HSBC France

2nd Amendment of the Universal registration document and Interim Financial Report 2020

HSBC

Contents

Presentation of information

This amendment to the *Universal Registration Document* was filed on 3 August 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.

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Reference to the Universal Registration Document

This amendment to the *Universal Registration Document* refers to the *Universal Registration Document and Annual Financial Report 2019* filed with the AMF on 19 February 2020 under reference number D.20-0071.

Cautionary statement regarding forward-looking statements

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

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

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

Highlights

	Footnotes	Half-year to 30 Jun 2020	30 Jun 2019	31 Dec 2019
For the period (€m)				
Profit/(loss) before tax (reported basis)		**(650)**	51	(73)
Profit/(loss) before tax (adjusted basis)	1	**(362)**	95	145
Net operating income before change in expected credit losses and other credit risk provisions (reported basis)	2	**930**	1,131	1096
Profit/(loss) attributable to shareholders of the parent company (reported basis)		**(499)**	52	(91)
At period end (€m)				
Total equity attributable to shareholders of the parent company		**8,146**	8,115	8,443
Total assets		**261,525**	235,725	237,680
Risk-weighted assets		**49,257**	47,482	48,051
Loans and advances to customers (net of impairment allowances)		**59,228**	56,315	56,956
Customer accounts		**67,084**	54,940	57,550
Capital ratios (fully loaded)	3			
Common equity tier 1 (%)		**12.6**	13.4	13.5
Tier 1 (%)		**14.1**	14.5	15.0
Total capital (%)		**17.0**	16.6	16.9
Performance, efficiency and other ratios (annualised %)				
Annualised return on average shareholders' equity (%)	4	**(11.7)**	1.4	(2.2)
Pre-tax return on average risk-weighted assets (adjusted basis) (%)		**(0.7)**	0.2	0.3
Cost efficiency ratio (adjusted basis) (%)	5	**114.4**	86.9	80.0
Liquidity Coverage Ratio ('LCR') (%)		**167**	123	152
Net Stable Funding Ratio ('NSFR') (%)		**122**	111	117

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 10 to 11.*
2 *Net operating income before change in expected credit losses and other credit risk provisions is also referred to as revenue.*
3 *Capital ratios as detailed in the Capital section on pages 38 to 40.*
4 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.*
5 *Adjusted cost efficiency ratio is defined as total operating expenses (adjusted) divided by net operating income before change in expected credit losses and other credit risk provisions (adjusted). Net operating income before loan impairment charges and other credit risk provisions is also referred to as revenue.*

HSBC worldwide

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

The Group aims to be where the growth is, enabling businesses to thrive and economies to prosper, and ultimately help people to fulfil their hopes, dreams and realise their ambitions.

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.

In February 2020, when HSBC Group communicated its full year results, it also presented a business update which set out plans to reshape under-performing businesses, simplify its complex organisation, and reduce its costs. HSBC will be going through a period of significant transformation in the coming years. Changes to HSBC's business model in Europe will seek to simplify the business, reduce its cost base and continue to contribute to HSBC's global network.

HSBC in Europe

HSBC 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.

Restructuring for growth in Europe

The Group has reorganised its management structure for Europe. HSBC Bank plc will be managed as one integrated business with two banks operating as our main hubs in London and Paris in order to build a strong and successful business in Europe, focused on international wholesale banking clients linked to our global network and a targeted wealth franchise. This is a key action to simplify our organisation – creating a leaner structure and increasing collaboration – whilst ensuring we can serve our clients across the UK and the European Union post-Brexit.

To enable this we will primarily serve internationally connected GBM and CMB customers. The strategic vision is to be the #1 bank for international corporates in Europe, focused primarily on clients that value our international network with a focus on transactional banking and financing (Global Liquidity and Cash Management, Global Trade and Receivables Finance, Foreign Exchange and Capital Markets). Through WPB, we will concentrate our efforts on a targeted wealth offering.

This new structure for Europe reflects a strong ambition: that of building a simpler and more efficient bank in Europe, connected to HSBC's global network.

The impact of Covid-19 on our strategy

In February 2020, the Group's business update outlined plans to restructure Europe, enabling us to become simpler and more competitive. This strategy remains appropriate. The phasing and composition of initiatives will be aligned to the implications of Covid-19 and the corresponding economic environment.

HSBC in France and Continental Europe

HSBC strategy implemented in France and Continental Europe

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.

The Group strategy presented in February 2020 aims to improve returns in Continental Europe by 2022, and reducing Risk Weighted Assets ('RWA') deployed by 35 per cent. To achieve this we will consider our product mix and focus on clients who value our international franchise.

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.

The review of the Retail operations in France is ongoing. No decision has been taken.

HSBC France's key principles to support this 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. 7,341 employees ('FTEs') in France and 1,328 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's history and heritage gives HSBC an unrivalled ability to provide a bridge to Asia, the Middle

East and the US for European businesses. HSBC supports Asian, Middle Eastern and US businesses navigate growth opportunities in Europe.

Strengthening international connectivity

HSBC France is committed to helping customers in the region thrive. With dedicated teams in France and 10 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

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. There is also a potential impact of Covid-19 to UK Government's Brexit timelines although HSBC Group's planning assumption remains the loss of passporting at the end of December 2020.

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.

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. In the context of the UK's withdrawal from the European Union, the Equities and Equity Research businesses have been transferred from HSBC Bank plc Paris Branch to HSBC France on 1 February 2020.

Product offering

To accommodate 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 a new HSS platform.

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 prepared to take on additional activities.

Product and services

Effective from the second quarter of 2020, Group HSBC's matrix organisational structure has been simplified by merging GPB and RBWM to form Wealth and Personal Banking ('WPB').

Comparative data have been represented accordingly. HSBC provides a comprehensive range of banking and related financial services to its customers in its three global businesses. The products and services offered to customers are organised by these global businesses.

The Group manages its products and services through its three businesses: Global Banking and Markets ('GBM'), Commercial Banking ('CMB'), and Wealth Personal Banking ('WPB').

Global Banking and Markets ('GBM')

HSBC France operates in 10 markets (France, Spain, Italy, Belgium, the Netherlands, Ireland, Greece, the Czech Republic, Poland, Luxembourg) offering clients geographical reach and deep local knowledge across Europe.

GBM provides tailored financial solutions to major government, corporate and institutional clients and private investors worldwide. The client-focused business lines deliver a full range of banking capabilities including financing, advisory and transaction services, a markets business that provides services in credit, rates, foreign exchange, equities, money markets and securities services, and principal investment activities.

HSBC France continues to play its role as the strategic platform for euro-denominated rates products. Priorities for GBM 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. HSBC France continues to simplify the business through streamlining business lines, operations and technology. GBM is underpinned by a focus on highest standards of conduct and financial crime risk management. Operating as part of a global business, HSBC France also contributes significant revenues to other regions through its European client base.

Commercial Banking ('CMB')

HSBC France's Commercial Banking serves customers in 10 markets (France, Spain, Italy, Belgium, the Netherlands, Ireland, Greece, the Czech Republic, Sweden 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 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.

CMB offers a broad range of products and services to serve the needs of our commercial customers, including small and medium-sized enterprises, mid-market enterprises and corporates. These include credit and lending, international trade and receivables finance, treasury management and liquidity solutions (payments and cash management and commercial cards), commercial insurance and investments. CMB also offers its customers access to products and services offered by other global businesses, such as GBM, which include foreign exchange products, raising capital on debt and equity markets and advisory services.

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.

Wealth and Personal Banking

In France and Greece, RBWM helps more than 0.9 million customers with their financial needs through Retail Banking, Wealth Management, Insurance, Asset Management and Private Banking. WPB offers a full range of products and services to meet the personal banking and wealth management needs of customers from personal banking to ultra-high net worth individuals. Typically, customer offerings include personal banking products, such as current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services. We also provide wealth management services, including insurance and investment products, global asset management services, investment management and Private Wealth Solutions for customers with more sophisticated and international requirements.

Economic background

The Covid-19 outbreak led to a sharp economic deceleration in Asia, with China's expansion suddenly halting and Japan entering into recession. As fears of a rapid spread of the virus increased, a phase of corrections in equity markets appeared, while credit markets posted growing risk premia. Volatility in European equity markets was multiplied by seven between early 2020 and mid-March.

World trade suffered a brutal contraction, accelerated by the confinement of a growing number of economies to stop the pandemic, hurting exporting countries, in particular those exporting commodities: as many activities ceased, the Brent Oil price collapsed by more than 60 per cent between mid-February and mid-March, reinforcing global disinflationary pressures, and facilitating the implementation of even more accommodative monetary policies. In particular, cuts in policy rates to historically low levels (US, UK, India, Brazil and Russia notably), larger sovereign bonds purchases (Japan and especially the Eurozone) and the launch, for the first time, of assets purchase (South Africa) or yield curve control policies (Australia) have been added to fiscal policies turning very expansionary to support the economies placed under lockdown.

Massive public expenditure, in addition in many cases to reinforced public guarantees of bank loans, have tried to cushion households' private spending and business investment against the risk of a more violent shock, limiting the cost of the global recession. By summer 2020, although uncertainties notably sanitary remain, it seems highly likely that many economies will face this year a fall in GDP with no peace time equivalent, and with no hope for the expansion level to be back before 2022 at least to the level they reached at the end of 2019.

During the first half of 2020, restrictions to people movements and closures implemented across a large number of productive sectors contributed in many economic indicators (in particular regarding production, consumption and business or consumer confidence) posting record low levels, while the unemployment rate has rapidly risen in some cases.

The historical magnitude of the recession and the rapid rise in private and more importantly public debt levels fueled a risk aversion benefiting typically safe heaven assets: while the spread in ten-year sovereign bond yields between Italy and Germany more than doubled between mid-February and mid-March, US Treasury yields dropped by 50 basis points over the same period. In addition, the US dollar gained more than 8 per cent over ten days in March. Protectionist tensions and uncertainties regarding the terms of the UK's exit from the European Union also weighed on trade exchanges, in spite of the economic rebound expected from Q3 for most countries.

In France, GDP fell in Q1 2020 (-5.3 per cent in quarterly changes), the greatest fall since quarterly national accounts began in 1949, with corporate profit margins falling to their lowest level since 1985 and household savings ratio rising to its highest point since 1978. With the lockdown implemented mid-March and progressively lifted from 11 May, April was a trough for business confidence and notably utilisation capacity rate. The new government formed early July will have to manage a public debt expected at around 120 per cent of GDP this year.

Regulatory environment

Regulatory developments

Covid-19

The current Covid-19 pandemic has created an unprecedented challenge to the global economy. Governments, central banks and regulatory authorities have responded to this challenge with a number of regulatory measures. The substance of the announcements and the pace of response varies by jurisdiction but broadly, these have included a number of customer support measures; operational capacity measures; and amendments to the RWAs, capital and liquidity frameworks.

In the EU, the relief measures have included a package known as the 'CRR Quick Fixes' that was enacted in June 2020. The package represents an acceleration of some of the beneficial elements of the amendments to the Capital Requirements Regulation ('CRR2') that were originally scheduled for June 2021, together with other amendments to mitigate the potential volatility in capital ratios arising from the pandemic. The material changes that were finalised in June, include:

- the acceleration of the timetable for the changes to the CET1 deduction of software assets so that once the European Banking Authority ('EBA') finishes its current consultation on the new methodology, the rules can go live;
- the CRR2 changes to the small- to medium-sized enterprises ('SME') supporting factor and the new infrastructure supporting factor;
- the CRR2 change to the netting in the leverage ratio exposure measure of regular-way purchases and sales; and
- a temporary exclusion of central bank exposure from the leverage ratio exposure measure subject to supervisory authorities publicly declaring exceptional circumstances justify such measure.

In addition to the CRR Quick Fix package, there were other changes to the regime in response to Covid-19. These included the enactment by the EU of beneficial changes to the CET1 deduction for prudent valuation adjustments, which will remain in place until 1 January 2021, the ECB implementing in 2020 (one year earlier than expected under CRD5) a more lenient Pillar 2 Requirement ('P2R') capital mix and the ECB announcing that it is providing temporary relief on the market risk capital requirements until Q3-2020, after which the decision will be reviewed.

In France, the High Council for Financial Stability ('HCSF') announced in April 2020 the decrease of the Countercyclical Capital Buffer ('CCyB') rate applicable to French exposures from 0.25 per cent to 0 per cent (instead of a planned increase to 0.50 per cent) applicable from 2 April 2020.

The Basel Committee

In December 2017, the Basel Committee ('Basel') published the Basel III Reforms. The package finalised in July 2020 when Basel published the final revisions to credit valuation adjustment ('CVA') framework.

In March 2020, Basel announced a one-year delay to the implementation of the package. It is now to be implemented on 1 January 2023, with a five-year transitional provision for the output floor. This floor ensures that, at the end of the transitional period, banks' total RWAs will be no lower than 72.5 per cent of those generated by the standardised approaches. The final standards will need to be transposed into the relevant local law before coming into effect. The EU, the UK and Hong Kong authorities have already indicated that they will apply the new timetable.

There remains a significant degree of uncertainty about the impact of these changes due to the number of national discretions within Basel's reforms and the need for further supporting technical standards to be developed. Furthermore, any impact needs to be viewed in light of the possibility of offsets against Pillar 2, which may arise as shortcomings within Pillar 1 are addressed.

The Capital Requirements Regulation amendments

In June 2019, the EU enacted the CRR2. This is the EU's implementation of the Financial Stability Board's ('FSB') requirements for total loss-absorbing capacity ('TLAC'), known in the EU as the minimum requirements for own funds and eligible liabilities ('MREL'), introducing changes to the own funds regime as well. The CRR2 will also implement the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the changes to market risk ('FRTB') rules, revisions to the standardised approach for measuring counterparty risk and the new leverage ratio rules. The CRR2 rules will follow a phased implementation with significant elements entering into force in 2021, in advance of Basel's timeline. Some elements have been accelerated in 2020 with the CRR quick fixes (see previous Covid-19 section).

