| 7 | Scenario approach | **—** | **—** | — | — |
| 8 | Securitisation | **—** | **—** | — | — |
| 9 | **Total** | **325** | **26** | 589 | 47 |

Market risk under IMA

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **RWAs** | **Capital required** | RWAs | Capital required |
| | | **€m** | **€m** | €m | €m |
| 1 | **VaR (higher of values a and b)** | **704** | **56** | 764 | 61 |
| (a) | Previous day's VaR | **214** | **17** | 205 | 16 |
| (b) | Average daily VaR | **704** | **56** | 764 | 61 |
| 2 | **Stressed VaR (higher of values a and b)** | **1,667** | **133** | 1,212 | 97 |
| (a) | Latest SVaR | **666** | **53** | 275 | 22 |
| (b) | Average SVaR | **1,667** | **133** | 1,212 | 97 |
| 3 | **Incremental risk charge (higher of values a and b)** | **891** | **71** | — | — |
| (a) | Most recent IRC value | **610** | **49** | — | — |
| (b) | Average IRC value | **891** | **71** | — | — |
| 5 | **Other** | **907** | **73** | 891 | 71 |
| 6 | **Total** | **4,169** | **333** | 2,866 | 229 |

## 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, liability and capital 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. 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 sensitivity of earnings due to changes in market interest rates. Both one-year and five-year net interest income sensitivities are forecasted across a range of interest rate scenarios based on a static balance sheet assumption. This includes assumptions on business line rate pass-on, re-investment of maturing assets and liabilities and prepayment. BSM IRR position 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 kept at accounting value. The balance sheet is valued on a run off basis, no balance sheet growth or reinvestment and will incorporate assumptions on behaviouralisation of non-maturity products and customer optionality.

These amounts concern HSBC France legal perimeter including branches. Given the interest rate risk management policies, the inclusion of subsidiaries in this scope is considered non material.

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 interest 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 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 47 million on one year as of 31 December 2019 for an immediate decrease of 100 basis points. The impact of an up 200 basis points scenario on shareholders’ equity would be EUR -756 million at 31 December 2019.

The following table sets out the interest rate gap by time buckets as of 31 December 2019 before hedging transactions.

Exposures

| (in millions of Euros) | 1 year | 3 years | 5 years | 7 years | 10 years |
|---|---|---|---|---|---|
| Interest rate gap | 191 | (852) | (1,309) | (1,085) | (151) |

In a persisting low and negative rates environment, it has been observed a slight increase in prepayment and renegotiation of home loans to individuals during the second half of 2019. HSBC France is modelling the expected customer behaviour considering best-in-class rates proposed by competitors, expected market rates and other behavioural assumptions. Analysis of model output and management judgement, lead to periodically reassess the accurate level of management prepayment rates.

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 Head of GB&M HSBC France and to the Head of BSM EMEA. BSM is responsible for managing the liquidity and funding of the entity, including the branches, 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 book instruments in only very limited circumstances.

## Structural foreign exchange risk

Structural foreign exchange exposures represent the net investments in subsidiaries, branches and associates, the functional currencies of which are currencies other than euro.

Unrealised gains or losses due to revaluations of structural foreign exchange exposures are recognised in other comprehensive income, whereas other unrealised gains or losses arising from revaluations of foreign exchange positions are reflected in the income statement.

HSBC France's structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that the group's consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates. HSBC hedge structural foreign exchange exposures only in limited circumstances.

## Operational risks

In accordance with the French Order of 3 November 2014 and the Operational Risk Functional Instructions Manual ('FIM'), 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.

In September 2019, HSBC reviewed and, thus, simplified its Risk Taxonomy regrouping its non-financial risks in 7 categories (previously 16): Financial Reporting and Tax Risk, Financial Crime and Fraud Risk, Regulatory Compliance Risk, Legal Risk, Resilience Risk, Model Risk and People Risk.

The Three Lines of Defence model is detailed earlier in the part called 'Risk Management'.

Operational Risk FIM has been reviewed in 2019 in order to enhance the role and responsibilities of the 3 Lines of Defence stakeholders.

In the first line of defence, risk owners are responsible of the risks within their perimeters and are accountable for the execution of operational controls for their risks..

Control owners must ensure that all the processes, activities and systems within their perimeters are working properly. They work with risk owners in order to understand and manage risks.

In the second line of defence, the Risk Stewards help overseeing first line of defence activities playing the role of experts for a specific risk.

Operational Risk Function monitors this framework, supports stakeholders already quoted and ensure the efficiency of the framework composed by the first and second line of defence.

### 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.

Work is in progress in order to adjust with the new Basel 3 Framework.

### 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.

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.

| 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 |

#### 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/CCO and training and awareness actions;
- centralisation and coordination of HSBC France Operational Risk Meeting ('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, external and regulatory rules and is up to standard. The key responsibility for control falls to the managers of the various businesses, functions and HOST.

An independent control framework completes this first level of control. This comprises mainly:

- business Risk and Control Management ('BRCM') and Chief Control Officer ('CCO') teams, who monitor and manage risks in their business/function;
- functions acting as second line of defence, particularly Compliance, responsible for non-compliance risk for HSBC France as a whole as defined in the article 10 p) of the French Order of 3 November 2014;
- operational Risk function, in charge of overseeing the Operational Risk Management Framework. The Operational Risk function oversees the work carried out by BRCM/CCO teams on operational risks within the businesses, functions and HOST, teams who report hierarchically to these businesses and functions heads. Operational Risk function works closely with Functions acting as second line of defence, responsible for overseeing risks, within 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 Chief Accountant and the Periodic Control Officer of HSBC France, reviews:

- any SOX deficiencies revealed by the three lines of defence;
- 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, overseen by the Chief Risk Officer ('CRO'), plays a major role. It is composed by specialised directions:

- resilience Risk – Risks related to goods and people safety, cyber-security, IT systems, third parties and data;
- retail Credit Risk – Credit Risk on the retail market;
- wholesale Credit and Market Risk – Credit risk on the corporate market and market risk;
- independent Model Review;
- global Risk Analytics – Models elaboration and follow-up;
- operational Risk – Monitors and coordinates the permanent control framework and manages non-financial risks;
- the Chief Risk Officer ('CRO') relies also on other functions to ensure a complete and accurate risk oversight (Human Resources, Finance function as regards with accounting, liquidity, structural interest rate, forex and tax risks, and HOST in particular for the oversight of IT and outsourced services). Functions at which we can add two others, Financial Crime Compliance and Regulatory Compliance, which report directly to the Chief Executive Officer.

All risk reports presented to the HSBC France RMM and to the RMM International Europe, feed the HSBC France's Executive Committee, the Audit Committee, the Risk Committee and the Board of Directors of HSBC France.

HSBC France RMM includes bank's European branches and is thus supported by risk committees from each business and by the RMM HSBC Bank plc International which covers monthly all the risks faced by the bank in its branches.

### HSBC Group Manuals

The HSBC 'Global Principles' sets out the standards that all HSBC Group companies must observe. It applies to all HSBC Group's businesses all over the world.

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.

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 specifics codes of conduct and/or compliance manuals that collate 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 2019, HSBC updated its 'charter' to expand it to all the standards included in the 'Global Principles' document, with a specific focus regarding fundamental business principals and values applicable to every HSBC employees.

### 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 facilitate management, 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 that will be presented further in the part called 'Governance'.

## Operational Risk Management Framework ('ORMF')

Operational Function is responsible for the Operational Risk Management Framework through notably defining the operational risk management framework and policies, overseeing their implementation and ensuring an independent monitoring.

The Operational Risk function, supervised directly by the CRO, brings 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 Business Risk and Control Management ('BRCM') and Chief Control Officer ('CCO') teams and functions acting in the second line of defence on critical subjects, such as risk maps reviews, the design and monitoring of action plans, incident reporting, risk indicators and control plans.

Operational Risk function is also in charge of the HSBC France RMM secretariat which allows to 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 to the CRO, Chair of the RMM, and to the other members of the HSBC France senior management.

Previously composed by 16 risks, HSBC France's operational risks (or non-financial risks) taxonomy has been simplified in September 2019 and is now composed by seven risks, which synthesise main non-financial risks that a bank faces:

- Financial Reporting and Tax Risk
- Resilience Risk
- Financial Crime and Fraud Risk
- People Risk
- Regulatory Compliance Risk
- Legal Risk
- Model Risk

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, stakeholders and regulators. Safeguarding and building upon the Group's reputation is the responsibility of each employee of HSBC France.

## Identification and Management of Operational Risks

### *Governance*

The general organisation of the permanent control is supported by Operational Risk function regarding non-financial risks. As mentioned earlier, this function works in close partnership with permanent control teams from businesses, functions, HOST and with other functions working in the second line of defence. A collaboration has also been implemented as soon as 2018 with the HSBC Bank plc International CRO and CROs from international locations who report to him in order to ensure a comprehensive risk management of all entities within HSBC France perimeter.

Operational Risk function hosts regularly a specific meeting called Operational Risk Meeting which deal with transversal subjects that have an operational impact, and disseminate risk culture through businesses and functions. That framework is supported by forums and committees related to permanent control and to operational risks in businesses and functions, that are appealed to ensure the oversight of operational risk management and permanent control for 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 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 ongoing basis in order to identify every significant change;
- operational losses are gathered 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*

Compliant with the Operational Risk FIM, the implementation of risk maps is under the responsibility of Risk owners and Control owners. Business Risk and Control Management ('BRCM') and Chief Control Officer ('CCO') teams coordinate the implementation and regular update of risk maps.

They are designed for a predetermined perimeter thanks to a methodology called Risk and Control Assessment ('RCA') based on the assessment of inherent risks, which is the risk level without considering the control in place, and 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 hierarchy allows risk owners and HSBC France senior management to prioritize risk management and facilitates the decision-making process. This approach by risk levels helps to elaborate and define first and second level controls within a risk-based approach.

Risk maps cover operational risks to which entities are exposed and reflect key controls from the first level along with the second level control framework that enable to mitigate the most significant risks.

The establishment and update of risk maps are done on a continuous basis with the help of control owners based on:

- results of controls performed by operational teams;
- recommendations from permanent control reviews performed by BRCMs/CCOs;
- results of independent controls done by Assurance teams from the second line of defence;
- recommendations from Risk Stewards;
- recommendations from periodic control reports, or third parties reports (including regulators);
- internal or external events.

Risk maps for operational risks are formally presented to the CRO on a yearly basis, in order to ensure the relevance of those risks compared to the other other risks that the bank faces.

Based on risk maps realised by businesses, functions and HOST, second level monitoring plans are defined and updated continually. Monitoring plans are elaborated following a risk-based approach in order to ensure a regular and comprehensive coverage of most significant risks. Deficiencies identified are documented in the operational risk system, Helios.

Material issues identified in control plans are presented to the RMM of HSBC France and to the Risk Committee.

In 2019, the main risks identified by HSBC France are related to:

- Regulatory Compliance;
- Information and Cyber Security;
- Financial Crime.

All those defaults are subjected to specific action plans.

*Incidents management and escalation*

Major operational incidents linked to HSBC activities are reported to the HSBC France RMM on the basis of information stored in the operational risk management system, Helios. That system manages in a centralised manner identification and updating processes, operational losses reports and the follow-up of action plans that aim to mitigate the main risks.

*Operational incidents nature*

The Functional Instructions Manual ('FIM') allows to categorise operational incidents in respect to different natures and also to distinguish various impact types associated to them. 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 in order to control them as soon as possible. A detailed analysis of control deficiencies is established and associated risk maps and procedures have to be updated consequently. BRCMs/CCOs are responsible of these tasks.

Main risks, incidents and risk indicators may result in action plans integrated into the monitoring and control missions performed by BRCM/CCO and Assurance teams. These action plans are also monitored by 'risk' bodies from businesses and functions concerned.

### Operational risk losses: quantitative data starting from 2011

Operational losses from 2011 to end of 2019 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 | Information, technology, and cyber security risk | Internal fraud risk | Legal risk | Transaction processing | Regulatory compliance risk | Security of people and physical assets event | Systems and data integrity event | Financial reporting and tax risk | Breach of fiduciary obligations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2011 | 9 | 0,2 | 0,8 | 5,4 | 2,7 | — | (0,1) | 0,7 | 7,5 | (18) | — | 0,5 | 3,1 | | 11,800 |
| 2012 | 1,1 | — | 0,7 | 10,5 | 2,1 | 0,1 | 0,5 | (0,8) | 7,5 | 5,1 | 0,1 | 1 | 0,3 | | 28,200 |
| 2013 | 0,3 | — | 1,6 | 12,1 | 2,6 | 0,2 | 0,2 | 0,1 | 3,2 | 0,4 | — | 2,2 | (2,5) | | 20,400** |
| 2014 | — | 0,1 | 1,3 | 6,4 | 0,6 | 0 | 0,1 | 0,3 | 5,3 | (2,8) | — | (0,3) | (0,1) | | 10,900 |
| 2015 | 0,1 | — | 1,1 | 4,8 | 1,8 | — | 0,1 | 0,6 | 4,6 | 3,4 | — | 0,5 | — | | 17,000 |
| 2016 | — | — | 0,6 | 11,1 | (0,2) | — | — | 0,1 | (15,7) | 36,2 | — | 0,3 | — | | 32,400 |
| 2017 | — | 0,1 | 0,9 | 2,9 | 1,4 | — | 0,2 | — | 3,4 | 0,7 | — | 0,1 | 1 | | 10,700 |
| 2018 | 7,83 | — | (0,07) | 2,4 | 0,68 | — | — | 0,7 | 3,36 | 2 | — | 0,1 | 0,4 | | 17,400 |
| **2019** | **—** | **0,016** | **0,99** | **2,48** | **1,68** | **1,22** | **0,023** | **(0,045)** | **8,09** | **(1,19)** | **—** | **—** | **1,8** | **0,019** | **15,083** |

(*) *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 Unavailability and workplace safety event | Employment practices and relations event | External fraud event | Failure in other principal risk processing | Information, technology, and cyber security risk | Internal fraud risk | Legal risk | Transaction processing | Regulatory compliance risk | Security of people and physical assets event | Systems and data integrity event | Financial reporting and tax risk | Breach of fiduciary obligations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | | 491** |
| 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 | — | 34 | 112 | 35 | — | — | 8 | 276 | 26 | — | 17 | 6 | | 518 |
| **2019** | **—** | **1** | **38** | **101** | **63** | **8** | **2** | **2** | **194** | **27** | **—** | **—** | **9** | **10** | **455** |

(*) *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 2019

| (in millions of euros) | RWAs | Capital requirements |
|---|---|---|
| RBWM | 806 | 64 |
| CMB | 1,132 | 91 |
| GBM | 1,118 | 89 |
| PB | 80 | 7 |
| Corporate Centre | 13 | 1 |
| Total | 3 149 | 252 |

## The year's highlights 2019

In 2019, HSBC France has extended its perimeter with the arrival of new branches in Spain, Italy, Luxembourg, Ireland, Netherlands, Belgium, Czech-Republic and Sweden.

During the year, they adopted the non-financial risk management framework implemented within HSBC France, with respect to the size and complexity of their activities.

HSBC Group desires to simplify its non-financial risk approach and to enhance its understanding and management. That's why the non-financial risk taxonomy has been adapted in Q3 and is now divided in seven categories: Financial Reporting and Tax Risk, Resilience Risk, Financial Crime and Fraud Risk, People Risk, Regulatory Compliance Risk, Legal Risk and Model Risk.

The Third Party Management Framework, that includes internal and external suppliers and cloud outsourcing, has been enhanced with the implementation of regulations from the European Banking Authority applicable since 30 September 2019.

Risk culture spread has continued and mandatory trainings related to Operational Risks, including Financial Crime Risks, IT Security and Regulatory Compliance have been deployed throughout the year.

Topics related to Cyber security are subject to particular attention, through:

- The implementation of mandatory trainings aiming to enhance perception and management of risks linked to safety and IT systems of HSBC employees;
- The introduction of a Resilience Risk Team which goal is to maintain the trust of our clients, shareholders and regulators, being able to provide critical services during a period of operational disruption from our IT systems.

The 'Conduct' Framework, which sets forth the commitments made by HSBC with respect to the fair treatment of customers and the financial market integrity and transparency, has been expanded and integrated into the Enterprise Risk Management Framework, strengthening the understanding of Roles and Responsibilities within the Three Lines of Defence (explained earlier in 'The Control Framework').

## Compliance

In 2019, the level of inherent FCC risk has decreased to medium[1].

The industry continued to experience greater regulatory scrutiny and heightened levels of regulatory oversight and supervision from the European Central Bank ('ECB'), the Single Resolution Board (SRB), the Autorité de Contrôle Prudentiel et de Résolution ('ACPR'), the Autorité des Marchés Financiers ('AMF'), and the Agence Française Anti-Corruption ('AFA').

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 frameworks.

1 *From January 19 to June 19 the level of AML/CTF inherent risk remained high and has decreased to medium since July 2019. Sanctions and AB&C inherent risk have decreased to medium. Internal and External Fraud are also reported in Compliance from September 2019 trending Medium.*

### Organisational structure of the Compliance function

The HSBC France permanent control framework of non-compliance risks is held by many functions of experts, which are respectively led at HSBC France level by the Head of Financial Crime Compliance ('FCC'), the Head of Regulatory Compliance ('RC'), the Head of Financial Compliance Threat and Mitigation ('FCTM'), the Head of Financial Crime Risk Assurance ('FCRA'), the Head of Regulatory Compliance Risk Assurance ('RCRA') and and the Head of Chief Operating Office ('COO').

Due to the integration, in 2019, of RC and Financial Crime Compliance into a single compliance function, at a Group level, the Global head of RC now reports into the Group Chief compliance Officer, who also oversee the Financial Crime Risk Function, as well as shared compliance teams.

The FCC and RC Heads report on the exercise of their role directly to the Executive Directors as well as the supervisory body via the Risk Committee and the Board of Directors in accordance with Articles 30 and 31 of the French Order of 3 November 2014.

The FCC, FCTM, FCRA, RC, RCRA and COO 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, of the non-compliance risk as defined by Article 10 p) of the French 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, 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 FCC, FCTM, FCRA, RC, RCRA and COO 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.

- Financial Crime Compliance

FCC function covers the subsidiaries in France in its scope, as well as the Greek branch since 1 January 2018 and the Polish and Irish subsidiaries since 1 August of the same year becoming branches 1 April 2019.

Since 1 February 2019, FCC has also covered, the Belgian, Czech, Italian, Dutch, Spanish branches, the Luxembourgish since 1 March 2019 and the Swedish since 1 October of the same year.

FCC Head reports hierarchically to the HSBC France Chief Executive Officer and functionally to the Global Head of FCC.

- FCTM, FCRA, COO

Financial Compliance Threat and Mitigation teams ('FCTM') perform AML-CTF Investigation and are responsible for raising SARs to local FIU.

Financial Crime Risk Assurance ('FCRA') team is dedicated to compliance controls, to control the FCR related risks in the business lines and functions.

Chief Operating Office ('COO') is responsible for operational risk management within the Compliance department.

FCTM, FCRA and COO Heads report hierarchically to the Region.

As at 31 December 2019, FCTM had 71 full-time equivalent employees, FCRA 5 and COO 13.

### Regulatory compliance

RC Head reports hierarchically to the HSBC France Chief Executive Officer and functionally to the European head of RC and to the Chief Risk Officer Head of Permanent Control (within the meaning of the Order of 3 November 2014).

In 2019, in the context of Brexit and the transfer of activities in France, the oversight of certain European activities has been transferred in the RC Department in France: one RC International team has been set up in France mainly to supervise the branches of the European Economic Area ('EEA').

In France, the department Regulatory Compliance is divided into the following teams:

- RC teams for each  business line or function (Retail Banking & Wealth Management, Commercial Banking, Private Banking, Global Banking and Markets, Asset Management, Real Estate investment management and Custody of saving funds, Insurance, HSBC Operations, Services, Technology and global Functions ('RC HOST') 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 Risk Assurance ('RCRA') team dedicated to RC risk controls to ensure the appropriate management of the RC risks by the global business lines/ functions;
- one Regulatory Affairs team which is in charge of monitoring of regulatory developments and coordinating the interactions with regulatory and supervising authorities;
- one RC International team in charge of supervising the ten EEA branches of HSBC France to ensure notably compliance with regulatory requirements from a parent company perspective. Furthermore, as of August 2019, this team supports also the RC teams of 8 structures reporting into HSBC Bank Plc. (HSBC Bank plc) and which are also part of Europe International (South Africa, Armenia, Bermuda, Channel Islands & Isle of Man, Israel, Malta, Russia, and the HSBC Bank plc branch in Switzerland). By covering these 18 countries, the RC organization reflects Chris Davies's scope, Deputy CEO of HSBC France, who also acts as the CEO for Europe International. The RC International team liaises with the relevant Advisory RC teams by line of business to have a consistent risk stewardship across the sites.

As at 31 December 2019, the RC Function had 62 full-time equivalent employees in France; furthermore, 26, 8 Full Time Equivalent work in the Regulatory Compliance departments of the ten EEA branches of HSBC France.

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 French Financial Markets Authority ('AMF'). The different Heads of Compliance for Investment Services ('RCSI'), Heads of Compliance and Internal Control ('RCCI') for the legal entities of HSBC France, come under the responsibility of the Head of RC. As a key function holder within the meaning of Article L.354-1 of the Insurance Code, the Head of RC for HSBC Assurances 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 branches of HSBC France, most HSBC processes described hereinafter apply to them in a similar fashion.

#### RC Risk Management Framework

The Regulatory Compliance function is in charge of the regulatory compliance risk control framework of the HSBC France.

The RC Function relies, on the regulatory monitoring of its Regulatory Affairs team and also on the monitoring of the Legal function in order to identify the modifications of legislative and regulatory texts as well as developments of jurisprudence having an impact on the activities of the HSBC France. In 2016, Legal, RC and FCC functions formalised their articulation and roles and responsibilities regarding regulatory change 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 2019 to improve the identification and the management of RC risks.

As such, a review of the Regulatory Compliance and Regulatory Affairs has been conducted in 2019, within the project "Target End state Assessment" to allow the compliance function to achieve its best level of performance.

Furthermore, the Strategic Advisory Program intends to allow a better transversal monitoring of regulatory projects through, *inter alia,* the use of Centers of Excellence and to provide a higher level of service to the teams of the first line of defence.

Lastly, throughout 2019, the RC Function aligned the procedures of the RC teams within the newly-acquired or newly-created EEA branches of HSBC France in line with the applicable French legislation and HSBC standards.

### Staff training and awareness

The RC Function of the HSBC Group, in conjunction with the Training Department, draws up an annual 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. These trainings include notably a focus on the requirements of regulators and supervision authorities and the importance of effective relationships with them.

In 2019, training programmes were provided on the following themes either in the form of e-learning or classroom-based:

- One mandatory training for all the bank's employees on the following Conduct themes: Conflicts of Interest, Use and Control of Information and Market Abuse.
- Several training depending on the business line, on the following themes:
  - training on protection of client interests (sales quality and incentives, post-sale servicing, Potentially Vulnerable Customers, Complaint Handling),
  - training on Whistleblowing, and
  - training on Volcker regulation.

Presentations of the upcoming regulatory developments have been also set up for RC team members (Pacte Law, CBPR, SRD II for example).

Regarding the mandatory training, it was rolled out among all the employees of HSBC France and had to be completed within a prescribed time. The company's Management monitored the completion rate for this training programme each month and took corrective measures, where applicable, enabling all employees to complete the programme within short timeframes.

### Compliance examination procedures and detection and prevention tools

The HSBC France 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.

### 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 RCRA 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). The incidents identified as having a high risk are also monitored in a specific tool (Helios) and constitute a trigger event to review the risk identified.

### 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 regarding RC risks, mostly via the RC Regulatory Affairs 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 and supervision authorities.

### 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. It has a decision-making power regarding the organization of the risk control and management frameworks.

The quarterly Conduct & Regulatory Compliance Forum meets under the chairmanship of the Chief Executive Officer, and includes Executive Committee members who are Business Heads.

To ensure the appropriate level of information of the Senior Management on the functioning of the risk control framework, the main topics raised during the Forum include:

- The oversight of conduct implemented by the business lines through achievement, initiatives and risks regarding customer fair treatment and market integrity;
- The findings of the controls carried out by the RCRA team, the status of its recommendations and their implementation by action owners in the first line of defence;
- Cross-business items of significance regarding Regulatory Compliance, whether for information, for action and/or for decision by Senior Management.

RC risks are also reviewed by governance risk management forums within business lines or functions.

The RC Function created also 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.

In addition, to reflect Regulatory compliance France's new role as a regional stakeholder for the EEA branches, monthly governance meetings have been established to assist compliance with HSBC France's parent company obligations in matter of Regulatory Compliance, and provide guidance to local Regulatory Compliance teams.

Furthermore, regarding the risks related to new products and services as well as material changes and withdrawal for existing products, the majority of the businesses have specific bodies for the examination of products and services. In HSBC France, all new products and material changes for existing products are subject to the approval from the Product review Committee, chaired by the Chief Executive Officer of HSBC France, and whose secretariat is managed by RC. The Term of Reference of this Committee has been reviewed in 2019 to include particularly the product governance requirements regarding branches of HSBC France.

To finish, in 2019, RC France organized on a quarterly basis a Forum on Whistleblowing with the main investigative functions (Human Resources, RC and FCTM) with the following agenda:

1) Monitor the ongoing cases;
2) Develop any amendment to the governance arrangements in place;
3) Share best practices; and
4) Address any outstanding or common issues.

### Financial Crime Compliance Management

In 2019 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 Compliance ('FCC') Team encompasses the Anti-Money Laundering ('AML') and Counter Terrorism Financing ('CTF'), Sanctions, Anti-Bribery and Corruption ('ABC') and Fraud teams.

- FCC is organised around:
  - Expert central teams in the above-mentioned fields responsible for FCC Group policies and procedures, deployment in line with local regulatory requirements;
  - Other teams dedicated to each Line of Business (Retail Banking & Wealth Management, Corporate Market & Banking, Private Banking, Global Market & Banking, Asset Management and Insurance).
  - A FCC Branch Oversight Team in charge of EU branches migration and FCC framework coordination.
  - One central team dedicated to Sanctions in line with local regulatory requirements.
  - 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 Générale 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;
- Financial Compliance Threat and Mitigation ('FCTM') encompasses AML-CTF Investigation Teams and the TRACFIN 'declarants' and 'correspondents' whom come under the responsibility of the Head of FCTM for HSBC France and its subsidiaries in France.
- Financial Crime Risk Assurance ('FCRA') team is dedicated to compliance controls, to control the FCC related risks in the business lines and functions.
- Chief Operating Office ('COO') is responsible for operational risk management within the Compliance department.

As at 31 December 2019, the Financial Crime Compliance ('FCC') function had 59.6 full-time equivalent employees in France; with an additional, 42.8 Full Time Equivalent employees in the FCC departments in the ten EEA branches of HSBC France.

#### System of control and identification of non-compliance risks

The FCC 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-FC 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, Fraud, and Tax-fraud.

The designed exercise 'Operational Effectiveness' has been finalised in 2019.

#### 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 FCC 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 Compliance.

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-FCC risks. These procedures and tools are subject of regular updates and upgrades.

In 2019, HSBC France has further progressed the programmes to reinforce the framework and mitigate the Financial Crime risks, particularly in relation to transaction monitoring, sanction efficiency and identification of attempts to finance terrorism.

### Control System

FCC, FCRA, FCTM and COO functions are considered to be Second Line of Defence players 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, FCC France is now in charge of the oversight of different branches in Europe in relation to Financial Crime Compliance, 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 FCC, FCRA, FCTM and COO functions, 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 regulators 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 FCC 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 risk and control forums, consisting of both compliance function representatives and operating managers. These fora either have a decision-making role, in terms of managing the Financial crime risk and associated controls 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 FCC France and among others, the Head of each Line of Business.

The FCRMC ensures monitoring of financial crime risks within the bank and has a decision-making role to define priorities and ensure the robustness of the system. A dedicated FCRMC to cover the overseas HSBC France branches was set up in February 2019 once migration went live. This FCRMC was extended in October to the other International Europe countries. Purpose and agenda of this FCRMC fully align to the HSBC France FCRMC. The FCRMC France 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 Line of Business and HOST. The Line of Business and HOST FCRMCs are also held monthly, and are chaired by each Heads of Line of Business and the COO of the Bank. Moreover, these FCRMCs enable the management of financial crime compliance at a more granular level.

## 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 Risks Forum which meets quarterly to examine situations likely to give rise to specific and significant legal 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 Risks Forum, chaired by the Chief Risk Officer, meets quarterly to ensure that the risks framework for legal 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 2019 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 21 December 2017 Paris Court of Appeal's decision before the French Supreme court. On 29 January 2020, the Supreme Court decided to quash the 2017 appeal decision and to refer the case back to the Paris Court of Appeals.

### 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.

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 often 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 ongoing.

### 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

### Overview

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.

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.

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.

### Governance and structure

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 Product Examination Committee, the Committees related to Internal Control and Operational Risk and Wealth Management Oversight Committee ('WMOC') and is part of the GBM Due Diligence process.

### Key risk management process

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 four 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 has been transferred in 2019 to Financial Crime Compliance ('FCC').

HSBC manages the four 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 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.

### Key developments 2019

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.

## 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 the HSBC Group.

### 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 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 the HSBC Group, 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.

## Resilience risk

Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates and counterparties, as a result of sustained and significant operational disruption.

Sustained and significant operational disruption means events that affect:

- the stability of the financial system;
- the viability of the bank and our industry peers; or
- the ability of our customers to access our services.

We seek to understand the effects and outcomes of these events, prioritising services which are both vulnerable to disturbance and critical to our customer service offering.

## Information and cyber security risk

### Overview – 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. Ransomeware are mostly distributed via spear phishing and aim to extort money from the victim or used to issue  fraudulent payments within the internal bank systems.

### Key Developments 2019

HSBC, through the Cybersecurity Maturity Improvement Programme, succeeded to implement key cyber controls such as:

- Network Access Controls, to prevent unauthorized access to the Internal HSBC network from non HSBC devices;
- Denial Of Service, with the Change of a Third Party allowing a better protection in the application layers;
- Email link compromised controls with the ability to sandbox all email links and attachments in read-only mode, preventing any malicious content from ever reaching users' devices, where it can do real damage;
- HSBC succeeded to implement security tooling module to all developers to scan the code of their applications and detect vulnerabilities before releasing it in production. Deployments will continue in 2020.

#### 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 has implemented a risk management framework 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 Management Process

Security incidents: In 2019, the bank was the target of limited number of DDoS attacks on our external facing websites across the Group and no ransomware attacks. Although cyber-attacks in 2019 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, emails, new employee education and annual mandatory information security. All HSBC staff has been covered by the awareness training. High risk profiles such as Board of Directors also attended a dedicated Cyber and Information Security awareness training session.

Additionally to this annual training, every staff is encouraged to registered to a Cyber shield Programme. The programme consists of three hours training per month on Cyber to enhance their awareness. Finally, Cyber monthly awareness newsletters are sent to all Business Information Risk Officers and communicated to all Global Business/Global Functions.

### Third Party Risk

#### Third Party Risk Overview

Third Party Risk is the risk to which HSBC France is exposed arising from the receipt of goods and/or services from a Third Party. This risk covers both external and HSBC intra-Group third parties.

#### Third Party Risk Management

A robust framework is implemented to ensure an effective management of the Third Party Risk.

Each business and function across the first line of defence is in charge of monitoring the Third Parties under its perimeter to ensure that any service considered for outsourcing is adequately risk-assessed, that appropriate due diligence and controls are conducted, that the service is duly approved by the appropriate level of Management prior to the contract commencement date and that the service is adequately monitored all along the contract lifecycle. Each business and Function is in charge of monitoring adherence to the Third Party Policy through continuous control monitoring and thematic reviews performed by the CCO (Chief Control Officer) teams and to reflect the effectiveness of the control environment into the Group Risk Management tool, Helios.

Within the second line of defence, the Resilience Risk is in charge of defining the strategy and the policy for an effective management of the Third Party Risk, Regulatory Compliance and Operational Risk are systematically engaged to review and approve the materiality assessment proposed by the first line of defence, Legal is engaged to review the contractual agreements where predefined contract templates cannot be used or in case of request from the provider to adjust the contract, and, each Risk Steward is engaged to review the risk assessment undertaken by the first line of defence within his area of expertise.

In addition to the above, Regulatory Compliance Risk Assurance team is in charge for conducting thematic reviews to ensure that the policy is correctly implemented across the different business lines and functions.

#### Governance

Any outsourcing of a material service needs to be formally approved by the Bank Risk Management Meeting prior to the contract commencement date.

A dedicated Cloud Committee is implemented to review each project to outsource on a Cloud to ensure adherence to the Group Cloud strategy and to review data privacy, regulatory compliance, Legal and IT aspects.

A quarterly Third Party Risk Forum is in place to ensure that third parties are managed in line with Group standards and regulatory expectations.

### Security of People and Physical Assets

Protective Security risk issues are managed at Group level by Global Protective Security, which give the functional direction and guidance for HSBC Group.

Protective Security in France has responsibility for the management to identify and mitigate the consequences of these risks to its business lines across the jurisdictions in which the bank operates.

Protective Security 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.

In this objective, it was particularly involved in 2019 in assessing the risk and protection of HSBC premises, employees, and customers during the Yellow Vest demonstrations in Paris as well as the provisions..

### Contingency risk

#### Overview

Contingency Risk covers the risk that we are unable to provide critical services to our customers, affiliates and counterparties, as a result of a sustained and significant disruption due to various kinds of events. The management of this risk is ensured by the Business Continuity & Incident Management function for the first line of defence, and oversight of this risk is ensured by the Resilience Risk function from a second line of defence perspective, which has been deployed in the second half of 2019.

Both functions are 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.

### Key developments 2019

In 2019, the Group implmented a Resilience Risk function, linked to the revision of the Non-Financial Risk simplified risk taxonomy. Resilience risk function sits in the second line of defense and is in charge to provide guidance and oversight to our businesses and global functions for: systems, Information, Cyber data, payments resilience; third party and protective security risk, including Contingency Risk area.

Resilience risk was formed to simplify the way we interact with our stakeholders and to deliver clear, consistent and credible responses globally.

In parallel, the Business Continuity & Incident Management ('BCIM') team moved to the first line of defence and now sits within the HSBC Operations, Services & Technology ('HOST') CAO function. Chief Administration Office ('CAO') provides the relevant Group or geographical COO with dedicated forward-thinking, operational support, as well as wider support across ad-hoc strategic requirements.

BCIM has accountability for the oversight of all delivery aspects of Business Continuity Management and Incident Management for the country, its subsidiaries and European branches.

Since November 2019, BCIM in France has also regional responsibilities and performs the oversight of all countries (excluding UK) within the HSBC Europe region.

### Governance and structure

BCIM leverages from the existing management forum to ensure that control management related issues and risks are escalated for the attention of the appropriate Business or Global Function. BCIM France provides control management status and escalates identified issues to two forums: a local quarterly Business Continuity steering committee chaired by the deputy COO France, and the HSBC Europe CEMM (Control Environment Management Meeting).

BCIM also has an internal management and escalation structure implemented through Regional/GSC and GBM Team Meetings ('TM') as well as the Global Leadership Team Meetings ('LTM'). These ensure non-Control related issues and risks are escalated for the attention of Regional/GSC/LOB and Global BCIM Heads.

### Key risk management processes

The resilience risk team oversees the identification, management and control of resilience risks. The Risk Control Taxonomy Library is in the process of being redesigned and will include a new sub-risk aligned to Contingency Risk. Global policy and procedures are also being re-written to align with the changes in the organisation and the new role of BCIM. BCIM will now operate and assess key controls using continuous monitoring to attest their current effectiveness.

## IT Systems risk

HOST Technology has undertaken a number of initiatives in line with HSBC Group global non-financial risk (NFR) optimization strategy.

This continues to deliver a range of improvements, enhancing our control environment, clarifying roles and responsibilities, ensuring a more rigorous management of remediation plans for less than effective controls, and providing a better control monitoring governance.

### Operational Risk Transformation Program ('ORTP')

HOST Technology has adopted the HSBC Group Operational Risk Management Framework ("ORMF") and system ("HELIOS").

Technology's Operational Risk Governance is based on 2 committees:

- Monthly EU&UK IT Control Environment Management Meeting ("CEMM") scrutinizes the full scope of the functional Technology control environment (including systems, applications and information security) for Europe region (as per HSBC organization), and ensure that the appropriate coordination of the controls is in place. This committee gathers all Country and Regional CIOs as per their control owner role for their respective areas of accountability.
- Monthly Group IT CEMM provides Regional senior leadership with a global visibility over the control effectiveness, through dashboards, trends as well as key factors influencing the control environment (e.g. internal/external audit issues, self-identified issues, upcoming control monitoring campaigns, incidents, etc.). This committee can escalate, where necessary, topics to Risk Management Meeting ("RMM").

* CEMM = Control Environment Management Meeting.

This governance is enhanced with the organization in place to manage operational risk at HSBC Operations, Services & Technology (HOST).

### Framework responsibilities and control governance

Business lines became owners of all inherent risks applicable to their respective activities, including information technology risks. In order for business lines to better understand "HOST Technology" controls and the impacts of these controls on the assessment of their risks, a review and optimization programme was engaged in 2018 and is to be carried forward as a continuous and recurring activity. Governance was reinforced with the rollout of new key control indicators (KCI), which allow an accurate follow-up of the control effectiveness, and a better alignment between local and global controls in order to increase the involvement of control owners as per the contextual changes and the needs of the control testing plans. In addition, an independent testing governance, a governance was initiated in 2019 for coordinating and ensuring the adequate testing plans execution for HOST activities.

### Control environment assessment

The level of control adequacy and effectiveness performed by "HOST Technology" is achieved by continuous monitoring and testing under EU&UK IT CEMM responsibility. Monitoring of our remediation actions against issues also provides a method for projecting control effectiveness. "Path to Green" (PTG) programme supports a proactive management of technology risks. The control environment is dynamic in nature and will evolve over time due to the changes to the threat environment or technology innovation, which require ongoing adjustments to the control plans. Necessary control improvement works are also dependent upon investment strategy, which may carry across multiple years. Control Owners perform quarterly attestations on the effectiveness of the control environment. This control framework is supported with continuous oversight and supervision through indicators that measure the extent of risk exposure and risk appetite thresholds (Key Control Indicators / KCIs).

### Thematic reviews

Thematic reviews are initiated as project in order to address some controls or risks that are global or transversal in nature. Examples would be application and infrastructure resilience, disaster recovery scenarios, privileged access management, cyber threats, business continuity, etc.

### Trigger events & scenarios

HSBC's ORMF permits taking to account events that have an impact on the established scenarios for estimating the level of risk of bank's activities and of its environment. A trigger event will result in new reassessment of the risk and of the efficiency of the controls.

### 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.

HOST Technolgy could be impacted by?

- A regulatory change e.g. GDPR, DPS2, 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 or COOs on their assessments.

### Key achievements

- Deployment of a new Resilient Risk taxonomy in HELIOS;
- As a collaborative action of Risk Stewards, Operational Risk and Control Owners, a full review of procedures and objectives of critical controls, including local and global controls;
- Awareness and training to the the CIOs and control owners on their roles and responsibilities as per the ORMF;
- Awareness and training to business lines on key controls within HOST Technology and links to their respective risks;
- Quarterly control effectiveness attestation, to be performed by each control owner.

### Next steps

- Finalizing enhanced control data quality in HELIOS, including control description and rationales;
- Completing the rollout of the risk appetite and tolerance thresholds for KCI;
- As a collaborative activity between Risk Stewards and business lines, refining linkage of key controls to risk instances.

## Model risk

### Overview

Model Risk Management is a second line of defence function that encompasses three areas: Independent Model Validation, which provides challenge to our most material models; Model Risk Governance, which defines and manages model policy; and Risk Stewardship, who are our senior executives providing oversight of and guidance to the first line of defence's model risk management activities to facilitate responsible development, understanding and use of models and analytics in support of strategic objectives across HSBC.

### Key developments in 2019

- The Model Risk Management ('MRM') function was strengthened at the level of HSBC Group, with the appointment of regional heads of Model Risk Management in key geographies, and at the level of HSBC France, with the appointment of a local head of Model Risk Management, to provide increased support, review and challenge to the businesses and functions to ensure effective model risk management is embedded in their processes for the specific purposes of HSBC France.
- Model Risk was elevated to the highest level within HSBC, equivalent, for example, with credit risk and market risk.
- The model risk policy was refined and a more risk-based approach to model risk management has been defined.
- The effectiveness of the Model Oversight Committees was reviewed, leading to recommendations to improve their structure, enhance their effectiveness and clarify their mandate.
- A new target operating model for the Model Risk Management function was designed, including a strengthened global Model Risk Governance capability and a new, distinct Operations capability.

### Governance and structure

At the level of HSBC Group, Model Risk Management is headed by the Chief Model Risk Officer, and is structured as a global sub-function, with regional Model Risk Management teams which support and advise each global business and global function.

At the level of HSBC France, Model Risk Management is headed by its local head, reporting to the Chief Risk Officer, and functionally to the EMEA Head of Model Risk Management.

### Key risk management processes

HSBC regularly reviews its model risk management policies and procedures, which require model owning / using businesses and functions to demonstrate a set of comprehensive and effective model risk controls.

Model Risk Management report on model risk to senior management on a regular basis through use of the risk map and top and emerging risks. It also reviews the effectiveness of the model oversight committee structure on a regular basis to ensure appropriate understanding and ownership of model risk is embedded in the businesses and functions.

## Periodic control

In accordance with French ministerial order of 3 November 2014 concerning internal control within financial institutions, 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 and in the HSBC France European branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden).

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 30 members in 2019, 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'). The shared reporting line to GBL INA helps collaboration and the sharing of best practice between teams which are required to work closely together.

Within this context, the periodic controls in HSBC France in 2019 have thus been assured either by GBL INA directly, or by INA FRA or by both acting in concert in accordance with the agreement between the parties signed on 25 March 2011 and updated on 2 August 2019 which structures the roles, responsibilities and the respective interventions.

There are six members of the global GBM audit team that are based in Paris. In addition, other members of global teams are also located in Paris: two persons from the International Europe Audit team (this number should be brought up to five in 2020), 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 ensures their consistency and efficiency for the entity, subsidiaries and branches of the entity concerned.

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.4.4) has been issued on 28 June 2019.

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 2019 aim to streamline the audit process for internal auditors. In addition, the IT application library has been created in ARaMIS in order to better monitor IT coverage.

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 within HSBC 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 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. This approach to jointly audit common service providers is also mentioned in the European Banking Authority ('EBA') guidelines on outsourcing arrangements that have been issued in February 2019.

## Human resources

### Risks relating to human resources management and control system

At the end of 2019, 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;
- people risk linked to lake of resources and/or skills of team;
- 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, in the context of the Inspire programme (leadership development in France), the Group Program 'Explore' and the management of the annual succession plan for the critical roles (Enterprise Critical Roles and Business Critical Roles);
- 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 its subsidiaries, 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 local teams (in France or outside of France) on the basis of the overall performance of each business and of the relative performance of 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 Employee Relation 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, any adjustment on performance rating and/or variable remuneration and last whether, regarding the severity of the breach, the 'malus' rule needs to be applied, cancelling some or all previously awarded and unvested shares;
- 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.

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.

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 programmes, 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 2019 represents 0.34 per cent of HSBC France net operating income.

Major programmes, 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.

### 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 and the Low Carbon National Strategy, 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 60.

## 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 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 2019 | | | |
|---|---|---|---|---|
| | Linked contracts | Non-linked contracts | Other assets | Total |
| | €m | €m | €m | €m |
| Financial assets at fair value through profit and loss | | | | |
| – debt instruments | – | 2,543 | 96 | 2,639 |
| – equity instruments | 48 | 6,872 | 1,354 | 8,274 |
| **Total** | 48 | 9,416 | 1,450 | 10,914 |
| Financial assets at fair value through OCI | | | | |
| – debt instruments | – | 10,765 | 881 | 11,646 |
| – equity instruments | – | – | – | – |
| **Total** | – | 10,765 | 881 | 11,646 |
| – Derivatives | – | 73 | 2 | 75 |
| – Other financial assets | – | 2,267 | 94 | 2,361 |
| **Total** | 48 | 22,520 | 2,427 | 24,995 |

Approximately 57 per cent of financial assets were invested in debt securities at 31 December 2019, and 33 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 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 2019** | 31 Dec 2018 |
| | **€m** | €m |
| + 100 basis points parallel shift in yield curves | **75** | 11 |
| - 100 basis points parallel shift in yield curves | **(189)** | (16) |
| 10 per cent increase in equity price | **24** | 17 |
| 10 per cent decrease in equity price | **(26)** | (15) |
| 50 basis points increase in credit spread[1] | **30** | 18 |
| 50 basis points decrease in credit spread[1] | **(35)** | (21) |

1 *PVIF sensitivity after tax.*

The increase of the PVIF sensitivity to interest rates and credit spread stresses is mainly due to the drop of interest rates which became negative in 2019. The 10Y swap rate lost almost 90bps over the period. The credit spread reduced also between 2018 and 2019.

### 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 the opinion of internationally recognised rating agencies 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 100.

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. 79 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 2019** | | |
|---|---|---|---|
| | **Strong** | **Good/Satisfactory** | **Total** |
| | **€m** | **€m** | **€m** |
| **Financial assets designated at fair value** | **2,062** | **397** | **2,459** |
| – treasury and other eligible bills | **–** | **–** | **–** |
| – debt securities | **2,062** | **397** | **2,459** |
| **Financial investments** | **9,128** | **2,517** | **11,645** |
| – treasury and other eligible bills | **–** | **–** | **–** |
| – debt securities | **9,128** | **2,517** | **11,645** |
| **Total** | **11,190** | **2,914** | **14,104** |

### 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 | 5-15 years | > 15 years | Total |
| **31 Dec 2019** | €m | €m | €m | €m | €m |
| Non-linked insurance[1] | 1,564 | 5,953 | 7,853 | 7,762 | 23,132 |
| Linked life insurance[1] | — | — | — | — | — |
| **Total** | 1,564 | 5,953 | 7,853 | 7,762 | 23,132 |

*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 2019 despite the increase in liabilities to policyholders on these contracts to EUR 23.13 billion (2018: 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 2019** | 31 Dec 2018 |
| | **€m** | €m |
| Insurance contracts with DPF[1] | — | — |
| Credit Life | 36 | 36 |
| Annuities | 79 | 74 |
| Term assurance and other long-term contracts | 11 | 11 |
| Non-Life insurance | — | — |
| **Total non-linked insurance[2]** | **126** | 121 |
| Life linked | 48 | 33 |
| Investments contracts with DPF[1,3] | 23,132 | 21,181 |
| **Liabilities under insurance contracts** | **23,307** | 21,335 |

*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 2019.

### 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

## 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 2019, 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 per cent the minimum capital requirement under Pillar 2 ('P2R') for HSBC France for the year 2020.

HSBC France will be required to meet on a consolidated basis a minimum total capital ratio of at least 13.75 per cent, from 1 January 2020. The Overall capital requirement ('OCR') is composed of: the 8 per cent minimum capital in respect of article 92.1 of the 575/2013 Regulation, the 2.50 per cent for the Conservation buffer in respect of article 129 of the 2013/36 Directive, the 3.00 per cent Pillar 2 requirement mentioned above and a countercyclical buffer of 0.25 percent based on the estimated current levels.

The requirement in respect of Common equity tier 1 is 10.25 per cent, 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 market discipline

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make financial services firms more transparent by requiring publication of wide-ranging information on their risks, capital and management. HSBC France's Pillar 3 Disclosure at 31 December 2019 is published on HSBC's website, www.hsbc.com, under 'Investors' section.

Key capital numbers

| | At 31 Dec CRD IV 2019 €m | 2018 €m |
|---|---|---|
| **Capital resources** | | |
| CET1 | **6,464** | 4,747 |
| Tier 1 Capital | **7,214** | 5,247 |
| Total Capital | **8,120** | 5,708 |
| **Risk weighted assets** | | |
| Credit Risk[1] | **36,425** | 25,972 |
| Counterparty Credit Risk | **3,983** | 3,627 |
| Market Risk | **4,494** | 3,455 |
| Operational Risk | **3,149** | 3,194 |
| Basel 1 floor impact | **—** | — |
| **Total risk weighted assets** | **48,051** | 36,248 |
| **Capital Ratios – transitional (%)** | | |
| Common equity tier 1 | **N/A** | N/A |
| Total tier 1 | **N/A** | N/A |
| Total capital | **N/A** | N/A |
| **Capital Ratios – fully-loaded (%)** | | |
| Common equity tier 1 | **13.5%** | 13.1% |
| Total tier 1 | **15.0%** | 14.5% |
| **Total capital** | **16.9%** | 15.7% |

## Overview of changes of own funds ratios

### Own funds disclosure

| Ref* | | At 31 Dec 2019 €m | At 31 Dec 2018 €m |
|---|---|---|---|
| | **Common equity tier 1 ('CET1') capital: instruments and reserves** | | |
| 1 | Capital instruments and the related share premium accounts | **2,628** | 842 |
| | – ordinary shares | **2,137** | 475 |
| 2 | Retained earnings | **3,546** | 3,627 |
| 3 | Accumulated other comprehensive income (and other reserves) | **1,545** | 1,596 |
| 5 | Transitional adjustments due to additional minority interests | **—** | — |
| 5a | Independently reviewed interim net profits net of any foreseeable charge or dividend | **(63)** | (32) |
| 6 | **Common equity tier 1 capital before regulatory adjustments** | **7,656** | 6,032 |
| | **Common equity tier 1 capital: regulatory adjustments** | | |
| 7 | Additional value adjustments | **(214)** | (173) |
| 8 | Intangible assets (net of related deferred tax liability) | **(376)** | (420) |
| 10 | Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities | **(29)** | — |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | **(34)** | 23 |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | **(117)** | (107) |
| 14 | Gains or losses on liabilities at fair value resulting from changes in own credit standing | **84** | (57) |
| 19 | CET1 instruments of financial sector entities where the institution has a significant investment | **(508)** | (553) |
| 22 | Amount exceeding the 15% threshold | **—** | — |
| 28 | **Total regulatory adjustments to common equity tier 1** | **(1,193)** | (1 286) |
| 29 | **Common equity tier 1 capital** | **6,464** | 4,747 |
| | **Additional tier 1 ('AT1') capital: instruments** | | |
| 30 | Capital instruments and the related share premium accounts | **750** | 500 |
| 36 | **Additional tier 1 capital before regulatory adjustments** | **750** | 500 |
| | **Additional tier 1 capital: regulatory adjustments** | | |
| 41b | Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period | **—** | — |
| 43 | **Total regulatory adjustments to additional tier 1 capital** | **—** | — |
| 44 | **Additional tier 1 capital** | **750** | 500 |
| 45 | **Tier 1 capital (T1 = CET1 + AT1)** | **7,214** | 5,247 |
| | **Tier 2 capital: instruments and provisions** | | |
| 46 | Capital instruments and the related share premium accounts | **1,376** | 876 |
| 51 | **Tier 2 capital before regulatory adjustments** | **1,376** | 876 |
| | **Tier 2 capital: regulatory adjustments** | | |
| 55 | Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) | **(470)** | (415) |
| 57 | **Total regulatory adjustments to tier 2 capital** | **(470)** | (415) |
| 58 | **Tier 2 capital** | **906** | 461 |
| 59 | **Total capital (TC = T1 + T2)** | **8,120** | 5,708 |
| 60 | **Total risk-weighted assets** | **48,051** | 36,248 |
| | **Capital ratios and buffers** | | |
| 61 | Common equity tier 1 | **13.5%** | 13.1% |
| 62 | Tier 1 | **15.0%** | 14.5% |
| 63 | Total capital | **16.9%** | 15.7% |
| 64 | Institution specific buffer requirement[2] | **2.8%** | 1.9% |
| 65 | – capital conservation buffer requirement | **2.5%** | 1.9% |
| 66 | – countercyclical buffer requirement | **0.3%** | 0.0% |
| 68 | Common equity tier 1 available to meet buffers[1] | **9.0%** | 8.6% |
| | **Amounts below the threshold for deduction (before risk weighting)** | | |
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | **168** | 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) | **680** | 529 |
| 75 | Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability) | **201** | 156 |

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
1 *Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.*
2 *Figures reported in 2018 had been changed.*

Capital increase (EUR 2.8 billion) is detailed on the note 1 'significant events during the year' of the Consolidated Financial Statement section.

## RWAs by risks types

| | Risk Weighted Assets | | Capital required[1] | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **€m** | €m | **€m** | €m |
| Credit risk[2] | **36,425** | 25,972 | **2,914** | 2,078 |
| Counterparty credit risk | **3,983** | 3,627 | **319** | 290 |
| Market risk | **4,494** | 3,455 | **359** | 276 |
| Operational risk | **3,149** | 3,194 | **252** | 256 |
| Basel 1 floor impact | **–** | – | **–** | – |
| **At 31 Dec** | **48,051** | 36,248 | **3,844** | 2,900 |

## RWAs by global business

| | Risk Weighted Assets | | Capital required[1] | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **€m** | €m | **€m** | €m |
| Retail Banking and Wealth Management ('RBWM') | **5,847** | 4,989 | **468** | 399 |
| Commercial Banking ('CMB') | **17,783** | 12,677 | **1,423** | 1,014 |
| Global Banking and Markets ('GB&M') | **22,061** | 15,915 | **1,764** | 1,273 |
| Global Private Banking ('GPB') | **1,289** | 1,213 | **103** | 97 |
| Corporate Centre | **1,071** | 1,454 | **86** | 116 |
| Basel 1 floor impact | **–** | – | **–** | – |
| **At 31 Dec** | **48,051** | 36,248 | **3,844** | 2,900 |

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** | | **Methodology 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 2018 | | | | | | | | | **36,248** |
| Counterparty Risk (incl. Credit Valuation Adjustment) | **371** | **–** | **–** | **(470)** | **–** | **–** | **454** | **–** | **355** |
| Credit risk (incl. Default funds) | **3,372** | **(459)** | **(150)** | **1,240** | **352** | **198** | **5,901** | **–** | **10,454** |
| Market Risk | **(213)** | **–** | **–** | **1,247** | **–** | **–** | **5** | **–** | **1,039** |
| Operational Risk | **(283)** | **–** | **–** | **–** | **–** | **–** | **238** | **–** | **(45)** |
| Basel 1 floor impact | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **RWAs at 31 Dec 2019** | | | | | | | | | **48,051** |

RWA increased by EUR 11,803 millions, mainly driven by the increase in Credit Risk-Weighted Assets driven mainly by the acquisition of European branches from the parent company Hsbc Bank PLC as well as significant business increase.

## Leverage Ratio at 31 December

| | At 31 Dec | |
|---|---|---|
| | CRD IV | |
| | **2019** | 2018 |
| | **€m** | €m |
| Tier 1 Capital | **7,214** | 5,247 |
| Leverage Exposure | **192,380** | 144,188 |
| Leverage ratio % – transitional | **N/A** | N/A |
| Leverage ratio % – fully-loaded | **3,7%** | 3.6% |

Tier 1 capital inflated by EUR 1,967 million to EUR 7,214 million during 2019. The Leverage exposure increased by EUR 48.2 billion to EUR 192 billion.

# Consolidated financial statements



# Notes on the financial statements

## Consolidated income statement

### for the year ended 31 December 2019

| | Notes | 2019 €m | 2018 €m |
|---|---|---|---|
| Net interest income | | **1,095** | 1,011 |
| – interest income | | **1,951** | 1,622 |
| – interest expense | | **(856)** | (611) |
| Net fee income | 3 | **778** | 593 |
| – fee income | 3 | **1,093** | 866 |
| – fee expense | 3 | **(315)** | (273) |
| Net income/(expense) from financial instruments held for trading or managed on a fair value basis | 4 | **30** | 24 |
| Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss | 4 | **1,277** | (638) |
| Changes in fair value of designated debt and related derivatives | 4 | **(1)** | (2) |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss | 4 | **153** | 113 |
| Gains less losses from financial investments | | **12** | 14 |
| Net insurance premiums | 5 | **2,076** | 2,026 |
| Other operating income/(expense) | | **187** | 70 |
| **Total operating income** | | **5,607** | 3,211 |
| Net insurance claims incurred and movement in liabilities to policyholders | 5 | **(3,380)** | (1,475) |
| **Net operating income before change in expected credit losses and other credit impairment charges** | | **2,227** | 1,736 |
| Change in expected credit losses and other credit impairment charges | | **(128)** | 10 |
| **Net operating income** | | **2,099** | 1,746 |
| – Employee compensation and benefits | 6 | **(1,031)** | (899) |
| – General and administrative expenses | | **(783)** | (755) |
| – Depreciation and impairment of property, plant, equipment and right of use assets[1] | | **(105)** | (40) |
| – Amortisation and impairment of intangible assets | 21 | **(202)** | (7) |
| **Total operating expenses** | | **(2,121)** | (1,701) |
| **Operating profit/(loss)** | | **(22)** | 45 |
| Share of profit in associates and joint ventures | 18 | **—** | — |
| **Profit/(loss) before tax** | | **(22)** | 45 |
| Tax expense | 8 | **(17)** | (63) |
| **Profit/(loss) for the year** | | **(39)** | (18) |
| Attributable to: | | | |
| – shareholders of the parent company | | **(39)** | (17) |
| – non-controlling interests | | **—** | (1) |
| | | | |
| Basic earnings per ordinary share | 10 | **(0.41)** | (0.24) |
| Diluted earnings per ordinary share | 10 | **(0.41)** | (0.24) |
| Dividends per ordinary share | 9 | **—** | — |

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

## Consolidated statement of comprehensive income

## for the year ended 31 December 2019

| | Notes | 2019 €m | 2018 €m |
|---|---|---|---|
| **Profit for the period** | | **(39)** | (18) |
| **Other comprehensive income/(expense)** | | | |
| **Items that will be reclassified subsequently to profit or loss when specific conditions are met:** | | | |
| Debt instruments at fair value though other comprehensive income: | | **18** | (24) |
| – fair value gains/(losses) | | **34** | (21) |
| – fair value gains transferred to the income statement on disposal | | **(9)** | (14) |
| – expected credit losses recognised in income statement | | **–** | – |
| – income taxes | | **(7)** | 11 |
| Cash flow hedges: | | **57** | 47 |
| – fair value (losses)/gains | *15* | **56** | 20 |
| – fair value losses/(gains) reclassified to the income statement | *15* | **29** | 54 |
| – income taxes | *15* | **(28)** | (27) |
| Exchange differences and other | | **–** | – |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Remeasurement of defined benefit asset/liability: | | **(16)** | 4 |
| – before income taxes | *6* | **(21)** | 8 |
| – income taxes | | **5** | (4) |
| Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk: | | **(113)** | 158 |
| – fair value gains/(losses) | | **(167)** | 241 |
| – income taxes | | **54** | (83) |
| Equity instruments designated at fair value through other comprehensive income: | | **–** | – |
| – fair value gains/(losses) | | **–** | – |
| – income taxes | | **–** | – |
| **Other comprehensive income/(expense) for the period, net of tax** | | **(54)** | 185 |
| **Total comprehensive income/(expense) for the period** | | **(93)** | 167 |
| **Attributable to:** | | | |
| – shareholders of the parent company | | **(93)** | 168 |
| – non-controlling interests | | **–** | (1) |
| **Total comprehensive income/(expense) for the period** | | **(93)** | 167 |

## Consolidated balance sheet

### for the year ended 31 December 2019

| | Notes | 2019 €m | 2018 €m |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | | **19,463** | 9,018 |
| Items in the course of collection from other banks | | **775** | 437 |
| Trading assets | 11 | **14,837** | 16,966 |
| Financial assets designated and otherwise mandatorily measured at fair value through profit and loss | 14 | **11,957** | 10,495 |
| Derivatives | 15 | **45,724** | 31,777 |
| Loans and advances to banks | | **6,798** | 6,197 |
| Loans and advances to customers | | **56,956** | 46,997 |
| Reverse repurchase agreements – non-trading | | **45,973** | 32,835 |
| Financial investments | 16 | **16,987** | 16,502 |
| Asset held for sale | | **3** | 30 |
| Prepayments, accrued income and other assets | 22 | **16,820** | 8,460 |
| Current tax assets | | **164** | 154 |
| Interests in associates and joint ventures | 18 | **1** | 2 |
| Goodwill and intangible assets | 21 | **993** | 920 |
| Deferred tax assets | 8 | **229** | 156 |
| **Total assets** | | **237,680** | 180,946 |
| **Liabilities** | | | |
| Deposits by banks | | **12,113** | 10,828 |
| Customer accounts | | **57,550** | 41,906 |
| Repurchase agreements – non-trading | | **20,213** | 18,921 |
| Items in the course of transmission to other banks | | **396** | 269 |
| Trading liabilities | 23 | **23,262** | 23,145 |
| Financial liabilities designated at fair value | 24 | **18,953** | 14,584 |
| Derivatives | 15 | **45,115** | 31,298 |
| Debt securities in issue | | **9,782** | 2,472 |
| Accruals, deferred income and other liabilities | 25 | **16,756** | 8,437 |
| Current tax liabilities | | **66** | 61 |
| Liabilities under insurance contracts | 5 | **23,292** | 21,335 |
| Provisions | 26 | **160** | 75 |
| Deferred tax liabilities | 8 | **175** | 155 |
| Subordinated liabilities | 27 | **1,376** | 876 |
| **Total liabilities** | | **229,209** | 174,362 |
| **Equity** | | | |
| Called up share capital | 30 | **491** | 367 |
| Share premium account | 30 | **2,137** | 475 |
| Other equity instruments | 10 | **750** | 500 |
| Other reserves | | **1,641** | 1,566 |
| Retained earnings | | **3,424** | 3,647 |
| **Total shareholders' equity** | | **8,443** | 6,555 |
| Non-controlling interests | | **28** | 29 |
| **Total equity** | | **8,471** | 6,584 |
| **Total liabilities and equity** | | **237,680** | 180,946 |

## Consolidated statement of cash flows

### for the year ended 31 December 2019

| | Footnotes | 2019 €m | 2018 €m |
|---|---|---|---|
| **Profit/(loss) before tax** | | **(22)** | 45 |
| **Adjustments for non-cash items:** | | **365** | 56 |
| – depreciation, amortisation and impairment of property plant and equipment, right of use and intangibles[1] | | **307** | 47 |
| – net gain from investing activities | | **(33)** | (16) |
| – change in expected credit losses gross of recoveries and other credit impairment changes | | **132** | (9) |
| – provisions including pensions | | **79** | 18 |
| – share-based payment expense | 6 | **15** | 12 |
| – other non-cash items included in profit before tax | | **(138)** | 5 |
| – elimination of exchange differences | | **3** | (1) |
| **Changes in operating assets and liabilities[2]** | | **18,260** | 4,149 |
| – change in net trading securities and derivatives | | **2,166** | (2,872) |
| – change in loans and advances to banks and customers[2] | | **2,869** | (1,619) |
| – change in reverse repurchase agreements – non-trading | | **(7,886)** | (8,763) |
| – change in financial assets designated at fair value and otherwise mandatorily measured at fair value | | **(1,733)** | 681 |
| – change in other assets[2] | | **(3,447)** | 4,875 |
| – change in deposits by banks and customer accounts | | **4,036** | (1,443) |
| – change in repurchase agreements – non-trading | | **1,292** | 12,335 |
| – change in debt securities in issue | | **7,310** | (2,687) |
| – change in financial liabilities designated at fair value | | **4,201** | 4,529 |
| – change in other liabilities[2] | | **9,513** | (819) |
| – tax paid | | **(61)** | (68) |
| **Net cash from operating activities[2]** | | **18,603** | 4,250 |
| Purchase of financial investments | | **(6,425)** | (5,227) |
| Proceeds from the sale and maturity of financial investments | | **4,103** | 6,434 |
| Net cash flows from the purchase and sale of property plant and equipment and right of use | | **(58)** | (11) |
| Net investment in intangible assets | | **(141)** | (115) |
| Net cash flow on disposal/acquisition of subsidiaries, business, associates and joint ventures[3] | | **(10)** | (13) |
| **Net cash from investing activities** | | **(2,531)** | 1,068 |
| Issue of ordinary share capital and other equity instruments | 30 | **2,037** | 788 |
| Subordinated loan capital issued | 27 | **500** | 300 |
| Dividends paid to shareholders of the parent company | 9 | **(21)** | (62) |
| Net cash inflow from change in stake of subsidiaries | | **—** | — |
| Dividends paid to non-controlling interests | | **(1)** | — |
| **Net cash from financing activities** | | **2,515** | 1,026 |
| **Net increase/(decrease) in cash and cash equivalents[2]** | | **18,587** | 6,344 |
| **Cash and cash equivalents at beginning of the period[2]** | | **31,031** | 24,683 |
| Exchange differences in respect of cash and cash equivalents | | **(2)** | 4 |
| **Cash and cash equivalents at 31 Dec[2]** | | **49,616** | 31,031 |
| **Cash and cash equivalents comprise of:[4]** | | | |
| – cash and balances at central banks | | **19,463** | 9,018 |
| – items in the course of collection from other banks | | **775** | 437 |
| – loans and advances to banks of one month or less[2] | | **3,085** | 2,022 |
| – reverse repurchase agreement with banks of one month or less | | **20,390** | 15,717 |
| – treasury bills, other bills and certificates of deposit less than three months[2] | | **335** | 477 |
| – net settlement accounts and cash collateral[2] | | **5,964** | 3,629 |
| – less: items in the course of transmission to other banks | | **(396)** | (269) |
| **Cash and cash equivalents at 31 Dec[2]** | | **49,616** | 31,031 |

*1 2018 financials do not include the impact of the right-of-use assets recognised under IFRS 16 beginning in 2019.*
*2 At 31 December 2019, HSBC France performed a review of its 'cash and cash equivalents' definition. As a result, HSBC France started to include settlement accounts with bank counterparties of one month or less on a net basis. Comparatives have been re-presented and also include other cash equivalents not included in 2018 cash and cash equivalents. The net effect of these changes increased cash and cash equivalents by EUR 5.9 billion (31 December 2018: EUR 3.6 billion).*
*3 This flow corresponds to the cash amount paid for the acquisition of certain assets and liabilities of European branches of HSBC Bank plc as well as the 'Cash and balances at central banks' of the branches of HSBC France acquired on 1 February 2019 and 1 March 2019 (see note 2 'Business combination and disposal of subsidiaries')*
*4 At 31 December 2019, EUR 5.4 billion (2018: EUR 2.9 billion) was not available for use by the group and is related mainly to mandatory deposits at central banks*

Interest received was EUR 2,281 million (2018: EUR 2,020 million), interest paid was EUR 1,347 million (2018: EUR 850 million) and dividends received EUR 9 million (2018: EUR 9 million).