The EU's implementation of the Basel III Reforms

The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the Capital Requirements Regulation. In 2019, the European Commission began consulting on its implementation, which will include reforms to the credit and operational risk rules and a new output floor. However, draft legislative text has not yet been published. The EU implementation will be subject to an extensive negotiation process with the EU Council and Parliament. As a result, the final form of the rules remains unclear.

The UK's withdrawal from the EU

As a result of the decision of the referendum 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 ends on 31 December 2020.

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 is subject to equivalence assessments. The assessments of whether the UK applies equivalent regulatory standards is currently ongoing.

The end of the transition period will also trigger an additional MREL requirement under CRR2 for HSBC France as it becomes a subsidiary of a third-country parent entity.

Other developments

In May 2020, the Single Resolution Board ('SRB') published its updated MREL policy in line with the Banking Package published in June 2019, and notably the latest versions of the Bank Recovery and Resolution Directive ('BRRD2') and Single Resolution Mechanism Regulation ('SRMR2').

In July 2020, the EBA published its final guidelines on the treatment of structural foreign exchange positions which will apply from 1 January 2022, one year later than originally planned.

Financial summary

The financial statements commented on below were prepared on the basis of the HSBC France group's consolidated scope, the financial statements of which are prepared in accordance with IFRS as defined in Note 1 (see page 54 and following) to the condensed consolidated financial statements. They were subject to a limited review by the Statutory Auditors.

In the first half of 2019, HSBC France acquired some assets and liabilities of seven European branches of HSBC Bank plc (in Belgium, Czech Republic, Ireland, Italy, Luxembourg, Netherlands and Spain).

On 1 October 2019, HSBC France also opened a new branch in Stockholm to serve clients from Denmark, Finland, Norway and Sweden.

On 1 February 2020, in the context of the UK's withdrawal from the European Union, the Equities and Equity Research businesses have been transferred from HSBC Bank plc Paris Branch to HSBC France.

Financials for the year 2019 were not restated on a pro-forma basis.

Summary consolidated income statement

	Half-year to		
	30 Jun 2020 €m	30 Jun 2019 €m	31 Dec 2019 €m
Net interest income	**534**	545	550
Net fee income	**437**	394	384
Net income/(expense) from financial instruments held for trading or managed on a fair value basis	**62**	13	17
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	**(662)**	792	485
Changes in fair value of long-term debt and related derivatives	**(2)**	—	(1)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss	**30**	94	59
Gains less losses from financial investments	**7**	11	1
Dividend income	**—**	—	—
Net insurance premium income	**661**	1,252	824
Other operating income/(expense)	**(86)**	91	96
Total operating income	**981**	3,192	2,415
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(51)**	(2,061)	(1,319)
Net operating income before change in expected credit losses and other credit impairment charges	**930**	1,131	1,096
Change in expected credit losses and other credit impairment charges	**(229)**	(54)	(74)
Net operating income	**701**	1,077	1,022
Total operating expenses	**(1,351)**	(1,026)	(1,095)
Operating profit/(loss)	**(650)**	51	(73)
Share of profit in associates and joint ventures	**—**	—	—
Profit/(loss) before tax	**(650)**	51	(73)
Tax expense	**150**	1	(18)
Profit/(loss) for the period	**(500)**	52	(91)
– shareholders of the parent company	**(499)**	52	(91)
– non-controlling interests	**(1)**	—	—

Reported performance

Net interest income decreased by EUR 11 million to reach EUR 534 million in the first half of 2020. Net interest income was penalised by the persistent low and negative interest rates environment, particularly for WPB, partly offset by increasing volumes by +5 per cent on loans.

Net fee income was EUR 437 million in the first half of 2020, compared to EUR 394 million in the first half of 2019. GBM displayed a strong increase in fees supported by Capital markets activities along with favourable origination fee income and lower fee expenses from other HSBC Group entities. Fees on WPB decreased compared to prior year with business impacted by the unfavourable markets evolution particularly in the first quarter.

Net income from financial instruments held for trading or managed on a fair value basis grew to EUR 62 million compared to EUR 13 million in the first half of 2019. This trend resulted from Global Markets on the one hand, with a rebound of vanilla rates revenues compared to prior year partly offset by an operational loss on structured rates activities, and from a favourable variation of instruments held by the insurance company on the other hand.

Net income from assets and liabilities of insurance measured at fair value through profit and loss was EUR -662 million compared to EUR 792 million in the same period of the previous year. This evolution reflected the change in the market value of assets held by the insurance company on behalf of its customers with respect to both unit-linked policies and Eurofund contracts. The counterpart of this decrease 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 30 million, decreasing by EUR 64 million compared to prior year, mainly due to unfavourable movements on insurance portfolio and unfavourable market movements on equity instruments.

Gain less losses from financial investments was EUR 7 million compared to EUR 11 million last year.

Insurance premium income was EUR 661 million in the first half of the year, compared to EUR 1,252 million as at 30 June

2019. This decrease is related to reduction in net new money, particularly on Eurofund, in a context of deteriorated markets conditions.

Other operating income came to EUR -86 million versus EUR 91 million a year previously, mainly reflecting the change in PVIF ('Present Value of In-force insurance long-term business'). The variation of the accounting PVIF was EUR -124 million for the first half of 2020 compared to EUR +53 million for the first half of 2019 (cf. Note 5 Appendix to the income statements).

Net insurance claims and movements in liabilities to policyholders were EUR -51 million in the first half of 2020, from EUR -2,061 million in the first half of 2019. This change should be seen in the light of the decrease in the market value of hedging instruments and assets recognised at fair value by the insurance subsidiary.

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 930 million, from EUR 1,131 million in the first half of 2019. This decrease conveyed the degradation of economic and financial conditions, with unfavourable PVIF and decreasing fees on WPB, while the persistence of a low rates environment continued to damage the net interest income despite favourable volume effect on loans.

Change in expected credit losses and other credit impairment charges were EUR 229 million versus EUR 54 million in the first half of 2019. The increase mainly reflected the deterioration of current economic conditions and forward economic outlook that came out as significant provisions on GBM and CMB businesses.

Operating expenses totalled EUR 1,351 million in the first half of 2020, compared with EUR 1,026 million in the year-earlier period. This costs increase was mainly related to the impairment and write-off of software intangible assets for EUR 283 million, the contributions to the Single Resolution Fund for EUR 106 million (increasing by EUR 49 million compared with the first half of 2019) and the unfavourable perimeter effect related to the integration of the EEA branches last year. Apart from these elements, expenses remained controlled.

Consolidated Loss before tax was EUR 650 million, compared to a profit of EUR 51 million for the first half of 2019.

Net loss attributable to shareholders of the parent company was EUR 499 million in the first half of 2020.

Adjusted performance

Non-GAAP financial measures

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

Basis of preparation

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

Reconciliations of reported and adjusted performance are presented on pages 10 and 11. HSBC France's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to global businesses are included in Corporate Centre.

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

A description of the Global businesses is provided on pages 9 and 10 of the *Annual Report and Accounts 2019*.

Change in reportable segments

Effective from 1 January 2020, the HSBC group made the following realignments within its internal reporting to the Executive Committee:

- Simplification of the matrix organisational structure by merging 'Private Banking' and 'Retail Banking and Wealth Management' global business lines to form 'Wealth and Personal Banking'.
- Reallocation of Balance Sheet Management from Corporate Centre to the global businesses.

Comparative data has been represented accordingly.

Our businesses

HSBC provides a comprehensive range of banking and related financial services to its customers in its three global businesses. The products and services offered to customers are organised by these global businesses.

Our operating model consists of three businesses and a Corporate Centre, all supported by HSBC Operations, HSBC Services and Technology, and 11 functions, of which risk, finance, compliance, legal, marketing and human resources are included.

By operating segment

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

	Half-year to 30 Jun 2020				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	€m	€m	€m	€m	€m
Reported revenue	**217**	**356**	**338**	**19**	**930**
Significant revenue items	**—**	**—**	**(9)**	**—**	**(9)**
– debit valuation adjustment	**—**	**—**	**(9)**	**—**	**(9)**
– fair value movement on non-qualifying hedges	**—**	**—**	**—**	**—**	**—**
Adjusted revenue	**217**	**356**	**329**	**19**	**921**
	Half-year to 30 Jun 2019[1]				
Reported revenue	447	340	332	12	1,131
Significant revenue items	—	—	2	1	3
– debit valuation adjustment	—	—	2	—	2
– fair value movement on non-qualifying hedges	—	—	—	1	1
Adjusted revenue	447	340	334	13	1,134
	Half-year to 31 Dec 2019[1]				
Reported revenue	438	349	307	2	1,096
Significant revenue items	—	—	(1)	—	(1)
– debit valuation adjustment	—	—	(1)	—	(1)
– fair value movement on non-qualifying hedges	—	—	—	—	—
Adjusted revenue	438	349	306	2	1,095

1 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

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

	Half-year to 30 Jun 2020				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	€m	€m	€m	€m	€m
Reported operating expenses	**(520)**	**(311)**	**(445)**	**(75)**	**(1,351)**
Significant cost items	**99**	**82**	**65**	**51**	**297**
– impairment of other intangible assets	**36**	**28**	**44**	**21**	**129**
– cost to achieve	**63**	**54**	**21**	**30**	**168**
Adjusted operating expenses	**(421)**	**(229)**	**(380)**	**(24)**	**(1,054)**
	Half-year to 30 Jun 2019[1]				
Reported operating expenses	(442)	(218)	(323)	(43)	(1,026)
Significant cost items	1	2	18	20	41
– restructuring cost and other provisions	1	1	9	3	14
– costs associated with the UK's exit from the EU	—	1	9	17	27
Adjusted operating expenses	(441)	(216)	(305)	(23)	(985)
	Half-year to 31 Dec 2019[1]				
Reported operating expenses	(398)	(388)	(260)	(49)	(1,095)
Significant cost items	7	172	12	28	219
– cost of goodwill impairment	—	169	—	—	169
– restructuring cost and other provisions	7	3	7	13	30
– costs associated with the UK's exit from the EU	—	—	5	15	20
Adjusted operating expenses	(391)	(216)	(248)	(21)	(876)

1 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

Net impact on profit before tax by business segment

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Half-year to 30 Jun 2020				
	€m	**€m**	**€m**	**€m**	**€m**
Reported profit/(loss) before tax	**(324)**	**(56)**	**(213)**	**(57)**	**(650)**
Significant revenue items	**—**	**—**	**(9)**	**—**	**(9)**
Significant cost items	**99**	**82**	**65**	**51**	**297**
Adjusted profit/(loss) before tax	**(225)**	**26**	**(157)**	**(6)**	**(362)**
Net impact on reported profit and loss	**99**	**82**	**56**	**51**	**288**
	Half-year to 30 Jun 2019[1]				
Reported profit/(loss) before tax	9	123	(50)	(31)	51
Significant revenue items	—	—	2	1	3
Significant cost items	1	2	18	20	41
Adjusted profit/(loss) before tax	10	125	(30)	(10)	95
Net impact on reported profit and loss	1	2	20	21	44
	Half-year to 31 Dec 2019[1]				
Reported profit/(loss) before tax	36	(109)	47	(47)	(73)
Significant revenue items	—	—	(1)	—	(1)
Significant cost items	7	172	12	28	219
Adjusted profit/(loss) before tax	43	63	58	(19)	145
Net impact on reported profit and loss	7	172	11	28	218

1 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

Adjusted profit/(loss) for the period

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Half-year to 30 Jun 2020				
	€m	**€m**	**€m**	**€m**	**€m**
Net operating income before change in expected credit losses and other credit impairment charges	**217**	**356**	**329**	**19**	**921**
Change in expected credit losses and other credit impairment charges	**(21)**	**(101)**	**(107)**	**—**	**(229)**
Net operating income	**196**	**255**	**222**	**19**	**692**
Total operating expenses	**(421)**	**(229)**	**(380)**	**(24)**	**(1,054)**
Operating profit/(loss)	**(225)**	**26**	**(158)**	**(5)**	**(362)**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**—**	**—**
Adjusted profit/(loss) before tax	**(225)**	**26**	**(158)**	**(5)**	**(362)**
	Half-year to 30 Jun 2019[1]				
Net operating income before change in expected credit losses and other credit impairment charges	447	340	334	13	1,134
Change in expected credit losses and other credit impairment charges	4	1	(59)	—	(54)
Net operating income	451	341	275	13	1,080
Total operating expenses	(441)	(216)	(305)	(23)	(985)
Operating profit/(loss)	10	125	(30)	(10)	95
Share of profit in associates and joint ventures	—	—	—	—	—
Adjusted profit/(loss) before tax	10	125	(30)	(10)	95
	Half-year to 31 Dec 2019[1]				
Net operating income before change in expected credit losses and other credit impairment charges	438	349	306	2	1,095
Change in expected credit losses and other credit impairment charges	(4)	(70)	—	—	(74)
Net operating income	434	279	306	2	1,021
Total operating expenses	(391)	(216)	(248)	(21)	(876)
Operating profit/(loss)	43	63	58	(19)	145
Share of profit in associates and joint ventures	—	—	—	—	—
Adjusted profit/(loss) before tax	43	63	58	(19)	145

1 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

Adjusted performance

Adjusted loss before tax for HSBC France was EUR 362 million for the first half of 2020, compared with the EUR 95 million profit recorded in the year-earlier period and EUR 145 million in the second half of 2019.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 921 million, down from EUR 1,134 million in the first half of 2019. The decrease was mainly related to the unfavourable PVIF movement, the effect of persistent low and negative interest rates particularly for retail activities, the repercussions of the deteriorated economic conditions and the result of an operational loss on GBM. This was partly offset by the growth in loans and deposits volumes, and by a favourable perimeter effect related to the integration of seven EEA branches in February and March last year.