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 2019

| | | | | Other reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Called up share capital and share premium | Other equity instruments | Retained earnings | Financial assets at Fair Value through OCI reserve | Cash flow hedging reserve | Foreign exchange reserve | Merger reserve and other reserves | Total share-holders' equity | Non-controlling interests | Total equity |
| | €m | €m | €m | €m | €m | €m | €m | €m | €m | €m |
| **At 1 Jan 2019** | **842** | **500** | **3,647** | **29** | **(23)** | **(27)** | **1,587** | **6,555** | **29** | **6,584** |
| Profit/(loss) for the period | – | – | (39) | – | – | – | – | (39) | – | (39) |
| Other comprehensive income / (expense) (net of tax) | – | – | (129) | 18 | 57 | – | – | (54) | – | (54) |
| – debt instruments at fair value through other comprehensive income | – | – | – | 18 | – | – | – | 18 | – | 18 |
| – equity instruments designated at fair value through other comprehensive income | – | – | – | – | – | – | – | – | – | – |
| – cash flow hedges | – | – | – | – | 57 | – | – | 57 | – | 57 |
| – re-measurement of defined benefit asset/ liability | – | – | (16) | – | – | – | – | (16) | – | (16) |
| – changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1] | – | – | (113) | – | – | – | – | (113) | – | (113) |
| – exchange differences | – | – | – | – | – | – | – | – | – | – |
| **Total comprehensive income / expense for the period** | – | – | (168) | 18 | 57 | – | – | (93) | – | (93) |
| – capital securities issued during the period | 1,786 | 250 | – | – | – | – | – | 2,036 | – | 2,036 |
| – dividends to shareholders[2] | – | – | (21) | – | – | – | – | (21) | (1) | (22) |
| – net impact of equity-settled share-based payments | – | – | 6 | – | – | – | – | 6 | – | 6 |
| – change in business combinations and other movements | – | – | (40) | – | – | – | – | (40) | – | (40) |
| **Total Other** | 1,786 | 250 | (55) | – | – | – | – | 1,981 | (1) | 1,980 |
| **At 31 Dec 2019** | **2,628** | **750** | **3,424** | **47** | **34** | **(27)** | **1,587** | **8,443** | **28** | **8,471** |

*1 At 31 December 2019, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of EUR (57) million.*

*2 Dividends corresponds to coupon payment on other equity instrument (AT1 capital) amounting to EUR 21 million.*

## Consolidated statement of changes in equity (continued)

### for the year ended 31 December 2018

| | Called up share capital and share premium | Other equity instruments | Retained earnings | Other reserves: Financial assets at Fair Value through OCI reserve | Other reserves: Cash flow hedging reserve | Other reserves: Foreign exchange reserve | Other reserves: Merger reserve | Total share-holders' equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m | €m | €m | €m | €m |
| At 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/(loss) for the period | | | (17) | | | | | (17) | (1) | (18) |
| Other comprehensive income / (expense) (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 |
| – re-measurement 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 year | — | — | 145 | (24) | 47 | — | — | 168 | (1) | 167 |
| – capital securities issued | 489 | 300 | — | — | — | — | — | 789 | — | 789 |
| – dividends to shareholders[4] | — | — | (62) | — | — | — | — | (62) | — | (62) |
| – net impact of equity-settled share-based payments | — | — | 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 |

1 *The impact on Equity of the IFRS 9 Transition is EUR (31) million.*
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. 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 1 January 2018, and EUR 38 million related to the acquisition of two subsidiaries HSBC Institutional Trust Services (Ireland) DAC and HSBC Bank Polska S.A. on 1 August 2018.*

## 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 18 February 2020.

### 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 International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU'). At 31 December 2019, there were no unendorsed standards effective for the year ended 31 December 2019 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 2019

*IFRS 16 'Leases'*

On 1 January 2019, HSBC France adopted the requirements of IFRS 16 retrospectively. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. The adoption of the standard increased assets by EUR 219 million and increased financial liabilities by the same amount with no effect on net assets or retained earnings.

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

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

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

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

*Recent developments of the IFRS Interpretation Committee ("IFRIC")*

On December 16, 2019, the IFRIC published its final decision aimed at clarifying the concept of enforceable duration of a rental contract applicable to cancellable or renewable leases and the determination of the amortization period of fixtures and fittings inseparable from the leased asset. The impact analysis of this decision is in progress.

*Interest Rate Benchmark Reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'*

Amendments to IFRS 9 and IAS 39 were issued in September 2019 and endorsed by European union the 15 January 2020 ; they modify the specific hedge accounting requirements so that entities apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform. These amendments apply from 1 January 2020 with early adoption permitted. HSBC has adopted the amendments that apply to IAS 39 from 1 January 2019 and has made the additional disclosures as required by the amendments.

#### (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 2020, 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

#### *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.

### (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 (as per IFRS 4) contracts and financial instruments (as per IFRS 9 and IFRS 7) have been included in the 'Risk' section from page 78 to 150.

Capital disclosures have been included in the 'Capital and leverage management' pages from 151 to 154.

HSBC France's Securitisation activities and structured product disclosures are published in the Note 20 from pages 200 to 201.

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.

Information related to Pillar 3 disclosures is 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 certain items, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based in the preparation of the 2019 financial statements.

### (f) Segmental analysis

HSBC France's chief operating decision maker is the Chief Executive, supported by the Chief Executive deputies and the Executive Committee. Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive and the Executive Committee.

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 Management Report on 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.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The bank's investments in subsidiaries are stated at cost less impairment losses.

#### 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

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired, which involves estimations of value in use:

JUDGEMENTS ESTIMATES

- Key assumptions around estimating the present value of cash flows expected to arise from continuing to hold the investment and the rates used to discount those cash flows ;
- Key assumptions used in estimating impairment in subsidiaries are described in Note 21.

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 percent 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.

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.

## (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 (stage 2 by definition) |

Further information about the 23-grade scale used for CRR can be found on page 100.

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)<br>• 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)<br>• 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)<br>• Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data<br>• Discounted using cost of capital<br>• 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)<br>• No floors<br>• Discounted using the original effective interest rate of the loan<br>• 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 in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions. This approach is considered sufficient to calculate unbiased expected loss in most 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

**JUDGMENTS**

Definition of what is considered to be a significant increase in credit risk

- Definition of what is considered to be a significant increase in credit risk
- Selection and calibration of PD, LGD and EAD models which allow the calculations to be made, which implies an evaluation of behaviour facing the current and future economic conditions.
- Selection of data used by the models and economic forecasts, including determining the weighting of the economic forecasts used to calculate the expected credit losses.

**ESTIMATES**

- The section 'Measurement uncertainty and sensitivity analysis of ECL estimates' on pages 109 and following sets out the assumptions used to determine the ECL and provides an indication of the sensitivity to the different weights applied according to the different economic scenarios.

## (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 significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

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.

Maturity claims are recognised when due for payment. Surrenders are recognised when paid or at an earlier date on which, following notification, the policy ceases to be included within the calculation of the related insurance liabilities. Death claims are recognised when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

### 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, and 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 grants bonus share plans to some employees for services rendered.

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

### Main Post-employment benefit plans

HSBC France operates a number of pension schemes including defined benefit and post-employment benefit schemes.

Payments to defined contribution schemes are charged as an expense as the employees render service.

### 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 comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Payments associated with any incremental base erosion and anti-abuse tax are reflected in tax expense in the period incurred.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

## (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

The recognition and measurement of provisions requires the Group to make a number of judgements, assumptions and estimates. The most significant are set out below:

**JUDGEMENTS**

- Determining whether a present obligation exists. Professional 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 estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.

**ESTIMATES**

- Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider 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.

### 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.

The bank has issued financial guarantees and similar contracts to other group entities. The group elects to account for certain guarantees as insurance contracts in the bank's financial statements, in which case they are measured and recognised as insurance liabilities. This election is made on a contract by contract basis, and is irrevocable.

## 1.3 Significant events during the year

### Acquisition of the activities of European branches

As part of the structural changes to anticipate the consequences of the future exit of the United Kingdom from the European Union and in order to simplify the organisation of activities in continental Europe, HSBC France acquired certain assets and liabilities of six HSBC Bank plc European branches (in Belgium, the Czech Republic, Ireland, Italy, the Netherlands and Spain). The acquisition of these assets and the liabilities of the branches is effective since 1 February 2019 and has been done via contributions in kind from HSBC Bank plc to HSBC France. On 1 March 2019, HSBC France has also acquired certain assets and liabilities of the Luxembourg branch, paid in cash (see note 2).

### Merger of two subsidiaries into HSBC France

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

### Branch creation

On 9 May 2019, HSBC France created a branch in Sweden. The activity started on 1 October 2019.

### Capital increases

As part of the development of its activities, in particular the acquisitions of the activities of European branches described above, HSBC France made five capital increases during the year of 2019: on 14 January 2019, an increase of EUR 949.6 million (of which EUR 61.8 million of share capital), on 1 February 2019, an increase of EUR 336.3 million (of which EUR 21.9 million of share capital), on 24 May 2019, an increase of EUR 3.6 million (of which EUR 0.2 million of share capital), on 27 June 2019, an increase of EUR 299.4 million (of which EUR 24.5 million of share capital), on 27 September 2019, an increase of EUR 197.9 million (of which EUR 16.2 million of share capital). Following the completion of these operations, HSBC France share capital has been increased from EUR 367 million to EUR 491 million over the period (refer to the Note 30).

### Additional Tier 1 issuance (Other Equity Instrument)

HSBC France has increased its Additional Tier 1 capital (AT1) by EUR 250 million on 18 December 2019 by issuing a perpetual subordinated loan subscribed by HSBC Bank plc. This loan is accounted for as Equity under IFRS (refer to the Note 9).

### Tier 2 issuances (Subordinated loan)

HSBC France has increased its Tier 2 capital by EUR 400 million on 29 January 2019 by issuing a subordinated loan with a maturity of 10 years subscribed by HSBC Bank plc (refer to the Note 27).

HSBC France has also increased its Tier 2 capital by EUR 100 million on 27 June 2019 by issuing a subordinated loan with a maturity of 10 years subscribed by HSBC Bank plc (refer to the Note 27).

### Significant Issuances of HSBC France

On 17 May 2019, HSBC France issued a senior unsecured preferred debt with a nominal value of EUR 1 billion and a maturity of five years.

On 3 September 2019, HSBC France also issued a senior unsecured preferred debt with a nominal value of EUR 1.25 billion and a maturity of eight years.

### Targeted Long-Term Refinancing Operation ('TLTRO II')

In September 2019, HSBC France made early repayment of EUR 1.5 billion borrowed under TLTRO II. As at 31 December 2019, the remaining TLTRO II funding amounted to EUR 2.6 billion.

### Single Resolution Fund ('SRF')

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

### Evolutions of the PVIF (Present value of in-force insurance business)

During the first semester of 2019, a new tripartite agreement has been signed between HSBC Global Asset Management (France), HSBC France and HSBC Assurances Vie (France) on the fee sharing related to unit-linked contracts. This generated a gain of EUR 78 million in the PVIF which represents the projected increase in commissions to be earnt on insurance manufacturing over the life of contracts (see note 21).

During the second semester of 2019, the Board of Directors of HSBC Assurances Vie (France) decided the buy-back of the undated subordinated debts before the end of the transitory period, when they will not be recognized for the hedging of the needed regulatory capital. This decision generated a gain of EUR 35 million in the PVIF which represents the projected decrease in debt costs from 2026. HSBC Assurances Vie (France) and HSBC France also adjusted the technical loss absorbency mechanism on Euro Fund. This generated a gain of EUR 25 million in the PVIF which represents the projected increase in fees to be earnt on insurance manufacturing over the life of contracts in stressed environment (see note 21).

### Transfer of HSBC France headquarters

On December 13, 2019, a termination leases contract related to the HSBC France headquarters buildings (Champs Elysées and Vernet) has been signed with an exit date scheduled for the 31 December 2020. The right of use and the lease liability related to these buildings have been adjusted to take into account the new planned exit date. A new lease contract has been signed to host the new HSBC France headquarters. The lease contract has been concluded for ten years effective as of 1 March 2020.

### Goodwill impairment testing

Following goodwill yearly impairment tests exercise performed in 2019, an impairment of EUR 169 million has been accounted on the goodwill of Commercial Banking (see note 21).

### Transfer of the Global Banking and Markets production support and IT development activities

The Global Banking and Markets production support and IT development activities have been transferred to the branch in France of HSBC Global Services (UK) Limited the1 January 2019.

## 2 Business combination and disposal of subsidiaries

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

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

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

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

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

## 3 Net fee income

### Net fee income by global business

| | 2019 | | | | | | 2018 |
|---|---|---|---|---|---|---|---|
| | 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 | 27 | 82 | 18 | 9 | – | 136 | 117 |
| Funds under management | 165 | – | 19 | – | – | 184 | 183 |
| Cards | 21 | 19 | 5 | – | – | 45 | 49 |
| Credit facilities | – | 62 | 89 | – | – | 151 | 117 |
| Broking income | 6 | – | – | 1 | – | 7 | 6 |
| Unit trusts | 3 | – | – | 3 | – | 6 | 5 |
| Imports/exports | – | 9 | 7 | – | – | 16 | 10 |
| Remittances | 6 | 18 | 30 | – | – | 54 | 25 |
| Underwriting | – | 1 | 97 | – | – | 98 | 54 |
| Global custody | 6 | – | 25 | – | – | 31 | 11 |
| Insurance agency commission | 10 | 1 | – | 11 | – | 22 | 20 |
| Other[1] | 204 | 48 | 206 | – | (115) | 343 | 269 |
| **Fee income** | **448** | **240** | **496** | **24** | **(115)** | **1,093** | 866 |
| Less: fee expense | (194) | (10) | (218) | (2) | 109 | (315) | (273) |
| **Net fee income** | **254** | **230** | **278** | **22** | **(6)** | **778** | 593 |

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

Net fee income includes EUR 533 million of fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate) (2018: EUR 474 million), EUR 168 million of fees payable on financial liabilities that are not at fair value through profit of loss (other than amounts included in determining the effective interest rate) (2018: EUR 152 million), EUR 215 million of fees earned on trust and other fiduciary activities (2018: EUR 195 million).

## 4 Net income/(expense) from financial instruments measured at fair value through profit or loss

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| **Net income/(expense) arising on:** | | |
| Trading activities | **554** | 63 |
| Other instruments designated and mandatorily measured at fair value and related derivatives | **(524)** | (39) |
| **Net income from financial instruments held for trading or managed on a fair value basis** | **30** | 24 |
| Financial assets held to meet liabilities under insurance and investment contracts | **1,280** | (641) |
| Liabilities to customers under investment contracts | **(3)** | 3 |
| **Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss** | **1,277** | (638) |
| Derivatives managed in conjunction with HSBC's issued debt securities | **47** | 18 |
| Other changes in fair value | **(48)** | (20) |
| **Changes in fair value of long-term debt and related derivatives** | **(1)** | (2) |
| **Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss** | **153** | 113 |
| **Year ended 31 Dec** | **1,459** | (503) |

## 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 significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

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

| | Other Contracts | Unit-linked | With DPF | Total |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| Gross insurance premium income | **59** | **–** | **2,020** | **2,079** |
| Reinsurers' share of gross insurance premium income | **(3)** | **–** | **–** | **(3)** |
| **Year ended 31 Dec 2019** | **56** | **–** | **2,020** | **2,076** |
| | | | | |
| Gross insurance premium income | 68 | – | 1,961 | 2,029 |
| Reinsurers' share of gross insurance premium income | (3) | – | – | (3) |
| Year ended 31 Dec 2018 | 65 | – | 1,961 | 2,026 |

### 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 of 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

| | Other Contracts | Unit-linked | With DPF | Total |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| Gross claims and benefits paid incurred and movement in liabilities | **25** | **–** | **3,356** | **3,381** |
| – claims, benefits and surrenders paid | **19** | **2** | **1,698** | **1,719** |
| – movement in liabilities | **6** | **(2)** | **1,658** | **1,662** |
| Reinsurers' share of claims incurred and benefits paid and movement in liabilities | **(1)** | **–** | **–** | **(1)** |
| – claims, benefits and surrenders paid | **–** | **–** | **–** | **–** |
| – movement in liabilities | **(1)** | **–** | **–** | **(1)** |
| **Year ended 31 Dec 2019** | **24** | **–** | **3,356** | **3,380** |
| | | | | |
| Gross claims and benefits paid incurred and movement in liabilities | 24 | (4) | 1,457 | 1,477 |
| – claims, benefits and surrenders paid | 22 | 2 | 1,595 | 1,619 |
| – movement in liabilities | 2 | (6) | (138) | (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 | 22 | (4) | 1,457 | 1,475 |

Liabilities under insurance contracts

| | Other Contracts | Unit-linked | With DPF | Total |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| Gross liabilities under insurance contracts at 1 Jan 2019 | **121** | **33** | **21,181** | **21,335** |
| Claims and benefits paid | **(19)** | **(2)** | **(1,698)** | **(1,719)** |
| Increase in liabilities to policyholders | **25** | **–** | **3,356** | **3,381** |
| Exchange differences and other movements[1] | **(1)** | **3** | **293** | **295** |
| **Gross liabilities under insurance contracts at 31 Dec 2019** | **126** | **34** | **23,132** | **23,292** |
| Reinsurers' share of liabilities under insurance contracts | **(2)** | **–** | **–** | **(2)** |
| **Net liabilities under insurance contracts at 31 Dec 2019** | **124** | **34** | **23,132** | **23,290** |
| | | | | |
| Gross liabilities under insurance contracts at 1 Jan 2018 | 119 | 39 | 21,695 | 21,853 |
| Claims and benefits paid | (22) | (2) | (1,595) | (1,619) |
| Increase in liabilities to policyholders | 24 | (4) | 1,457 | 1,477 |
| Exchange differences and other movements[1] | – | – | (376) | (376) |
| Gross liabilities under insurance contracts at 31 Dec 2018 | 121 | 33 | 21,181 | 21,335 |
| Reinsurers' share of liabilities under insurance contracts | (2) | – | – | (2) |
| Net liabilities under insurance contracts at 31 Dec 2018 | 119 | 33 | 21,181 | 21,333 |

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 Employee compensation and benefits

### Employee compensation and average number of employees

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Wages and salaries[1] | **718** | 608 |
| Social security costs | **290** | 285 |
| Post-employment benefits[2] | **23** | 6 |
| **Year ended 31 Dec** | **1,031** | 899 |

1 *The increase of this item between 2018 and 2019 is explained for EUR 76 million by the integration of European branches from 1st February 2019 and 1st March 2019.*

2 *This amount includes re-invoicing of the staff costs to and from the HSBC Group.*

Average number of persons employed by HSBC during the year by global business

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Retail Banking and Wealth Management | **4,073** | 3,929 |
| Commercial Banking | **1,704** | 1,494 |
| Global Banking and Markets | **1,020** | 682 |
| Global Private Banking | **122** | 113 |
| Corporate Centre | **14** | 12 |
| Support functions and others [1] | **2,919** | 2,960 |
| **Year ended 31 Dec** [2] | **9,852** | 9,190 |

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

## 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 2019** | **75** |
| Granted during the year | – |
| Exercised during the year | (45) |
| Expired during the year | – |
| Forfeited during the year | – |
| **Outstanding at 31 Dec 2019** | **30** |
| *Of which: exercisable* | – |
| Weighted average remaining contractual life (years) | 0.3 |
| | |
| 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) | 0.8 |

This category of shares is available, after a vesting period of five years, at the retirement date.

From 2016, these 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 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 cannot be sold before a tax lock-up period of two-years after their vesting. Since 1 January 2016, this category does not require 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' that vest under a period of three or five years. But all the shares granted to 'Material Risk Taker' are restricetd to a period of tax unavailability about six months or 12 months.

Movement on 'Restricted Shares'

| | Number (000s) |
|---|---|
| **Outstanding at 1 Jan 2019** | **698** |
| Movements of staff during the year 2019 and previously[3] | **1,544** |
| Change of consolidation perimeter (integration of branches excluding Greece) | **348** |
| Granted during the year[1] | **2,372** |
| Exercised during the year[2] | **(2,115)** |
| Expired during the year | **(45)** |
| **Outstanding at 31 Dec 2019** | **2,802** |
| Of which exercisable | **—** |
| Weighted average remaining contractual life (years) | **1** |
| | |
| Outstanding at 1 Jan 2018 | 832 |
| Granted during the year[1] | 1,693 |
| Exercised during the year[2] | (1,784) |
| Expired during the year | (43) |
| Outstanding at 31 Dec 2018 | 698 |
| Of which exercisable | — |
| Weighted average remaining contractual life (years) | 1 |

1 *The weighted average fair value of shares granted during the year was EUR 7.15 (2018: EUR 8.17).*
2 *The weighted average share price at the date the shares were exercised was EUR 7.29 (2018: EUR 7.96).*
3 *Corresponds to the shares granted to Group employees who joined HSBC France during the year 2019 and during previous years net of shares granted to HSBC France employees who joined other Group entities.*

In 2019, EUR (10) million was charged to the income statement in respect of amortisation of the existing plans for HSBC in France (in 2018: EUR (6) million).

The vesting period for deferred share awards expected to be granted in 2019, in respect of the 2018 performance year, was determined to have started on 1 January 2018.

### Employee share offering

In 2019, the HSBC Group did not proceed to any capital increase opened to current employees.

Income statement charge

| | 2019 €m | 2018 €m |
|---|---|---|
| Restricted share awards | **15** | 12 |
| Savings related and other share option plans | **—** | — |
| **Year ended 31 Dec** | **15** | 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 78 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 19 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 2019, and the 2020 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 2019** | **0.65** | **1.50** | **1.50** | **2.61** |
| At 31 Dec 2018 | 1.70 | 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 | **7** | **195** | **—** | **188** |
| Defined benefit healthcare plans | **—** | **—** | **—** | **—** |
| **At 31 Dec 2019** | **7** | **195** | **—** | **188** |
| Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities') | | | | **188** |
| Total employee benefit assets (within 'Prepayments, accrued income and other assets') | | | | **—** |
| | | | | |
| 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') | | | | — |

### Cumulative actuarial gains/(losses) recognised in other comprehensive income

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| **At 1 January** | **68** | 76 |
| Total actuarial gains/(losses) recognised in other comprehensive income for the year | **21** | (8) |
| **At 31 December** | **89** | 68 |

Actuarial gains and losses of the year are composed of EUR 21 millions due to actuarial assumptions' changes attributed to the decrease of the discount rate from 1.70 percent to 0.65 percent.

### Actuarial assumption sensitivities

The following table shows the effect of changes in actuarial 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 | |
| | **2019** | 2018 | **2019** | 2018 |
| | **€m** | €m | **€m** | €m |
| Discount rate – increase/decrease of 0.25% | **(6)** | (5) | **6** | 5 |
| 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% | **5** | 4 | **(5)** | (4) |
| Change in mortality – increase of 1 year | **2** | 2 | **(2)** | (2) |

## Defined benefit pension plans

### Net asset/(liability) under defined benefit pension plans

| | Fair value of plan assets | Present value of defined benefit obligations | Net defined benefit asset/ (liability) |
|---|---|---|---|
| | Principal plan | Principal plan | Principal plan |
| | €m | €m | €m |
| **At 1 Jan 2019** | **8** | **173** | **165** |
| Service cost | **—** | **5** | **5** |
| – current service cost | **—** | **6** | **6** |
| – past service cost and gains/(losses) from settlements | **—** | **(1)** | **(1)** |
| Net interest income/(cost) on the net defined benefit asset/(liability) | **—** | **2** | **2** |
| Re-measurement effects recognised in other comprehensive income | **—** | **21** | **21** |
| – return on plan assets (excluding interest income) | **—** | **—** | **—** |
| – actuarial gains/(losses) | **—** | **21** | **21** |
| – other changes | **—** | **—** | **—** |
| Transfers[1] | **—** | **3** | **3** |
| Exchange differences | **—** | **—** | **—** |
| Benefits paid | **(1)** | **(9)** | **(8)** |
| Other movements | **—** | **—** | **—** |
| **At 31 Dec 2019** | **7** | **195** | **188** |
| | | | |
| At 1 Jan 2018[2] | 8 | 177 | 169 |
| Service cost | — | 4 | 4 |
| – current service cost | — | 5 | 5 |
| – past service cost and gains/(losses) from settlements | — | (1) | (1) |
| 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[3] | — | 5 | 5 |
| Exchange differences | — | — | — |
| Benefits paid | — | (8) | (8) |
| Other movements | — | — | — |
| At 31 Dec 2018 | 8 | 173 | 164 |

1 *This amount corresponds to changes in the perimeter during the year.*
2 *The opening balance on 1 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.*
3 *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

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 – 2029 |
|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m |
| The principal plan[1] | 10 | 7 | 8 | 9 | 9 | 47 |

1 *The duration of the defined benefit obligation is 13 years for the principal plan under the disclosure assumptions adopted (2018: 13 years) and 13 years for all other plans combined (2018: 13 years)*

### Fair value of plan assets by asset classes

| | **31 Dec 2019** | | | | 31 Dec 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | **7** | **7** | **—** | **—** | 8 | 8 | — | — |
| – equities | **—** | **—** | **—** | **—** | — | — | — | — |
| – bonds | **7** | **7** | **—** | **—** | 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.

## 7 Auditors' remuneration

| | PricewaterhouseCoopers Audit France Audit[1] | | BDO Paris Audit & Advisory Audit[2] | | Others | |
|---|---|---|---|---|---|---|
| | Amount (excluding VAT) | % | Amount (excluding VAT) | % | Amount (excluding VAT) | % |
| | €k | | €k | | €k | |
| Fees for account certifications | **4,175** | **76** | **580** | **96** | **–** | **–** |
| Fees for other services provided to HSBC | **1,298** | **24** | **24** | **4** | **–** | **–** |
| **Year ended 31 Dec 2019** | **5,473** | **100** | **604** | **100** | **–** | **–** |
| 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 | – | – |

1 *This column includes audit fees paid to PricewaterhouseCoopers entities other than PricewaterhouseCoopers Audit France.*
2 *This column includes audit fees paid to BDO entities other than BDO Paris Audit & Advisory.*

Services other than the account certification at 31 December 2019 for PricewaterhouseCoopers Audit France and BDO Paris Audit & Advisory mainly concern comfort letters related to the programs of issuances and interim dividends, legal or regulatory services and also services related to internal control procedures (i.e. report ISAE 3402).

## 8 Tax expense and deferred tax

### Tax expense

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| Current tax | **45** | 77 |
| Deferred tax | **(28)** | (14) |
| **Year ended 31 Dec** | **17** | 63 |

HSBC France group's profits are taxed at different rates depending on the country in which the profits arise. The key applicable corporate tax rates concern France.

The 2020 Finances Law ('Loi de Finances') has reviewed the gradual decrease of the tax rate from 33 1/3 in 2019 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, at French Tax group level, in 2019, France's tax rate is 34,43 per cent (same as 2018).

Other overseas subsidiaries and branches provide for taxation at the appropriate rates in the countries in which they operate.

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 French tax rate decrease from 33 1/3 to 25 per cent.

The amount of deferred tax asset has been recognised at 31 December 2019, taking into account the profit outlook as established in the budget.

The decrease of the tax expense between 2018 and 2019 is mainly due to lower tax audit provision on HSBC Leasing (France) which represented an important part of current tax expense in 2018.

### Tax risks

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 of the risk has been recorded at 31 December 2018.

During 2019, discussions took place with the French tax authorities, which enabled to refine the risk exposure and led to an adjustment of the provision in 2019.

## Analysis of overall tax charges

### Tax reconciliation

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Overall tax charges | | Overall tax charges | |
| | €m | % | €m | % |
| Profit before tax | **(22)** | | 45 | |
| **Tax expense** | | | | |
| Taxation at French corporate tax rate | **(7)** | **34.43** | 15 | 34.43 |
| Impact of differently taxed overseas profits in overseas locations | **(23)** | **107.9** | — | 0.8 |
| Items increasing tax charge: | | | | |
| – Permanent disallowables | **41** | **(193.1)** | (1) | (2.4) |
| – Local taxes and overseas withholding taxes | **15** | **(68.6)** | 16 | 34.9 |
| Items reducing tax charge: | | | | |
| – Changes in tax rates | **(14)** | **63.9** | 10 | 21.2 |
| – Non-taxable income and gains subject to tax at a lower rate | **(2)** | **8.4** | (6) | (12.6) |
| – Adjustment in respect of prior years | **7** | **(30.9)** | 53 | 115.3 |
| – Deferred tax temporary differences not provided | **—** | **—** | — | — |
| – Other items | **—** | **1.3** | (24) | (52.5) |
| **Year ended 31 Dec** | **17** | **(77.1)** | 63 | 138.5 |

The effective tax rate for 2019 of (77.1)% whereas French current tax rate is 34.43% is explained mainly by permanent disallowables (of which the impact of the Single Resolution Mechanism and goodwill impairment non-deductible) partially reversed by income tax on HSBC France branches calculated at lower rate than 34.43%.

### Deferred taxation

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Deferred tax asset | Deferred tax liability | Total | Deferred tax asset | Deferred tax liability | Total |
| | €m | €m | €m | €m | €m | €m |
| Temporary differences: | | | | | | |
| – retirement benefits | **37** | **1** | **38** | 33 | 1 | 34 |
| – assets leased | **(5)** | **(2)** | **(7)** | (5) | (2) | (7) |
| – revaluation of property | **(8)** | **—** | **(8)** | (8) | — | (8) |
| – other temporary differences | **163** | **(174)** | **(11)** | 136 | (154) | (18) |
| – deferred losses carried forward | **42** | **—** | **42** | — | — | — |
| Year ended 31 Dec | **229** | **(175)** | **54** | 156 | (155) | 1 |

Deferred Tax amounts in 'other temporary differences' category mainly concern Deferred Tax Assets on Mark-to-Market on issuances of Covered Bonds and on derivatives and Deferred Tax Liabilities on PVIF.

### 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 | **33** | **22** | **(3)** | **(4)** | **108** | **156** |
| Liabilities | **1** | **—** | **(15)** | **—** | **(141)** | **(155)** |
| **At 1 Jan 2019** | **34** | **22** | **(18)** | **(4)** | **(33)** | **1** |
| Income statement | **(1)** | **—** | **—** | **15** | **14** | **28** |
| Other comprehensive income | **5** | **—** | **(7)** | **—** | **19** | **17** |
| Equity | **—** | **—** | **—** | **—** | **—** | **—** |
| Foreign exchange and other adjustments | **—** | **—** | **—** | **—** | **8** | **8** |
| **At 31 Dec 2019** | **38** | **22** | **(25)** | **11** | **8** | **54** |
| Assets[2] | **37** | **22** | **(6)** | **11** | **165** | **229** |
| Liabilities[2] | **1** | **—** | **(19)** | **—** | **(157)** | **(175)** |
| | | | | | | |
| 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 | 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) |

1 *Deferred tax in 'Other' includes essentially deferred tax assets from Mark-to-Market on issuances of Covered Bonds and Derivatives and deferred tax liabilities on PVIF.*

2 *After netting off balances within countries, the balances as disclosed in the accounts are as follows: deferred tax assets EUR 229 million (2018: EUR 156 million); and deferred tax liabilities EUR (175) million (2018: EUR (155) million).*

## 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 2019, the impact of this accounting position was a classification of a charge of EUR 16.7 million (2018: EUR 16.3 million) on the 'Income Tax' and the recognition of a deferred tax profit of EUR +3 million (2018: EUR -0.8 million).

## Crédit d'impôt pour la compétitivité et l'emploi ('CICE')

The '*crédit d'impôt pour la compétitivité et l'emploi*' ('CICE') has been removed in 2019.

Thus, for the fiscal year 2019, HSBC France group did not benefit any tax credit under the '*crédit d'impôt pour la compétitivité et l'emploi*' ('CICE'), (in 2018: EUR 7.5 million).

# 9 Dividends

Dividends to shareholders of the parent company

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Per share | Total | Per share | Total |
| | € | €m | € | €m |
| **Dividends paid on ordinary shares** | | | | |
| In respect of previous year: | | | | |
| – exceptional dividend | — | — | — | — |
| – dividend paid | — | — | 0.69 | 47 |
| In respect of current year: | | | | |
| – first interim dividend | — | — | — | — |
| **Total dividend paid to shareholders** | — | — | 0.69 | 47 |
| **Total coupons on capital securities classified as equity** | | 21 | | 15 |

## Dividends related to 2019

The Board of Directors held on 18 February 2020 proposed to the Combined General Meeting, on 13 March 2020, not to distribute a dividend in respect of the year 2019.

## Dividends related to 2018

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

Dividends per share for 2019 & 2018

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Dividends per share[1] | — | — |

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 2019 a New Tier 1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 250 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 instruments classified as equity

| | | 2019 | 2018 |
|---|---|---|---|
| | First call date | €m | €m |
| Perpetual subordinated capital securities | | | |
| – EUR 200 million issued at 4.56% | May 2022 | 9 | 9 |
| – EUR 300 million issued at 4% | March 2023 | 12 | 6 |
| – EUR 250 million issued at 3.46% | December 2024 | — | — |
| **Total** | | 21 | 15 |

1 *Discretionary coupons are paid semi-annually on the perpetual subordinated capital instruments.*

## 10 Earnings per share

Basic earnings per ordinary share were calculated by dividing the basic earnings of EUR (39) million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 92,571,906 (full year 2018: earnings of EUR (17) million and 69,531,366 weighted average number of shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive 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 92,571,906 (full year 2018: 69,531,366 shares). At 31 December 2019, no potentially dilutive ordinary share had been issued.

### Basic and diluted earnings per share

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Profit/(loss)** | **Number of shares** | **Per share** | Profit/(loss) | Number of shares | Per share |
| | **€m** | **(millions)** | **€** | €m | (millions) | € |
| Basic earnings per share | **(39)** | **93** | **(0.41)** | (17) | 70 | (0.24) |
| Diluted earnings per share | **(39)** | **93** | **(0.41)** | (17) | 70 | (0.24) |

## 11 Trading assets

| | **2019** | 2018 |
|---|---|---|
| | **€m** | €m |
| Treasury and other eligible bills | **1,427** | 1,457 |
| Debt securities | **13,409** | 15,509 |
| Equity securities | **—** | — |
| **Trading securities** | **14,836** | 16,966 |
| Loans and advances to banks | **1** | — |
| Loans and advances to customers | **—** | — |
| **Year-ended 31 Dec** | **14,837** | 16,966 |

## 12 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.

### 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.

The most reliable method to determine the fair value is quotation in an active market.

## 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 2019** | €m | €m | €m | €m | €m | €m | €m |
| **Assets** | | | | | | | |
| Trading assets | **13,461** | **1,373** | **2** | **14,836** | **1** | **–** | **14,837** |
| Financial assets designated and otherwise mandatorily measured at fair value through profit or loss | **9,717** | **1,197** | **786** | **11,700** | **257** | **–** | **11,957** |
| Derivatives | **27** | **28,197** | **442** | **28,666** | **17,058** | **328** | **45,724** |
| Financial assets designated at fair value | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Financial investments | **16,518** | **–** | **16** | **16,534** | **447** | **–** | **16,981** |
| **Liabilities** | | | | | | | |
| Trading liabilities | **23,249** | **13** | **–** | **23,262** | **–** | **–** | **23,262** |
| Financial liabilities designated at fair value | **7,531** | **11,115** | **307** | **18,953** | **–** | **–** | **18,953** |
| Derivatives | **20** | **27,955** | **130** | **28,105** | **17,010** | **469** | **45,115** |
| At 31 Dec 2018 | | | | | | | |
| Assets | | | | | | | |
| Trading assets | 16,831 | 133 | 2 | 16,966 | – | – | 16,966 |
| Financial assets designated and otherwise mandatorily measured at fair value through profit or loss | 9,117 | 163 | 593 | 9,873 | 622 | 184 | 10,495 |
| Derivatives | 25 | 16,796 | 335 | 17,156 | 14,621 | 280 | 31,777 |
| Financial 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 |

### 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 2019** | | | | | | | |
| Transfers from Level 1 to Level 2 | **–** | **1,046** | **1,187** | **–** | **–** | **–** | **–** |
| Transfers from Level 2 to Level 1 | **–** | **35** | **–** | **–** | **–** | **–** | **–** |

| | 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 | – | – | – | – | – | – | – |

The transfers from Level 1 to Level 2 performed in 2019 correspond to a review of the classification of certain instruments

## 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.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. Such as when models are enhanced and therefore, fair value adjustments may no longer be required.

### 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 ('FFVA')*

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 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 | Trading assets | Designated and otherwise mandatorily measured at fair value through profit or loss | Derivatives | Total Assets | Trading liabilities | Designated at fair value | Derivatives | Total Liabilities |
| | €m | €m | €m | €m | €m | €m | €m | €m | €m |
| Private equity investments including strategic investments | **13** | **–** | **468** | **–** | **481** | **–** | **–** | **–** | **–** |
| Asset-backed securities | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Structured notes | **–** | **2** | **–** | **–** | **2** | **–** | **307** | **–** | **307** |
| Derivatives | **–** | **–** | **–** | **442** | **442** | **–** | **–** | **130** | **130** |
| Other portfolios | **3** | **–** | **318** | **–** | **321** | **–** | **–** | **–** | **–** |
| HSBC Group subsidiaries | **–** | **–** | **–** | **328** | **328** | **–** | **–** | **469** | **469** |
| **Year ended 31 Dec 2019** | **16** | **2** | **786** | **770** | **1,574** | **–** | **307** | **599** | **906** |
| 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 |

### 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 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. 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 2019** | **13** | **2** | **777** | **615** | **–** | **292** | **435** |
| Total gains/(losses) recognised in profit or loss | – | (2) | 32 | 179 | – | 5 | 132 |
| – net income/(expense) from financial instruments held for trading or managed on a fair value basis | – | (2) | – | 179 | – | | 132 |
| – net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss | – | – | – | – | – | – | – |
| – changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss | – | – | 32 | – | – | 5 | – |
| – gains less losses from financial investments at fair value through other comprehensive income | – | – | – | – | – | – | – |
| – expected credit loss charges and other credit impairment charges | – | – | – | – | – | – | – |
| – fair value gains transferred to the income statement on disposal | – | – | – | – | – | – | – |
| – exchange differences | – | – | – | – | – | – | – |
| Total gains/(losses) recognised in other comprehensive income | – | – | – | – | – | – | – |
| – financial investments: fair value gains/(losses) | – | – | – | – | – | – | – |
| – cash flow hedges: fair value gains/(losses) | – | – | – | – | – | – | – |
| – exchange differences | – | – | – | – | – | – | – |
| Purchases | 3 | 2 | 291 | 1 | – | 139 | 45 |
| New issuances | – | – | – | – | – | 42 | – |
| Sales | – | – | (28) | – | – | (170) | – |
| Settlements | – | – | (286) | (11) | – | 23 | (13) |
| Transfer out | – | – | – | (25) | – | (41) | (6) |
| Transfer in | – | – | – | 11 | – | 17 | 6 |
| **At 31 Dec 2019** | **16** | **2** | **786** | **770** | **–** | **307** | **599** |
| Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2019 | – | – | 48 | 183 | – | 18 | 127 |
| – trading income/(expense) excluding net interest income | – | – | – | 183 | – | – | 127 |
| – changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss | – | – | 48 | – | – | 18 | – |
| – expected credit loss charges and other credit risk charges | – | – | – | – | – | – | – |

Movement in Level 3 financial instruments (continued)

| | Assets | | | | Liabilities | | |
|---|---|---|---|---|---|---|---|
| | Financial Investments | Trading assets | Designated and otherwise mandatorily measured at fair value through profit or loss | Derivatives | Trading liabilities | Designated at fair value | Derivatives |
| | €m | €m | €m | €m | €m | €m | €m |
| At 1 Jan 2018[1] | 10 | 2 | 955 | 679 | – | 268 | 497 |
| Total gains/(losses) recognised in profit or loss | – | – | (13) | (48) | – | (27) | (33) |
| – net income/(expense) from financial instruments held for trading or managed on a fair value basis | – | – | – | (48) | – | (27) | (33) |
| – net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss | – | – | – | – | – | – | – |
| – changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss | – | – | 55 | – | – | – | – |
| – gains less losses from financial investments at fair value through other comprehensive income | – | – | – | – | – | – | – |
| – expected credit loss charges and other credit impairment charges | – | – | – | – | – | – | – |
| – fair value gains transferred to the income statement on disposal | – | – | – | – | – | – | – |
| – exchange differences | – | – | (68) | – | – | – | – |
| Total gains/(losses) recognised in other comprehensive income | 1 | – | – | – | – | – | – |
| – financial investments: fair value gains/(losses) | 1 | – | – | – | – | – | – |
| – cash flow hedges: fair value gains/(losses) | – | | | – | | – | – |
| – fair value gains transferred to the income statement on disposal | – | – | – | – | – | – | – |
| – exchange differences | – | – | – | – | – | – | – |
| Purchases | 2 | – | 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 2019 | 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 | – | – | – | – | – | – | – |

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.

| | Reflected in profit or loss | | Reflected in OCI | |
|---|---|---|---|---|
| | Favourable changes | Unfavourable changes | Favourable changes | Unfavourable changes |
| | €m | €m | €m | €m |
| **2019** | | | | |
| Private equity investments including strategic investments | **47** | **(28)** | **1** | **(1)** |
| Asset-backed securities | **–** | **–** | **–** | **–** |
| Structured notes | **1** | **(1)** | **–** | **–** |
| Derivatives | **10** | **(10)** | **–** | **–** |
| Other portfolios | **2** | **(5)** | **–** | **(3)** |
| HSBC Group subsidiaries | **16** | **(16)** | **–** | **–** |
| **Year ended 31 Dec** | **76** | **(60)** | **1** | **(4)** |
| 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) |

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 2019. 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 | | Key unobservable inputs | Lower | Higher | Lower | Higher |
| | €m | €m | Valuation technique | | % | % | % | % |
| **At 31 Dec 2019** | | | | | | | | |
| Private equity including strategic investments | **481** | **–** | **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 | **–** | **224** | **Model – Option model** | **Equity volatility** | **–** | **–** | **–** | **–** |
| – fund-linked notes | **–** | **–** | **Model – Option model** | **Fund volatility** | **–** | **–** | **–** | **–** |
| – FX-linked notes | **–** | **–** | **Model – Option model** | **FX volatility** | **–** | **–** | **–** | **–** |
| – other | **2** | **83** | | | | | | |
| Derivatives | | | | | | | | |
| Interest rate derivatives | | | | | | | | |
| – securitisation swaps | **139** | **1** | **Model – DCF[3]** | **Prepayment rate** | **50** | **50** | **50** | **50** |
| – long-dated swaptions | **500** | **433** | **Model – Option model** | **IR volatility** | **16** | **36** | **18** | **31** |
| – other | **82** | **140** | | | | | | |
| Foreign exchange derivatives | | | | | | | | |
| – foreign exchange options | **–** | **–** | **Model – Option model** | **FX volatility** | **9** | **11** | **9** | **11** |
| Equity derivatives | | | | | | | | |
| – long-dated single stock options | **–** | **–** | **Model – Option model** | **Equity volatility** | **–** | **–** | **–** | **–** |
| – other | **49** | **25** | | | | | | |
| Credit derivatives | | | | | | | | |
| – other | **–** | **–** | | | | | | |
| Other portfolios[4] | **321** | **–** | | | | | | |
| **Total Level 3** | **1,574** | **906** | | | | | | |
| 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 | | | | | | |

*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.*

### 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 on Level 3 assets

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 is a measure of the anticipated future variability of a market price. It varies by underlying reference market price, and by strike and maturity of the option.

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.

## 13 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 2019** | | | | | |
| **Assets** | | | | | |
| Loans and advances to banks | **6,798** | **—** | **6,800** | **—** | **6,800** |
| Loans and advances to customers | **56,956** | **—** | **—** | **57,037** | **57,037** |
| Reverse repurchase agreements – non-trading | **45,973** | **—** | **45,973** | **—** | **45,973** |
| Financial investments: debt securities at amortised cost | **6** | **—** | **—** | **6** | **6** |
| **Liabilities** | | | | | |
| Deposits by banks | **12,113** | **—** | **12,113** | **—** | **12,113** |
| Customer accounts | **57,550** | **—** | **57,545** | **—** | **57,545** |
| Repurchase agreements – non-trading | **20,213** | **—** | **20,213** | **—** | **20,213** |
| Debt securities in issue | **9,782** | **—** | **9,782** | **—** | **9,782** |
| Subordinated liabilities[1] | **1,376** | **—** | **1,429** | **—** | **1,429** |
| 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 |

1 *During 2019, HSBC France has issued two New Tier 2 Capital (Tier 2 instrument) subscribed by HSBC Bank for EUR 400 million and EUR 100 million, both with a maturity of 10 years and a floating rate.*

## 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.

### 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.

## 14 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | 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 | – | 11,639 | 11,639 | – | 10,073 | 10,073 |
| – debt securities | – | 2,896 | 2,896 | – | 3,015 | 3,015 |
| – equity securities | – | 8,743 | 8,743 | – | 7,058 | 7,058 |
| Loans and advances to banks and customers | – | 318 | 318 | – | 422 | 422 |
| Other | – | – | – | – | – | – |
| **Year ended 31 Dec** | – | 11,957 | 11,957 | – | 10,495 | 10,495 |

## 15 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 | 449,934 | 8 | 6,251 | 1 | 6,252 | 5,963 | – | 5,963 |
| Interest rate | 3,692,489 | 17,299 | 44,047 | 3 | 44,050 | 43,767 | 63 | 43,830 |
| Equities | 26,896 | – | 309 | – | 309 | 187 | – | 187 |
| Credit | 11,622 | – | 165 | – | 165 | 187 | – | 187 |
| Commodity and other | 120 | – | 1 | – | 1 | 1 | – | 1 |
| **Gross total fair values** | 4,181,061 | 17,307 | 50,773 | 4 | 50,777 | 50,105 | 63 | 50,168 |
| Offset (Note 29) | | | | | (5,053) | | | (5,053) |
| **At 31 Dec 2019** | 4,181,061 | 17,307 | 50,773 | 4 | 45,724 | 50,105 | 63 | 45,115 |
| | | | | | | | | |
| 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 29) | | | | | (12,594) | | | (12,594) |
| At 31 Dec 2018 | 3,622,875 | 13,468 | 44,295 | 76 | 31,777 | 43,761 | 131 | 31,298 |

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

| | 2019 | 2018 |
|---|---|---|
| | €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 |

### Hedge Accounting

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 2019 the fair values of outstanding derivatives as fair value hedges were assets of EUR 3 million and liabilities of EUR 62 million (31 December 2018: assets of EUR 19 million and liabilities of EUR 118 million).

Hedging instrument by hedged risk

| | Hedging Instrument | | | | |
|---|---|---|---|---|---|
| | | Carrying amount | | | |
| | Notional amount[1] | Assets | Liabilities | Balance sheet | Change in fair value |
| Hedged Risk | €m | €m | €m | presentation | €m |
| Interest rate[2] | **12,199** | **3** | **62** | **Derivatives** | **(60)** |
| **At 31 Dec 2019** | **12,199** | **3** | **62** | | **(60)** |
| | | | | | |
| Foreign currency | 8 | 1 | — | Derivatives | 1 |
| Interest rate[2] | 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 *The hedged risk 'interest rate' includes inflation risk.*

## HSBC France Hedged item by hedged risk

| | Hedged Item | | | | | | Ineffectiveness | |
|---|---|---|---|---|---|---|---|---|
| | 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 presentation | | | Profit and loss presentation |
| Hedged Risk | €m | €m | €m | €m | | €m | €m | |
| Interest rate[2] | 3,474 | – | 93 | – | FVOCI | 42 | 1 | Net income from financial instruments held for trading or managed on a fair value basis |
| | 2 | – | 2 | – | L&A to Banks | 2 | | |
| | 925 | – | 7 | – | L&A to Customers | 17 | | |
| | – | 325 | – | – | Debt issued | – | | |
| | – | 2,605 | – | 34 | Deposits by Banks | – | | |
| **At 31 Dec 2019** | **4,401** | **2,930** | **102** | **34** | | **61** | **1** | |

| | Hedged Item | | | | | | Ineffectiveness | |
|---|---|---|---|---|---|---|---|---|
| | 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 presentation | | | Profit and loss presentation |
| Hedged Risk | €m | €m | €m | €m | | €m | €m | |
| Interest rate[2] | 3,300 | – | – | – | FVOCI | (60) | 2 | Net income from financial instruments held for trading or managed on a fair value basis |
| | 935 | | – | – | L&A to Customers | (1) | | |
| | – | – | – | – | Debt issued | – | | |
| | – | 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 2020 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 | | | Change in fair value[2] | Change in fair value | Recognised in profit and loss | |
| | Notional amount[1] | Assets | Liabilities | Balance sheet presentation | | | | Profit and loss presentation |
| **Hedged Risk** | **€m** | **€m** | **€m** | | **€m** | **€m** | **€m** | |
| Foreign currency | – | – | – | **Derivatives** | – | – | – | **Net income from financial instruments held for trading or managed on a fair value basis** |
| Interest rate | **5,100** | – | **1** | **Derivatives** | **57** | – | **1** | |
| **At 31 Dec 2019** | **5,100** | – | **1** | | **57** | – | **1** | |

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 €m | Foreign Currency €m | Other €m |
|---|---|---|---|
| **Cash flow hedging reserve at 1 Jan 2019** | **(23)** | – | – |
| Fair value gains/(losses) | **56** | – | – |
| 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 | **29** | – | – |
| Income taxes | **(28)** | – | – |
| Others | – | – | – |
| **Cash flow hedging reserve at 31 Dec 2019** | **34** | – | – |

## Schedule of expected cash flows

| | 3 months or less €m | More than 3 months but less than 1 year €m | 5 years or less but more than 1 year €m | More than 5 years €m |
|---|---|---|---|---|
| Net cash inflows/(outflows) exposure | | | | |
| Assets | **2,602** | **2,602** | **2,602** | **1,155** |
| Liabilities | **(2,449)** | **(1,599)** | **(1,246)** | **(55)** |
| **At 31 Dec 2019** | **153** | **1,003** | **1,356** | **1,100** |
| 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 |

## 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 2019, derivatives embedded in home purchase savings products represented a liability of EUR 4.7 million (at 31 December 2018: a liability of EUR 6 million).

## Hedging Instruments impacted by IBOR Reform

Following the request received by the Financial Stability Board from the G20, a fundamental review and reform of the major interest rate benchmarks is under way across the world's largest financial markets. This reform was not contemplated when the standard was published, and consequently the IASB has published a set of temporarily exceptions from applying specific hedge accounting requirements to provide clarification on how the standard should be applied in these circumstances.

## Interest Rate Benchmark Reform: Amendments to IFRS 9 and IAS 39 'Financial instruments'

Amendments to IFRS 9 and IAS 39 was issued in September 2019 and modify specific hedge accounting requirements (the 'temporary exceptions'). For example, under the temporary exceptions, Inter-Bank Offered Rates ('IBORs') are assumed to continue for the purpose of hedge accounting until such time as the uncertainty is resolved.

The application of this set of temporary exceptions is mandatory for accounting periods starting on or after 1 January 2020 but early adoption is permitted and HSBC has elected to apply these exceptions for the year ended 31 December 2019. Significant judgement will be required in determining when uncertainty is expected to be resolved and therefore when the temporary exceptions will cease to apply, however at 31 December 2019 the uncertainty exists and therefore the temporary exceptions apply to all of Group's hedge accounting relationships that reference IBORs.

The Group has cash flow and fair value hedge accounting relationships that are exposed to different IBORs, predominantly US Dollar Libor, Sterling Libor, Eonia, and Euribor. Existing derivatives, loans, bonds and other financial instruments designated in these relationships referencing IBORs will transition to new Risk-Free Rates ('RFRs') indifferent ways and at different times. External progress on the transition to RFRs is being monitored within HSBC France, with the objective of ensuring a smooth transition for the Group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationships, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationship entered into, while others may survive the transition.

The hedge accounting relationships that are affected by the adoption of temporary exceptions hedge items presented in the Balance Sheet as Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income, Loans and advances to customers, Debt securities in issue, and Deposits by banks.

The notional amounts of the derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by HSBC France that is directly affected by IBOR reform and impacted by temporarily exceptions. Details of these are presented below:

The calculation of the European overnight rate ('EONIA') changed on the 2 October 2019, so that EONIA is, going forward, calculated as the Euro Short Term rate ('€STR') plus a fixed spread of 8.5 basis points. This change has triggered a structural change in the sale and repurchase agreement ('repo') market in France, whereby the overnight floating rate repo market referencing EONIA has significantly shifted into an overnight fixed rate repo market referencing repo rates. In this context, considering the accounting standard setters' activities, management has asserted that continuing to apply hedge accounting to the existing hedge relationships using forecast issuances of overnight repos, provides the most relevant accounting.

HSBC France hedging instruments by currency – IBOR interest rate benchmark reform

| | Hedging instruments | | | | | | |
|---|---|---|---|---|---|---|---|
| | Impacted by IBOR reform | | | | | | |
| | EUR | GBP | USD | Other | Total | Not impacted by IBOR reform | Notional Contract Amount[1] |
| | €m | €m | €m | €m | €m | €m | €m |
| Fair Value Hedges | 11,301 | 29 | 473 | – | 11,803 | 396 | 12,199 |
| Cash Flow Hedges | 5,100 | – | – | – | 5,100 | – | 5,100 |
| **At 31 Dec 2019** | 16,401 | 29 | 473 | – | 16,903 | 396 | 17,299 |

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at balance sheet date; they do not represent amounts at risk.*

Information on the risks and governance put in place to manage the impacts of the IBOR transition is available in the Risks section linked to the transition of interest rate indices on pages 83 and following.

## 16 Financial investments

Carrying amount of financial investments

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| Financial investments measured at fair value through other comprehensive income | 16,981 | 16,496 |
| – treasury and other eligible bills | 498 | 729 |
| – debt securities | 16,468 | 15,756 |
| – equity securities | 15 | 11 |
| – other instruments | – | – |
| Debt instruments measured at amortised cost | 6 | 6 |
| – treasury and other eligible bills | – | – |
| – debt securities | 6 | 6 |
| **At 31 Dec** | 16,987 | 16,502 |

Equity instruments measured at fair value through other comprehensive income

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Fair value | Dividends recognised | Fair value | Dividends recognised |
| | €m | €m | €m | €m |
| Investments required by central institutions | 14 | – | 11 | – |
| Others | 1 | – | – | – |
| **At 31 Dec** | 15 | – | 11 | – |

## 17 Assets pledged, collateral received and assets transferred

### Assets pledged

Financial assets pledged as collateral are displayed as below:

**Financial assets pledged as collateral**

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| Treasury bills and other eligible securities | 1,007 | 1,228 |
| Loans and advances to banks | – | 32 |
| Loans and advances to customers | 9,012 | 17,421 |
| Debt securities | 9,624 | 16,429 |
| Equity shares | – | – |
| Other | 12,295 | 4,849 |
| **Assets pledged at 31 Dec**[1] | **31,938** | 39,959 |

1 *The assets pledged disclosed at 31th December 2018 include EUR 8,107 million of assets that are mainly part of the over-collateralisation pool; excluding these amounts, the assets pledged to secure liabilities would be EUR 31,852 million. The amounts presented at 31th December 2019 do not include these amounts.*

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**

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| Trading assets | 9,882 | 12,584 |
| Financial investments | 28 | 1,654 |
| **At 31 Dec** | **9,910** | 14,238 |

### 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 100,359 million at 31 December 2019 (EUR 80,784 million at 31 December 2018).

The fair value of financial assets accepted as collateral that have been sold or repledged was EUR 73,499 million at 31 December 2019 (EUR 78,791 million at 31 December 2018). 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 assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and equity securities lent under securities lending agreements, as well as swaps of equity and debt securities. For secured borrowings, the transferred asset collateral continues to be recognised in full and a related liability, reflecting the group's obligation to repurchase the assets for a fixed price at a future date is also recognised on the balance sheet. Where securities are swapped, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. The group is unable to use, sell or pledge the transferred assets for the duration of these transactions, and remains exposed to interest rate risk and credit risk on these pledged assets. 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 | 9,366 | 9,353 |
| Securities lending agreements | 544 | – |
| **At 31 Dec 2019** | **9,910** | **9,353** |
| Repurchase agreements | 14,238 | 14,250 |
| Securities lending agreements | 5,397 | 5,397 |
| At 31 Dec 2018 | 19,635 | 19,647 |

## 18 Interests in associates and partnerships

### Associate

At 31 December 2019, 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 2019 | | |
|---|---|---|---|
| | **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 percent 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 developed 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.

The share in the results of companies under equity method is not significant.

### Partnerships

As of 31 December 2019, the contribution of HSBC Middle East Leasing Partnership ('MELP') to the consolidated total assets of the HSBC France group is EUR 501 million (2018: EUR 467 million) and EUR 19 million (2018: EUR 16 million) to the consolidated income statement.

## 19 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.

| | At 31 Dec 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Net Operating Income** | **Profit Before Tax** | **Current Tax** | **Deferred Tax** | **Public subsidies received** | **Number of employees (Full Time Equivalent)** |
| | **€m** | **€m** | **€m** | **€m** | **€m** | |
| HSBC France Group | **2,099** | **(22)** | **(45)** | **28** | **–** | **9,472** |
| France | **1,686** | **(154)** | **(24)** | **26** | **–** | **8,085** |
| Belgium | **9** | **1** | **–** | **–** | **–** | **26** |
| Czech Republic | **41** | **27** | **(5)** | **–** | **–** | **94** |
| Greece | **60** | **4** | **–** | **–** | **–** | **350** |
| Ireland | **53** | **25** | **–** | **–** | **–** | **138** |
| Italy | **44** | **10** | **(3)** | **–** | **–** | **120** |
| Luxembourg | **60** | **8** | **(2)** | **–** | **–** | **271** |
| Netherlands | **45** | **29** | **(7)** | **–** | **–** | **62** |
| Spain | **70** | **36** | **–** | **–** | **–** | **151** |
| Sweden | **–** | **(1)** | **–** | **–** | **–** | **6** |
| United Kingdom | **–** | **(4)** | **–** | **–** | **–** | **2** |
| Poland | **29** | **(4)** | **(4)** | **2** | **–** | **167** |
| Others | **2** | **1** | **–** | **–** | **–** | **–** |

| | At 31 Dec 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Net Operating Income | Profit Before Tax | Current Tax | Deferred Tax | Public subsidies received[1] | Number of employees (Full Time Equivalent) |
| | €m | €m | €m | €m | €m | |
| HSBC France Group | 1,746 | 45 | (77) | 14 | – | 8,829 |
| France | 1,667 | 40 | (75) | 14 | – | 8,220 |
| Belgium | – | – | – | – | – | – |
| Czech Republic | – | – | – | – | – | – |
| Greece | 57 | 3 | (1) | – | – | 365 |
| Ireland | 8 | – | – | – | – | 46 |
| Italy | – | – | – | – | – | – |
| Luxembourg | – | – | – | – | – | – |
| Netherlands | – | – | – | – | – | – |
| Spain | – | – | – | – | – | – |
| Sweden | – | – | – | – | – | – |
| United Kingdom | – | – | – | – | – | – |
| Poland | 15 | 3 | (1) | – | – | 198 |
| Others | (1) | (1) | – | – | – | – |

1 *Excluding the competitiveness and employment tax credit (CICE) for HSBC France.*

The list of subsidiaries by country detailing the names of entities, nature of activity and geographical location, is presented in the Note 36 on pages 218 to 221. The addresses of main locations abroad are presented on pages 272 and 273.

## 20 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 2019** | **–** | **100** | **4,923** | **1,398** | **6,421** |
| At 31 Dec 2018 | – | 100 | 4,182 | 1,869 | 6,151 |

### 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 2019 and 2018 was not significant.

#### Others

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.

## Nature and risks associated with HSBC interests in unconsolidated structured entities

| | Securitisations | Group managed funds | Non-group managed funds | Other | Total |
|---|---|---|---|---|---|
| **Total asset values of the entities (€m)** | | | | | |
| 0 – 500 | **—** | **113** | **110** | **20** | **243** |
| 500 – 2,000 | **—** | **30** | **73** | **—** | **103** |
| 2,000 – 5,000 | **—** | **5** | **38** | **—** | **43** |
| 5,000 – 25,000 | **—** | **—** | **16** | **—** | **16** |
| 25,000+ | **—** | **—** | **—** | **—** | **—** |
| **Number of entities at 31 Dec 2019** | **—** | **148** | **237** | **20** | **405** |
| 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 |

| | Securitisations | Group managed funds | Non-group managed funds | Other | Total |
|---|---|---|---|---|---|
| | **€m** | **€m** | **€m** | **€m** | **€m** |
| **Total assets in relation to HSBC's interests in the unconsolidated structured entities** | **—** | **3,443** | **2,185** | **29** | **5,657** |
| – trading assets | **—** | **—** | **—** | **—** | **—** |
| – financial assets designated and otherwise mandatorily measured at fair value | **—** | **3,443** | **1,899** | **—** | **5,342** |
| – loans and advances to banks | **—** | **—** | **—** | **—** | **—** |
| – loans and advances to customers | **—** | **—** | **—** | **—** | **—** |
| – financial investments | **—** | **—** | **286** | **26** | **312** |
| – derivative | **—** | **—** | **—** | **3** | **3** |
| – 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 2019** | **—** | **3,443** | **2,185** | **29** | **5,657** |
| | €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 |

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.

## 21 Goodwill and intangible assets

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| Goodwill – net book value | 66 | 235 |
| Present value of in force long term assurance business ('PVIF') | 613 | 500 |
| Other intangible assets [1] | 314 | 185 |
| **At 31 Dec** | **993** | 920 |

1 *Included within other intangible assets is internally generated software with a net carrying value of EUR 302 million (2018: EUR 176 million). During the year, internally generated software amortisation was EUR 29.6 million (2018: EUR 4.7 million).*

## Goodwill

### Movement analysis of goodwill

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| **Gross amount** | | |
| **At 1 Jan** | 382 | 382 |
| Exchange differences | – | – |
| Other | – | – |
| **At 31 Dec** | 382 | 382 |
| **Accumulated impairment losses** | | |
| **At 1 Jan** | (147) | (147) |
| Exchange differences | – | – |
| Other[1] | (169) | – |
| **At 31 Dec** | (316) | (147) |
| **Net carrying amount at 31 Dec** | 66 | 235 |

1 *During the year, the goodwill on Commercial banking has been fully impaired.*

### Impairment testing

The group's impairment test in respect of goodwill allocated to each cash-generating unit ('CGU') is performed at 1 July each year, with a review for indicators of impairment at each quarter. In Q4 2019, we reviewed the inputs used in our most recent impairment test in light of managements strategic review of the business, and we identified further indicators of impairment for the Commercial Banking CGU.

Commercial Banking was disclosed as sensitive in the Interim Report 2019. The indicators of impairment for the CGU since the 1 July impairment test relate to a reduction in forecast cash flows due in part to the persistence of the low interest rate environment in Europe. As a result, an impairment test of goodwill has been performed at 1 October 2019. Based on the impairment test performed for Commercial Banking, and as a result of the significantly reduced cash flow forecasts, the full goodwill balance of EUR 169 million was impaired. This amount has been recognised in the income statement as an impairment loss within "Amortisation and impairment of intangible assets and goodwill".

It should be noted that the test on Asset Management did not raise any specific comment.