Change in expected credit losses and other credit impairment charges were EUR 229 million versus EUR 54 million in the first half of 2019. This increase reflected the degradation of current economic conditions and forward economic outlook, resulting in provisions particularly on CMB and GBM businesses.

Adjusted operating expenses totalled EUR 1,054 million in the first half of 2020, compared with EUR 985 million in the year-earlier period. This variation was mainly driven by the increased contribution to the Single Resolution Fund from EUR 57 million to EUR 106 million this year and the unfavourable perimeter effect related to the integration of EEA branches in 2019. Aside from these elements, adjusted operating expenses remained controlled.

Wealth and Personal Banking ('WPB')

Loans and advances to customers, at EUR 24 billion in June 2020, increased by 1.5 per cent compared to December 2019 driven by new home loans business.

Total Assets under Management from customers were EUR 43.0 billion in line with December balances, with increase in customer deposits offset by lower Wealth Assets under Management (AUM) caused by the adverse economic context since the beginning of the year. Wealth and Personal Banking business customer deposits at EUR 21 billion grew by 7 per cent on December balances.

Adjusted Profit Before Tax stood at EUR -225 million, EUR 235 million below June 2019 driven by adverse market impact in life insurance manufacturing, lower revenue due to the combination of reduced interest rates, adverse market conditions and lower customer activity levels, higher Expected Credit Losses reflecting the impact of Covid-19 outbreak on the forward economic outlook partly mitigated by lower operating expenses.

Adjusted Net Operating Income before Expected Credit Losses and other credit impairment charges were at EUR 217 million compared to EUR 447 million in June 2019 mainly driven by adverse market impact in life insurance manufacturing (PVIF movement for WPB at EUR -184 million). Asset Management revenues decrease was mainly due to adverse market conditions and lower AUM reflecting the impact of Covid-19 outbreak. Retail banking net fee income displayed the same trend with lower banking fees, financial fees and insurance distribution fees impacted by adverse market conditions and lower customer activity levels, when net interest income suffered from low interest rates. Private Banking activities increased supported by advisory mandates activities despite unfavourable conditions.

Change in Expected Credit Losses and other credit impairment charges increased by EUR 25 million mainly from charges related to Covid-19 on the forward economic outlook, including EUR 8 million for HSBC France activities in Greece.

Adjusted Operating Expenses decreased by EUR 21 million or 5 per cent to EUR 421 million due to productivity gains and cost discipline.

Commercial Banking ('CMB')

HSBC France is committed to supporting businesses in their development and increased its loan book by 12 per cent to EUR 19.7 billion in 2020. This increase included EUR 1.4 billion new loans under the French Government guarantee scheme.

Deposits grew 25 per cent to EUR 26.3 billion, with significant deposits inflows in the context of Covid-19 crisis.

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

Adjusted net operating income before expected credit loss amounted to EUR 356 million, increasing by EUR 16 million versus 2019, mainly driven by increasing loans volumes, and despite the unfavourable impact of historically low interest rates.

Revenue generated by French customers in other international HSBC Group entities represents a third of revenues generated by the same companies in France. 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 and other credit impairment charges amounted to EUR 101 million, to be compared to historical low level in 2019 at EUR 1 million net release. Credit-risk impairment charges in Commercial Banking represented 1.0 per cent of the total loan book.

Adjusted operating expenses, at EUR 229 million, increased by EUR 14 million, mainly explained by increasing IT, Risk and Compliance costs.

Commercial Banking's profit before tax amounted EUR 26 million versus EUR 125 million in 2019.

Global Banking and Markets ('GBM')

Loans and Advances to Customers increased by EUR 0.6 billion vs end of 2019, driven by Covid-19 related financing needs, partly offset by lower Structured Finance and Receivables Finance activity. HSBC supported its clients through the Covid-19 crisis, notably participating in significant state backed facilities with three Global Banking clients.

Customer Deposits increased by EUR 5.2 billion vs end of 2019.

Adjusted revenue slightly decreased to EUR 329 million versus EUR 334 million last year.

Global Markets revenue reduced vs 2019 because of negative Structured Rates performance, impacted by an operational loss and low interest rates, despite better revenues from all other business lines.

Global Banking revenues declined, mainly due to Asset Finance, Structured Finance and M&A, partly offset by increased revenues in financing and Capital markets (DCM-ECM) activities in the context of Covid-19 and in lending from the transfer of the bookings of European clients.

GBM other revenues increased following growth in HSS and GLCM, with Principal Investment portfolio valuation marginally impacted by the Covid-19 economic crisis.

Revenue generated by French clients in international markets rose by 4 per cent relative to prior year 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.

Loan impairment charges came to a charge of EUR -107 million, versus EUR -59 million last year. It was the consequence of increased expected credit losses on the portfolio and increased loan provisions on certain customers as a result of the weakening economic environment.

Adjusted expenses amounted to EUR -380 million, up EUR 75 million versus prior year, due to an increase by EUR 36 million in the contribution to the European Single Resolution Fund, increasing group recharges and higher IT costs.

Adjusted loss before tax in Global Banking and Markets was EUR 158 million, as opposed to a loss of EUR 30 million last year.

Corporate Centre

Adjusted profit before tax for the first half of 2020 was EUR -5 million, from EUR -10 million in the first half of 2019.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 19 million for the first half of 2020, compared with EUR 13 million in 2019, reflecting an increase in recharges to other entities in the Group.

Adjusted operating expenses were EUR 24 million for the first half of 2020 compared to EUR 23 million in 2019.

Profit before tax by country

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Half-year to 30 Jun 2020				
	€m	€m	€m	€m	€m
France	**(312)**	**(115)**	**(207)**	**(57)**	**(691)**
Belgium	**—**	**2**	**1**	**—**	**3**
Czech Republic	**—**	**10**	**1**	**—**	**11**
Greece	**(12)**	**1**	**(23)**	**—**	**(34)**
Ireland	**—**	**11**	**2**	**—**	**13**
Italy	**—**	**2**	**5**	**—**	**7**
Luxembourg	**—**	**—**	**2**	**—**	**2**
Netherlands	**—**	**18**	**2**	**—**	**20**
Poland	**—**	**5**	**5**	**—**	**10**
Spain	**—**	**10**	**5**	**—**	**15**
Sweden	**—**	**—**	**—**	**—**	**—**
United Kingdom	**—**	**—**	**(2)**	**—**	**(2)**
Others	**—**	**—**	**(4)**	**—**	**(4)**
Profit/(loss) before tax	**(324)**	**(56)**	**(213)**	**(57)**	**(650)**
	Half year to 30 Jun 2019[1]				
France	12	78	(86)	(27)	(23)
Belgium	—	1	—	—	1
Czech Republic	—	13	—		13
Greece	(3)	(2)	11	(1)	5
Ireland	—	7	4	—	11
Italy	—	1	3		4
Luxembourg	—	—	3	1	4
Netherlands	—	10	1		11
Poland	—	3	3	(4)	2
Spain	—	13	13	—	26
Sweden	—	—	—	—	—
United Kingdom	—	—	(4)	—	(4)
Others	—	—	1	—	1
Profit/(loss) before tax[1]	9	124	(51)	(31)	51
	Half year to 31 Dec 2019[1]				
France	39	(141)	9	(38)	(131)
Belgium	—	(1)	1	—	—
Czech Republic	—	14	1	(1)	14
Greece	(4)	—	6	(3)	(1)
Ireland	—	9	5	—	14
Italy	—	2	5	(1)	6
Luxembourg	—	—	5	(1)	4
Netherlands	—	16	3	(1)	18
Poland	—	(10)	4	—	(6)
Spain	—	2	9	(1)	10
Sweden	—	—	(1)	—	(1)
United Kingdom	—	—		—	—
Others	1	—	—	(1)	—
Profit/(loss) before tax[1]	36	(109)	47	(47)	(73)

1 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

Outlook for the second half of 2020

For many economies, the gradual easing of the lockdown from May makes a progressive acceleration in the activity likely from the summer, in spite of differences for some emerging countries more recently affected by the pandemic. In a large number of countries, due to the extraordinary high level of uncertainty, public authorities have built several scenarios, some of which including a second wave of Covid-19 contaminations.

Mid-2020, it appears that the rebound of the economic activity will be gradual, with no possible comparison made to the sudden entry into recession: a higher saving ratio from more cautious households and a lower profit margin from companies may weaken consumption and investment, GDP growth main drivers, despite the very large increase accepted in fiscal deficits to support demand. In addition, the erosion of the stock of productive capital and the deterioration of human capital due to a worsening employment situation pose medium term risks to potential GDP. A renewed attention may therefore be paid to the design of reforms, notably for economies due to tackle important structural imbalances without compromising, in the short run, the exit from recession.

Review of business position

Summary consolidated balance sheet

	30 Jun 2020 €m	31 Dec 2019 €m
Total assets	**261,525**	237,680
Cash and balances at central banks	**36,032**	19,463
Trading assets	**17,169**	14,837
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	**10,990**	11,957
Derivatives	**55,451**	45,724
Loans and advances to banks	**7,088**	6,798
Loans and advances to customers	**59,228**	56,956
Reverse repurchase agreements – non-trading	**26,623**	45,973
Financial investments	**21,707**	16,987
Other assets	**27,237**	18,985
Total liabilities	**253,352**	229,209
Deposits by banks	**19,411**	12,113
Customer accounts	**67,084**	57,550
Repurchase agreements – non-trading	**11,883**	20,213
Trading liabilities	**23,674**	23,262
Financial liabilities designated at fair value	**18,269**	18,953
Derivatives	**53,485**	45,115
Debt securities in issue	**8,201**	9,782
Liabilities under insurance contracts	**22,379**	23,292
Other liabilities	**28,966**	18,929
Total equity	**8,173**	8,471
Total shareholders' equity	**8,146**	8,443
Non-controlling interests	**27**	28

Balance sheet information by segment

	Wealth and Personal Banking €m	Commercial Banking €m	Global Banking and Markets €m	Corporate Centre €m	Total €m
As at 30 Jun 2020	**59,096**	**47,890**	**169,022**	**(14,483)**	**261,525**
– *of which:*					
loans and advances to customers	***24,134***	***19,687***	***16,007***	***(600)***	***59,228***
customers accounts	***21,367***	***26,305***	***20,168***	***(756)***	***67,084***
As at 31 Dec 2019[1]	55,492	38,912	152,494	(9,218)	237,680
– *of which:*					
loans and advances to customers	*23,773*	*18,378*	*15,411*	*(606)*	*56,956*
customers accounts	*19,887*	*23,655*	*14,986*	*(978)*	*57,550*

1 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

HSBC France's consolidated balance sheet had total assets of EUR 261.5 billion at 30 June 2020, versus EUR 237.7 billion at 31 December 2019.

Assets

- Deposits with the Central Bank increased from EUR 19 billion to EUR 36 billion, in relation with the participation to the TLTRO III program issuance and with increased deposits position;
- Loans and advances to customers were up to EUR 59.2 billion in June 2020 compared with EUR 57 billion in December 2019. The increase concerned all business and particularly CMB and GBM to support customers in a difficult economic context;
- Derivatives increased by EUR 10 billion as a result of the downward shift of yield curves. Trading assets displayed a EUR 4.7 billion increase and other assets increased by EUR 8.2 billion mainly due to client-clearing accounts.

Liabilities

- Customer accounts rose from EUR 57.6 billion to 67.1 billion during the first half, with an increase mostly on CMB and GBM businesses;
- Derivatives increased by EUR 8.4 billion, due to the evolution of interest rates and consistent with the assets side. Trading liabilities were globally steady at EUR 24 billion and other liabilities displayed a EUR 10 billion increase mainly due to client-clearing accounts;
- Shareholders' equity was EUR 8.1 billion.

Capital

The detail of HSBC France movements impacting its capital structure are described in the capital management section on page 38.

At 30 June 2020, the Common equity tier 1 ('CET1') ratio stood at 12.6 per cent, the total capital ratio was 17.0 per cent and 'fully loaded' Leverage ratio was 3.4 per cent.

Liquidity and funding

The bank's medium- and long-term debt and the main funding operations performed during the first half of 2020 are presented in the Liquidity and funding section on page 36.

At 30 June 2020, the short-term Liquidity coverage ratio ('LCR') computed in respect of the EU Delegated act was 167 per cent and the long-term Net stable funding ratio ('NSFR') computed in respect of BCBS 295 guidelines was 122 per cent.

Average number of persons employed by HSBC France

		Half-year to		
		30 Jun	30 Jun	31 Dec
	Footnotes	**2020**	2019[3]	2019[3]
Wealth and Personal Banking	*3*	**4,215**	4,175	4,221
Commercial Banking		**1,747**	1,721	1,718
Global Banking and Markets		**1,183**	1,113	1,098
Corporate Centre	*1, 3*	**2,584**	2,980	2,878
Total	*2*	**9,729**	9,989	9,915

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.*
3 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

Credit ratings

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

	Standard & Poor's	Moody's	Fitch Ratings
Long-term Unsecured Debt	A+	Aa3	AA -
Outlook	Stable	Negative	Negative
Short-term Rating	A-1+	P-1	F1+
Last update	13 May 2020	18 Dec 2019	03 Apr 2020

On 1 and 3 April 2020, Fitch has put a number of HSBC entities including HSBC Holdings, HSBC Bank plc and HSBC France under negative outlook (from stable) to reflect increased risks in relation with Covid-19 outbreak. At the same time, according to a methodology change, they have upgraded the senior long term ratings of operating entities including HSBC France to AA- from A+.