### Key assumptions in VIU calculation

| | Goodwill at 31 Dec 2019[1] | Discount rate | Nominal growth rate beyond initial cash flow projections | Goodwill at 31 Dec 2018[1] | Discount rate | Nominal growth rate beyond initial cash flow projections |
|---|---|---|---|---|---|---|
| | €m | % | % | €m | % | % |
| Commercial Banking | – | 9.1 | 1.8 | 169 | 9.4 | 2.0 |
| Asset Management | 66 | 8.0 | 1.7 | 66 | 7.8 | 2.0 |
| **Total goodwill in the CGUs listed above** | 66 | | | 235 | | |

1 *Includes customer/merchant relationships which amount to EUR 9 million for Asset Management.*

At 31 December 2019, the following goodwill is carried by HSBC France. HSBC France has recorded EUR 169 million impairment on CGU Commercial Banking.

| | At 31 Dec 2018 | At 31 Dec 2019 | | |
|---|---|---|---|---|
| | | 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 | (169) | 66 |

## Other intangible assets

Other intangible assets include mortgage servicing rights, computer software, trade names, customer lists, core deposit relationships, credit card customer relationships 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 2019** | **184** | **62** | **15** | **261** |
| Additions | **143** | **4** | **—** | **147** |
| Disposals | **(2)** | **—** | **—** | **(2)** |
| Amount written off | **—** | **—** | **—** | **—** |
| Exchange differences | **—** | **—** | **—** | **—** |
| Other changes | **19** | **5** | **—** | **24** |
| **At 31 Dec 2019** | **344** | **71** | **15** | **430** |
| **Accumulated amortisation and impairment** | | | | |
| **At 1 Jan 2019** | **(8)** | **(54)** | **(14)** | **(76)** |
| Amortisation charge for the year | **(23)** | **(3)** | **—** | **(26)** |
| Impairment charge for the year | **(7)** | **—** | **—** | **(7)** |
| Amount written off | **—** | **—** | **—** | **—** |
| Disposals | **—** | **—** | **—** | **—** |
| Exchange differences | **—** | **—** | **—** | **—** |
| Other changes | **(5)** | **(2)** | **—** | **(7)** |
| **At 31 Dec 2019** | **(43)** | **(59)** | **(14)** | **(116)** |
| **Net carrying amount at 31 December 2019** | **301** | **12** | **1** | **314** |
| | | | | |
| 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 |

1 *Include mainly internal cost linked to strategic development project, including the project of implementation of the new "core banking system", for a net amount of EUR 168 million.*

## 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 judgment of local future trends.

Movements in PVIF

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| **At 1 January** | **500** | 457 |
| Change in PVIF of long-term insurance business | **113** | 43 |
| – moving forward | **(61)** | (54) |
| – value of new business | **29** | 25 |
| – assumption changes and others | **178** | 69 |
| – market impact | **(55)** | (19) |
| – experience variances | **22** | 22 |
| **At 31 December** | **613** | 500 |

The PVIF moves from EUR 500 million as of 31 December 2018 to EUR 613 million as of 31 December 2019. The positive movement of EUR 113 million is mainly due to following items:

- a positive impact of current year new business (EUR +29 million) which partially offsets the negative impact of the Moving forward (EUR -61 million);
- a positive effect of changes in assumptions and models evolutions (EUR +178 million) mainly due to :
  - A new tripartite agreement has been signed between HSBC Global Asset Management (France), HSBC France and HSBC Assurances Vie (France) on the fee sharing related to unit-linked contracts. This generated a gain of EUR 78 million in the PVIF which represents the projected increase in commissions to be earnt on insurance manufacturing over the life of contracts.
  - The Board of Directors of HSBC Assurances Vie (France) decided the buy-back of the undated subordinated debts before the end of the transitory period, when they will not be recognized for the hedging of the needed regulatory capital. This decision generated a gain of EUR 35 million in the PVIF which represents the projected decrease in debt costs from 2026.
  - HSBC Assurances Vie (France) and HSBC France also adjusted the technical loss absorbency mechanism on Euro Fund. This generated a gain of EUR 25 million in the PVIF which represents the projected increase in fees to be earnt on insurance manufacturing over the life of contracts in stressed environment.
- a negative impact (EUR -33 million) of the Market impact and experience variances.

Key assumptions modification impacts over PVIF [1]

| | 2019 | 2018 |
|---|---|---|
| Weighted average risk free rate | **0.44%** | 1.52% |
| Weighted average risk discount rate | **1.27%** | 2.35% |
| Expenses inflation | **2.00%** | 1.70% |

1 *For 2019, market value future profits' discounted rate used for the PVIF is 1.27%, to which a risk margin of EUR 115.6 million is added. In 2018, the market value future profits' discounted rate was 2.35%, to which a risk margin of EUR 94.8 million was added.*

### 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.

| | 2019[1] | 2018[1] |
|---|---|---|
| | €m | €m |
| + 100 basis points shift in risk-free rate | **130** | 34 |
| - 100 basis points shift in risk-free rate | **(289)** | (43) |
| + 100 basis points shift in risk-discount rate | **(7)** | (23) |
| - 100 basis points shift in risk-discount rate | **8** | 24 |

1 *Impacts on profits are shown after tax.*

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 at ultimate forward rate and before actions that could be taken by management to mitigate impacts and before resultant changes in policyholder behavior.

The sensitivities on the ultimate forward (EIOPA) rate are presented below:

| | Impact on PVIF as at 31/12/2019[1] |
|---|---|
| | €m |
| + 100 basis points of Ultimate Forward Rate (UFR) | 44 |
| - 100 basis points of Ultimate Forward Rate (UFR) | (30) |

1 *Impacts on profits are shown before tax.*

### 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 2019 to reasonably possible changes in these non-economic assumptions at that date.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates is dependent on the type of contracts being written. For insurance contracts, the cost of claims is funded by premiums received and income earned on the investment portfolio supporting the liabilities. For a portfolio of term insurance, an increase in lapse rates typically has a negative effect on profit due to the loss of future premium income on the lapsed policies.

Expense rate risk is the exposure to a change in expense rates. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative impact on profits.

The following table presents the PVIF sensitivity:

| | Effect on total equity at 31 Dec 2019[1] | Effect on total equity at 31 Dec 2018[1] |
|---|---|---|
| | €m | €m |
| 10% increase in mortality and/or morbidity rates | (14) | (13) |
| 10% decrease in mortality and/or morbidity rates | 15 | 14 |
| 10% increase in lapse rates | (21) | (26) |
| 10% decrease in lapse rates | 24 | 29 |
| 10% increase in expense rates | (41) | (30) |
| 10% decrease in expense rates | 41 | 30 |

1 *Impacts on profits are shown after tax.*

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.

## 22 Prepayments, accrued income and other assets

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| Prepayments and accrued income | 649 | 679 |
| Settlement accounts | 1,482 | 1,259 |
| Cash collateral and margin receivables | 12,304 | 4,423 |
| Endorsements and acceptances | 18 | 19 |
| Reinsurers' share of liabilities under insurance contracts (Note 5) | 2 | 2 |
| Employee benefit assets (Note 6) | — | — |
| Other accounts | 1,190 | 1,168 |
| Right-of-use-Assets[1] | 200 | N/A |
| Property, plant and equipment[1] | 975 | 910 |
| **At 31 Dec** | **16,820** | 8,460 |

1 *The net value of the right of use breaks down into EUR 264 million as gross value and (64) million EUR as depreciation and provisions. The total accumulated depreciation and provisions for tangible assets and right of use amounts to (105) million EUR.*

### 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 as per below:

- freehold land is not depreciated;
- acquisition-related expenses on buildings are expensed in the year in which they occur, same as preliminary costs;
- depreciation of buildings is calculated over their estimated useful lives, which are generally between 25 to 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 to 25 years. HSBC France group 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[1] | Equipment, fixtures and fittings | Total |
|---|---|---|---|
| | €m | €m | €m |
| **Cost or fair value** | | | |
| **At 1 Jan 2019** | **793** | **567** | **1,360** |
| Additions at cost | **37** | **31** | **68** |
| Fair value adjustments | **43** | **—** | **43** |
| Disposals | **(1)** | **(9)** | **(10)** |
| Transfers | **11** | **23** | **34** |
| Exchange and other differences | **—** | **—** | **—** |
| Changes in scope of consolidation and other changes | **—** | **(13)** | **(13)** |
| **At 31 Dec 2019** | **883** | **599** | **1,482** |
| **Accumulated depreciation** | | | |
| **At 1 Jan 2019** | **(33)** | **(417)** | **(450)** |
| Depreciation charge for the year | **(3)** | **(38)** | **(41)** |
| Disposals | **—** | **7** | **7** |
| Transfers | **(9)** | **(17)** | **(26)** |
| Exchange translation differences | **—** | **—** | **—** |
| Changes in scope of consolidation and other changes | **—** | **3** | **3** |
| **At 31 Dec 2019** | **(45)** | **(462)** | **(507)** |
| **Net book value at 31 Dec 2019** | **838** | **137** | **975** |
| | | | |
| 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 | — | — | — |
| At 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 |

1 *It includes EUR 16 million of leasehold land and building for which the rights of use are considered sufficient to constitute control and for which there are insignificant lease liabilities. They are therefore presented as owned assets.*

## 23 Trading liabilities

| | **2019** | 2018 |
|---|---|---|
| | **€m** | €m |
| Deposits by banks | **—** | 20 |
| Customer accounts | **—** | — |
| Other debt securities in issue | **—** | — |
| Other liabilities – net short positions in securities | **23,262** | 23,125 |
| **At 31 Dec** | **23,262** | 23,145 |

## 24 Financial liabilities designated at fair value

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| Deposits by banks and customer accounts | **86** | 85 |
| Liabilities to customers under investment contracts | **15** | 13 |
| Debt securities in issue | **18,852** | 14,486 |
| Subordinated liabilities (Note 27) | **—** | — |
| Preferred securities | **—** | — |
| **At 31 Dec** | **18,953** | 14,584 |

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2019 was EUR 628 million for the HSBC France group (at 31 December 2018: EUR 221 million).

At 31 December 2019, the accumulated amount of the change in fair value attributable to changes in credit risk for the HSBC France group was EUR (82) million (at 31 December 2018: EUR 85 million).

In 2019, HSBC France recognised a negative variation of EUR (167) million in other comprehensive income in respect of HSBC France's own credit risk (compared to a positive variation of EUR 210 million in 2018).

## 25 Accruals, deferred income and other liabilities

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| Accruals and deferred income | **1,123** | 918 |
| Settlement accounts | **1,782** | 1,617 |
| Cash collateral and margin payables | **11,084** | 4,563 |
| Endorsements and acceptances | **18** | 19 |
| Employee benefit liabilities (Note 6) | **188** | 165 |
| Lease liabilities | **238** | N/A |
| Other liabilities | **2,323** | 1,155 |
| **At 31 Dec** | **16,756** | 8,437 |

## 26 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 2018 | 24 | 15 | 12 | 51 |
| Additions | **9** | **36** | **35** | **80** |
| Amounts utilised | **(13)** | **(5)** | **(9)** | **(27)** |
| Unused amounts reversed | **—** | **(2)** | **(7)** | **(9)** |
| Exchange and other movements | **2** | **—** | **2** | **4** |
| **At 31 Dec 2019** | **22** | **44** | **33** | **99** |
| **Contractual commitments** | | | | |
| At 31 Dec 2018 | | | | 24 |
| Net change in expected credit loss provisions and other movements | | | | **16** |
| Transfer-in[1] | | | | **21** |
| **At 31 Dec 2019** | | | | **61** |
| **Total provisions** | | | | |
| At 31 Dec 2018 | | | | 75 |
| **At 31 Dec 2019** | | | | **160** |

1 *This amount corresponds to the amount transferred due to the acquisition of certain assets and liabilities of European branches on 1 February 2019 and on 1 March 2019 from HSBC Bank plc.*

| | 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 and other movements | | | | — |
| Transfer-in[1] | | | | 8 |
| At 31 Dec 2018 | | | | 24 |
| Total provisions | | | | |
| At 31 Dec 2017 | | | | 103 |
| At 31 Dec 2018 | | | | 75 |

1 *This amount corresponds to the amount transferred due to the acquisition of Greek branch from HSBC Bank plc on 1 January 2018.*

Further details of 'Legal proceedings and regulatory matters' regarding the HSBC Group are set out in Note 33.

## 27 Subordinated liabilities

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.

| | **2019** | 2018 |
|---|---|---|
| | **€m** | €m |
| At amortised cost | **1,376** | 876 |
| Designated at fair value (Note 24) | **—** | — |
| **Total at 31 Dec** | **1,376** | 876 |

| | | Book value | |
|---|---|---|---|
| | | **2019** | 2018 |
| **Tier 2 securities issued by HSBC France** | | **€m** | €m |
| EUR 16 million | Undated subordinated variable rate notes | **16** | 16 |
| EUR 260 million | Floating rate notes maturing 2029 | **260** | 260 |
| EUR 300 million | Floating rate notes maturing 2027 | **300** | 300 |
| EUR 300 million | Floating rate notes maturing 2028 | **300** | 300 |
| EUR 400 million | Floating rate notes maturing 2029 | **400** | — |
| EUR 100 million | Floating rate notes maturing 2029 | **100** | — |
| **At 31 Dec** | | **1,376** | 876 |

## 28 Maturity analysis of financial assets, liabilities and off-balance sheet

### Contractual maturity of financial liabilities

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

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Due not more than 1 month** | **Due over 1 month but not over 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 | **5,895** | **257** | **2,199** | **3,485** | **502** | **12,338** |
| Customer accounts | **54,280** | **1,513** | **1,734** | **132** | **89** | **57,748** |
| Repurchase Agreements – non–trading | **19,349** | **861** | **3** | **—** | **—** | **20,213** |
| Trading liabilities | **23,262** | **—** | **—** | **—** | **—** | **23,262** |
| Financial liabilities designated at fair value | **1,035** | **14** | **2,209** | **9,636** | **7,597** | **20,491** |
| Derivatives | **45,075** | **—** | **—** | **45** | **17** | **45,137** |
| Debt securities in issue | **368** | **430** | **9,003** | **—** | **—** | **9,801** |
| Subordinated liabilities | **—** | **—** | **—** | **1,116** | **277** | **1,393** |
| Other financial liabilities | **14,081** | **41** | **648** | **119** | **1,295** | **16,184** |
| **Sub Total** | **163,345** | **3,116** | **15,796** | **14,533** | **9,777** | **206,567** |
| Loan and other credit-related commitments | **89,693** | **—** | **—** | **—** | **—** | **89,693** |
| Financial guarantees | **1,209** | **—** | **—** | **—** | **—** | **1,209** |
| **Total at 31 Dec 2019** | **254,247** | **3,116** | **15,796** | **14,533** | **9,777** | **297,469** |
| Proportion of cash flows payable in period | **86%** | **1%** | **5%** | **5%** | **3%** | |
| | 2018 | | | | | |
| Deposits by banks[1] | 3,798 | 470 | 322 | 5,198 | 2,085 | 11,873 |
| Customer accounts[1] | 36,189 | 1,835 | 3,820 | 32 | 30 | 41,906 |
| Repurchase Agreements – non–trading[1] | 15,662 | 3,059 | 200 | — | — | 18,921 |
| Trading liabilities[1] | 23,145 | — | — | — | — | 23,145 |
| Financial liabilities designated at fair value[1] | 14 | 14 | 222 | 9,391 | 5,425 | 15,066 |
| Derivatives[1] | 31,206 | 3 | 162 | 40 | 34 | 31,445 |
| Debt securities in issue | — | — | 2,472 | — | — | 2,472 |
| Subordinated liabilities | — | — | — | 607 | 286 | 893 |
| Other financial liabilities[1] | 578 | 96 | 523 | 106 | 862 | 2,165 |
| Sub Total[1] | 110,592 | 5,477 | 7,721 | 15,374 | 8,722 | 147,886 |
| Loan and other credit-related commitments | 82,774 | — | — | — | — | 82,774 |
| Financial guarantees | 1,031 | — | — | — | — | 1,031 |
| Total at 31 Dec 2018 | 194,397 | 5,477 | 7,721 | 15,374 | 8,722 | 231,691 |
| Proportion of cash flows payable in period | 84% | 2% | 3% | 7% | 4% | |

1 *At 31 December 2018, the amounts previously reported in the bucket 'Due within 3 months' are henceforth reallocated to 'On demand' and 'Due within 3 months'.*

## Maturity analysis of financial assets and liabilities

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 instruments 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 the 'due less than 5 years' time buckets.

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 | 19,463 | – | – | – | – | – | – | – | 19,463 |
| Items in the course of collection from other banks | 775 | – | – | – | – | – | – | – | 775 |
| Trading assets | 14,837 | – | – | – | – | – | – | – | 14,837 |
| Financial assets designated or otherwise mandatorily measured at fair value | 19 | 3 | 27 | 64 | 119 | 235 | 790 | 10,700 | 11,957 |
| Derivatives | 45,721 | – | – | – | – | 1 | 1 | 1 | 45,724 |
| Loans and advances to banks | 3,085 | 458 | 465 | 2 | 386 | 2,263 | 89 | 50 | 6,798 |
| Loans and advances to customers | 5,619 | 4,871 | 2,218 | 1,461 | 2,005 | 6,236 | 16,924 | 17,622 | 56,956 |
| – personal | 849 | 420 | 524 | 490 | 557 | 1,903 | 5,176 | 12,251 | 22,170 |
| – corporate and commercial | 4,503 | 4,220 | 1,244 | 818 | 1,017 | 3,237 | 10,208 | 4,862 | 30,109 |
| – financial | 267 | 231 | 450 | 153 | 431 | 1,096 | 1,540 | 509 | 4,677 |
| Reverse repurchase agreements – non-trading | 31,762 | 5,705 | 3,415 | 1,357 | 3,224 | – | 510 | – | 45,973 |
| Financial investments | 293 | 142 | 943 | 255 | 431 | 2,241 | 3,538 | 9,144 | 16,987 |
| Accrued income and other financial assets | 15,004 | 41 | 190 | 5 | 74 | 38 | 71 | 182 | 15,605 |
| **Financial assets at 31 Dec 2019** | 136,578 | 11,220 | 7,258 | 3,144 | 6,239 | 11,014 | 21,923 | 37,699 | 235,075 |
| Non-financial assets | | | | | | | | 2,605 | 2,605 |
| **Total assets at 31 Dec 2019** | 136,578 | 11,220 | 7,258 | 3,144 | 6,239 | 11,014 | 21,923 | 40,304 | 237,680 |
| **Off-balance sheet commitments received** | | | | | | | | | |
| Loan and other credit-related commitments | 55,707 | – | – | – | – | – | – | – | 55,707 |
| | | | | | | | | | |
| **Financial liabilities** | | | | | | | | | |
| Deposits by banks | 5,834 | 257 | 1,532 | 2 | 543 | 611 | 2,832 | 502 | 12,113 |
| Customer accounts | 54,279 | 1,423 | 1,244 | 54 | 369 | 80 | 43 | 58 | 57,550 |
| – personal | 19,100 | 64 | 67 | 33 | 62 | 77 | 40 | 46 | 19,489 |
| – corporate and commercial | 30,314 | 1,151 | 1,125 | 21 | 307 | 3 | 3 | 12 | 32,936 |
| – financial | 4,865 | 208 | 52 | – | – | – | – | – | 5,125 |
| Repurchase agreements – non-trading | 19,349 | 861 | 1 | – | 2 | – | – | – | 20,213 |
| Items in the course of transmission to other banks | 396 | – | – | – | – | – | – | – | 396 |
| Trading liabilities | 23,262 | – | – | – | – | – | – | – | 23,262 |
| Financial liabilities designated at fair value | 1,025 | 14 | 346 | 250 | 1,609 | 2,283 | 7,084 | 6,342 | 18,953 |
| – debt securities in issue: covered bonds | – | – | – | – | 1,015 | – | 2,373 | 1,032 | 4,420 |
| – debt securities in issue: unsecured | 1,010 | 14 | 334 | 250 | 594 | 2,283 | 4,711 | 5,236 | 14,432 |
| – subordinated liabilities and preferred securities | – | – | – | – | – | – | – | – | – |
| – other | 15 | – | 12 | – | – | – | – | 74 | 101 |
| Derivatives | 45,053 | – | – | – | – | – | 45 | 17 | 45,115 |
| Debt securities in issue | 367 | 430 | 1,557 | 4,154 | 3,274 | – | – | – | 9,782 |
| – covered bonds | – | – | – | – | – | – | – | – | – |
| – unsecured | 367 | 430 | 1,557 | 4,154 | 3,274 | – | – | – | 9,782 |
| Accruals and other financial liabilities | 14,015 | 30 | 545 | 5 | 98 | 49 | 62 | 1,295 | 16,099 |
| Subordinated liabilities | – | – | – | – | – | – | 1,100 | 276 | 1,376 |
| **Total financial liabilities at 31 Dec 2019** | 163,580 | 3,015 | 5,225 | 4,465 | 5,895 | 3,023 | 11,166 | 8,490 | 204,859 |
| Non-financial liabilities | | | | | | | | 24,350 | 24,350 |
| **Total liabilities at 31 Dec 2019** | 163,580 | 3,015 | 5,225 | 4,465 | 5,895 | 3,023 | 11,166 | 32,840 | 229,209 |
| **Off-balance sheet commitments given** | | | | | | | | | |
| Loan and other credit-related commitments | 89,693 | – | – | – | – | – | – | – | 89,693 |
| – personal | 1,189 | – | – | – | – | – | – | – | 1,189 |
| – corporate and commercial | 38,218 | – | – | – | – | – | – | – | 38,218 |
| – financial | 50,286 | – | – | – | – | – | – | – | 50,286 |

## 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 | 9,018 | — | — | — | — | — | — | — | 9,018 |
| Items in the course of collection from other banks | 437 | — | — | — | — | — | — | — | 437 |
| Trading assets | 16,966 | — | — | — | — | — | — | — | 16,966 |
| Financial assets designated 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 |

Further information regarding the group's liquidity and funding management is available in the Risk Management section pages 119 and following.

## 29 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

| | | Amounts subject to enforceable netting arrangements | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 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 | Amounts not subject to enforceable netting arrangements | Total |
| | Footnotes | €m | €m | €m | €m | €m | €m | €m | €m | €m |
| **Financial assets** | | | | | | | | | | |
| Derivatives (Note 15) | 1 | **50,683** | **(5,053)** | **45,630** | **(35,172)** | **(350)** | **(10,065)** | **43** | **94** | **45,724** |
| Reverse repos, stock borrowing and similar agreements classified as: | | **100,547** | **(54,573)** | **45,974** | **(9,327)** | **(36,472)** | **(174)** | **1** | **20** | **45,994** |
| – trading assets | | **1** | **—** | **1** | **—** | **—** | **—** | **1** | **—** | **1** |
| – non-trading assets | | **100,546** | **(54,573)** | **45,973** | **(9,327)** | **(36,472)** | **(174)** | **—** | **20** | **45,993** |
| Loans and advances to customers | 2 | **55** | **—** | **55** | **—** | **—** | **—** | **55** | **—** | **55** |
| **At 31 Dec 2019** | | **151,285** | **(59,626)** | **91,659** | **(44,499)** | **(36,822)** | **(10,239)** | **99** | **114** | **91,773** |
| | | | | | | | | | | |
| Derivatives (Note 15) | 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 |
| | | | | | | | | | | |
| **Financial Liabilities** | | | | | | | | | | |
| Derivatives (Note 15) | 1 | **50,082** | **(5,053)** | **45,029** | **(35,172)** | **(1,385)** | **(8,436)** | **36** | **86** | **45,115** |
| Repos, stock borrowing and similar agreements classified as: | | **74,786** | **(54,573)** | **20,213** | **(9,327)** | **(10,430)** | **(455)** | **1** | **—** | **20,213** |
| – trading liabilities | | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| – non-trading liabilities | | **74,786** | **(54,573)** | **20,213** | **(9,327)** | **(10,430)** | **(455)** | **1** | **—** | **20,213** |
| Customer accounts excluding repos | 3 | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| **At 31 Dec 2019** | | **124,868** | **(59,626)** | **65,242** | **(44,499)** | **(11,815)** | **(8,891)** | **37** | **86** | **65,328** |
| | | | | | | | | | | |
| Derivatives (Note 15) | 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 |

1 *At 31 December 2019, the amount of cash margin received that had been offset against the gross derivatives assets was EUR 198 million (2018: EUR 621 million). The amount of cash margin paid that had been offset against the gross derivatives liabilities was EUR 1,750 million (2018: EUR 1,275 million).*

2 *At 31 December 2019, the total amount of 'Loans and advances to customers' was EUR 56,956 million (2018: EUR 46,997 million) of which EUR 55 million (2018: EUR 166 million) was subject to offsetting.*

3 *At 31 December 2019, the total amount of 'Customer accounts' was EUR 57,550 million (2018: EUR 41,906 million) of which EUR 0 million (2018: EUR 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.

## 30 Called up share capital and other equity instruments

### Called up share capital and share premium

At 31 December 2019, HSBC France's capital amounted to EUR 491 million divided into 98,231,196 ordinary shares with a nominal value of EUR 5, fully paid up.

HSBC France ordinary shares of EUR 5 each, issued and fully paid

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Number** | **€m** | Number | €m |
| At 1 Jan | **73,316,988** | **367** | 67,437,827 | 337 |
| Shares issued | **24,914,208** | **124** | 5,879,161 | 30 |
| **At 31 Dec** | **98,231,196** | **491** | 73,316,988 | 367 |

HSBC France share premium

| | 2019 | 2018 |
|---|---|---|
| | **€m** | €m |
| At 31 Dec | **2,137** | 475 |

Total called up share capital and share premium

| | 2019 | 2018 |
|---|---|---|
| | **€m** | €m |
| At 31 Dec | **2,628** | 842 |

### Other equity instruments

HSBC France has issued in 2019 a New Tier 1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 250 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 instruments**

HSBC France's additional tier 1 capital instruments in issue which are accounted for in equity

| | | | 2019 | 2018 |
|---|---|---|---|---|
| | | First call date | **€m** | €m |
| EUR 200 million | Undated Subordinated additional Tier 1 instruments issued in 2017 | 26/05/2022 | **200** | 200 |
| EUR 300 million | Undated Subordinated additional Tier 1 instruments issue in 2018 | 28/03/2023 | **300** | 300 |
| EUR 250 million | Undated Subordinated additional Tier 1 instruments issue in 2019 | 18/12/2024 | **250** | — |
| **At 31 Dec** | | | **750** | 500 |

## 31 Contingent liabilities, contractual commitments and guarantees

### Contingent liabilities

**(a) Contingent liabilities and commitments**

| | | 2019 | 2018 |
|---|---|---|---|
| | *Footnotes* | **€m** | €m |
| **Guarantees and other contingent liabilities:** | | | |
| – financial guarantees | | **1,209** | 1,086 |
| – performance and other guarantees | *1* | **9,256** | 7,704 |
| – other contingent liabilities | *2* | **95** | — |
| **At 31 Dec** | | **10,560** | 8,790 |
| **Commitments:** | *5* | | |
| – documentary credits and short-term trade-related transactions | | **1,020** | 656 |
| – forward asset purchases and forward deposits placed | *3* | **44,105** | 54,962 |
| – standby facilities, credit lines and other commitments to lend | *4* | **44,568** | 30,537 |
| **At 31 Dec** | | **89,693** | 86,155 |

*1 "Performance and other guarantees" at 31 December 2019 include EUR 3.7 billion related to seven HSBC France European branches whose assets and liabilities were acquired in the first half of 2019.*
*2 "Other contingent liabilities" are related to the Czech branch of HSBC France.*
*3 The decrease of "forward asset purchases and forward deposits placed" are mainly due to the reverse repurchase and repurchase agreements activities.*
*4 "Standby facilities, credit lines and other commitments to lend" are based on original contractual maturity. At 31 December 2019, they include EUR 3.6 billion related to seven HSBC France European branches whose assets and liabilities were acquired in the first half of 2019.*
*5 Includes EUR 88,422 million of commitments at 31 December 2019 (2018: EUR 85,838 million), to which the impairment requirements in IFRS 9 are applied where HSBC has become party to an irrevocable commitment.*

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the group's annual credit review process. The total of the nominal principal amounts is not representative of future liquidity requirements.

### (b) Guarantees

The group provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the group. These guarantees are generally provided in the normal course of the group's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which the group could be required to make at 31 December were as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | 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 | **822** | **387** | 1,031 | 55 |
| Credit-related substitutes | **5,903** | **638** | 6,361 | 228 |
| Other guarantees | **2,534** | **276** | 1,064 | 51 |
| **At 31 Dec** | **9,259** | **1,301** | 8,456 | 334 |

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.

## 32 Lease commitments

### Operating lease commitments

From the adoption of IFRS 16 on 1 January 2019, HSBC France recognises lease liabilities in relation to leases that had previously been classified as 'operating leases' in accordance with IAS 17 'Leases'. At 31 December 2019, these liabilities stand at EUR 238 million. 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.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | 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 | | | | | | |
| **– No later than one year** | **432** | **(21)** | **411** | 257 | (25) | 232 |
| **– Later than one year and no later than five years** | **918** | **(76)** | **842** | 1,154 | (92) | 1,062 |
| *– One to two years* | ***209*** | ***(23)*** | ***186*** | *N/A* | *N/A* | *N/A* |
| *– Two to three years* | ***237*** | ***(20)*** | ***217*** | *N/A* | *N/A* | *N/A* |
| *– Three to four years* | ***328*** | ***(18)*** | ***310*** | *N/A* | *N/A* | *N/A* |
| *– Four to five years* | ***144*** | ***(15)*** | ***129*** | *N/A* | *N/A* | *N/A* |
| **– Later than five years** | **789** | **(38)** | **751** | 823 | (50) | 773 |
| **Total at 31 Dec** | **2,139** | **(135)** | **2,004** | 2,234 | (167) | 2,067 |

## 33 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 2.19a Legal Risks and Litigation management of the 2019 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 2019.

### Anti-money laundering and sanctions-related matters

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

Reflective of HSBC's significant progress in strengthening its financial crime risk management capabilities, HSBC's engagement with the current Skilled Person will be terminated and a new Skilled Person with a narrower mandate will be appointed to assess the remaining areas that require further work in order for HSBC to transition fully to business-as-usual financial crime risk management. The Independent Consultant will continue to carry out an annual OFAC compliance review at the FRB's discretion.

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

### Bernard L. Madoff Investment Securities LLC

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

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

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

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

The Madoff-related proceedings that HTIE and/or Somers Dublin DAC are involved in are described below:

#### Defender case:

In November 2013, Defender Limited brought an action against HTIE and others, based on allegations of breach of contract and claiming damages and indemnification for fund losses. The trial commenced in October 2018. In December 2018, the Irish Court issued a judgement in HTIE's favour on a preliminary issue, holding that Defender Limited had no effective claim against HTIE. This judgement concluded the trial without further issues in dispute being heard. In February 2019, Defender Limited appealed the judgement. Defender Limited's appeal is scheduled for hearing in the Irish Supreme Court in March 2020.

#### US litigation:

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

### European interbank offered rates investigations

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

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

In December 2016, the European Commission (the "Commission") issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine against HSBC based on a one-month infringement, which has been paid by HSBC France. HSBC appealed the decision and, in September 2019, the General Court of the European Union (the "General Court") issued a decision largely upholding the EC's findings on liability, but annulling the fine. HSBC and the EC have appealed the General Court's decision.

### Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the EU, Switzerland, Brazil and South Africa, are conducting civil and criminal investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the "FX DPA"), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC Holdings agreed to pay a financial penalty and restitution.

## 34 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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | 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 | **25** | **34,074** | **62,996** | 20 | 3,557 | 46,623 |
| Guarantees | **25** | **3,006** | **3,006** | 20 | 6,309 | 6,309 |
| Deposits | **25** | **61,004** | **489,617** | 20 | 40,012 | 167,943 |

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

| | 2019 | 2018 |
|---|---|---|
| | €k | €k |
| Short-term employee benefits | **246** | 179 |
| Post-employment benefits | **86** | 78 |
| Other long-term employee benefits | **—** | — |
| Termination benefits | **66** | 49 |
| Share-based payments | **855** | 871 |
| **At 31 Dec** | **1,253** | 1,177 |

Shareholdings, options and other securities of Key Management Personnel

| | 2019 | 2018 |
|---|---|---|
| Number of options held over HSBC Holdings ordinary shares under employee share plans | **—** | — |
| Number of HSBC Holdings ordinary shares held beneficially and non-beneficially | **1,279,204** | 1,196,578 |
| **At 31 Dec** | **1,279,204** | 1,196,578 |

The Corporate governance report also includes a detailed description of Directors' remuneration (see pages 39 and following).

## 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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | 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 | **10** | **1** | 796 | — |
| Derivatives | **31,664** | **17,058** | 15,122 | 14,621 |
| Loans and advances to banks | **3,897** | **1,437** | 1,715 | 1,715 |
| Loans and advances to customers | **55** | **55** | 12 | — |
| Reverse repurchase agreement – non trading | **5,002** | **4,550** | 2,422 | 1,455 |
| Financial investments | **457** | **447** | 584 | 413 |
| Other assets | **6,536** | **1,681** | 7,802 | 1,071 |
| Prepayments and accrued income | **86** | **69** | 63 | 62 |
| Financial asset designated at fair value | **632** | **257** | 630 | 622 |
| **Liabilities** | | | | |
| Deposits by banks | **8,031** | **5,255** | 5,500 | 4,118 |
| Customer accounts | **156** | **149** | 67 | 12 |
| Repurchase agreement – non trading | **7,008** | **3,585** | 7,422 | 6,178 |
| Trading liabilities | **—** | **—** | 1,608 | 20 |
| Derivatives | **35,008** | **17,010** | 14,247 | 13,975 |
| Other liabilities | **4,325** | **1,635** | 8,612 | 1,325 |
| Accruals and deferred income | **204** | **122** | 146 | 146 |
| Financial liabilities designated at fair value | **–** | **–** | – | – |
| Subordinated liabilities | **1,360** | **1,360** | 860 | 860 |
| **Guarantees** | **356** | **346** | 145 | 26 |
| **Income Statement** | | | | |
| Interest income | | **177** | | 114 |
| Interest expense | | **163** | | 95 |
| Fee income | | **145** | | 108 |
| Fee expense | | **103** | | 107 |
| Gains less losses from financial investments | | **—** | | — |
| Other operating income | | **51** | | 3 |
| Dividend income | | **—** | | — |
| General and administrative expenses | | **344** | | 170 |

## 35 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 2019.

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

There has been no significant change affecting the financial or sales situation of HSBC France or its subsidiaries since 31 December 2019 until the Board of Directors of 18 February 2020 which approves these financial statements.