On 13 May 2020, S&P has downgraded the long term ratings of European and North-American HSBC entities as well as HSBC Holdings on lowered earnings prospects and expected extensive restructuring.

Risks

Risk factors

We have identified a comprehensive list of risk factors that cover the broad range of risks our businesses are exposed to. A number of the risk factors have the potential to have a material adverse effect on our business, prospects, financial condition, capital position, reputation, results of operations and/or our customers. They may not necessarily be deemed as top or emerging risks; however, they inform the ongoing assessment of our top and emerging risks that may result in our risk appetite being revised.

For the risks linked to Covid-19 see Areas of Special Interest on pages 27 to 30.

Category	Risks	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.	Likely	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
	Risks concerning borrower credit quality are inherent in our businesses.	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
	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
	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
	We have significant exposure to counterparty risk.	Possible	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 risks

Current economic and market conditions may adversely affect HSBC France's results. Probability: Likely / Impact: Significant.

The Covid-19 outbreak has had, and continues to have, a material impact on businesses and on the economic environments in which HSBC France operates. The Covid-19 outbreak has caused disruption to HSBC France's customers, suppliers and staff. In many of the jurisdictions in which HSBC France operates, notably in France, schemes have been initiated by national governments to provide financial support to parts of the economy most impacted by the Covid-19 outbreak.

Should the Covid-19 outbreak continue to cause disruption to economic activity, particularly in Europe, through 2020, there could be adverse impacts on HSBC France's income due to lower lending and transaction volumes and lower wealth and insurance manufacturing revenue, including the present value of in-force long-term insurance business ('PVIF'), due to bond and equity markets volatility and weakness. In addition, lower interest rates will negatively impact net interest income and extreme market movements could have a negative impact on HSBC France's markets activities.

The current uncertain macroeconomic outlook will add pressure on revenues, weigh on loan impairment charges, and impact credit risk, capital risk, liquidity risk and people risk.

HSBC France's focus in 2020 is to continue to manage Covid-19 impacts whilst moving forward with HSBC France transformation. Group HSBC has launched a global re-designing of its businesses and functions. The Group strategy presented on 18 February 2020 aims to improve returns in Continental Europe by 2022, and reducing the RWAs deployed in Europe by 35 per cent. Given these guidelines, Global Businesses and Functions are reviewing their operating models, to build more streamlined and effective operations across Europe. This is being undertaken alongside the strategic review of retail operations which is ongoing and, for which at this point, no decision has been taken.

Consolidated Loss before tax was EUR 650 million, compared to a profit of EUR 51 million for the first half of 2019.

Geopolitical risks

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 required adjustments to HSBC European crossborder 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. These challenges are addressed as the project is being implemented.

See also page 27 – Areas of Special Interest – The UK's withdrawal agreement from the European Union.

Macro-prudential, regulatory and legal risks to the business model of HSBC France

HSBC France is exposed to the risks associated with the replacement of benchmark indices. Probability: Likely / Impact: Significant.

The planned replacement of key benchmark rates (LIBOR / EONIA) 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:

- Operational and execution risks, due to the requirement to adapt IT systems, trade reporting infrastructure and operational processes;
- Conduct risks, relating to communication with potential impact on customers, and engagement during the transition period;
- 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;

See also section 'IBOR transition' in the Areas of Special Interest on page 27.

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 (Regulatory Programmes, Continental European hub with new core banking platform, business participation choices) in addition to the already mentioned project related to the UK's departure. 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.

Risks concerning borrower credit quality are inherent in our businesses. Probability: Likely / Impact: Significant.

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.

In 2020, HSBC France has been taking exceptional measures to protect itself and its clients and participate in the prevention of an economic collapse, in particular through a quasi-systematic six month deferral of loan repayments for its smaller CMB clients and its personal, professional and entrepreneur client base within WPB, with limited exclusions or restrictions. For the corporate segments, deferral of repayments been considered on a case-by-case basis. At the beginning of the crises, new money financing has been granted to our customers, either state-guaranteed or not (depending on the individual situation). New money financing have been approved for large corporates to strengthen their short to mid-term liquidity at the beginning of the crisis, usually to support their rating or as a simple bridge to a refinancing in the debt market.

The review of counterparties under potential stress has been reinforced since the beginning of the Covid-19 crisis, with a focus on the early identification of cases that showed signs of credit worthiness deterioration.

Credit Risk RWAs have increased as a result of the deferral of repayments, approval of waiver requests, additional financing requests, precautionary drawdown by companies of their revolving credit facilities and the downgrading of clients' risk rating. For details concerning Credit Risk RWAs as at 30 June 2020 see table: Credit risk – RWA by exposure class on page 46.

Expected Credit Losses have increased significantly over the period, reflecting the deterioration of the overall credit worthiness of the portfolio, which mechanically increases the ECL for Stage 1 & 2. Stage 3 impairments have also materially increased as some companies entered into default either through bankruptcy or as they engaged into financial restructuring.

Change in expected credit losses and other credit impairment charges were EUR 229 million versus EUR 54 million in the first half of 2019. The increase mainly reflected the deterioration of current economic conditions and forward economic outlook that came out as significant provisions on GBM and CMB businesses.

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 organisational changes required to support the strategy, or fail to develop shared core values, our business prospects, financial condition and results of operations, including control and operational risks, could be materially adversely affected.

Nevertheless the current pandemic crisis has had a double impact on headcounts with a reduction both in trend of resignations and external recruitments.

On the contrary, people risks linked to higher uncertainty, anxiety and stress, has undoubtedly increased during this prolonged period of 'working from home'.

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 fundamental 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 bank for international corporates in 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 judgements, 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. Global Businesses and Functions are working on 2022 targets, including a review of clients, product priorities and the booking model in Europe. HOST and the Global Functions have been asked to redesign a more streamlined and effective operating model across Europe, between the Region and the legal entities, based on the new business models designed by the Global Businesses.

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 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 did not report any significant security incidents in the past 18 months and had no operational losses related to Cyber risks in either 2019 or in the first half 2020. Operational losses for combined Information, technology and cyber security risks were EUR 0.216 million in the first half of 2020 (of which zero related to cyber risks) and over the period 2011–2019 they represented a modest 0.92 per cent of total operational risk losses for HSBC France. For Cyber risks, the operational risk losses over the period (2011–2019) did not exceed 0.18 per cent of the total operational risk losses for HSBC France for the same period. See table on page 132 of the *2019 HSBC France Universal Registration Document* concerning Operational risk losses (2011–2019): quantitative data starting from 2011.

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 thirdparties 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.

Any outsourcing of a material service needs to be formally approved by the Bank Risk Management Meeting.

In the context of the Covid-19, a strong follow up has been implemented on our main third party and intra Group suppliers, notably through dashboards. No material incidents linked to Third party occurred.

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 and 2020. In addition HSBC France management considered the financial control environment and reviewed action taken to enhance controls over IT access management.

Operational losses for Information, technology and cyber security risk in the first half of 2020 were EUR 0.216 million and over the period 2011–2019 they represented a modest 0.92 per cent of total operational risk losses for HSBC France.

See table on page 132 of the *2019 HSBC France Universal Registration Document* concerning Operational risk losses (2011–2019): quantitative data starting from 2011.

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.

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 HSBC France 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, most notably the Group’s strategic review of retail operations in France, 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. Such events are made more probable by the uncertain and unprecedented environment created by the Covid-19 crisis.

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.

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. For information purposes, Risk Weighted Assets as of 31 December 2019 included EUR 36.425 billion in Credit Risk, EUR 3.983 billion in Counterparty Credit Risk, EUR 3.149 billion in Operational Risk, and EUR 4.494 billion in Market Risk (cf. *2019 HSBC France Universal Registration Document* page 154) – these numbers are for a large part computed using internal models. For details concerning RWAs as at 30 June 2020 – see table: Overview of RWAs on page 45.

Likewise, models are used to infer the fair value of some financial instruments, such as over-the-counter derivatives, whose price cannot be directly observed on trading platforms: models then compute a fair value by leveraging the prices of similar observable financial instruments. They may be based on observable inputs only ('Level 2' fair value accounting) or, in some cases, on some unobservable inputs that have to be prudently estimated ('Level 3' fair value accounting). For information purposes, as of 31 December 2019, assets valued under Level 2 techniques amounted to EUR 31 billion, and liabilities to EUR 39 billion; assets valued under Level 3 techniques amounted to EUR 1 billion, and liabilities to EUR 437 million (cf. 2019 HSBC France *Universal Registration Document*, note 12 of the consolidated financial statements, page 184).

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 realised between lending and borrowing costs.

Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict our ability to change interest rates applying to customers in response to changes in official and wholesale market rates.

Our insurance businesses are also exposed to the risk that market fluctuations will cause mismatches to occur between product liabilities and the investment assets that back them. It is difficult to predict with any degree of accuracy changes in market conditions, and such changes may have a material adverse effect on our business, prospects, financial condition and results of operations.

In the first half of 2020, the world has been dramatically hit by the coronavirus sanitary crisis. The confinement measures stopped the economic activity abruptly and forced governments and central banks to react vigorously to avoid a brutal and lasting economic depression. The European Central Bank ('ECB') launched a pandemic emergency purchase program of EUR 1,350 billion. The criteria of eligibility – in terms of size by issuer and ratings – have been relaxed compared to the previous plans to allow the institution to purchase Greece and Italian debts more easily. The scope has been extended to non-financial papers.

In the US, The Federal Reserve announced an unlimited quantitative easing program and central government undertook massive fiscal and credit backed programs.

Both US and Euro swap yields decreased and flattened during the semester.

Despite the support to the economy, the financial markets have been severally impacted by the crisis. Peripheral debts faced a widening move of asset swap levels over the first quarter (Italy +45 basis point in average, Greece near +1 per cent on the short-term debts). Ultimately the ECB's intervention has limited the observed violent widening occurred mid-march when markets panicked together with the aggravation of the sanitary situation.

Stocks market dropped by 20-30 per cent across the globe in March but rallied significantly in June backed by a renewal of optimism on the end of sanitary crisis and the amount of liquidity brought by central banks.

Dedicated coronavirus stress tests did not exhibit significant potential market risk losses on Trading portfolios. They show significant increase of the Counterparty Credit Risk exposure but concentrated on collateralised or investment grade counterparties.

Despite April's market rebound, considerable uncertainty remains over the trajectory of global growth over the coming quarters. The impact of the Covid-19 pandemic continued to dominate markets, with an increasing focus on how countries are beginning to relax their lockdown measures and how this will affect the economy.

As at 30 June 2020, Market Risk RWAs were EUR 2.424 billion of which EUR 342 million were under standardised approach and EUR 2.082 billion under IMA. The standardised RWAs include EUR 148 million of Interest rate risk, EUR 81 million of Foreign exchange risk and EUR 113 million of options. RWAs under IMA include EUR 496 million VaR RWAs, EUR 573 million Stressed VaR RWAs, EUR 541 million of Incremental risk charge RWAs and EUR 472 million re Others. See tables: Market risk under standardised approach and Market risk under IMA on page 47.

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.

In 2019, Operational Risk losses totalled EUR 15.08 million of which EUR 2.48 million were for external fraud and compares to EUR 17.4 million in total in 2018 of which EUR 2.4 million for external fraud. Internal fraud were negligible or zero in 2018 and 2019.

See table on page 132 of the *2019 HSBC France Universal Registration Document* concerning Operational risk losses: quantitative data starting from 2011 for full details.

In H120, the external fraud environment was heightened as the Covid-19 disruption provided opportunity for increased scam activity exploiting the current state of emergency. Whilst we are not aware of significant losses from Covid-19 related fraud in Europe, criminal gangs are using ransomware to extract data from organisations, lockdown their systems and demand payment. The pandemic is impacting economic activity putting clients under financial stress and/or forcing change of business models. Consequently, there is an increased risk of 1st Party fraud from clients misrepresenting financial statements to borrow or hide financial distress and the use of fictitious documents to obtain credit as loans or trade finance. Government backed loan schemes are targeted by fraudsters, non ring-fenced bank businesses have noted increased transactions across these schemes with some referred for fraud assessment.

The risk of internal fraud was also elevated while the bank operated business continuity arrangements in response to the Covid-19 pandemic. Whilst no evidence of increased internal fraud has been identified, across all Lines of Business (LoB) and HOST, most staff worked from home and processes were adapted to cater for limitations the pandemic has introduced e.g. reduction in person to person contact, alternate methods of receiving payment instructions. The bank is having to adapt its processes at a faster pace than prior to the pandemic which may result in the weakening of controls or failure to implement new controls to mitigate the increased risk. Reduced management supervision and visibility resulting from staff working at home also contributes to the risk.

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.

We have significant exposure to counterparty risk. Probability: Possible / Impact: Moderate.

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.

As at 30 June 2020, Counterparty Risk RWAs were EUR 3.672 billion of which EUR 875 million were on IRB advanced approach (90 per cent institutions), EUR 1.615 billion on IRB foundation approach (100 per cent corporates), EUR 470 million standardised (81 per cent institutions), EUR 437 million CVA advanced, EUR 95 million CVA standardised and EUR 180 million CCP standardised. 76 per cent of Counterparty Risk RWAs are derivatives (OTC and exchange-traded derivatives) related. See table: Counterparty credit risk – RWAs by exposure class and product on page 46.

In the early stage of Covid-19 pandemic, a review has been performed on many sectors, concentrating notably on bank, Energy/Oil, Airlines industries along with Italy country review.

Stress test was also a management tool used to revisit the HSBC France portfolio. The risk appetite at Global Markets level has been redefined on the financing limits for exposures on peripheral EUR countries 'GIIPS' and also the CC&G interoperability cap based on the Nominal limit for Italian government bond repo cleared via LCH Clearnet SA.

During the development of Covid-19 crisis, vulnerable clients, sectors and countries have been specified. The risk management strongly focused on the collateral disputes and the failed payments with strong communication to senior GM stakeholders. Any outstanding trade notably on the vulnerable sectors has been escalated.

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, even in times of economic crisis, this may not continue.

We also access wholesale markets in order to provide funding to align asset and liability balances, maturities and currencies, and to contribute to the financing of our lending and market activities.

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, and accessing the central bank refinancing operations which have materially enhanced over the second quarter of 2020 – 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.

The short-term ratio (liquidity coverage ratio or LCR), calculated according to the European Commission Delegated regulation (EU 2015/61), was 167 per cent as opposed to the regulatory minimum figure of 100 per cent, and the long-term ratio (net stable funding ratio or NSFR), calculated according to the text of BCBS 295, was 122 per cent. 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. Nevertheless, based on Regulation EU 2019/876 which will enter into force in June 2021, the NSFR is estimated at the level of 129 per cent as at end June 2020.

HSBC France undertakes liquidity stress testing to test that its risk appetite is adequate, to validate that it can continue to operate under various stress scenarios that involve an analysis on the relevant probable or severe area of risk to HSBC France, 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, 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.

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 regulatory requirements, and regulators and FIU's expectations and recommendations 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 regulators remain 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 third parties to carry out certain ID&V and KYC activities in accordance with our 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.

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. 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 96 per cent mandatory training completion rate (the Risk Tolerance is set at 97 per cent). 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.

Managing risks

The risk profile of HSBC France is underpinned by its core philosophy of maintaining a strong balance sheet, robust liquidity position and capital strength.

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

The risk management framework promotes a strong risk culture which is reinforced by HSBC Values and Global Standards and ensures that our risk profile remains conservative and aligned to our risk appetite. Further details are set out on pages 78 to 150 of the *Annual Report and Accounts 2019.*

There have been no material changes to our policies and practices regarding risk management and governance in the first half of 2020.

In the first half of 2020, we continued to make our risk appetite evolve, by enhancing both the financial and non-financial aspects of our risk appetite statement to ensure we remained able to support our customers and strategic goals against the backdrop of the Covid-19 outbreak. Specific emphasis was placed on capital risk to ensure the group had adequate capacity to provide financial support to customers, and a pragmatic approach to the management of non-financial risks, arising from large scale operational changes from changed working practices, such as widescale homeworking.

Top and emerging risks

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

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

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

During the first half of 2020, all the HSBC France Top and Emerging Risks were reviewed to include the Covid-19 risks and mitigations.

Further details are set out in the risk overview table.

Risk		Mitigants
Externally driven		
Macro economic risks	▲	The Covid-19 pandemic first led to a shock on financial markets, the CAC40 index falling by 38 per cent between mid-February and mid-March, when a lockdown was decided, then progressively lifted from 11 May. In spite of numerous supporting measures taken by the European central bank and French authorities, notably a total of EUR 136 billion of additional public spending (representing 5.6 per cent of 2019 GDP), the French economy entered into recession: following the first fall registered in Q4 2019 (-0.1 per cent in quarterly changes), the second in Q1 2020 (-5.3 per cent) was the sharpest since national quarterly accounts began in 1949. Also, despite measures taken by French authorities toward the mostly hit economic sectors (tourism, aeronautics and automotive in particular), uncertainties about the health situation and its spread worldwide make a V-shaped rebound less likely. Consequently, more caution expected in consumption's and investment's decisions over the next quarters may give more importance to economic policies and reforms to be implemented in France but also in the European Union over that horizon.
Geopolitical risks	▲	We continually assess the impact of geopolitical events on our businesses and exposures, and take steps to mitigate them, where required, to help ensure we remain within our risk appetite.
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. The Group strategy presented on 18 February 2020 – discussed in the 'Strategy' and 'Business Model Sustainability' sections – aims to improve returns in Continental Europe by 2022. Work continues in this regard as we look to focus on clients that value our franchise whilst assessing our product priorities and the cost and shape of the supporting infrastructure. The banking industry also finds itself confronted in some of its traditional banking products and services with the arrival of mobile banks, GAFAs and new non-banking entrants ('Fintechs', 'Insurtech', 'Supply Chain Specialists', etc.) which have superior, innovative and customer centric technologies. This challenge is made tougher by several regulations and market evolutions, both in the payment (PSD2, Instant Payment, NFC payment, blockchain) and data management landscape (GDPR – Global Data Protection Regulation –, Open Banking, Artificial Intelligence). Due to Covid-19, the profitability of a number of competitors' banks will be impacted and some fintechs could be even more weakened. 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.
Ibor Transition Risk	▲	Some of the main IBOR (interbank offered rates) interest rate indices, LIBORs and EONIA, will be discontinued from 31 Dec 2021 and replaced by Risk Free Rates. This change generates operational, conduct, financial, legal, accounting and systemic risks. It is managed at Group level by the IBOR transition program, organised by business / function global workstreams involving HSBC France, and at HSBC France level by a cross business and functions governance covering the European branches of HSBC France. The Covid-19 crisis has generated an increased operational risk. HSBC France actively participates in the IBOR-related discussions with the European regulator and with the European / French industry, in particular on client communication and conduct risk. HSBC is rolling out a client communication programme enabling to give full transparency on the topic to clients and is completing a detailed analysis of the conduct risks related to the IBOR transition. adaptation of all processes involving Eonia and communication to all concerned clients, in short timelines.
Cyber threats and unauthorised access to systems	▲	HSBC France is actively participating in intelligence sharing and continues to improve its governance and control framework to protect its information and technical infrastructure against ever increasingly sophisticated cyber threats such as payment systems compromises and Ransomware attacks.
Tax Transparency / Transfer Pricing	▶	HSBC France continues to implement the Tax Transparency. The bank has implemented CRS to exchange information with other adopting countries and is in the process of implementing DAC (Directive on Administrative Cooperation) 6. The Transfer Pricing policy is also currently being reviewed to include the branches.
Regulatory Compliance including conduct	▼	HSBC France continues to engage with its key stakeholders to ensure compliance in the implementation of the ongoing projects of significance. These include the recent EU regulatory developments, structural changes to mitigate the consequences of the UK's departure from the EU (including outsourcing arrangements), French customer & whistleblower protection rules and the market abuse framework. The first half of 2020 was marked by the adaptation of the bank's operation to the current context. Thereby, in its role of risk steward, Regulatory compliance worked in close collaboration with the 1st and 2nd lines of defense in order to set up derogatory processes adapted to remote work. From the point of view of Regulatory Compliance, this work was particularly demanding with regards to the requirements for continuity of market activities. In Retail Banking, attention focused on the most fragile customers and on the adaptation of the agencies organisation to the new requirements in order to ensure the continuity of the relations with the customers. For Corporate customers, the main challenge was that they also has to adopt remote working.
Financial Crime Compliance	▼	The focus in 1H 2020 was mitigating the impact of the Covid-19 pandemic. The pandemic translated into a rise in fraud attempts such as social engineering and malware attacks against consumers. However HSBC France did not observe increased fraud attempts on itself. Some exceptions to the BAU control framework on fraud risk have been approved through a strict process to accommodate business continuity requirements. Anti-Money Laundering, Sanctions, Anti-Bribery & Corruption (AFA Remediation programme) and Transaction Monitoring control frameworks remained a priority.
Climate Change	▶	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. 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 decarbonation scenario.

Risk		Mitigants
Externally driven		
Business Model Risk	▲	The banking industry in Europe is still impacted by low profitability, with some banks generating a return on Equity (RoE) which is below their estimated cost of equity. For HSBC France, this has been driven by a prolonged period of low interest rates and intense competition impacting the ability to generate income, and by investments in IT and fight against Financial Crime impacting our cost base. The current uncertain macroeconomic outlook will add pressure on revenues, weigh on loan impairment charges, and impact credit risk, capital risk, liquidity risk and people risk. HSBC France focus in 2020 is to continue to manage Covid-19 impacts whilst moving forward with HSBC France transformation. Group HSBC has launched a global re-designing of its businesses and functions. The Group strategy presented on 18 February 2020 aims to improve returns in Continental Europe by 2022, and reducing the RWAs deployed in Europe by 35 per cent. Given these guidelines, Global Businesses and Functions are reviewing their operating models, to build more streamlined and effective operations across Europe. This is being undertaken alongside the strategic review of retail operations which is ongoing and, for which at this point, no decision has been taken.
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. These risks are closely monitored and mitigation actions have been implemented, including an enhanced communication plan.
Internally driven		
IT & Operational Risk Resilence risk	▲	HSBC France has accelerated its evergreening programme, including the evolution of its GBM servers, and has reinforced its IT access control framework and processes. Also, ongoing security improvement programmes are being managed to enhance the bank’s protection against ever-evolving cybercrime threats.
Third Party Risk	▶	We continue to strengthen essential governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of third parties with which we do business. This includes control monitoring and assurance throughout the third-party life cycle.
Execution risks	▲	HSBC France provides the necessary means to manage its various projects be they technical, financial or human. These are subject to regular monitoring as part of the governance framework adapted to the nature and complexity of the projects. The most important projects are followed at the highest possible governance forums.
Model risk	▲	Model Risk in HSBC France remains elevated due to the large number of complex models used to support its operations, in particular in the area of regulatory capital held against credit risk, market risk and counterparty credit risk. Such models are subject to permission from the European Central Bank, which performs regular reviews on quality and usage of HSBC France's models, and already issued a number of findings. HSBC France is undertaking the necessary steps to solve these points by improving or redeveloping models as appropriate. HSBC France's governance of model risk is also being enhanced. Furthermore, the uncertain and unprecedented Covid-19 crisis environment impacts the reliability of model predictions: HSBC France deals with this situation by closely monitoring model performances, and overriding them wherever they are deemed to rely on outdated assumptions or data.
Data Management	▶	HSBC France continues to strengthen data controls to ensure data risks are appropriately managed. HSBC France data strategy is aligned to that of HSBC Group and leverage Group data capabilities. The priorities are to further increase the scope of data under governance, to improve operational controls on data privacy and data protection requirements. Data risks have remained stable since 31 December 2019. The focus remains on data privacy, for which funded programmes are in place to address the identified risks.
People Risk	▲	A more challenging external environment, made worse by the Covid-19 crisis as well as the remodelling of the structure to remain competitive and transformation programmes 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 compared 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 develop new competencies, which could create a feeling of unsuitability for some of them. In order to mitigate the above risks, HSBC France is making regular and clear communications to all staff concerning the reorganisations and projects in progress. The bank also monitors with attention the workload and stress levels of its employees via bi-annual surveys. Line managers are equally made aware of this risk regularly and are encouraged to take appropriate action when necessary. HSBC France has developed a series of collaborative workshops to collect feedback and concrete action plans and has created a programme called #Resilience to help managers and employees cope with the current context of high uncertainty. In addition, HSBC France has deployed specific learning classes (technical, management, soft skills) for staff to develop new competencies and adapt themselves.

▲ Risk has heightened during first half of 2020

▶ Risk remains at the same level during the first half of 2020

▼ Risk has decreased during first half of 2020

Areas of special interest

The UK's withdrawal agreement 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.

Mitigant 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. Given the potential impact of Covid-19 to UK Government timelines, Group HSBC's planning assumption remains the loss of passporting.

HSBC Group has put in place a robust contingency plan. 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. The impacts of Covid-19 outbreak have been mostly mitigated.

This risk is stable versus 31 December 2019.

Ibor transition

The context within which HSBC is transitioning away from LIBOR and EONIA is set out in the 'IBOR Transition' section on pages 79 to 80 of the *Annual Report and Accounts 2019*. During the first half of 2020 HSBC's IBOR transition has developed as follows:

Develop RFR product capabilities

Our global businesses continue to develop their capabilities to offer RFR-based products and the supporting processes and systems. Covid-19 has impacted the speed with which we are able to develop these capabilities and many of our customers' readiness to adopt RFR-based products. Consequently, the sale of LIBOR and EONIA contracts with maturities beyond 2021 (legacy contracts) will continue for longer than initially anticipated and is likely to increase the volume of legacy contracts that will need to be transitioned.

Transition legacy contracts

The programme is also continuing to develop the capability to transition legacy LIBOR and EONIA contracts at scale 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. Covid-19 has likely affected the pace with which many of our customers will have been preparing to adopt RFR-based products and therefore also to transition their legacy contracts to RFRs. Consequently, we expect legacy contract transition to occur over a shortened time period. In combination with the greater number of legacy contracts requiring transition, this increases the overall level of execution risk on the transition process, thus potentially increasing the level of conduct and operational risks. Our plans are being adjusted to reflect both the greater effort required and associated risks. In addition to the heightened conduct and operational risks, the process of adopting new reference rates may expose the Group to an increased level of financial risk, such as potential earnings volatility resulting from contract modifications and changes in hedge accounting relationships. Furthermore, the transition to alternative reference rates could have a range of adverse impacts on our business, including legal proceedings or other actions regarding the interpretation and enforceability of provisions in IBOR-based contracts and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of Ibor with alternative reference rates. 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.

Covid-19

Introduction:

The Covid-19 outbreak has had, and continues to have, a material impact on businesses and on the economic environments in which HSBC France operates. There are a number of factors associated with the outbreak and its impact on economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions such as HSBC France.

The Covid-19 outbreak has caused disruption to HSBC France's customers, suppliers and staff.

In many of the jurisdictions in which HSBC France operates, notably in France, schemes have been initiated by national governments to provide financial support to parts of the economy most impacted by the Covid-19 outbreak.