## 36 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

| | | | | | HSBC France group interest (%) | |
|---|---|---|---|---|---|---|
| **Consolidated companies** | *Footnotes* | Country of incorporation or registration | Consolidation method* | Main line of business | **2019** | 2018 |
| **Retail and Commercial Banking** | | | | | | |
| HSBC Factoring (France) | | France | FC | Financial company | **100.0** | 100.0 |
| SAPC Ufipro Recouvrement | | France | FC | Service 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 | *1* | Germany | FC | Service company | **–** | 100.0 |
| Elysées GmbH | *1* | Germany | FC | Financial company | **–** | 100.0 |
| CCF Charterhouse GmbH & Co Asset Leasing KG | *1* | Germany | FC | Financial company | **–** | 100.0 |
| DEM 5 | *6* | France | FC | Financial company | **–** | 100.0 |
| DEM 9 | | France | FC | Financial company | **100.0** | 100.0 |
| DEMPAR 1 | | France | FC | Financial company | **100.0** | 100.0 |
| DEMPAR 4 | *6* | France | FC | Financial company | **–** | 100.0 |
| Elysées Immo Invest | | France | FC | Financial company | **100.0** | 100.0 |
| FDM 5 | *2* | France | FC | Financial company | **–** | 100.0 |
| Finanpar 2 | *6* | France | FC | Financial company | **–** | 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) | *5* | France | FC | Financial company | **16.7** | 16.7 |
| SAF Baiyun | | France | FC | Financial company | **100.0** | 100.0 |
| SAF Chang jiang | *2* | France | FC | Financial company | **–** | 100.0 |
| SAF Guangzhou | | France | FC | Financial company | **100.0** | 100.0 |
| SAF Zhu jiang | *2* | France | FC | Financial company | **–** | 100.0 |
| SAF Zhu jiang jiu | *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 |

* *FC: Full Consolidation – EM: Equity Method.*
1 *Liquidation.*
2 *Merger.*
3 *Deconsolidation.*
4 *New entries in Perimeter.*
5 *HSBC France silo, which is 100%-owned by HSBC France and fully consolidated.*
6 *Dissolution without liquidation.*

| Consolidated companies | Footnotes | Country of incorporation or registration | Consolidation method* | Main line of business | HSBC France group interest (%) 2019 | 2018 |
|---|---|---|---|---|---|---|
| HSBC Bank Polska S.A. | 2 | Poland | FC | Financial company | **–** | 100.0 |
| HSBC Institutional Trust Services (Ireland) DAC | 2 | Ireland | FC | Financial company | **–** | 100.0 |
| SFM | | 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 |
| Somers Dublin – DAC | | Ireland | FC | Service company | **100.0** | 100.0 |
| **Asset Management** | | | | | | |
| CCF & Partners Asset Management Ltd | | United Kingdom | FC | Financial company | **100.0** | 100.0 |
| HCM Holdings Ltd | | United Kingdom | EM | Financial company | **51.0** | 51.0 |
| HSBC Epargne Entreprise (France) | | France | FC | Financial company | **100.0** | 100.0 |
| Service Epargne Entreprise | | France | EM | Service company | **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 | Service 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 | 2 | France | FC | Financial company | **–** | 99.8 |
| HSBC Europe Small Mid CAP | 3 | 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 | **61.5** | 60.6 |
| 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 | **54.2** | 51.9 |
| HSBC SELECT DYNAMIC A FCP 2DEC | | France | FC | Financial company | **74.4** | 71.3 |
| HSBC WORLD EQUITY FCP 3DEC | 3 | France | FC | Financial company | **–** | 60.1 |
| HSBC GIF EMERG.WEALTH A C.3DEC | | France | FC | Financial company | **64.8** | 58.5 |
| HSBC ACTIONS EUR.C FCP 3DEC | | France | FC | Financial company | **71.7** | 68.8 |
| HSBC SELECT EQUITY A FCP 4DEC | | France | FC | Financial company | **70.7** | 60.3 |
| HSBC Global Investment Funds – European Equity ZC | 3 | France | FC | Financial company | **–** | 60.2 |
| HSBC HORIZ.2016-2018 FCP 3DEC | 3 | France | FC | Financial company | **–** | 61.8 |
| HSBC Europe Equity GreenTransition | 3 | France | FC | Financial company | **–** | 51.5 |
| HSBC EURO PROTECT 80 PLUS PART C | 4 | France | FC | Financial company | **71.1** | – |
| HSBC PORT-WORLD SEL 5-AHEUR | 4 | France | FC | Financial company | **54.0** | – |
| HSBC GLOBAL INVESTMENT FUNDS GEM EQUITY | 4 | France | FC | Financial company | **54.4** | – |
| HSBC RESP INVESTMENT FUNDS SRI GLOBAL EQUITY | 4 | France | FC | Financial company | **53.5** | – |
| HSBC RESP INVE FD-SRI DYNAMIC PART AC | 4 | France | FC | Financial company | **66.7** | – |
| HSBC RESP INVES FUNDS-SRI BALANCED AC | 4 | France | FC | Financial company | **99.1** | – |
| **Others** | | | | | | |
| Charterhouse Management Services Limited | | 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 | | France | FC | Investment company | **100.0** | 100.0 |
| Flandres Contentieux | | France | FC | Service company | **100.0** | 100.0 |
| Valeurs Mobilières Elysées | | France | FC | Investment company | **100.0** | 100.0 |

** FC: Full Consolidation – EM: Equity Method.*
*1 Liquidation.*
*2 Merger.*
*3 Deconsolidation.*
*4 Addition.*
*5 HSBC France silo, which is 100%-owned by HSBC France and fully consolidated.*
*6 Dissolution without liquidation.*

## Main changes in the scope of consolidation during 2019

### New Entries in Perimeter

HSBC EURO PROTECT 80 PLUS PART C

HSBC PORT-WORLD SEL 5-AHEUR

HSBC GLOBAL INVESTMENT FUNDS GEM EQUITY[1]

HSBC RESP INVESTMENT FUNDS SRI GLOBAL EQUITY

HSBC RESP INVE FD-SRI DYNAMIC PART AC

HSBC RESP INVES FUNDS-SRI BALANCED AC

### Removals

*Liquidation*

CCF Charterhouse GmbH & Co Asset Leasing KG

Elysees GmbH

CCF Charterhouse GmbH

*Merger*

FDM 5[2]

SAF Chang jiang[2]

SAF Zhu jiang[2]

SAF Zhu jiang jiu[3]

HSBC Bank Polska S.A[4]

HSBC Institutional Trust Services (Ireland) DAC[5]

OPCVM 6 Elysées Ecrins FCP[6]

*Deconsolidation*

HSBC HORIZ.2016-2018 FCP 3DEC

HSBC Europe Equity GreenTransition

HSBC WORLD EQUITY FCP 3DEC

HSBC Global Investment Funds – European Equity ZC

HSBC Europe Small Mid CAP

*Dissolution without liquidation*

DEM 5

Finanpar 2

DEMPAR 4

### Other changes

Somers Dublin DAC[7]

1 *The name has changed in December 2019, it was previously HSBC GIF GL EMG MKT EQY A 3D.*
2 *These entities have been merged into HSBC Leasing (France) in November 2019.*
3 *SAF Zhu jiang jiu has been merged into HSBC Leasing (France) in April 2019.*
4 *The subsidiary HSBC Bank Polska S.A. has been merged into HSBC France, (Spolka Akcyjna) Oddzial w Polsce in April 2019.*
5 *The subsidiary HSBC Institutional Trust Services (Ireland) DAC has been merged into HSBC France, Dublin branch in April 2019.*
6 *OPCVM 6 Elysées Ecrins FCP has been merged into HSBC SRI GB EQUI in December 2019.*
7 *Somers Dublin – DAC has become a subsidiary of HSBC France, Dublin Branch since April 2019. Earlier, It was a subsidiary of HSBC Institutional Trust Services (Ireland) DAC which has been merged into HSBC France, Dublin Branch in April 2019.*

## Non-consolidated entities

| | | | HSBC France group interest (%) | |
|---|---|---|---|---|
| **Non Consolidated Companies** | Country of incorporation or registration | Reason of non-consolidation | **2019** | 2018 |
| 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 CYATHEAS PASTEUR | France | Not consolidated in accordance with IFRS 10 | **94.9** | 94.9 |
| SAS Bosquet Audrain | France | Not consolidated in accordance with IFRS 10 | – | 94.9 |
| SNC Nuku Hiva Bail | France | Not consolidated in accordance with IFRS 10 | – | 100.0 |
| SNC KEROUAN | France | Not consolidated in accordance with IFRS 10 | **99.99** | 99.9 |
| SNC Les MERCURIALES | France | Not consolidated in accordance with IFRS 10 | **99.99** | 99.9 |
| SNC MAKALA | France | Not consolidated in accordance with IFRS 10 | **99.99** | 99.9 |
| SNC DORIQUE | France | Not consolidated in accordance with IFRS 10 | **99.99** | 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 |

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

**BDO Paris Audit & Advisory**
43-47 avenue de la Grande Armée
75116 Paris

# Statutory Auditors' report on the consolidated financial statements

**(For the year ended 31 December 2019)**

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 consolidated financial statements of HSBC France for the year ended 31 December 2019.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at 31 December 2019 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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 consolidated 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 2019 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 Note 1 to the consolidated financial statements, which outlines changes in accounting principles such as the adoption of IFRS 16 "Leases" as from 1 January 2019.

## 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.<br>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 113 million for the year ended 31 December 2019 (see Note 22 to the consolidated financial statements).<br>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:<br>• 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:<br>– gaining an understanding of the model and assessing the consistency of the updated assumptions in relation to past observations and observable data,<br>– 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<br>– analysing changes in PVIF in light of the assumptions used in the model inputs;<br>• testing internal controls deemed to be key to the audit and used by management to:<br>– validate the appropriateness of the data and assumptions used as inputs for the model;<br>– validate the projections and their consistency with the calculated PVIF. |

*At 31 December 2019, PVIF amounted to EUR 613 million, versus EUR 500 million at 31 December 2018.*
*See Notes 1 and 21 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.<br>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.<br>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:<br>• the independent validation of valuation models by the Independent Model Review - Markets department;<br>• the independent verification of prices and valuations by the Product Control department;<br>• the determination of fair value adjustments.<br>We also sought the support of our risk modelling experts to carry out, on the basis of samples, 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.<br>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 2019, derivative instruments classified as level 3 in the fair value hierarchy represented EUR 770 million recognised under assets and EUR 599 million recognised under liabilities.*

*See Notes 1.2 and 12 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.<br>In previous audits, we identified 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.<br>The weakness of controls relating to access management entails the risk that by omission or error, changes to financial information systems and processed data may not be appropriate.<br>The action plan implemented by management in 2016, seeking to strengthen the control environment for user access rights, is ongoing and helps to mitigate the access management risk.<br>We deemed information systems access management 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:<br>• new user access requests to information systems are duly examined and authorised;<br>• user access rights are revoked in a timely manner following the reassignment of personnel or their departure from the Group;<br>• user access rights to applications, operating systems and databases are controlled in a consistent manner; and<br>• privileged user access rights to applications, operating systems and databases are granted to a limited number of employees for the performance of their duties.<br>Other areas were assessed independently, such as password policies and security configurations. An independent assessment was also performed on controls on modifications to applications and databases, including to ensure that only a limited number of authorized employees have been granted privileged rights to make such changes to databases and operating systems.<br>When control weaknesses were identified, additional procedures were carried out:<br>• we analysed the nature of the access where inappropriate access had been identified and, where possible, obtained additional evidence of its legitimacy;<br>• 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<br>• we performed tests on other controls carried out by management, such as performance reviews by business line. |

*See page 88 of the management report.*

### Application of IFRS 9 in the calculation of impairment of loans to HSBC France customers

| Description of risk | How our audit addressed this risk |
|---|---|
| 2019 was the second year that allowances for expected credit losses were recorded in accordance with IFRS 9. The underlying controls and processes have been in place since late 2017, the transition year. The reliability of the data used to determine the relevant assumptions and operate the models has improved, and backtesting has been extended. During the year, HSBC also updated a number of its expected loss models.<br>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, particularly in certain business segments.<br>Given the Bank's outstanding loan balances, the significance of management's judgement in determining the several assumptions used to estimate impairment, and the high historical cost of risk, 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.<br>Accordingly, we performed the following tests on:<br>• updates to the scripts used in the engine for calculating impairment to reflect changes in the model, parameters and input data;<br>• the examination and comparative review of several economic scenarios by a group of experts and an internal governance committee;<br>• 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;<br>• the effectiveness of the credit committees set up to assess the estimated impairment and validate adjustments to the models.<br>Tests of details were also performed on the critical data used for calculating expected losses.<br>Regarding the impairment of individual loans, our tests concerned the controls in place for monitoring loans, regularly reviewing credit files and approving individual impairment.<br>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. |

*Impairment of loans to Bank customers stood at EUR 750 million at 31 December 2019.*
*See Note 1.2 to the consolidated financial statements and page 101 of the management report.*

## Specific verifications

As required by legal and regulatory provisions and in accordance with 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 Paris Audit & Advisory.

At 31 December 2019, PricewaterhouseCoopers Audit and BDO Paris Audit & Advisory were in the fifth and twelfth 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 taken by users 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 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 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, 19 February 2020**

**The Statutory Auditors**

| **PricewaterhouseCoopers Audit** | **BDO Paris Audit & Advisory** |
| --- | --- |
| Nicolas Montillot | Michel Léger |
| Partner | Partner |

# Parent company financial statements



# Notes on the parent company financial statements

## Profit and loss accounts 2019-2018

| (in millions of euros) | *Notes* | **31 Dec 2019** | 31 Dec 2018 |
|---|---|---|---|
| **Income/(Expenses)** | | | |
| Interest and similar income | *23* | **1,989** | 1,710 |
| Interest and similar expenses | *23* | **(1,321)** | (1,079) |
| Finance leases income | | **194** | 172 |
| Finance leases expenses | | **(190)** | (171) |
| Income from equities and other variable income securities | *24* | **50** | 165 |
| Commissions received | *25* | **952** | 730 |
| Commissions paid | *25* | **(239)** | (220) |
| Gains and losses on trading securities | *26* | **241** | 223 |
| Gains or losses on available-for-sale securities | *27* | **39** | 22 |
| Other banking operating income | | **96** | 21 |
| Other banking operating expenses | | **(18)** | (3) |
| **Net banking operating income** | | **1,793** | 1,570 |
| General operating expenses | *28* | **(1,703)** | (1,452) |
| Depreciation, amortization and impairment of fixed assets | | **(159)** | (47) |
| **Gross operating income** | | **(69)** | 71 |
| Loan impairment charges | *8* | **(133)** | (34) |
| **Net operating income** | | **(202)** | 37 |
| Gains or losses on disposals of long-term investments | *29* | **(8)** | 7 |
| **Profit/(loss) before tax** | | **(210)** | 44 |
| Exceptional items | | | |
| Income tax and deferred tax | *30* | **63** | 34 |
| Gains and losses from regulated provisions | | **—** | — |
| **Net profit/(loss) for the period** | | **(147)** | 78 |

## Balance sheet 2019–2018

### Assets

| (in millions of euros) | Notes | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|---|
| Cash and amounts due from central banks and post office banks | | **4,683** | 507 |
| Treasury bills and money-market instruments | 4 | **20,574** | 21,796 |
| Loans and advances to banks | 2 | **96,318** | 91,381 |
| Loans and advances to customers | 3 | **82,094** | 70,074 |
| Bonds and other fixed income securities | 4 | **5,628** | 9,587 |
| Equities and other variable income securities | 4 | **244** | 161 |
| Investments in subsidiaries and equity securities held for long term | 5 | **86** | 81 |
| Interests in affiliated parties | 5 | **1,353** | 1,471 |
| Finance leases | 7 | **522** | 497 |
| Intangible fixed assets | 6 | **347** | 280 |
| Tangible fixed assets | 7 | **181** | 197 |
| Other assets | 9 | **26,201** | 16,191 |
| Prepayments and accrued income | 10 | **42,528** | 39,007 |
| **Total assets** | | **280,759** | 251,230 |
| **Off-balance sheet items** | | | |
| Financing commitments given | 21 | **40,093** | 28,749 |
| Guarantees and endorsements given | 21 | **10,398** | 5,119 |
| Securities commitments (other commitments given) | | **51,881** | 63,246 |

### Liabilities

| (in millions of euros) | Notes | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|---|
| Central bank, CCP | | **39** | 3 |
| Deposit due to credit institutions | 11 | **82,458** | 81,456 |
| Customer accounts | 12 | **67,474** | 63,126 |
| Debt securities in issue | 13 | **24,805** | 13,310 |
| Other liabilities | 15 | **54,089** | 48,454 |
| Accruals and deferred income | 16 | **42,493** | 38,023 |
| Provisions for liabilities and charges | 14 | **400** | 312 |
| Subordinated liabilities | 17 | **2,128** | 1,377 |
| Share capital | 18 | **491** | 367 |
| Additional paid-in capital | 19 | **2,158** | 475 |
| Equity | 19 | **1,041** | 1,041 |
| Special tax-allowable reserves | 19 | **–** | – |
| Retained earnings[1] | 19 | **3,330** | 3,209 |
| Net profit (loss) for the period | 19 | **(147)** | 78 |
| Interim dividend | 19 | **–** | – |
| **Total liabilities** | | **280,759** | 251,230 |
| **Off-balance sheet items** | | | |
| Financing commitments received | 21 | **5,479** | 3,119 |
| Guarantees and endorsements received | 21 | **16,692** | 15,079 |
| Securities commitments (other commitments received) | | **46,293** | 56,783 |

1 *Before proposed allocation submitted to Annual General Meeting's approval.*

### 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 2019 | 31 Dec 2018 |
|---|---|---|
| **Net profit/(loss) for the period** | | |
| Total | **(147)** | 78 |
| – per share (in euros)[1] | **(1.49)** | 1.06 |
| **Movements in shareholders' funds (excluding the net profit of 2019) (after allocation of 2018 net profit)** | | |
| – change in revaluation difference | **–** | – |
| – transfer to reserves and change in retained earnings | **78** | 60 |
| – allocation of net profit for the previous year | **78** | 172 |
| – appropriation of net profit | **–** | (112) |
| – change in revaluation reserve and special tax-allowable reserves | **–** | – |
| **Change in shareholders' funds** | **78** | 60 |
| – per share (in euros)[1] | **0.79** | 0.82 |
| **Proposed dividend** | | – |
| – total | **–** | – |
| – per share (in euros)[1] | **–** | – |

1 *Number of shares outstanding at year end: 98,231,196 in 2019 and 73,316,988 in 2018.*

## 2019 Highlights

### Business review

Net operating income, amounted to EUR 1,793 million, registered an increase of EUR 223 million compared with 2018, of which EUR 305 million explained by integration of the European branches. This variation is partially offset by the low interest rates environment on the interest margin within the French banking sector and the low performance on the Global Markets activities.

Operating expenses, amounted to EUR (1,703) million, registered an increase of EUR (251) million compared to the previous year, taking into account the integration of European branches activities for an amount of (208) million EUR.

The increase of depreciation and amortization of intangible and tangible assets, is majorly attributed to depreciation of the Goodwill of Commercial Banking for an amount of EUR (86) million.

Loan impairment charges of credit amounted to EUR (133) million versus EUR (34) million in 2018. This variation is mainly explained by the loan impairment charges applied on the Investment Banking and Commercial Banking.

Net gains/losses on fixed assets came out at EUR (8) million versus EUR 7 million in 2018. This variation is mainly explained by the depreciation on securities values of Valeurs Mobilières Elysées.

Net income/loss displayed at EUR (147) million versus EUR 78 million in 2018.

At December 31, 2019, the total balance sheet of HSBC France amounted to EUR 281 billion versus EUR 251 billion at December 31, 2018. This variation includes the activity of European Branches for EUR 14 billion.

### Acquisition of the activities of European branches

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

### Merger of two subsidiaries into HSBC France

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

### Branch creation

On 9 May 2019, HSBC France created a branch in Sweden. The activity started on 1 October 2019.

### Capital increases

As part of the development of its activities, in particular the acquisitions of the activities of European branches described above, HSBC France made five capital increases during the year of 2019: on 14 January 2019, an increase of EUR 949.6 million (of which EUR 61.8 million of share capital), on 1 February 2019, an increase of EUR 336.3 million (of which EUR 21.9 million of share capital), on 24 May 2019, an increase of EUR 3.6 million (of which EUR 0.2 million of share capital), on 27 June 2019, an increase of EUR 299.4 million (of which EUR 24.5 million of share capital), on 27 September 2019, an increase of EUR 197.9 million (of which EUR 16.2 million of share capital) Following the completion of these operations, HSBC France share capital has been increased from EUR 367 million to EUR 491 million over the period.

### Additional Tier 1 issuance (Other Equity Instrument)

HSBC France has issued a subordinated debt of Additional Tier 1 (AT1) by EUR 250 million on 18 December 2019 by issuing a perpetual subordinated loan subscribed by HSBC Bank plc.

### Tier 2 issuances (Subordinated loan)

HSBC France has issued a subordinated debt of Tier 2 by EUR 400 million on 29 January 2019 by issuing a subordinated loan with a maturity of 10 years subscribed by HSBC Bank plc.

HSBC France has issued a subordinated debt of Tier 2 capital by EUR 100 million on 27 June 2019 by issuing a subordinated loan with a maturity of 10 years subscribed by HSBC Bank plc.

### Significant Issuances of HSBC France

On 17 May 2019, HSBC France issued a senior unsecured preferred debt with a nominal value of EUR 1 billion and a maturity of five years.

On 3 September 2019, HSBC France also issued a senior unsecured preferred debt with a nominal value of EUR 1.25 billion and a maturity of eight years.

### Targeted Long-Term Refinancing Operation ('TLTRO II')

In September 2019, HSBC France made early repayment of EUR 1.5 billion borrowed under TLTRO II. As at 31 December 2019, the remaining TLTRO II funding amounted to EUR 2.6 billion.

### Single Resolution Fund ('SRF')

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

## Transfer of HSBC France headquarters

On December 13, 2019, a termination leases contract related to the HSBC France headquarters buildings (Champs Elysées and Vernet) has been signed with an exit date scheduled for the 31 December 2020. The right of use and the lease liability related to these buildings have been adjusted to take into account the new planned exit date. A new lease contract has been signed to host the new HSBC France headquarters. The lease contract has been concluded for ten years effective as of 1 March 2020.

## Transfer of the Global Banking and Markets production support and IT development activities

The Global Banking and Markets production support and IT development activities have been transferred to the branch in France of HSBC Global Services (UK) Limited the1 January 2019.

# 1 Principal accounting policies

HSBC Holding plc whose head office is located in London, is responsible for consolidated financial statements. HSBC France is part of it, and is responsible for consolidated financial statements in the France 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 financial statements of HSBC France are prepared in accordance with Regulations ANC 2014-03 and 2014-07.

## (a) Recognition and depreciation/amortization of fixed assets

HSBC France applies the component approach in the recording and amortising of fixed assets.

HSBC France comply with ANC Regulation 2014 03 and in particular with articles 214 1 to 214 27 for initial recognition, amortization and impairment of tangible assets.

### Investment property and operational building

For operating and investment fixed assets, HSBC France adopted the components approach with the following minimum cap on the useful lives and methods of the corresponding components:

| Components | Periods and depreciation and amortization 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

The goodwill is affected under the terms provided in accordance with the article 745-6 of regulation 2014-03 to the different concerned assets, and recorded in the accounts under the rules set down in the article 745-7.

The goodwill is amortized or reported in the income statement, under the same rules and conditions than underlying assets to which it is assigned. (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 amortization 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 lease

The assets held under the leasing activity are recognized in accordance with the accounting rules defined by the notice n° 2006-C of 4 October 2016 issued by the Emergencies Committee, linked to the interpretation of the advisory opinion n° 2004-15 du 23 Juin 2004 of CNC, relating to the definition, recognition and valuation of assets excluding from individual company accounts lease contracts according to IAS 17 within the scope of articles 211-1 to 224-4 from the regulation n° 2014 of ANC.

Assets held under leasing activity are amortized by using the straight-line method, over the estimated useful life of the assets.

The amortization periods are as follows:

- furniture and office equipment: 5 years;
- computer equipment: 3 years;
- tools and equipment: 5 to 7 years.

Depreciation and amortization of fixed assets leased under finance leases are recognized as an expense on finance lease.

In the financial accounting, the outstanding financial contracts is substituted to the net leased fixed-assets. The difference between the outstanding amounts of financial assets and the net book value of fixed assets is represented by the gross unearned finance income.

## (b) Securities portfolio

Securities transactions are recognized 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 recognized on the balance sheet at the date of settlement.

### Trading securities

Trading securities are negotiable securities traded on an active market, originally acquired or sold with the intention of reselling or buying back within short timescale and are held for market activities or form part of a global portfolio trading management.

On the date of acquisition, Trading securities are stated at cost (including accrued interest for fixed-income securities). At the balance sheet date, the securities are valued at the market price, and changes in value are recognized through profit or loss.

### Available for sale securities

Other investment 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. These are 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.

Unrealised losses give rise to the recognition of an impairment.

### Investment securities

Fixed-income securities that were acquired for holding long term, and in principle till maturity, are categorised as held-to-maturity securities.

Portfolio activity securities are recognized on the date of acquisition at their purchase 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 amortized over the residual life of the securities.

At the closing date, unrealized losses arising from the difference between the book value, adjusted for amortization and reversal of differences described above, and the price of fixed income securities are not subject to the impairment, except if there is a strong probability that the institution will not keep the securities until the maturity because a number of new circumstances and without depreciation prejudice to establish in application of the Title 2 terms from the book II of current regulation, dealing with credit risk on securities, if there is any existence of the issuer's defaulted risk.

Unrealised gains are not recognized.

### Portfolio activity securities

This category covers investments made under normal arrangements with the sole objective of making medium-term capital gains without intention of investing in the 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 recognized 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.

### 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 explained in next section.

### 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;
- in the evolution of stock market prices for listed companies and for interests in subsidiaries and associates consideration of the specific relationships that may exist between HSBC France and each of the companies involved.

**Recognition of gains and losses**

Gains or losses on trading securities are recorded under the heading 'Dealing profits'.

Gains or losses on sale and changes in impairment of available-for-sale securities are recorded under the heading 'Gains or losses on available-for-sale securities'.

Concerning the other securities, gains or losses on sale and impairment charges are recognized under the heading 'Gains or losses on disposals of long-term investments' in the income statement.

**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 impact 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 considered as financing transactions, cash movement balanced entries are recognized either as a loan or a deposit. Related income and expenses are recognized 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.

A similar treatment is applied to:

– 'Buy and sell back' and 'Sell and buy back' transactions.
– Loans/borrowing of securities guaranteed by cash deposits.

**Bonds versus bonds**

Bonds versus bonds transactions are recognized 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, including secured receivables (for which the bank held a collateral), for which there is a risk that the bank will not recover in full or in part the contractual cash flows.

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 doubtful loans not yet written off, have a rating of 10.

The following are therefore classified as non-performing loans:

- receivables overdue for more than three months for all types of loans and equipment leases, more than six months for property loans or leases and more than nine months for loans to local government bodies;
- receivables having risk criteria;
- 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 up by HSBC France under its internal control system; or
- the debtor withdraws amounts without overdraft authorisation.

The downgrade to non-performing loans immediately leads to all amounts outstanding and commitments for that debtor that are in the same category, according to 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, 2231-3 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 categorized 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 recognized 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.

In the case of restructured loans, the classification of doubtful exposure can be omitted, if the exposure complies firstly with the previous condition, and, on the other hand, the counterparty risk is lifted.

#### 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 recognized 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 non recovery risk assessment 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, recognized interest on the loan.

In the income statement, charges and releases of provisions, losses on irrecoverable receivables and recoveries on amortized receivables are recognized in the 'Cost of risk' line.

### Loans assessed on a portfolio basis

Non-performing loans are not measured on a portfolio basis. Impairment is assessed individually.

### 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.

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 cash flows of principal 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 recognized in the net cost of risk on restructuring and is then written back through net interest income over the remaining period.

### Application of the effective interest rate

All liabilities are recognized at amortized cost. These headings include repurchase transactions. Accrued interest on these liabilities is recorded in the balance sheet in an accrued interest account.

## (d) Due to credit institutions and customer accounts

All liabilities towards banks and customers are recognized at amortized 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: deposit certificates, bonds and similar securities, except 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 recognized in profit or loss.

Premiums or discounts related to bonds in issue are amortized on an actuarial basis over the life of the bond. Related fees are recognized 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 recognized 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 recognized 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 recognized as operating expenses.

The net defined-benefit liability recognized in the balance sheet represents the present value of the defined-benefit obligations adjusted for unrecognized past service costs and reduced by the fair value of the scheme's assets. Any resulting asset from this is limited to unrecognized 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

Share-based payments are payments based on shares issued by HSBC Holdings Plc.

HSBC France employees have the following advantages:

- From 2006, HSBC Holding Plc implemented share plans on HSBC Holding Plc shares.
- Employees can subscribe to HSBC Holdings Plc shares within the employee share ownership plan.

#### Shares plan

HSBC France grants bonus share plans to these employees for services rendered.

The expense is recognized in the income statement on the period between the granted date and the acquisition date.

The cancellation of expense may result due to the inability to meet acquisition conditions during the period of acquisition.

The amount recorded in the income statement corresponds to the shares finally acquired by the employees.

## (g) Foreign exchange position

Foreign currency exchange positions (asset and/or liabilities) are remeasured at the end of period prevailing rate, with the corresponding gains or losses recognized in the bank operating income or expense.

## (h) Forward foreign exchange contracts

Unsettled Forward exchange contracts at the closing of the period hedged by a corresponding spot transactions are valued at the period end spot rate. Differences between spot and forward rates 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 or similar market 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 recognized 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 rates (swaps, FRAs)

Currency and/or interest rate swaps are recognized 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 recognized at market value after a reduction to reflect counterparty risk and future management expense.

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 recognized 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 recognized for all taxable temporary differences and deferred tax assets are recognized 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 basis pages 12 and following of the management report.