The Covid-19 pandemic first led to a shock on financial markets, the CAC40 index falling by 38 per cent between mid-February and mid-March, when a lockdown was decided, then progressively lifted from 11 May in France. In spite of numerous supporting measures taken by the European central bank and French authorities, notably a total of EUR 136 billion of additional public spending (representing 5.6 per cent of 2019 GDP), the French economy entered into recession: following the first fall registered in Q4 2019 (-0.1 per cent in quarterly changes), the second in Q1 2020 (-5.3 per cent) was the sharpest since national quarterly accounts began in 1949.

The second quarter of 2020, on which most of the lockdown period was centered, may thus mark the trough of the economic activity. Record lows were reached in April for business confidence and capacity utilisation rate, the INSEE then estimating the French economy ran 35 per cent below normal. Just in Q1, two weeks of confinement contributed to decrease firms' profit margin to its lowest rate since 1985, while household savings ratio rose to its highest since 1978. As the part-time work compensation scheme has been largely used, and despite consumers' fears that jobless rate may increase in the coming months, private spending may be less affected than business investment during the expansion phase: productive investment at the end of 2021 may not be back to the level it had at the end of 2019, posing risks to medium-term potential GDP growth.

Also, despite measures taken by French authorities toward the hardest hit economic sectors (tourism, aeronautics and automotive in particular), uncertainties about the health situation and its spread worldwide make a V-shaped rebound less likely. Consequently, more caution expected in consumption and investment decisions over the next quarters may give more importance to economic policies and reforms to be implemented in France but also in the European Union over that horizon.

Given the impact of the Covid-19 and the confinement period, customers and Lines of Businesses faced new issues for which some current processes were not fit for purpose, taking into account that customers were sometimes facing difficulties to contact the bank in the usual manner and obviously to go to branches. In that context, HSBC France has adapted its processes and controls as necessary to ensure seamless continuity in service where necessary.

In addition, a Global Covid-19 Working Group was put in place as early as of January to coordinate, report and provide guidance on issues requiring global coverage or consistency in responding to the Coronavirus (2019-nCoV). This fed into the Major Incident Group meetings, which have been held at high frequency since the Covid-19 crisis burst.

Weekly Asset, liability and capital management committee (ALCO) and ad-hoc meetings were held during the lockdown to monitor i) the impact of the crisis on HSBC France's balance sheet (eg customers draw downs on existing credit facilities or new money to support clients), ii) liquidity and capital positions and to make decisions on mitigating actions such as the bank's participation in Long Term Refinancing Operations ('LTRO') and Targeted LTRO ('TLTRO') and capital injections.

The situation was closely monitored at executive and Board level, through daily or weekly meetings covering all risk areas (liquidity, capital, credit, operational).

As of today, no material Operational losses have been recorded due to Covid-19.

Credit Risk

The review of counterparties under potential stress has been reinforced since the beginning of the the Covid-19 crisis, with a focus on the early identification of cases that showed signs of credit worthiness deterioration.

Credit Risk RWAs have increased as a result of the deferral of repayments, approval of waiver requests, additional financing requests, precautionary drawdown by companies of their revolving credit facilities and the downgrading of clients' risk rating.

Expected Credit Losses have increased significantly over the period, reflecting the deterioration of the overall credit worthiness of the portfolio, which mechanically increases the ECL for Stage 1 & 2. Stage 3 impairments have also materially increased as some companies entered into default either through bankruptcy or as they engaged into financial restructuring.

Expected Credit Losses

The outbreak has led to a weakening in GDP in many of our major markets, a key input used for calculating ECL, and the probability of a more adverse economic scenario for at least the short term is substantially higher than on 31 December 2019. Furthermore, ECL will arise from other parts of our business impacted by the disruption to supply chains. The impact will vary by sectors of the economy, with heightened risk to the oil and gas, transport and discretionary consumer sectors being observed in the first stages of the outbreak. The impact of the outbreak on the long-term prospects of businesses in these sectors is uncertain and may lead to significant ECL charges on specific exposures, which may not be fully captured by ECL modelling techniques. In addition, in times of crisis, fraudulent activity is often more prevalent, leading to potentially significant ECL charges, although this has not been observed yet in the current context.

HSBC France operational resilience over the crisis, and coming challenges

The Covid-19 event has been effectively managed at HSBC France. At the peak, around 95 per cent of the main offices employees were successfully working from home, with only exceptional roles continuing onsite. There have been no material operational issues experienced and we have successfully supported government furlough schemes.

The key support provided by the IT infrastructure for home working has enabled teams to successfully adapt and maintain key deliverables during this challenging period. Working from home has arguably become the 'new normal'. Our overall Video technology has performed well.

The main risks identified during the crisis have been actively monitored:

Operational Risk: The dependency on offshore locations, and our IT infrastructure is clear. The other risks we face is a second wave of infections, and challenges to people as a result of remote working, such as system and broadband bandwidth, fatigue, and illness. The response from our offshore locations has been exceptional.

Control Environment: Covid-19 has led to some exceptions to standard practices which have been validated by the relevant Risk stewards and recorded in a central register.

Coming challenges: Return to Workplace ('RTW') planning is now a key area of focus for HSBC France; we are monitoring developments and government guidelines to ensure staff safety. HSBC France has created a local RTW Playbook. Clear principles and people prioritization have been established to protect our people and our clients. We are closely tracking the RTW plans in order to ensure oversight and to reduce the likelihood of people risk.

The Operations and IT teams have continued to work with all Global Businesses to ensure resiliency under a range of operating scenarios and are continuing to actively monitor other risk levels across the business, particularly increased operational risk (staff capacity, largely mitigated by the rapid move to remote working), reputational risk, and fraud.

Further to our operational response to the pandemic, specific attention is given to the impact of Covid-19 across our key regulatory change programmes. The wider implications of potential material impacts are monitored, in order to ensure our Regulatory Compliance Risk profile remains reflective and accurate.

All of our businesses and functions have focused on understanding what processes needed to change to accommodate a WFH model and also to operate effectively in the 'new normal,' which we anticipate will involve a mix of main office working, contingency site, and WFH. A Covid-19 Inventory is now in place to document all known exceptions to how teams are operating versus what had previously occurred in business as usual. Such exceptional handling has been agreed through formal governance arrangements.

People risk

From early March, due to Coronavirus pandemic crisis, population lockdown was imposed by authorities in many European countries. In France, lockdown started 16 March. In this exceptional context, HSBC France as well as its European branches decided to activate immediately its Business Continuous Plans, resulting in remote working for the vast majority of employees, limiting employees to work on site.

After two months of lockdown, authorities of many European countries decided to proceed with the progressive end of lockdown

During lockdown and after, people risk has increased as the crisis generated more uncertainty, anxiety, stress, and creating disruption on the work life balance with some employees feeling isolated, some others feeling overworked especially for those taking care of children. This has led to an increase of psycho social risks overall.

In order to mitigate those risks during lockdown, several actions focused on employee /clients health and safety, were taken:

- Regular written communications sent to employees from CEO, Businesses, Functions and HR,
- Monitoring of authorities 'communications: health and sport ministry, foreign office, Banking sector association ('AFB')
- Several initiatives to encourage employees to keep in touch with their teams and the company,
- Specific tool kit trainings to support managers and employees in the current difficult context,
- Regular cascade of guidelines, practices through Q&A,
- Contact centre (Tier 1) and HR teams (Tier 2) duly trained to answer employees' queries,
- Detailed daily reporting on Covid-19 cases

The announcement of lockdown end raised new concerns mainly linked with security in public transportation and with workplace conditions on site.

In this second phase, aside from continuous regular communications, additional actions were taken to support employee's reluctance to return back to the office:

- Progressive return to workplace with a maximum employee occupancy on site for each 3 phases,
- Remote working maintained as much as possible during phase 1 of the return plan,
- Flexibility on arrival/departure hours,
- Sanitary measures such as hydro-alcoholic gel available at entrance building / floor, enhanced daily desk cleaning, and masks provided to employees,
- Social distancing (2 metres) organised through floor markings,
- Dedicated building entry/exit points and lifts with limited occupancy,
- Company restaurant only serving packed lunch,
- No or limited external visitors and no physical meetings in phase 1,
- Support from in-house Health centre,
- Development workshops to get employees feedbacks on the crisis.

Model Risk

The unprecedented character of the economic and financial disruptions created by the Covid-19 crisis is a challenge to modelling. Models, in the sense of quantitative methods that apply mathematical techniques and assumptions to process input data into quantitative estimates, are used by HSBC France for a wide range of purposes, 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.

All models are based on a fundamental assumption that there exist some stable relationships between various aspects of the modelled situation, or in other terms that the future will look like the past. Hence they cannot be trusted to provide wholly reliable predictions in an unprecedented state of affairs such as the deep recession caused by the current health crisis.

Amongst the main impacted models are Credit Risk models, which are based on lagged data and patterns which may not reflect the actual economic situation of borrowers or the prospects they face for the future. Likewise, in Market Risk, value-at-risk ('VaR') models are based on an assumption of stable market conditions and therefore failed to immediately adjust to the very high price volatility observed since March 2020, resulting in particular in an abnormal concentration of daily losses higher than VaR in March.

HSBC France is dealing with this situation by a strong focus on the performance of the models, and by instructing model users to apply professional judgement when considering model output, using overlays when there is a suspicion that the model is relying too much on outdated assumptions or data.

On the longer term, however, there is no indication that model reliability be permanently impaired; many models already incorporate recent crisis-related data in their calibration, and in general models are expected to progressively recover their predictive power as the pace of changes slows down.

Market risk sensitivities and impact on valuations (including Insurance)

– **Market Risk** – Dedicated coronavirus stress tests did not exhibit significant potential market risk losses on Trading portfolios. They show significant increase of the Counterparty Credit Risk exposure but concentrated on collateralised or investment grade counterparties. Despite April's market rebound, considerable uncertainty remains over the trajectory of global growth over the coming quarters. The impact of the Covid-19 pandemic continued to dominate markets, with an increasing focus on how countries are beginning to relax their lockdown measures and how this will affect the economy.

Market turmoil caused by the Covid-19 outbreak saw asset price dispersion and bid-offer spreads significantly increase, leading notably to a material increase of bid-offers charge in 1Q20 when compared with 4Q19. For 2Q20 the charge has materially reduced due to bid offer spreads and price dispersion reduction as markets calmed down.

We also noticed an increase in our Credit Valuation Adjustment ('CVA') charge because of the widening of our counterparties credit spread.

Despite the larger volatility experienced by the markets in this period, we did not observe any major weakness in HSBC France's fair valuation models and concluded that they operated satisfyingly.

– **Insurance** – The Covid-19 crisis has entailed one of the worst drops on financial markets ever seen. This had impacts on the portfolio of the HSBC France insurance subsidiary through different ways.

The major impact of the adverse evolution was on the company's solvency ratio, which dropped dramatically in March This drop was due to the combination of the degradation of the equity markets (the Eurostoxx 50 index decreased by 30 per cent between mid-february and end of March), the increasing volatility of the markets and the strong decrease in rates (the EUR 10Y swap rate reached an all-time low level at -0.32 per cent as of 9 March). It resulted in a significant impact on equity positions valuation due to the increase of unrealised losses on all the equity bucket (around 7 per cent of the total portfolio). This led to an increase of equity risk capital demand and a reduction in economic own funds.

Moreover, as liability duration is higher than asset duration, the decrease in interest rates resulted in a strong decrease of own funds as liability raised more than assets and in a significant increase in capital demand. However, it should be noted that a prudent hedging strategy had been set up before the crisis, which contained the impact of the drop.

The second major impact of the crisis, for the medium term, is the likelihood of several rating downgrades among the bond issuers in the portfolio of assets held by the insurance company. This will both impact the bond market valuations and the spread risk capital demand as its calculation method is directly proportional to the bond ranking. The default risk has also dramatically increased. Nonetheless, the strong monitoring of the bond portfolio and restrictive choice among the bonds universe (through issuers selection, strong average rating of the bond portfolio (A/A-), and low average duration) are expected to mitigate this risk effectively.

Liquidity and capital

The Covid-19 crisis has resulted in HSBC France facing in March material draw down from customers on committed facilities.

Since early April 2020 the situation has normalised and outlook on liquidity and funding improved which was in particular driven by the participation to LTRO and TLTRO III.

Customers deposits have grown during the crisis on all the main lines of business.

During the crisis, business lines balances were tracked on a daily basis via dedicated reporting, whilst the prospective business line insight was shared with ALCO members in weekly capital and liquidity steering meetings.

Also, several measures were implemented (see section on regulatory developments on pages 38 and 39 by national authorities and regulators to allow banks to support the European economies from a capital and leverage perspective.

Conclusion

It remains unclear how the Covid-19 situation will evolve through 2020 and we continue to monitor the situation closely. Given the prolonged nature of the current crisis, additional mitigating actions may be required.

Customer relief programmes

In response to the Covid-19 pandemic, governments around the world have introduced a number of support measures for both personal and wholesale customers. The following table presents the number of customers and drawn loan values of customers under these schemes and schemes independently implemented by the Group at 30 June 2020.

Personal lending

		France	Spain	Total
Market-wide schemes				
Number of customers granted mortgage customer relief				
Drawn loan value of customers granted mortgage customer relief	€m			
Number of customers granted other personal lending customer relief		248		248
Drawn loan value of customers granted other personal lending customer relief	€m	22		22
HSBC-specific measures				
Number of customers granted mortgage customer relief				
Drawn loan value of customers granted mortgage customer relief	€m			
Number of customers granted other personal lending customer relief		2,503		2,503
Drawn loan value of customers granted other personal lending customer relief	€m	620		620
Personal lending to major markets under market-wide schemes and HSBC-specific measures				
Number of customers granted mortgage customer relief				
Drawn loan value of customers granted mortgage customer relief	€m			
Number of customers granted other personal lending customer relief		2,751		2,751
Drawn loan value of customers granted other personal lending customer relief	€m	642		642
Market-wide schemes and HSBC-specific measures mortgage relief as a proportion of total mortgages	%			
Market-wide schemes and HSBC-specific measures other personal lending relief as a proportion of total other personal lending loans and advances	%	3.3		3.3

Wholesale lending

		France	Spain	Total
Market-wide schemes				
Number of customers under market-wide measures		3,633	3	3,636
Drawn loan value of customers under market-wide schemes	€m	2,329	48	2,377
HSBC-specific schemes				
Number of customers under bank-specific measures		9,410		9,410
Drawn loan value of customers under bank-specific measures	€m	3,531		3,531
Total wholesale lending to major markets under market-wide schemes and bank-specific measures				
Number of customers		13,043	3	13,046
Drawn loan value	€m	5,860	48	5,908
Market-wide schemes and HSBC-specific measures as a proportion of total wholesale lending loans and advances	%	21.5	3.5	15.9

HSBC France has been taking exceptional measures to protect itself and its clients and participate in the prevention of an economic collapse, in particular through a quasi-systematic six month deferral of loan repayments for its smaller Commercial Banking clients and its personal, professional and entrepreneur client base within Wealth and Personal Banking, with limited exclusions or restrictions. For the corporate segments, deferral of repayments been considered on a case-by-case basis. At the beginning of the crises, new money financing has been granted to our customers, either state-guaranteed or not (depending on the individual situation). For Commercial Banking, 4,237 requests for PGE (*Pret Garanti d'Etat*) have been granted. For Large Corporate and Global Banking clients, the number of PGEs is smaller but the amount is larger. New money financing have been approved for large corporates to strengthen their short to mid-term liquidity at the beginning of the crisis, usually to support their rating or as a simple bridge to a refinancing in the debt market.

Key developments and risk profile

Key developments

There were no material changes to the policies and practices for the management of risk, as described in the *Universal registration document 2019*. In 1H20, we continued to enhance our risk management in the following areas:

- In January 2020 we simplified our approach and articulation of risk management, through the combination of the Enterprise Risk Management Framework and the Operational Risk Management Framework to create a single simplified HSBC Risk Management framework.
- We continued to focus on simplifying our approach to non-financial risk management. We drove more effective oversight and better end-to-end identification and management of non-financial risks.
- We integrated residual aspects of the Global Standards programme into our day-to-day operations as the closure of the programme was finalised.
- We continued to focus on enhancing our risk management capabilities and the effectiveness of our financial crime controls. The application of both advanced analytics and artificial intelligence remains a key element of our next generation of tools to fight financial crime, and our investment in these areas is ongoing.
- We continued to promote and encourage good conduct through our people's behaviour and decision making to deliver fair outcomes for customers and preserve market integrity.
- We combined the second line of defence Operational Risk and second line of defence Resilience Risk sub-functions. By bringing the two teams together, we will benefit from improved stewardship, better risk management capabilities and better outcomes for our customers.

Credit risk profile

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 group's holdings of debt securities.

There were no material changes to the policies and practices for the management of credit risk in the first half of 2020.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' of the *Universal Registration Document 2019*.

Summary of credit risk

The following tables analyse loans by industry sector which represent the concentration of exposures in which how credit risks are managed.

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of Expected Credit Loss ('ECL') involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Methodology

We use multiple economic scenarios to reflect assumptions about future economic conditions, starting with three economic scenarios based on consensus forecast distributions, supplemented by alternative or additional economic scenarios and/or management adjustments where, in management's judgement, the consensus forecast distribution does not adequately capture the relevant risks.

The three economic scenarios represent the 'most likely' outcome and two less likely outcomes referred to as the Upside and Downside scenarios. Each outer scenario is consistent with a probability of 10 per cent, while the Central scenario is assigned the remaining 80 per cent, according to the decision of HSBC's senior management. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. At the reporting date, an additional Downside scenario has been created to reflect management's view of uncertainties and risks surrounding the trajectory and impact of Covid-19. This has led to slightly amend the weightings of the various scenarios in consideration.

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 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 scenarios does not fully reflect the high degree of uncertainty in estimating the distribution of ECL in certain circumstances.

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

	30 Jun 2020		31 Dec 2019	
	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	**60,049**	**(821)**	57,638	(682)
– personal[2]	**22,813**	**(196)**	22,353	(183)
– corporate and commercial	**33,133**	**(571)**	30,561	(452)
– non-bank financial institutions	**4,103**	**(54)**	4,724	(47)
Loans and advances to banks at amortised cost	**7,089**	**(1)**	6,798	—
Other financial assets measured at amortised costs	**87,565**	**(3)**	81,744	(1)
– cash and balances at central banks	**36,034**	**(2)**	19,463	—
– items in the course of collection from other banks	**642**	**—**	775	—
– reverse repurchase agreements – non trading	**26,623**	**—**	45,973	—
– financial investments[3]	**6**	**—**	6	—
– prepayments, accrued income and other assets	**24,260**	**(1)**	15,527	—
Total gross carrying amount on balance sheet	**154,703**	**(825)**	146,180	(683)
Loans and other credit related commitments[4]	**112,021**	**(50)**	88,422	(23)
– personal	**1,470**	**(1)**	1,189	(1)
– corporate and commercial	**39,889**	**(42)**	36,798	(21)
– financial	**70,662**	**(7)**	50,435	(1)
Financial guarantees and similar contracts[5]	**1,207**	**(8)**	1,209	(5)
– personal	**28**	**—**	30	—
– corporate and commercial	**560**	**(8)**	573	(5)
– financial	**619**	**—**	606	—
Total nominal amount off-balance sheet[6]	**113,228**	**(58)**	89,631	(28)
Total nominal amount on-balance sheet and off-balance sheet	**267,931**	**(883)**	235,811	(711)

	Fair value	**Memorandum allowance for ECL**	Fair value	Allowance for ECL
	€m	**€m**	€m	€m
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')	**21,687**	**(11)**	16,967	(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 16,408 million guaranteed by Crédit Logement as at 30 June 2020 (31 December 2019: EUR 15,678 million, re-presented to include self-employees balance of EUR 2,591 million).*
3 *Includes only financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 50 includes financial assets measured at amortised cost and debt and equity instruments measured at fair value through other comprehensive income.*
4 *Excludes revocable loans and other commitments to which the impairments requirements in IFRS 9 are not applied.*
5 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 is not applied.*
6 *Represents the maximum amount at risk should the contracts be fully drawn upon the clients default.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 30 June 2020

	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	52,556	6,042	1,399	52	60,049	(51)	(109)	(650)	(11)	(821)	0.1	1.8	46.5	21.2	1.4
– personal[3]	21,375	959	479	–	22,813	(7)	(26)	(163)	–	(196)	–	2.7	34.0	–	0.9
– corporate and commercial	27,299	4,917	865	52	33,133	(40)	(80)	(440)	(11)	(571)	0.1	1.6	50.9	21.2	1.7
– non-bank financial institutions	3,882	166	55	–	4,103	(4)	(3)	(47)	–	(54)	0.1	1.8	85.5	–	1.3
Loans and advances to banks at amortised cost	6,953	136	–	–	7,089	(1)	–	–	–	(1)	–	–	–	–	–
Other financial assets measured at amortised cost	87,512	46	7	–	87,565	(2)	–	(1)	–	(3)	–	–	14.3	–	–
Loan and other credit-related commitments[4]	108,883	3,048	90	–	112,021	(5)	(13)	(32)	–	(50)	–	0.4	35.6	–	–
– personal	1,415	42	13	–	1,470	–	(1)	–	–	(1)	–	2.4	–	–	0.1
– corporate and commercial	37,960	1,853	76	–	39,889	(5)	(5)	(32)	–	(42)	–	0.3	42.1	–	0.1
– financial	69,508	1,153	1	–	70,662	–	(7)	–	–	(7)	–	0.6	–	–	–
Financial guarantees and similar contracts[5]	1,025	152	29	1	1,207	(3)	(5)	–	–	(8)	0.3	3.3	–	–	0.7
– personal	27	–	1	–	28	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	431	104	24	1	560	(3)	(5)	–	–	(8)	0.7	4.8	–	–	1.4
– financial	567	48	4	–	619	–	–	–	–	–	–	–	–	–	–
At 30 Jun 2020	**256,929**	**9,424**	**1,525**	**53**	**267,931**	**(62)**	**(127)**	**(683)**	**(11)**	**(883)**	**–**	**1.3**	**44.8**	**20.8**	**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 16,408 million guaranteed by Crédit Logement as at 30 June 2020 (31 December 2019 : EUR 15,678 million , re-presented to include self-employees balance of EUR 2,591 million).*
4 *Excludes revocable loans and other commitments to which the impairments requirements in IFRS 9 are not applied.*
5 *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 30 June 2020

	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:	6,042	*90*	*98*	(109)	*(1)*	*(2)*	1.8	*1.1*	*2.0*
– personal	959	*42*	*83*	(26)	*(1)*	*(1)*	2.7	*2.4*	*1.2*
– corporate and commercial	4,917	*48*	*15*	(80)	–	*(1)*	1.6	–	*6.7*
– non-bank financial institutions	166	–	–	(3)	–	–	1.8	–	–
Loans and advances to banks at amortised cost	136	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	46	–	–	–	–	–	–	–	–

1 *Days past due ('DPD'). Up-to-date 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 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[4]	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[5]	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 15,678 million guaranteed by Crédit Logement as at 31 December 2019 (re-presented to include self-employees balance of EUR 2,591 million).*
4 *Excludes revocable loans and other commitments to which the impairments requirements in IFRS 9 are not applied.*
5 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

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'). Up-to-date accounts in Stage 2 are not shown in amounts presented above.*

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 2020	103,688	(50)	4,967	(57)	1,260	(592)	47	(11)	109,962	(710)
Transfers of financial instruments	(4,177)	(7)	3,770	10	407	(3)	–	–	–	–
– transfers from Stage 1 to Stage 2	(5,641)	8	5,641	(8)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	1,569	(15)	(1,569)	15	–	–	–	–	–	–
– transfers to Stage 3	(107)	–	(336)	5	443	(5)	–	–	–	–
– transfers from Stage 3	2	–	34	(2)	(36)	2	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	10	–	(19)	–	(1)	–	–	–	(10)
New financial assets originated or purchased	18,692	(11)	–	–	–	–	10	–	18,702	(11)
Asset derecognised (including final repayments)	(6,878)	2	(442)	4	(199)	54	(1)	–	(7,520)	60
Changes to risk parameters – further lending/repayments	(5,840)	4	1,097	4	77	63	(5)	–	(4,671)	71
Changes to risk parameters – credit quality	–	(7)	–	(67)	–	(228)	–	–	–	(302)
Changes to model used for ECL calculation	–	–	–	–	–	–	–	–	–	–
Assets written off	–	–	–	–	(24)	24	–	–	(24)	24
Credit related modifications that resulted in derecognition	–	–	–	–	(1)	–	–	–	(1)	–
Foreign exchange	(106)	–	(14)	–	–	–	–	–	(120)	–
Others	237	–	–	(2)	–	–	–	–	237	(2)
At 30 Jun 2020	105,616	(59)	9,378	(127)	1,520	(683)	51	(11)	116,565	(880)
ECL release/(charge) for the period		(2)		(79)		(112)		–		(193)
Add: Recoveries										1
Add/(less): Others										(3)
Total ECL release/(charge) for the period										(195)

	At 30 Jun 2020		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	116,565	(880)	(195)
Other financial assets measured at amortised cost	87,565	(3)	(1)
Non-trading reverse purchase agreement commitments	63,801	–	–
Performance and other guarantees not considered for IFRS 9			(28)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	267,931	(883)	(224)
Debt instruments measured at FVOCI	21,687	(11)	(5)
Total allowance for ECL/total income statement ECL charge for the period	289,618	(894)	(229)

1 *Excludes performance guarantee contracts, revocable loans and other commitments to which the impairment requirements in IFRS 9 are not applied.*

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	—	—	—	—	—	—	—	—	—	—
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		24		(26)		(111)		(13)		(126)
Add: Recoveries		—		—				—		4
Add/(less): Others		—		—		—		—		—
Total ECL release/(charge) for the period										(122)

	At 31 Dec 2019		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	109,962	(710)	(122)
Other financial assets measured at amortised cost	81,744	(1)	—
Non-trading reverse purchase agreement commitments	44,105	—	—
Performance and other guarantees not considered for IFRS 9			(6)
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 of HSBC Bank plc: Spain, Italy, Ireland, Netherlands, Belgium, Czech Republic with effect from 1 February 2019 and Luxembourg from 1 March 2019.*

Liquidity and funding risks

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

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

Liquidity Coverage Ratio ('LCR')

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

HSBC France's LCR computed in respect of the EU Delegated act as at the end of June 2020 was 167 per cent.

Net stable funding ratio ('NSFR')

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

HSBC calculates the NSFR in line with the relevant text from the Basel Committee of Banking Supervision ('BCBS 295'), pending its implementation in Europe. Therefore, the HSBC NSFR may not be directly comparable to the ratios of other institutions.

Whilst the regulation EU 2019 / 876 of the European Parliament and of the council ('CRR II'), published on 20 May 2019 plans the entry into force of the NSFR against a regulatory minimum of 100 per cent in June 2021, with an amended calculation compared to BCBS 295, HSBC France anticipates this regulation and manages its funding position based on a CRR II approached NSFR, the Long Term Funding Metric ('LTFM').