## 2 Loans and advances to banks

### Breakdown of outstanding loans by remaining contractual maturity

| | **31 Dec 2019** | 31 Dec 2018 |
|---|---|---|
| | **€m** | €m |
| **On demand deposits** | **37,876** | 30,057 |
| **Term deposits** | **58,362** | 61,234 |
| ≤ 3 months | **51,753** | 52,012 |
| > 3 months and ≤ 1 year | **3,595** | 5,447 |
| > 1 year and ≤ 5 years | **2,832** | 3,568 |
| > 5 years | **182** | 207 |
| Accrued interests | **80** | 91 |
| **Total** | **96,318** | 91,381 |
| *– of which: securities received under reverse repurchase agreements* | ***70,809*** | *72,717* |
| *– of which: subordinated loans* | ***49*** | *45* |

## 3 Loans and advances to customers

### Breakdown of outstanding loans by type

| | **31 Dec 2019** | 31 Dec 2018 |
|---|---|---|
| | **€m** | €m |
| Commercial loans | **2,688** | 1,104 |
| Overdraft | **3,853** | 1,597 |
| Other customer facilities[1] | **75,553** | 67,373 |
| **Total** | **82,094** | 70,074 |
| *– of which: eligible loans for European Central Bank or Banque de France refinancing* | ***17,219*** | *16,190* |

1 *This is explained by the increase in the reverse repurchase activity.*

### Breakdown of outstanding loans by quality

| | **31 Dec 2019** | | | | 31 Dec 2018 |
|---|---|---|---|---|---|
| | **Performing loans** | **Non-performing loans** | **Impairment on non-performing loans** | **Total** | Total |
| | **€m** | **€m** | **€m** | **€m** | €m |
| Retail loans | **16,888** | **241** | **(111)** | **17,018** | 15,188 |
| Financial customer loans | **2,789** | **–** | **–** | **2,789** | 1,872 |
| Non-financial customer loans | **31,505** | **1,410** | **(458)** | **32,457** | 25,114 |
| Securities received under reverse repurchase agreements | **29,736** | **–** | **–** | **29,736** | 27,808 |
| Accrued interests | **93** | **1** | **–** | **94** | 92 |
| **Total** | **81,011** | **1,652** | **(569)** | **82,094** | 70,074 |
| *– of which: subordinated loans* | | | | ***–*** | *1* |
| *gross non-performing loans* | | | | ***1,198*** | *310* |
| *gross impaired loans* | | | | ***454*** | *539* |
| *impairment on gross non-performing loans* | | | | ***(275)*** | *(158)* |
| *impairment on gross impaired loans* | | | | ***(294)*** | *(341)* |

### Breakdown of outstanding loans by remaining contractual maturity

| | **31 Dec 2019** | 31 Dec 2018 |
|---|---|---|
| | **€m** | €m |
| Repayable on demand | **5,247** | 10,488 |
| Term deposits | **76,754** | 59,495 |
| ≤ 3 months | **27,444** | 18,433 |
| > 3 months and ≤ 1 year | **11,434** | 8,342 |
| > 1 year and ≤ 5 years | **22,985** | 19,062 |
| > 5 years | **14,891** | 13,658 |
| Accrued interest | **93** | 92 |
| **Total** | **82,094** | 70,074 |

## 4 Portfolios of trading, available-for-sale securities and held-to-maturity securities

| | 31 Dec 2019<br>Carrying amount<br>€m | 31 Dec 2018<br>Carrying amount<br>€m |
|---|---|---|
| **Treasury bills and other eligible bills** | **20,574** | 21,796 |
| – Trading account securities | **17,824** | 18,723 |
| – Available-for-sale securities | **2,744** | 3,062 |
| – Held-to-maturity securities | **—** | — |
| – Accrued interest | **6** | 11 |
| **Debt securities** | **5,628** | 9,587 |
| Trading account securities | **3,016** | 7,356 |
| – bonds and other quoted securities | **3,016** | 7,356 |
| – unquoted bonds, interbank market securities and tradable debt securities | **—** | — |
| Available-for-sale securities | **2,036** | 1,751 |
| – quoted bonds | **2,030** | 1,745 |
| – unquoted bonds, interbank market securities and tradable debt securities | **6** | 6 |
| Held-to-maturity securities | **570** | 470 |
| – quoted bonds | **570** | 470 |
| – unquoted bonds, interbank market securities and tradable debt securities | **—** | — |
| Accrued interest | **6** | 10 |
| *of which: subordinated debt* | ***470*** | *370* |
| **Equity shares and similar & portfolio equities** | **244** | 161 |
| 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 | **236** | 153 |
| – quoted portfolio activity shares | **—** | — |
| – unquoted portfolio activity shares | **236** | 153 |
| **Total** | **26,446** | 31,544 |

### Breakdown by remaining contractual maturity of treasury bills and government bonds

| | 31 Dec 2019<br>€m | 31 Dec 2018<br>€m |
|---|---|---|
| **Treasury bills and other eligible bills** | | |
| ≤ 3 months | **799** | 6,199 |
| > 3 months and ≤ 1 year | **2,438** | 2,397 |
| > 1 year and ≤ 5 years | **5,981** | 4,191 |
| > 5 years | **11,350** | 8,998 |
| Accrued interest | **6** | 11 |
| **Total** | **20,574** | 21,796 |
| **Debt securities** | | |
| ≤ 3 months | **176** | 4,856 |
| > 3 months and ≤ 1 year | **296** | 567 |
| > 1 year and ≤ 5 years | **2,128** | 1,640 |
| > 5 years | **3,022** | 2,514 |
| Accrued interest | **6** | 10 |
| **Total** | **5,628** | 9,587 |

### Estimated value of the portfolio of financial investments and portfolio business securities

| | 31 Dec 2019 | | 31 Dec 2018 | |
|---|---|---|---|---|
| | Net carrying<br>€m | Estimated<br>€m | Net carrying<br>€m | Estimated<br>€m |
| Treasury bills and other eligible bills | **2,744** | **2,809** | 3,062 | 3,123 |
| Debt securities | **2,036** | **2,070** | 1,751 | 1,767 |
| Equity shares and similar and other portfolio equities | **244** | **295** | 161 | 196 |
| **Total available-for-sale and portfolio activity securities (excluding related receivables)** | **5,024** | **5,174** | 4,974 | 5,086 |

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 2019 | | |
|---|---|---|---|
| | Before provisions | Provisions | Net amount |
| | €m | €m | €m |
| **Unrealised gains in available-for-sale and portfolio business securities**[1] | **150** | **3** | **147** |
| – treasury bills and other eligible bills | **66** | **1** | **65** |
| – bonds and other fixed-income securities | **33** | **2** | **31** |
| – equity shares and similar & portfolio equities | **51** | **—** | **51** |
| **Unrealised losses in available-for-sale and portfolio business securities**[1] | **20** | **15** | **5** |
| – treasury bills and other eligible bills | **11** | **7** | **4** |
| – bonds and other fixed-income securities | **3** | **2** | **1** |
| – equity shares and similar & portfolio equities | **6** | **6** | **—** |

1 *Of which unrealised gains and losses on associated hedging derivatives EUR +21 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 (Unamortized difference between the acquisition price and the redemption price of securities) of available-for-sale and held-to-maturity securities amounted to EUR 36 million in 2019 and to EUR 4 million in 2018.

No security was transferred from one portfolio to another portfolio in 2019 or in 2018.

## 5 Investments in subsidiaries and equity securities held for long term

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | Net carrying amount | Net carrying amount |
| | €m | €m |
| **Interests in subsidiaries and associates** | **73** | 71 |
| **Listed securities** | **—** | — |
| – banks | **—** | — |
| – others | **—** | — |
| **Non-listed securities** | **73** | 71 |
| – banks | **45** | 46 |
| – others | **28** | 25 |
| **Other long-term securities** | **13** | 10 |
| **Listed securities** | **—** | — |
| – banks | **—** | — |
| – others | **—** | — |
| **Non-listed securities** | **13** | 10 |
| – banks | **—** | — |
| – others | **13** | 10 |
| **Interests in group companies** | **1,353** | 1,471 |
| **Listed securities** | **—** | — |
| – banks | **—** | — |
| – others | **—** | — |
| **Non-listed securities** | **1,353** | 1,471 |
| – banks | **571** | 654 |
| – others | **782** | 817 |
| **Accrued income** | | — |
| **Total (including the 1976 statutory revaluation)** | **1,439** | 1,552 |

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| **Gross amounts at 1 January (excluding advances and accrued income)** | **1,661** | 1,551 |
| Changes in the year: | | — |
| – acquisitions of securities/share issues | **4** | 110 |
| – disposals/capital reductions | **(108)** | — |
| – effect of foreign exchange differences | **—** | — |
| – other movements/merger[1] | **—** | — |
| **Gross amounts at 31 December (excluding advances and accrued interests)** | **1,557** | 1,661 |
| **Impairments at 1 January** | **(109)** | (115) |
| Changes in the year: | | — |
| – new allowances | **(16)** | (2) |
| – release of allowances no longer required | **7** | 8 |
| – other movements | **—** | — |
| – effect of foreign exchange differences | **—** | — |
| **Impairment at 31 December** | **(118)** | (109) |
| Accrued income | **—** | — |
| **Net book value including accrued interests** | **1,439** | 1,552 |

## 6 Intangible assets

| | 2019 | 2018 |
|---|---|---|
| | €m | €m |
| **Gross amounts at 1 Jan** | **467** | 555 |
| Changes in the year: | **—** | — |
| – transfers and other movements | **13** | 2 |
| – fixed asset acquisitions[1] | **183** | 111 |
| – fixed asset disposals and other changes | **(1)** | (201) |
| **Gross amounts value at 31 Dec** | **662** | 467 |
| **Amortization at 1 January** | **187** | 382 |
| Changes in the year: | **—** | — |
| – charges for the period for amortization and impairment[1,2] | **128** | 7 |
| – transfers and other movements | **—** | — |
| – fixed asset disposals and other changes | **—** | (202) |
| **Amortization at 31 December** | **315** | 187 |
| **Net book value of fixed assets at 31 Dec** | **347** | 280 |

1 *Include opening blace for new branches : 53 M€ in Fixed asset acquisitions and 13 M€ in charges for the period.*
2 *Include impairment of goodwill for commercial banking 86 M€ and impairment for software depreciation 7 M€.*

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 recognized in a specific account in the relevant asset category after its affectation (art 745-6). The amortization method and period are the same as those applied to amortized assets it is linked to (art 745-7).

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 2019 | Increases | Decreases | Carrying amounts at 31 Dec 2019 |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| Intangible assets | **27.3** | **—** | **27.3** | **—** |
| Tangible assets | **5.1** | **—** | **0.5** | **4.6** |
| Financial assets | **0.2** | **—** | **—** | **0.2** |
| **Total** | **32.6** | **—** | **27.8** | **4.8** |

## 7 Tangible assets

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| **Gross amounts at 1 Jan** | **751** | 825 |
| Changes in the year: | **—** | — |
| – transfers and other movements | **(12)** | — |
| – fixed asset acquisitions[1] | **60** | 43 |
| – fixed asset disposals and other changes | **(13)** | (117) |
| **Carrying amount at 31 Dec** | **786** | 751 |
| | | |
| **Depreciation at 1 January** | **554** | 629 |
| Changes in the year: | **—** | — |
| – charges for the period for depreciation and impairment | **62** | 40 |
| – transfers and other movements | **—** | — |
| – fixed asset disposals and other changes | **(11)** | (115) |
| **Depreciation at 31 December** | **605** | 554 |
| **Carrying amount at 31 Dec** | **181** | 197 |

1 *Relate mainly fixed asset acquisition of branches for EUR 28 million.*

### Breakdown of tangible fixed assets by type

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Operating land and buildings | **37** | 46 |
| Non-operating land and buildings | **1** | 1 |
| Other tangible assets | **143** | 150 |
| **Carrying amount at 31 Dec** | **181** | 197 |

Finance lease

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Assets under construction | **3** | 4 |
| Gross amount[1] | **945** | 864 |
| Amortization | **(427)** | (372) |
| Accrued interests | **1** | 1 |
| **Total** | **522** | 497 |

1 *Main assets in 2019: road assets for EUR 370 million, public building and construction for EUR 121 million, machine tools for EUR 108 million.*

At 31 December 2019, the financial outstanding amounts to EUR 506 million (EUR 473 million in 2018) and the provision for negative unearned finance income before deferred tax to EUR 52 million (EUR 55 million in 2018).

## 8 Loan impairment

| | Balance at 1 Jan 2019 | Additions | Amounts utilised | Unused amounts reversed | Other movements[1] | Balance at 31 Dec 2019 |
|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m |
| Impairment on interbank and customer non-performing loans (excluding doubtful interest)[1] | 499 | 248 | (67) | (141) | 30 | **570** |
| Impairment on securities | — | — | — | — | — | **—** |
| Provisions for loans commitments | 10 | 22 | (15) | (6) | 28 | **38** |
| **Total of impairment and provisions recognized in cost of risk** | 509 | 270 | (83) | (146) | 58 | **608** |

1 *Opening balance of new branches*

Loan impairment

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Net impairment charge for the period: | | |
| – interbank and customer non-performing and impaired receivables (excluding doubtful interest)[1] | **(119)** | (32) |
| – counterparty risk on securities | **—** | — |
| – Loan commitments [2] | **(16)** | (5) |
| – recoveries of amounts previously written off | **2** | 3 |
| **Total cost of risk[3,4]** | **(133)** | (34) |
| – *of which:* | | |
| *1 unprovided losses on non-performing and impaired receivables.* | ***(11)*** | *(13)* |
| *2 unprovided losses on loan commitments* | **—** | — |
| *3 losses hedged by provisions.* | ***(83)*** | *(75)* |
| *4 alignment of individual impairment methodology calculation on impaired loans (equivalent to Stage3 under IFRS), with consolidated accounts.* | **—** | *(21)* |

## 9 Other assets

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Securities transactions settlement accounts | **918** | 889 |
| Sundry debtors and other receivables | **25,283** | 15,302 |
| **Total** | **26,201** | 16,191 |

## 10 Prepayments and accrued income

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Items in course of collection from other banks | **157** | 217 |
| Other assets[1] | **42,371** | 38,790 |
| **Total** | **42,528** | 39,007 |

1 *Including mark-to-market on derivatives instruments for EUR 41 250 million in 2019, contre 37 698 millions EUR en 2018.*

## 11 Deposit by banks

### Deposits by banks

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| **On demand deposits** | **25,434** | 24,633 |
| **Term deposits** | **56,975** | 56,760 |
| ≤3 months | **46,575** | 42,085 |
| >3 months and ≤ 1 year | **3,500** | 3,525 |
| >1 year and ≤5 years | **5,650** | 8,350 |
| >5 years | **1,250** | 2,800 |
| Accrued interest | **49** | 63 |
| **Total** | **82,458** | 81,456 |
| *– of which: securities given under repurchase agreements* | ***65,323*** | *65,489* |

## 12 Customer accounts

### Breakdown of customer credit balances by type of deposit

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| On demand deposits | **38,137** | 25,123 |
| Special demand accounts | **7,818** | 7,311 |
| Special term accounts | **722** | 716 |
| Term accounts | **11,289** | 8,550 |
| **Total customer deposits (excluding repurchase agreements)** | **57,966** | 41,700 |
| Securities given under repurchase agreements | **9,462** | 21,398 |
| Accrued interest | **46** | 28 |
| **Total customer credit balance accounts** | **67,474** | 63,126 |

### Breakdown of customer credit balances by remaining contractual maturities

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| **On demand deposits** | **46,095** | 32,434 |
| **Term deposits** | **21,333** | 30,664 |
| ≤3 months | **18,717** | 26,639 |
| >3 months and ≤1 year | **2,335** | 3,963 |
| >1 year and ≤5 years | **223** | 32 |
| >5 years | **58** | 30 |
| Accrued interest | **46** | 28 |
| **Total** | **67,474** | 63,126 |

## 13 Debt securities and issue

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| Certificates of deposit (including accrued interest) | **—** | — |
| Interbank market securities and tradable debt securities | **16,110** | 3,038 |
| Bonds | **8,660** | 10,237 |
| Accrued interest | **35** | 35 |
| **Total** | **24,805** | 13,310 |

### Breakdown of debt securities by maturity

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| **Debt securities** | **24,770** | 13,275 |
| ≤3 months | **1,820** | 18 |
| >3 months and ≤1 year | **9,611** | 2,526 |
| >1 year and ≤5 years | **5,872** | 6,036 |
| >5 years | **7,467** | 4,695 |
| Accrued interest | **35** | 35 |
| **Total** | **24,805** | 13,310 |

Issuances premium yet paid off are EUR 13 million at 31 December 2019 and EUR 11 million at 31 December 2018.

## 14 Provisions

| | Balance at 1 Jan 2019 | Additions | Amounts utilised | Unused amounts reversed | Other movements[1] | Balance at 31 Dec 2019 |
|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m |
| Provisions for commitments by signature and disputes | 19 | 52 | (1) | (22) | 28 | **76** |
| Other provisions | 293 | 109 | (75) | (10) | 7 | **324** |
| **Total** | 312 | 161 | (76) | (32) | 35 | **400** |

1 *Opening balance for new branches.*

### Provision on PEL/CEL

| | 31 Dec 2019 | | | | |
|---|---|---|---|---|---|
| | PEL | | | | |
| | ≤ 4 years | > 4 years and ≤ 10 years | > 10 years | Total | CEL |
| | €m | €m | €m | €m | €m |
| Amounts collected | **79** | **194** | **413** | **686** | **88** |
| Outstandings collected | **–** | **–** | **1** | **1** | **–** |
| Provisions | **–** | **–** | **(5)** | **(5)** | **–** |
| Allocation to provisions/reversal | **–** | **–** | **–** | **–** | **–** |

## 15 Other liabilities

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Securities transactions settlement accounts | **557** | 624 |
| Sundry creditors[1] | **11,963** | 5,350 |
| Short position and securities received under repurchase agreements confirmed resold | **41,569** | 42,480 |
| **Total** | **54,089** | 48,454 |

1 *Of which cash collateral on derivatives received in 2019: EUR 11,610 million and EUR 5,272 million in 2018.*

## 16 Accruals and deferred income

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Items in course of collection to other banks | **110** | 115 |
| Other liabilities[1] | **42,383** | 37,908 |
| **Total** | **42,493** | 38,023 |

1 *Including mark-to-market on derivatives instruments : EUR 41,270 million in 2019 and EUR 36,835 million in 2018.*

## 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 subordinated to interests of 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 recognized in profit or loss.

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Subordinated notes | **–** | – |
| Undated subordinated notes | **16** | 16 |
| Subordinated debts | **2,110** | 1,360 |
| Accrued interest | **2** | 1 |
| **Total** | **2,128** | 1,377 |

### 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

| | Date of issue | Date of maturity | Interest type | Currency of issue | 31 Dec 2019 €m | 31 Dec 2018 €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 2019 €m | 31 Dec 2018 €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** | 300 |
| | 16.12.2019 | Perpétuelle | Floating rate | EUR | **250** | — |
| Subordinated debts[3] | 26.05.2017 | 26.05.2027 | Floating rate | EUR | **300** | 300 |
| | 21.06.2018 | 21.06.2028 | Floating rate | EUR | **300** | 300 |
| | 29.01.2019 | 29.01.2029 | Floating rate | EUR | **400** | — |
| | 27.07.2019 | 27.06.2029 | Floating rate | EUR | **100** | — |
| Accrued interest | | | | | **2** | 1 |
| **Total for securities issued by HSBC France (including accrued interest)** | | | | | **2,112** | 1,361 |

*1 A total or a part refund will be possible from December 2024. The subordinated liabilities conversion in equity or in debt is not possible.*
*2 Tier 1 : A total or a part refund (Additionnel Tier 1) will be possible, under certain conditions, from the 26th of 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 26th of May 2022. The subordinated liabilities conversion in equity or in debt is not possible.*

## 18 Called up share capital

| | 31 Dec 2019 | | 31 Dec 2018 | |
|---|---|---|---|---|
| (shares with a nominal value of 5 euros) | **Number of shares** | **Total (in thousands of euros)** | Number of shares | Total (in thousands of euros) |
| At 1 Jan | **73,316,988** | **366,585** | 67,437,827 | 337,189 |
| – subscription options exercised | **—** | **—** | — | — |
| – new capital issued ? merger | **24,914,208** | **124,571** | 5,879,161 | 29,396 |
| – reduction of capital | **—** | **—** | — | — |
| **At 31 Dec** | **98,231,196** | **491,156** | 73,316,988 | 366,585 |

## Voting rights

At 31 December 2019, the total of voting rights stood at 98,231,196.

## 19 Equity

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| Called-up share capital | **491** | 367 |
| Share premium account | **2,158** | 475 |
| Reserves | **1,041** | 1,041 |
| – legal reserve | **38** | 38 |
| – long-term gains reserve | **406** | 406 |
| – revaluation reserve | **3** | 3 |
| – extraordinary and other reserve | **305** | 305 |
| – free reserve | **294** | 294 |
| – revaluation reserve on past service costs | **(5)** | (5) |
| Retained earnings[1] | **3,330** | 3,209 |
| Interim dividend | **—** | — |
| Special tax-allowable reserves | **—** | — |
| Net profit for the year | **(147)** | 78 |
| **Equity** | **6,873** | 5,170 |

*1 Before proposed appropriation submitted to HSBC France Annual General Meeting's approval.*

Changes in equity in 2019

| | 2019 |
|---|---|
| | €m |
| **Balance at 1 Jan** | **5,170** |
| Net profit for the year | **(147)** |
| New shares issued upon exercise of stock options | **–** |
| Capital increase | **1,807** |
| Interim dividend | **–** |
| Others | **43** |
| **Balance at 31 Dec** | **6,873** |

## 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 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Provision for employee-related commitments[1] | **171** | 154 |

1 *Including defined benefits pension plans for Executive Board for EUR 4,9 million in 2019 and for EUR 3,4 million in 2018.*

## 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 2019, and the 2020 periodic costs, were:

| (in %) | Discount rate | Inflation rate | Rate of increase for pensions in payment and deferred pensions | Rate of pay increase |
|---|---|---|---|---|
| **At 31 Dec 2019** | **0.65** | **1.50** | **1.50** | **2.61** |
| At 31 Dec 2018 | 1.7 | 1.50 | 1.50 | 2.61 |

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 recognized

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Present value of benefit obligations | **178** | 161 |
| Fair value of plan assets | **(7)** | (8) |
| **Net liability recognized** | **171** | 154 |

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 €m | Present value of defined benefit obligations €m | Net benefit asset/ (liability) €m |
|---|---|---|---|
| **Net defined benefit liability at 1 January 2019** | **8** | **161** | **153** |
| Current service cost | **–** | **5** | **5** |
| Net interest (income)/cost on the net defined benefit liability | **–** | **3** | **3** |
| Remeasurement effects recognized in other comprehensive income | **–** | **17** | **17** |
| Benefits paid | **(1)** | **(8)** | **(7)** |
| **At 31 Dec 2019** | **7** | **178** | **171** |

## Fair value of plan assets by asset classes

| | 31 Dec 2019 | | | |
|---|---|---|---|---|
| | Fair value €m | Quoted market price in active market €m | No quoted market price in active market €m | Thereof HSBC €m |
| Fair value of plan assets | **7** | **7** | **–** | **–** |
| – equities | **–** | **–** | **–** | **–** |
| – bonds | **7** | **7** | **–** | **–** |
| – property | **–** | **–** | **–** | **–** |
| – derivatives | **–** | **–** | **–** | **–** |
| – other | **–** | **–** | **–** | **–** |

# 21 Off-balance sheet items

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| **A – Loan commitments** | | |
| **Commitments given** | **40,093** | 28,749 |
| Refinancing agreements and other financing commitments in favour of banks | **2,223** | 1,938 |
| In favour of customers | **37,870** | 26,811 |
| – confirmed credit facilities | **37,841** | 26,768 |
| – acceptances payable and similar instruments | **29** | 42 |
| **Commitments received** | **5,479** | 3,119 |
| Refinancing agreements and other financing commitments in favour of banks | **5,479** | 3,119 |
| **B – Guarantee commitments** | | |
| **Commitments given** | **10,398** | 5,119 |
| – guarantees, acceptances and other securities to banks | **2,674** | 695 |
| – guarantees, acceptances and other securities to customers | **7,724** | 4,424 |
| **Commitments received** | **16,692** | 15,079 |
| – guarantees, acceptances and other security from banks | **16,692** | 15,079 |

## Other pledged assets

| | 31 Dec 2019 €m |
|---|---|
| Covered bonds | **5,700** |
| Loans pledged on guarantee 3G and TRICP | **2,925** |
| Loans pledged on guarantee CCBM | **9,802** |
| Securities pledged on guarantee | **4,469** |
| **Total** | **22,896** |

## 22 Derivatives

| | 31 Dec 2019 | | | | 31 Dec 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fair value** | **Hedging contracts[1]** | **Trading contracts[1]** | **Total[1]** | Fair value | Hedging contracts[1] | Trading contracts[1] | Total[1] |
| | **€bn** | **€bn** | **€bn** | **€bn** | €bn | €bn | €bn | €bn |
| **Unconditional transactions** | **(1.3)** | **35** | **3,277** | **3,312** | 0.6 | 27 | 2,757 | 2,785 |
| Exchange traded | **–** | **–** | **122** | **122** | – | – | 139 | 139 |
| – interest rate | **–** | **–** | **115** | **115** | – | – | 139 | 139 |
| – exchange rate | **–** | **–** | **–** | **–** | – | – | – | – |
| – equity | **–** | **–** | **7** | **7** | – | – | – | – |
| Non-exchange traded | **(1.3)** | **35** | **3,155** | **3,190** | 0.6 | 27 | 2,618 | 2,646 |
| – futures | **–** | **–** | **208** | **208** | – | – | 180 | 180 |
| – interest rate | **(1.3)** | **35** | **2,515** | **2,550** | 0.5 | 27 | 2,274 | 2,301 |
| – exchange rate | **0.1** | **–** | **93** | **93** | – | 1 | 41 | 42 |
| – other contracts | **(0.1)** | **–** | **339** | **339** | 0.1 | – | 123 | 123 |
| **Conditional transactions** | **(0.3)** | **11** | **902** | **913** | (0.9) | 1 | 865 | 866 |
| Exchange traded | **–** | **–** | **147** | **147** | – | – | 36 | 36 |
| Interest rate | **–** | **–** | **72** | **72** | – | – | – | – |
| Exchange rate | **–** | **–** | **54** | **54** | – | – | 36 | 36 |
| Other contracts | **–** | **–** | **21** | **21** | – | – | – | – |
| Non-exchange traded | **(0.3)** | **11** | **755** | **766** | (0.9) | 1 | 829 | 830 |
| Caps and floors | **(0.2)** | **–** | **277** | **277** | (0.3) | – | 303 | 303 |
| Swaptions and options | **(0.2)** | **11** | **479** | **490** | (0.6) | – | – | |
| – bought | **–** | **5** | **26** | **31** | – | 1 | 44 | 44 |
| – sold | **(0.2)** | **6** | **453** | **459** | – | – | 482 | 482 |
| **Total derivatives** | **(1.6)** | **46** | **4,179** | **4,225** | – | 28 | 3,622 | 3,651 |

1 *Notional contract amounts.*

### Other information on derivatives

| | **31 Dec 2019** | 31 Dec 2018 |
|---|---|---|
| **Notional contract amounts** | **€bn** | €bn |
| Microhedge contract[1] | **30** | 22 |
| Macrohedge contract[2] | **5** | 5 |
| Trading | **2,515** | 2,274 |
| 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 2019** | | | |
|---|---|---|---|---|
| | **≤ 1 year** | **>1 year and ≤ 5 years** | **> 5 years** | **Total** |
| **(in billion euro)** | **€bn** | **€bn** | **€bn** | **€bn** |
| **Derivatives:** | | | | |
| – Exchange contracts | **11** | **53** | **30** | **94** |
| – Interest rate contracts | **1,294** | **1,457** | **1,013** | **3,764** |
| – Others | **324** | **41** | **2** | **367** |
| **Total** | **1,629** | **1,551** | **1,045** | **4,225** |

Risk-weighted assets – Amount of Exposure At Default (EAD) for derivatives contracts

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| **A – Contracts concluded under Master agreement with close-out netting** | **9,153** | 10,500 |
| 1. Transactions with banks from OECD countries | **9,089** | 10,427 |
| 2. Transactions with customers and banks localised outside OECD countries | **64** | 73 |
| **B – Other contracts** | **2,780** | 2,036 |
| 1. Transactions with banks from OECD countries | **2,716** | 1,987 |
| – interest rate contracts | **2,633** | 1,969 |
| – exchange contracts | **74** | 18 |
| – equity derivatives contracts | **9** | – |
| – credit derivatives contracts | **–** | – |
| – commodities contracts | **–** | – |
| 2. Transactions with customers and banks localised outside OECD countries | **64** | 49 |
| – interest rate contracts | **56** | 14 |
| – exchange contracts | **8** | 35 |
| – equity derivatives contracts | **–** | – |
| **Total Exposure at Default** | **11,933** | 12,536 |
| Corresponding risk-weighted assets (RWA) | **2,709** | 2,032 |

Clearing effect on Exposure at Default

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Original exposure before credit risk mitigation (including close-out netting) | **75,513** | 65,416 |
| Exposure mitigation due to close-out netting | **(62,548)** | (49,236) |
| Exposure mitigation due to credit mitigation | **(1,032)** | (3,644) |
| **Exposure value after credit risk mitigation** | **11,933** | 12,536 |

## 23 Net interest income

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| **Interest and similar income** | | |
| Banks and financial institutions | **531** | 447 |
| Customers | **1,111** | 825 |
| Bonds and other fixed-income securities | **347** | 438 |
| **Total** | **1,989** | 1,710 |
| **Interest and similar expenses** | | |
| Banks and financial institutions | **652** | 569 |
| Customers | **264** | 78 |
| Subordinated liabilities | **40** | 27 |
| Other bonds and fixed-income securities | **365** | 405 |
| **Total** | **1,321** | 1,079 |

## 24 Income on securities portfolio

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| **Income** | | |
| Available-for-sale and similar & portfolio activity securities | **9** | – |
| Interests in subsidiaries and associates and other long-term securities | **–** | – |
| Interests in group companies | **41** | 165 |
| **Total** | **50** | 165 |

## 25 Net fee income

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| **Fees** | | |
| **Income** | **952** | 730 |
| On transactions with banks | **27** | 5 |
| On transactions with customers | **98** | 82 |
| On foreign exchange transactions | **1** | 2 |
| On primary securities market activities | **98** | 52 |
| On provision of services for third parties | **553** | 457 |
| On commitments | **131** | 94 |
| Other commission | **44** | 38 |
| **Expenses** | **(239)** | (220) |
| On transactions with banks | **(18)** | (6) |
| On corporate actions | **(60)** | (35) |
| On forward financial instrument activities | **(8)** | (9) |
| On provision of services for third parties | **(141)** | (154) |
| On commitments | **(3)** | (4) |
| Other commission | **(9)** | (12) |
| **Total fees** | **713** | 510 |

## 26 Gains and losses on portfolio business transactions

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| **Gains or losses** | | |
| Trading securities | **(358)** | (165) |
| Foreign exchange transactions | **131** | 17 |
| Other derivatives | **468** | 371 |
| **Total** | **241** | 223 |

## 27 Gains or losses on available-for-sale securities

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| **Results for available-for-sale securities** | | |
| Gains or losses | **44** | 14 |
| Impairment | **(7)** | 2 |
| – charges | **(9)** | (5) |
| – releases | **2** | 7 |
| **Results for portfolio activity securities** | **–** | – |
| Gains or losses | **5** | – |
| Impairment | **(3)** | 6 |
| – charges | **(3)** | (2) |
| – releases | **–** | 8 |
| **Total** | **39** | 22 |

## 28 General operating expenses

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| **Employee compensation and benefits** | | |
| Salaries and wages, social security, taxes and levies on compensation | **(847)** | (762) |
| Pension expense | **(98)** | (94) |
| Profit sharing | **1** | (4) |
| Incentive plan | **1** | (3) |
| **Employee compensation and benefits subtotal** | **(943)** | (863) |
| Other administrative expenses | **(760)** | (589) |
| **Total operating expenses** | **(1,703)** | (1,452) |

## Share award plans

At 31 December 2019, allowance stood at EUR 2,0 million.

## 29 Gains or losses on disposals of fixed assets

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| Gains or losses on held-to-maturity securities | – | – |
| Gains or losses on tangible and intangible fixed assets | 2 | 5 |
| Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies | (10) | 2 |
| **Total** | (8) | 7 |

## 30 Tax expense and deferred tax

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| | €m | €m |
| **Current tax** | | |
| At standard rate | 30 | 13 |
| At reduced rate | – | – |
| **Deferred taxation** | 33 | 21 |
| **Total** | 63 | 34 |

Deferred tax is calculated according to the principles set out in Note 1.

The rates used for calculating taxes are:

| | Echéance 2019 | Echéance 2018 | Echéance 2017 |
|---|---|---|---|
| | % | % | % |
| 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 2019 | NA | 31.00 | 31.00 |
| Standard rate on DT if assumption of recovery on 2020 | 31.00 | 28.00 | 28.00 |
| Standard rate on DT if assumption of recovery on 2021 | 27.50 | 26.50 | 26.50 |
| Standard rate on DT from 2022 | 25.00 | 25.00 | 25.00 |
| Reduced rate on DT if assumption of recovery on 2019 | NA | 3.70 | 3.70 |
| Reduced rate on DT if assumption of recovery on 2020 | 3.7 | 3.4 | 3.4 |
| Reduced rate on DT if assumption of recovery on 2021 | 3.0 | 3.2 | 3.2 |
| Reduced rate on DT from 2022 | 3.0 | 3.0 | 3.0 |

To which are added the applicable tax contributions

At the end of December 2019, the deferred taxes were recorded on taxation gaps generated by temporary differences.

The deferred tax rate at 31 %, 27,5 % 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 2019, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 53.9 million. The proportion of benefits passed on to HSBC France was EUR 53,9 million.

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.

These subsidies are recorded in full under "Taxes".

## Deferred tax in the balance sheet

The net deferred tax receivable recognized in the balance sheet at 31 December 2019 was EUR 119 million compared with EUR 88 million at 31 December 2018.

At 31 December 2019 this receivable is made up of deferred tax assets of EUR 152 million against EUR 119 million at 31 December 2018 and a deferred tax liability of EUR 33 million compared with EUR 32 million at 31 December 2018.

## Crédit d'impôt pour la compétitivité et l'emploi ('CICE')

The '*Crédit d'impôt pour la compétitivité et l'emploi*' ('CICE') has been removed in 2019.

Thus, for the fiscal year 2019, HSBC France group did not benefit any tax credit under the '*Crédit d'impôt pour la compétitivité et l'emploi*' ('CICE'), (in 2018: EUR 7.2 million).

## 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 2.19a Legal Risks and Litigation management of the 2019 Registration Document, HSBC France considers that none of these matters is significant. HSBC France recognizes a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognized does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2019.

### Anti-money laundering and sanctions-related matters

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

Reflective of HSBC's significant progress in strengthening its financial crime risk management capabilities, HSBC's engagement with the current Skilled Person will be terminated and a new Skilled Person with a narrower mandate will be appointed to assess the remaining areas that require further work in order for HSBC to transition fully to business-as-usual financial crime risk management. The Independent Consultant will continue to carry out an annual OFAC compliance review at the FRB's discretion.

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

#### Bernard L. Madoff Investment Securities LLC

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

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

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

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

The Madoff-related proceedings that HTIE and/or Somers Dublin DAC are involved in are described below:

Defender case:

In November 2013, Defender Limited brought an action against HTIE and others, based on allegations of breach of contract and claiming damages and indemnification for fund losses. The trial commenced in October 2018. In December 2018, the Irish Court issued a judgement in HTIE's favour on a preliminary issue, holding that Defender Limited had no effective claim against HTIE. This judgement concluded the trial without further issues in dispute being heard. In February 2019, Defender Limited appealed the judgement. Defender Limited's appeal is scheduled for hearing in the Irish Supreme Court in March 2020.

US litigation:

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

### European interbank offered rates investigations

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

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

In December 2016, the European Commission (the "Commission") issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine against HSBC based on a one-month infringement, which has been paid by HSBC France. HSBC appealed the decision and, in September 2019, the General Court of the European Union (the "General Court") issued a decision largely upholding the EC's findings on liability, but annulling the fine. HSBC and the EC have appealed the General Court's decision.

### Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the EU, Switzerland, Brazil and South Africa, are conducting civil and criminal investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the "FX DPA"), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC Holdings agreed to pay a financial penalty and restitution.

## 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 31 December 2019.

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

There has been no significant change affecting the financial or sales situation of HSBC France or its subsidiaries since 31 December 2019 until the Board of Directors of 18 February 2020 which approves these financial statements.

## 34 Other information

### 34.1 Interests in subsidiaries and related parties at 31 December 2019

| (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 year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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 | 544 | 100.00 | 113,239 | 113,239 | – | – | 60,086 | 874 | 906 |
| HSBC Factoring (France) 103, avenue des Champs-Elysées – 75008 Paris (France) | Limited company (SA) | Factoring | 9,240 | 88,484 | 100.00 | 39,236 | 39,236 | 2,582,625 | – | 42,516 | 14,269 | – |
| Société Française et Suisse, 64, rue Galilée – 75008 Paris (France) | Limited company (SA) | Investment company | 599 | 8,892 | 100.00 | 60,384 | 9,427 | – | – | – | 5 | – |
| SAPC UFIPRO Recouvrement 39, rue de Bassano – 75008 Paris (France) | Limited liability company (SARL) | Dept collecting company | 7,619 | 1,591 | 99.98 | 16,262 | 9,202 | – | – | – | (9) | – |
| HSBC Epargne Entreprise (France), 15, rue Vernet – 75008 Paris (France) | Limited company (SA) | Limited company (SA) | 16,000 | 5,252 | 100.00 | 15,148 | 15,148 | – | – | 5,726 | (4,455) | – |
| HSBC Global Asset Management (France) 4, place de la Pyramide – La Défense 9, 92800 Puteaux (France) | Limited company (SA) | Asset management | 8,050 | 42,923 | 93.67 | 134,546 | 134,546 | – | – | 183,423 | 19,532 | 18,853 |
| HSBC Services (France) (ex - HSBC Securities) 103, avenue des Champs-Elysées – 75008 Paris (France) | Limited company (SA) | Commercial company | 2,442 | 628 | 100.00 | 36,877 | 3,030 | – | – | – | (96) | – |
| Valeurs Mobilières Elysées (ex - Nobel) 109, avenue des Champs-Elysées – 75008 Paris (France) | Limited company (SA) | Limited company (SA) | 41,920 | 8,226 | 100.00 | 67,757 | 55,449 | – | – | – | 4,658 | 16,794 |
| HSBC Leasing (France) 39, rue de Bassano – 75008 Paris (France) | Simplified join-stock company | Leasing | 168,528 | 73,708 | 100.00 | 281,756 | 281,756 | 159,072 | – | 53 | 99,414 | – |
| Société Financière et Mobilière, 103, avenue des Champs-Elysées – 75008 Paris (France) | Limited company (SA) | Holding company | 40,000 | 44,943 | 100.00 | 84,053 | 84,053 | – | – | – | 3,373 | – |
| Foncière Elysées S.A. 103, avenue des Champs-Elysées – 75008 Paris (France) | Simplified join-stock company (SAS) | Real estate | 14,043 | 14,656 | 100.00 | 44,478 | 40,345 | – | – | 1,751 | 1,072 | 311 |
| Charterhouse Management Services Ltd, 8 Canada Square – London E14 5HQ (United Kingdom) | Limited company under English law | Investment company | 11,779 | – | 100.00 | 11,754 | 11,754 | – | – | 530 | 519 | – |
| HSBC Real Estate Leasing (France) 15, rue Vernet – 75008 Paris (France) | Limited company (SA) | Crédit-bail immobilier | 38,255 | 53,414 | 80.98 | 37,190 | 37,190 | – | – | 118,690 | 7,258 | 3,862 |
| CCF & Partners Asset Management Ltd 8 Canada Square – London E14 5HQ (United Kingdom) | Limited company under English law | Investment holding | 5,890 | – | 100.00 | 4,978 | 4,978 | – | – | 762 | 731 | – |
| HSBC Assurances Vie (France), 15, rue Vernet – 75008 Paris (France) | Limited company (SA) | Insurance company | 115,000 | 514,137 | 100.00 | 513,999 | 513,999 | – | – | 2,075,339 | 49,807 | – |
| **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) | – | | | | | – | – | | | | | |
| **2 – Related party companies not included in paragraph 2** | | | | | | | | | | | | |
| a) French companies (aggregated) | – | | | | | 4 | – | | | | | |
| b) Foreign companies (aggregated) | – | | | | | – | – | | | | | |

## 34.2 Transactions with subsidiaries and other related parties

| | 31 Dec 2019 | |
|---|---|---|
| | Subsidiaries | Other related parties |
| | €m | €m |
| **Assets** | | |
| Treasury bills and money-market instruments | – | 4,396 |
| Loans and advances to banks | 3,915 | 20,810 |
| Loans and advances to customers | 112 | 3,409 |
| Bonds and other fixed income securities | 574 | 1,480 |
| **Liabilities** | | |
| Due to credit institutions | 5,005 | 27,747 |
| Customer accounts | 733 | 22 |
| Debt securities | – | – |
| Other liabilities | – | 5,703 |
| Subordinated liabilities | – | 2,110 |
| **Off-balance sheet items** | | |
| Financing commitments given | 1,622 | – |
| Guarantees and endorsements given | 3 | 234 |
| Securities commitments (other commitments given) | – | – |

## 35 Auditors' remuneration

| | PricewaterhouseCoopers Audit | | BDO Paris Audit & Advisory Audit | | Others | |
|---|---|---|---|---|---|---|
| | Amount | | Amount | | Amount | |
| **2019 Financial year** | €k | % | €k | % | €k | % |
| Account certifications | 3,385 | 75 | 453 | 96 | – | – |
| Other services | 1,150 | 25 | 18 | 4 | – | – |
| **Remuneration paid in 2019** | 4,535 | 100 | 471 | 100 | – | – |

Services other than the account certification at 31 December 2019 for PricewaterhouseCoopers Audit and BDO Paris Audit & Advisory mainly concern comfort letters related to the programs of issuances, legal or regulatory services.

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

**BDO Paris Audit & Advisory**
43-47, avenue de la Grande Armée
75116 Paris

# Statutory Auditors' report on the financial statements

(For the year ended 31 December 2019)

*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 2019.

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 2019 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 2019 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.<br><br>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).<br><br>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.<br><br>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:<br>• the independent validation of valuation models by the Independent Model Review - Markets department;<br>• the independent verification of prices and valuations by the Product Control department;<br>• the determination of fair value adjustments.<br>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.<br><br>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 2019, derivative instruments (including those whose fair value is measured based on unobservable data) represented EUR 41,250 million recognised under assets and EUR 41,270 million recognised under liabilities.*

*See Notes 10 and 16 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.<br>In previous audits, we identified weaknesses associated with user access rights to operating systems, databases and certain applications contributing directly or indirectly to the preparation of the financial statements.<br>The weakness of controls relating to access management entails the risk that by omission or error, changes to financial information systems and processed data may not be appropriate.<br>The action plan implemented by management in 2016, seeking to strengthen the control environment for user access rights, is ongoing and helps to mitigate the access management risk.<br>We deemed information systems access management 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:<br>• new user access requests to information systems are duly examined and authorised;<br>• user access rights are revoked in a timely manner following the reassignment of personnel or their departure from the Group;<br>• user access rights to applications, operating systems and databases are controlled in a consistent manner; and<br>• privileged user access rights to applications, operating systems and databases are granted to a limited number of employees for the performance of their duties.<br>Other areas were assessed independently, such as password policies and security configurations. An independent assessment was also performed on controls on modifications to applications and databases, including to ensure that only a limited number of authorized employees have been granted privileged rights to make such changes to databases and operating systems.<br>When control weaknesses were identified, additional procedures were carried out:<br>• we analysed the nature of the access where inappropriate access had been identified and, where possible, obtained additional evidence of its legitimacy;<br>• 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<br>• we performed tests on other controls carried out by management, such as performance reviews by business line. |

*See page 88 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.<br>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.<br>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.<br>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.<br>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. |

*Impairment of non-performing loans stood at EUR 569 million at 31 December 2019.*
*See Notes 1 and 3 to the financial statements.*

## Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French legal and regulatory provisions.

### 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 about 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 related transactions, as the 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 article L.225-37-4 of the French Commercial Code.

## 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 Paris Audit & Advisory.

At 31 December 2019, PricewaterhouseCoopers Audit and BDO Paris Audit & Advisory were in the fifth and twelfth 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 giving 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 that are 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, 19 February 2020**

**The Statutory Auditors**

| **PricewaterhouseCoopers Audit** | **BDO Paris Audit & Advisory** |
|---|---|
| Nicolas Montillot | Michel Léger |
| Partner | Partner |

## Allocation of net profit

| | 31 Dec 2019 €m | 31 Dec 2018 €m |
|---|---|---|
| **Results available for distribution** | | |
| – retained earnings[1] | **3,330** | 3,209 |
| – net profit for the year | **(147)** | 78 |
| **Total (A)** | **3,183** | 3,287 |
| **Allocation of income** | | |
| – dividends | **–** | – |
| – legal reserve | **–** | – |
| – free reserve | **–** | – |
| **Total (B)** | **–** | – |
| **Retained earnings (A - B)** | **3,183** | 3,287 |

1 *Include new branches retained earning for 43 M€*

## Five-year highlights

### (Articles R. 225-81 and R. 225-102 of the French Commercial Code)

| | 2019 €m | 2018 €m | 2017 €m | 2016 €m | 2015 €m |
|---|---|---|---|---|---|
| **Share capital at year end** | | | | | |
| Called up share capital | **491** | 367 | 337 | 337 | 337 |
| Number of issued shares | **98,231,196** | 73,316,988 | 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 | **3,560** | 3,043 | 2,869 | 2,847 | 3,020 |
| Profit before tax, depreciation and provisions | **(120)** | 59 | 238 | 292 | 459 |
| Profit after tax, depreciation and provisions | **(147)** | 78 | 172 | 117 | 281 |
| **Per share data (in euros)** | | | | | |
| Profit after tax, but before depreciation and provisions | **(0.6)** | 1.3 | 3.3 | 4.5 | 6.0 |
| Profit after tax, depreciation and provisions | **(1.5)** | 1.1 | 2.5 | 1.7 | 4.2 |
| Dividend paid per ordinary share, eligible as of 1 January | **–** | – | 1.66 | 4.00 | 4.15 |
| **Employees (France)** | | | | | |
| Number of employees[1] | **9,314** | 8,377 | 8,080 | 8,382 | 8,979 |
| Average number of employees (excluding employees available) | **9,281** | 8,341 | 8,202 | 8,652 | 9,056 |
| Salaries and wages | **639** | 543 | 515 | 515 | 529 |
| Employee benefits | **247** | 249 | 249 | 249 | 259 |
| Payroll and other taxes | **53** | 64 | 61 | 63 | 60 |
| Incentive schemes and/or employee profit-sharing scheme[2] | **6** | 20 | 23 | 23 | 25 |

1 *Banking status employees, registered as at 31 December of each year.*
2 *Based on previous year's profits.*

## List of equity shares and debt securities held at 31 December 2019 (excluding trading securities)

### Held-on maturity, available-for-sale and portfolio activity securities

| | 31 Dec 2019<br>€m |
|---|---|
| **A – Held-to-maturity securities** | **571** |
| **Debt securities** | **571** |
| 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 | 570 |
| Accrued interest | 1 |
| **B – Available-for-sale and portfolio activity securities** | **5,035** |
| **Debt securities** | **4,791** |
| Treasury bills and other eligible bills | – |
| Other public sector securities | 2,744 |
| Money market instruments | – |
| Commercial paper | – |
| Negotiable certificates of deposit | – |
| Negotiable medium-term notes | – |
| Asset-backed securities | – |
| Bonds and similar | 2,036 |
| Negotiable medium-term notes issued by banks | – |
| Accrued interest | 11 |
| **Equity shares** | **244** |
| Equity shares and similar | 244 |
| Mutual fund units | – |
| **Total held-to-maturity, available-for-sale and portfolio activity securities** | **5,606** |

### Interests in related parties, other participating interests and long-term securities

| | 31 Dec 2019<br>€m |
|---|---|
| **A – Other participating interest and long-term securities** | **86** |
| Securities listed on a recognized French exchange | – |
| Unlisted French securities | 86 |
| Foreign securities listed on a recognized French exchange | – |
| Foreign securities listed elsewhere | – |
| Unlisted foreign securities | – |
| Accrued income | – |
| **B – Interests in related parties** | **1,353** |
| Listed French securities | – |
| Unlisted French securities | 1,336 |
| Listed foreign securities | – |
| Unlisted foreign securities | 17 |
| Accrued income | – |
| **Total interests in related parties, other participating interests and long-term securities** | **1,439** |

# HSBC France's principal subsidiaries and investment policy

## HSBC France group's principal subsidiaries at 31 December 2019

### Commercial Banking

| | |
|---|---|
| **Distribution** | HSBC Factoring (France) (100%) |

### Global Banking and Markets

| | |
|---|---|
| **Real estate** | Foncière Elysées (100%)<br>HSBC Real Estate Leasing (France) (100%) |
| **Structured financing and Global Banking** | HSBC SFH (France) (100%)<br>SFM (100%)<br>HSBC Leasing (France) (100%) |

### Asset Management

| | |
|---|---|
| **France** | HSBC Global Asset Management (France) (100%)<br>HSBC Epargne Entreprise (France) (100%)<br>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%)<br>Société Française Suisse (100%) |
| **Abroad** | Charterhouse Management Services Ltd (100%) |

*Stated percentages indicate the group's percentage of control.*
*The subsidiaries are classified in the area where they principally operate.*

## Summary business activities of HSBC France group's principal subsidiaries at 31 December 2019

### Commercial Banking

**(in thousands of euros)**

| | Total assets | | Shareholders' funds | | Net profit | | HSBC France group's percentage | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| HSBC Factoring (France) | **3,793,722** | 2,968,913 | **122,016** | 107,837 | **14,269** | 10,113 | **100,0** | 100,0 |
| | HSBC Factoring (France)'s activity continue with the growing trend in 2019, with gross turnover of EUR 22 billion at the end of December 2019, which represents an increase of 30 per cent compared to 2018.<br>Net profit increased by 41 per cent, driven by 15 per cent increase of the net operating income mainly explained by the acquisition of new customers and management attrition. The result also benefited from the decrease in costs, which are down 7 per cent compared to 2018. | | | | | | | |

### Global Banking and Markets

**(in thousands of euros)**

| | Total assets | | Shareholders' funds | | Net profit | | HSBC France group's percentage | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| HSBC SFH (France) | **4,381,071** | 4,561,115 | **114,668** | 114,700 | **874** | 925 | **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.<br>On 23 April 2019, the issue for an amount of CFH 200 million, issued on 23 December 2010, matured and has been repaid.<br>At 31 December 2019, issues totaled EUR 4.3 billion secured by a cover pool of EUR 5.7 billion. | | | | | | | |
| HSBC Leasing (France) | **911,757** | 1,266,624 | **341,650** | 242,236 | **99,414** | 19,660 | **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 2019 totaling EUR 0,9 billion, a decrease of 25 per cent compared to 2018. | | | | | | | |
| HSBC Real Estate Leasing (France) | **1,350,048** | 1,304,627 | **98,927** | 96,437 | **7,258** | 8,574 | **100.0** | 100.0 |
| | The net income of this subsidiary specialized in real estate leasing financing decreased by 15 per cent compared to 2018. In a context of significant decline in market activity over the past three years, loan production for the year amounted to EUR 99 million compared with EUR 22 million in 2018.<br>The cost efficiency ratio of the subsidiary has lowered to 12 per cent. The portfolio consists of 395 buildings of which 6 are under construction. | | | | | | | |

### Asset Management

**(in thousands of euros)**

| | Total assets | | Shareholders' funds | | Net profit | | HSBC France group's percentage | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| HSBC Global Asset Management (France) | **140,445** | 139,754 | **60,543** | 61,037 | **19,632** | 30,296 | **100.0** | 100.0 |
| | Profit before tax fell, reflecting lower fees mainly due to the outflows and the fall of equity market in the second half of the year 2018 penalizing the year 2019. Assets managed and distributed amounted to EUR 83.8 billion compared with EUR 74.2 billion at end 2018.<br>As in 2018, HSBC Global Asset Management (France) win some awards such as:<br>• Gérant Obligataire de l'année (Pension Age de l'année - UK)<br>• Obligations « ISR », 2ème place (Gestion de Fortune)<br>• Plusieurs trophées en Allemagne et UK sur la gamme "obligations en euros" | | | | | | | |
| HSBC Epargne Entreprise (France) | **57,047** | 70,438 | **21,252** | 24,522 | **(4,455)** | (3,270) | **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 2,500 companies and manages 211,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totaling EUR 3.7 billion as of 31 December 2019, 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) | **18,925** | 14,118 | **8,938** | 7,605 | **6,333** | 4,007 | **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.<br>As of 31 December 2019, the market value of assets under management was EUR 3.2 billion. The main fund managed, Elysées Pierre is a Classic Real Estate Investment Placement Company which celebrated its 30th anniversary in 2016.<br>Its capitalization of more than EUR 2.3 billion ranks it among the top 5 REITs on the market and the 127 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 10 years as at 31 December 2018 at 8.5 per cent. The specialised 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 | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| HSBC Assurances Vie (France) | **23,451,308** | 22,090,382 | **822,326** | 761,855 | **58,870** | 46,932 | **100** | 100 |
| | 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 2019, despite the context of low interest rates, insurance manufacturing gross written premium on saving stands at EUR 2,019 million (+3 per cent compared to 2018), including EUR 503 million on unit-linked contracts, which account for 25 per cent of new money compared to 24 per cent last year. The net new money remained positive for HSBC France Retails Network and amounted to +EUR 484 million in 2019, of which +EUR 258 million (53 per cent) related to unit-linked contracts. The assets managed by the insurance company now stand at EUR 22.2 billion compared to EUR 20.8 billion last year (+7 per cent). Within these, unit-linked contracts represent 21 per cent, increased by 25 per cent compared to 2018 (18 per cent), mainly due to the impact of favorable market conditions on the fair value of contracts. The arbitrage movement towards unit-linked contracts amounts to +EUR 13 million on the HSBC France Retails Network. | | | | | | | |

## Own investments

**(in thousands of euros)**

| | Total assets | | Shareholders' funds | | Net profit | | HSBC France group's percentage | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| Société Française et Suisse (SFS) | **9,502** | 9,515 | **9,496** | 9,490 | **5** | 37 | **100.0** | 100.0 |
| | Société Française et Suisse realised a significantly lower profit during 2019 compared to 2018. The total balance sheet is mainly composed of liquid assets. | | | | | | | |
| Valeurs Mobilières Elysées | **56,668** | 68,448 | **54,804** | 66,940 | **4,658** | 16,810 | **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 8.9 million in January 2019 and account for only EUR 3.6 million at the end of December 2019. | | | | | | | |

## Investment policy

### 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.

### 2019

- Acquisition by HSBC France of certain assets and liabilities held by HSBC Bank plc in the Netherlands, in Spain, in Ireland, in Czech Republic, in Italy, in Belgium and in Luxembourg.

  Amount of the investment: EUR 370,3 million.

# Proposed resolutions to the Combined General Meeting to be held on 13 March 2020

## 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 2019, 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 2019 shows a net result of EUR -144,836,914.92, hereby approve the proposed distribution of this net result made by the Board of Directors and resolve to appropriate it as follows:

| | |
|---|---|
| Net result for the year | EUR - 144,836,914.92 |
| Plus retained profits | EUR 3,330,316,318.38 |
| Total sum available for distribution | EUR 3,185,479,403.46 |

To be distributed as follows:

| | |
|---|---|
| Retained earnings | EUR 3,185,479,403.46 |

The shareholders duly note that dividends paid in respect of the three previous financial years were as follows:

| Year | Net dividend per share |
|---|---|
| 2016 | EUR 4.00 |
| 2017 | EUR 1.66 |
| 2018 | - |

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 2019, the shareholders hereby approve the consolidated financial statements for that year as presented.

## Fourth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the Statutory Auditors' report on regulated agreements governed by article L. 225-38 of the French Commercial Code, the shareholders hereby approve successively the agreements described therein under the conditions referred to in article L. 225-40 of said Code.

## Fifth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mr Jean Beunardeau, 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 2022.

## Sixth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mrs Lucile Ribot, 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 2022.

## Seventh 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 2019 to executive members and employees having a significant impact on risks, which amounts to EUR 77,437,187.

## Eighth resolution

Voting under the quorum and majority conditions required to transact special business, having heard and considered the report of the Directors and the special report of the Statutory Auditors, the shareholders hereby authorise the Board of Directors to increase the share capital on one or more occasions at the time or times it deems appropriate up to a maximum amount of 500 million euros (issue premium included), it being stipulated that this sum does not include capital increases made in respect of scrip dividend payments or upon exercise of stock options by employees.

Should the Board of Directors decide to use this authority, it may implement the capital increase at its discretion either by capitalising earnings, reserves or share premiums by means of an increase in the nominal value of existing shares or by means of a bonus issue of new shares identical in all respects to the existing shares, or by issuing new shares for cash or by way of a set-off, with preferential rights in favour of existing shareholders, or by a combination of both procedures either successively or simultaneously.

In the event of a capital increase by issuing new shares for cash, the Board of Directors is specifically authorised to:

- give those shareholders who applied for a greater number of shares than their entitlement as of right preference over any sec urities not taken up under the shareholders' preferential rights, scaled back in the event that applications exceed the number of shares available.
- limit the capital increase to the amount of applications received, provided that such amount represents at least three q uarters of the initial proposed capital increase.

The shareholders hereby empower the Board of Directors to complete the capital increase or increases, if it deems appropriate, to fix the terms and conditions thereof and notably the issue price of the shares, the dividend entitlement date, which may be retrospective, and the opening and closing dates for applications, to officially record the capital increase and alter the Articles of Association accordingly, and, more generally, to take all measures and fulfil all formalities required to complete the operation.

This authority is valid for a period of 26 months with effect from the date of this meeting. It cancels and supersedes the authority granted at the Combined General Meeting held on 10 August 2018.

## Ninth resolution

Voting under the quorum and majority conditions to transact special business, and having heard and considered the report of the Directors and the special report of the Statutory Auditors, and in accordance with the provisions of Article L. 225-129-6, indent 1 of the French Commercial Code, the shareholders hereby delegate their authority to the Board of Directors in order to increase the share capital, in one or several steps at its sole discretion, by issuing shares to be subscribed in cash, reserved for employees participating in a company's employee share ownership plan in accordance with the provisions of Articles L. 3332-18 et seq. of the French Labour Code.

The shareholders set the maximum increase in the share capital at €10 million.

The shareholders decide that this delegation entails express waiver by the shareholders of their pre-emptive subscription right in favour of the Company's employees mentioned above as part of the delegation.

The shareholders decide that the issue price of the new shares will be determined by the Board of Directors in accordance with the provisions of Article L. 3332-20 of the Labor Code.

This delegation of authority shall extend for two (2) years from the date of this General Meeting.

The shareholders grant full powers to the Board of Directors to implement this delegation of authority and, in particular, to fix the terms and conditions of the transactions, to set the date and terms of the issues to be made, to set the number of new shares to be issued and their vesting date, set the opening and closing dates of the subscriptions, the procedures for the release of the shares, in accordance with the legal and regulatory provisions.

The Board of Directors will also have full powers to carry out and record the completion of capital increases, carry out directly or by proxy, all subsequent formalities and amend the Articles of Association accordingly and, in general, take all necessary measures and enter into any agreements that are useful for the realisation of the capital increases, under the conditions provided for by the legal and regulatory provisions.

## Tenth resolution

Voting under the quorum and majority conditions to transact special business, and having heard and considered the report of the Directors, the shareholders hereby decide to amend:

- Article 4 of the Articles of Association, which becomes:

"The registered office is located at:

PARIS 8th - 103, avenue des Champs-Elysées.

It may be transferred to any other place in French territory by decision of the Board of Directors, subject to ratification of this decision by the next Ordinary General Meeting, or by decision of the Extraordinary General Meeting of shareholders. In the event of a transfer of the registered office in the same department, the Board of Directors may decide to transfer it by written consultation of the Directors. When a transfer is decided by the Board of Directors, the Board is authorized to modify the Articles of Association accordingly."

- The third paragraph of Article 10 of the Articles of Association, which becomes:"in the event of vacancy of one or more Directo r's seats due to death or resignation, the Board of Directors can proceed, between two General Meetings, with temporary appo intments that are submitted for ratification by the very next Ordi nary General Meeting; the Board of Directors may proceed to th ese appointments by written consultation of the Directors."
- The first paragraph of Article 16 of the Articles of Association, which becomes:

"The Ordinary General Meeting can allot to the Directors, as remuneration for their activities, a fixed annual sum, the amount of which is posted under the Company's general overheads and which remains unchanged until otherwise decided by the General Meeting."

- The first paragraph of Article 22 of the Articles of Association, which becomes:

"General Meetings are convened in observance of the conditions stipulated by the laws and regulations in force. When the Board of Directors is the author of the notice, it may decide the convening by written consultation of the Directors."

- The last paragraph of Article 27 of the Articles of Association, which becomes:

"It reaches decisions with a majority of votes cast by the shareholders present, represented or voting by correspondence. The votes cast do not include those attached to shares for which the shareholder has not taken part in the vote, has abstained or has voted blank or invalid."

- The sixth indent of paragraph three of Article 28 of the Articles of Association, which becomes:

" - to fix the amount of the remuneration allocated to the Directors;"

- Article 29 of the Articles of Association, by adding after the first paragraph a new paragraph worded as follows:

"By delegation from the Extraordinary General Meeting, the Board of Directors may make the necessary changes to the Articles of Association to bring them into compliance with the legislative and regulatory provisions, if necessary by decision taken by written consultation of the Directors, subject to ratification of these modifications by the next Extraordinary General Meeting."

## Eleventh resolution

Voting under the quorum and majority conditions to transact ordinary and special business, the shareholders hereby confer full powers on the bearer of an original, copy or abstract of the minutes of this meeting for the purpose of completing any formalities required by law.

# Information on HSBC France and its share capital

## Information on the company

### Name

HSBC France. New name of CCF since 1 November 2005.

### Commercial name

HSBC 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.

The information made available on hsbc.fr website are not part of the Universal Registration Document, unless the informations are included by reference in the current Registration Document.

### 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.

March 2019: Acquisition of certain assets and liabilities from the HSBC Bank plc branch in Luxembourg and launch of the activities of the HSBC France branch in this country.

April 2019: Merger of HSBC Bank Polska S.A. and HSBC Institutional Trust Services (Ireland) DAC with HSBC France.

May 2019: Creation of a branch in Sweeden and launch of the activities in this branch in October 2019.

## 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 2019, the share capital amounted to EUR 491,155,980 divided into 98,231,196 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 2019** | **73,316,988** | **366,584,940** | **458,901,794.06** |
| Increase (Reduction) during the year | **24,914,208** | **124,571,040** | **1,662,286,141.63** |
| **At 31 Dec 2019** | **98,231,196** | **491,155,980** | **2,121,187,935.69** |
| 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 | — |

## Ownership of share capital and voting rights at 31 December 2019

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

| | **2019** | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Number of shares at 31 December | **98,231,196** | 73,316,988 | 67,437,827 | 67,437,827 | 67,437,827 |
| Average number of shares outstanding during the year | **92,571,906** | 69,531,366 | 67,437,827 | 67,437,827 | 67,437,827 |
| EPS [1] | **EUR (0.41)** | EUR (0.24) | EUR 2.63 | EUR 4.61 | EUR 6.61 |
| Net dividend | **—** | — | EUR 1.66 | EUR 4 | EUR 4.15 |
| Exceptional dividend | **—** | — | EUR 4.45 | — | — |
| Dividend + tax credit | **—** | — | — | — | — |
| Payout [2] | **—** | — | 232.3% | 62.8% | 62.8% |

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 13 March 2020, the Board will propose not to distribute a dividend in respect of year 2019.

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.

Paris, 19 February 2020

Jean Beunardeau, CEO

## Persons responsible for auditing the financial statements

| Incumbents | Date first appointed | Date re-appointed | Date term ends |
|---|---|---|---|
| PricewaterhouseCoopers Audit[1] | 2015 | 2018 | 2024 |
| Represented by Nicolas Montillot[2]<br>63, rue de Villiers<br>92200 Neuilly-sur-Seine | | | |
| BDO Paris Audit & Advisory[3,4] | 2007 | 2018 | 2024 |
| Represented by Michel Léger[5]<br>43-47, avenue de la Grande Armée<br>75116 Paris | | | |

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 *Previous corporate name: BDO France – Léger & Associés.*
5 *BDO Paris Audit & Advisory represented by Michel Léger as of financial year 2019.*

Statutory Auditors' fees paid in 2019 within the HSBC France group are available in Note 7 to the consolidated financial statements on page 181.

# Cross-reference table

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

| | | | |
|---|---|---|---|
| **18** | **Financial information concerning the issuer's assets and liabilities, financial position and profits and losses** | | |
| 18.1 | Historical financial information | pages 18, 146 to 219, 225 to 254, 271 | pages 19, 155 to 221, 226 to 253, 271 |
| 18.2 | Interim and other financial information | N/A | N/A |
| 18.3 | Auditing of historical annual financial information | pages 220 to 224 and 255 to 258 | pages 222 to 225 and 254 to 256 |
| 18.4 | Pro forma financial information | N/A | N/A |
| 18.5 | Dividend policy | page 180 | pages 183 and 267 |
| 18.6 | Legal and arbitration proceedings | pages 129 to 130 | pages 137 to 138, 215 to 216, 250 to 251 |
| 18.7 | Significant change in the issuer's financial position | pages 216 and 250 | pages 19, 218 and 251 |
| **19** | **Additional information** | | |
| 19.1 | Share capital | pages 208, 242 and 266 | pages 213, 243 and 267 |
| 19.2 | Memorandum and Articles of Association | pages 265 to 266 | pages 265 to 267 |
| **20** | **Material contracts** | page 266 | page 266 |
| **21** | **Documents available** | page 265 | page 265 |

| **Sections of Annex II of the EU Regulation 2017/1129** | | **Pages in 2018 Universal Registration Document** | **Pages in this 2019 Universal Registration Document** |
|---|---|---|---|
| **1** | **Information to be disclosed about the issuer** | N/A | page 2 |

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

| **This Registration Document includes the annual financial report:** | **2019** |
|---|---|
| Parent company financial statements | pages 226 to 253 |
| Consolidated financial statements | pages 155 to 221 |
| Management report Refer to the Management report cross ref table Statement by person responsible | pages 271 and 268 |
| Statutory Auditors' report | pages 222 to 225 and 254 to 256 |

| **Cross table on Management report:** | |
|---|---|
| Analyses of the activity, results and financial situation | pages 4 to 20 and 229 |
| Risk factors | pages 78 to 150 |
| Capital and Leverage Management | pages 151 to 154 |
| Authorities to increase the share capital | page 267 |
| Corporate, social and environmental responsibility | pages 53 to 77 |
| Corporate governance report | pages 21 to 49 |
| Remuneration policy compensation and other advantages to the executive Director | pages 39 to 49 |
| Mandates and functions of the Executive Directors | pages 22 to 29 |
| Activities of the subsidiaries and Investment policy | pages 218 to 221 and 259 to 262 |
| Five year highlights | pages 19 and 257 |
| Information on supplier payable amounts schedule | page 20 |
| 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

279 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**
Na Florenci 2116/15, Nové Město
110 00 Prague 1
Telephone: +42 (0)22 5024 555

### Greece

**HSBC France**
branch
109-111, avenue Messogheion
115 26 Athens
Telephone: 30 2106961113

### Ireland

**HSBC France**
branch
1 Grand Canal Square, Grand Canal Harbour
Dublin 2, D02 P820
Telephone: +353 (0) 1 635 6000

## Italy

**HSBC Global Asset Management (France)**

branch

Piazzeta Bossi, 1

20121 Milan

Telephone: 39 02 72 437 496

**HSBC France**

branch

Via Mike Bongiorno 13

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 France**

branch

Rondo ONZ 1

00-124 Varsovie

Telephone: +48 22 354 05 00

## Spain

**HSBC Global Asset Management (France)**

branch

Plazza Pablo Ruiz Picasso, 1

Torre Picasso

28020 Madrid

Telephone: +34 914 566 979

**HSBC France**

branch

Plaza Pablo Ruiz Picasso, 1

Torre Picasso planta, 33

28020 Madrid

Telephone: +34 914 566 100

## Sweden

**HSBC Global Asset Management (France)**

branch

Birger Jarlsgatan 4

SE-114 34 Stockholm

Telephone: 46 8 4545435

**HSBC France**

branch

Birger Jarlsgatan 4

SE-114 34 Stockholm

Telephone: 46 8 4545435

## Switzerland

**HSBC Global Asset Management (Suisse) AG**

co-company

Bederstrasse 49

CH-8027 Zürich

Telephone: 41 44 206 26 00

## United Kingdom

**HSBC France**

branch

8 Canada Square

Londres, E14 5HQ

Telephone: 44 (0) 20 7991 8888

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