HSBC France's NSFR ratio was 122 per cent and LTFM was 129 per cent at 30 June 2020.

Market risks

Market risks in the first half of 2020

The world has been dramatically hit by the coronavirus sanitary crisis. The confinement measures stopped the economic activity abruptly and forced governments and central banks to react vigorously to avoid a brutal and lasting economic depression.

The European Central Bank ('ECB') launched a pandemic emergency purchase program of EUR 1,350 billion. The criteria of eligibility – in terms of size by issuer and ratings – have been relaxed compared to the previous plans to allow the institution to purchase Greece and Italian debts more easily. The scope has been extended to non-financial papers.

In the US, The Federal Reserve announced an unlimited quantitative easing program and central government undertook massive fiscal and credit backed programs.

Both US and Euro swap yields decreased and flattened during the semester

Despite the support to the economy, the financial markets have been severally impacted by the crisis. Peripheral debts faced a widening move of asset swap levels over the first quarter (Italy +45 basis point in average, Greece near +1 per cent on the short-term debts). Ultimately the ECB's intervention has limited the observed violent widening occurred mid-March when markets panicked together with the aggravation of the sanitary situation.

Stocks market dropped by 20-30 per cent across the globe in March but rallied significantly in June backed by a renewal of optimism on the end of sanitary crisis and the amount of liquidity brought by central banks.

Dedicated coronavirus stress tests did not exhibit significant potential market risk losses on Trading portfolios. They show significant increase of the Counterparty Credit Risk exposure but concentrated on collateralised or investment grade counterparties.

Despite April's market rebound, considerable uncertainty remains over the trajectory of global growth over the coming quarters. The impact of the Covid-19 pandemic continued to dominate markets, with an increasing focus on how countries are beginning to relax their lockdown measures and how this will affect the economy.

Value at Risk ('VaR')

As per the regulation, a back testing exception is recorded each time the daily Profit and Losses is below the daily Value at Risk ('VaR'). The number of back-testing exceptions is assessed on a 1Y-rolling window period to compute the regulatory capital multiplier, the maximum add-on possible to that multiplier being one, reached when ten exceptions occur.

HSBC France faced during the first semester (mainly recorded in March) new back-testing exceptions caused by the exceptional volatility in the fixed income markets.

Nevertheless, the European Central Bank decided to compensate the impact of this exceptional period over European banks own fund requirements and HSBC France multiplier remained at end of 2019's level.

Trading portfolios

Value at Risk of the trading portfolio

Trading VaR predominantly resides within Global Markets. The Total VaR decreased in the first half of 2020 due to the exposure reduction caused by the market environment.

Total trading VaR by risk type

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Jun 2020	**0.48**	**2.86**	**–**	**0.41**	**(0.78)**	**2.97**
Average	**0.19**	**3.63**	**–**	**0.67**	**(0.81)**	**3.68**
Maximum	**0.48**	**5.55**	**–**	**1.37**	**(1.87)**	**5.75**
Balance at 30 Jun 2019	0.26	4.13	–	1.03	(1.00)	4.42
Average	0.28	5.47	–	1.28	(1.52)	5.51
Maximum	0.38	8.28	–	1.74	(2.30)	8.42

Non-trading portfolios

Value at Risk of the non-trading portfolio

Non-trading VaR has been stable overall, slight increase for the Credit Spread with a partial reallocation of the High Quality Liquid Asset Buffer in supranational and European Agencies' bonds.

Total non-trading VaR by risk type

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Jun 2020	**—**	**3.12**	**—**	**4.99**	**(2.57)**	**5.55**
Average	**0.01**	**3.17**	**—**	**3.49**	**(2.08)**	**4.58**
Maximum	**0.04**	**4.78**	**—**	**5.19**	**(3.26)**	**6.47**
Balance at 30 Jun 2019	—	2.85	—	2.89	(1.91)	3.84
Average	—	2.92	—	2.32	(1.62)	3.62
Maximum	—	4.88	—	3.14	(2.64)	5.49

Interest-rate risks in the banking book

Overview

Interest rate risk in the banking book is the risk of variability in results caused by mismatches in interest rates, maturities and nature between assets and liabilities in the banking book. This risk arises in non-trading portfolios.

Governance

At HSBC France, ALCM (Asset, Liability and Capital Management) department monitors and controls interest rate risk in the banking book 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 Balance Sheet Management ('BSM').

BSM manages the banking book interest rate positions transferred to it within market risk limits. 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. Any interest rate risk which BSM cannot economically hedge is not transferred and remain within ALCO books in the Corporate Centre.

Measurement of interest rate risk in the Banking Book

Interest rates risk in the banking book is measured mainly through nominal gap, sensitivity of interest rate income and sensitivity of economic value of equity.

The interest rate risk measurement indicators are consistently presented to the Assets and Liabilities Committee and serve as the basis for operating risk management decisions.

In a persisting low and negative rates environment, HSBC France, monitors the evolution of prepayment and renegotiation for home loans to individuals. The bank 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.

Capital

Overview

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

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

During the first half of 2020, HSBC France issued a Tier 2 instrument of EUR 500 million under the form of an intra-group loan with HSBC Bank plc. This transaction completed on 22 May 2020 aimed to cautiously increase the entity's Tier 2 regulatory capital base in anticipation of potential negative impacts resulting from the Covid-19 outbreak. This increase in the Tier 2 capital base was also in line with the strategy to ensure an adequate combination of core and non-core capital.

A summary of HSBC France's policies and practices regarding capital management, measurement and allocation is provided on page 151 of the *2019 Universal Registration Document*.

Regulatory developments

Covid-19

The current Covid-19 pandemic has created an unprecedented challenge to the global economy. Governments, central banks and regulatory authorities have responded to this challenge with a number of regulatory measures. The substance of the announcements and the pace of response varies by jurisdiction but broadly, these have included a number of customer support measures; operational capacity measures; and amendments to the RWAs, capital and liquidity frameworks.

In the EU, the relief measures have included a package known as the 'CRR Quick Fixes' that was enacted in June 2020. The package represents an acceleration of some of the beneficial elements of the amendments to the Capital Requirements Regulation ('CRR2') that were originally scheduled for June 2021, together with other amendments to mitigate the potential volatility in capital ratios arising from the pandemic. The material changes that were finalised in June, include:

- the acceleration of the timetable for the changes to the CET1 deduction of software assets so that once the European Banking Authority ('EBA') finishes its current consultation on the new methodology, the rules can go live;

- the CRR2 changes to the small to medium sized enterprises ('SME') supporting factor and the new infrastructure supporting factor;
- the CRR2 change to the netting in the leverage ratio exposure measure of regular-way purchases and sales; and
- a temporary exclusion of central bank exposure from the leverage ratio exposure measure subject to supervisory authorities publicly declaring exceptional circumstances justify such measure.

In addition to the CRR Quick Fix package, there were other changes to the regime in response to Covid-19. These included the enactment by the EU of beneficial changes to the CET1 deduction for prudent valuation adjustments, which will remain in place until 1 January 2021, the ECB implementing in 2020 (one year earlier than expected under CRD5) a more lenient Pillar 2 Requirement ('P2R') capital mix and the ECB announcing that it is providing temporary relief on the market risk capital requirements until Q3-2020, after which the decision will be reviewed.

In France, the High Council for Financial Stability ('HCSF') announced in April 2020 the decrease of the Countercyclical Capital Buffer ('CCyB') rate applicable to French exposures from 0.25 per cent to 0 per cent (instead of a planned increase to 0.50 per cent) applicable from 2 April 2020.

The Basel Committee

In December 2017, the Basel Committee ('Basel') published the Basel III Reforms. The package finalised in July 2020 when Basel published the final revisions to credit valuation adjustment ('CVA') framework.

In March 2020, Basel announced a one-year delay to the implementation of the package. It is now to be implemented on 1 January 2023, with a five-year transitional provision for the output floor. This floor ensures that, at the end of the transitional period, banks' total RWAs will be no lower than 72.5 per cent of those generated by the standardised approaches. The final standards will need to be transposed into the relevant local law before coming into effect. The EU, the UK and Hong Kong authorities have already indicated that they will apply the new timetable.

There remains a significant degree of uncertainty about the impact of these changes due to the number of national discretions within Basel's reforms and the need for further supporting technical standards to be developed. Furthermore, any impact needs to be viewed in light of the possibility of offsets against Pillar 2, which may arise as shortcomings within Pillar 1 are addressed.

The Capital Requirements Regulation amendments

In June 2019, the EU enacted the CRR2. This is the EU's implementation of the Financial Stability Board's ('FSB') requirements for total loss-absorbing capacity ('TLAC'), known in the EU as the minimum requirements for own funds and eligible liabilities ('MREL'), introducing changes to the own funds regime as well. The CRR2 will also implement the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the changes to market risk ('FRTB') rules, revisions to the standardised approach for measuring counterparty risk and the new leverage ratio rules. The CRR2 rules will follow a phased implementation with significant elements entering into force in 2021, in advance of Basel's timeline. Some elements have been accelerated in 2020 with the CRR quick fixes (see previous Covid-19 section).

The EU's implementation of the Basel III Reforms

The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the Capital Requirements Regulation. In 2019, the European Commission began consulting on its implementation, which will include reforms to the credit and operational risk rules and a new output floor. However, draft legislative text has not yet been published. The EU implementation will be subject to an extensive negotiation process with the EU Council and Parliament. As a result, the final form of the rules remains unclear.

The UK's withdrawal from the EU

As a result of the decision of the referendum 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 ends on 31 December 2020.

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 is subject to equivalence assessments. The assessments of whether the UK applies equivalent regulatory standards is currently ongoing.

The end of the transition period will also trigger an additional MREL requirement under CRR2 for HSBC France as it becomes a subsidiary of a third-country parent entity.

Other developments

In May 2020, the Single Resolution Board ('SRB') published its updated MREL policy in line with the Banking Package published in June 2019, and notably the latest versions of the Bank Recovery and Resolution Directive ('BRRD2') and Single Resolution Mechanism Regulation ('SRMR2').

In July 2020, the EBA published its final guidelines on the treatment of structural foreign exchange positions which will apply from 1 January 2022, one year later than originally planned.

Key capital numbers

	At		
	30 Jun 2020 €m	31 Dec 2019 €m	30 Jun 2019 €m
Capital resources			
CET1	**6,217**	6,464	6,364
Tier 1 Capital	**6,967**	7,214	6,864
Total Capital	**8,373**	8,120	7,870
Risk-Weighted Assets			
Credit risk	**39,687**	36,426	35,145
Counterparty Credit Risk	**3,672**	3,982	3,776
Market Risk	**2,425**	4,494	5,367
Operational Risk	**3,473**	3,149	3,194
Total Risk-Weighted Assets	**49,257**	48,051	47,482
Capital Ratios – transitional (%)			
Common equity tier 1	**n/a**	n/a	n/a
Total tier 1	**n/a**	n/a	n/a
Total capital	**n/a**	n/a	n/a
Capital Ratios – fully-loaded (%)			
Common equity tier 1	**12.6%**	13.5%	13.4%
Total tier 1	**14.1%**	15.0%	14.5%
Total capital	**17.0%**	16.9%	16.6%

RWA movement by global business by key driver

	Credit risk, counterparty credit risk and operationnal risk					
	WPB €m	**CMB €m**	**GB&M €m**	**Corporate Centre €m**	**Market risk €m**	**Total RWA €m**
RWAs at 1 January 2020	**7,137**	**17,783**	**17,679**	**958**	**4,494**	**48,051**
Asset size	**(277)**	**1,772**	**933**	**72**	**(2,069)**	**431**
Asset quality	**—**	**184**	**384**	**—**	**—**	**568**
Model updates	**—**	**(117)**	**(95)**	**—**	**—**	**(212)**
Methodology and policy	**128**	**250**	**284**	**(243)**	**—**	**419**
Total RWA movement	**(149)**	**2,089**	**1,506**	**(171)**	**(2,069)**	**1,206**
RWAs at 30 June 2020	**6,988**	**19,872**	**19,185**	**787**	**2,425**	**49,257**

Regulatory balance sheet

Basis of consolidation

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

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

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

	Accounting balance sheet	De-consolidation of insurance/ other entities	Regulatory balance sheet
	€m	€m	€m
Assets			
Cash and balances at central banks	36,032	–	36,032
Items in the course of collection from other banks	642	–	642
Trading assets	17,169	–	17,169
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	10,990	(10,285)	705
Financial assets designated at fair value	–	–	–
Derivatives	55,451	(67)	55,384
Loans and advances to banks	7,088	(326)	6,762
Loans and advances to customers	59,228	470	59,698
– *of which:*			
impairment allowances on IRB portfolios	*649*	–	*649*
impairment allowances on standardised portfolios	*162*	–	*162*
Reverse repurchase agreements – non-trading	26,623	–	26,623
Financial investments	21,707	(12,040)	9,667
Assets held for sale	3	–	3
Prepayments, accrued income and other assets	25,635	(326)	25,309
– *of which: retirement benefit assets*	–	–	–
Current tax assets	127	(14)	113
Interests in associates and joint ventures	1	–	1
Goodwill and intangible assets	603	(490)	113
Deferred tax assets	226	–	226
Total assets at 30 Jun 2020	261,525	(23,078)	238,447
Liabilities and equity			
Deposits by banks	19,411	(28)	19,383
Customer accounts	67,084	196	67,280
Repurchase agreements – non-trading	11,883	–	11,883
Items in the course of transmission to other banks	241	–	241
Trading liabilities	23,674	–	23,674
Financial liabilities designated at fair value	18,269	1,033	19,302
Derivatives	53,485	17	53,502
Debt securities in issue	8,201	–	8,201
Accruals, deferred income and other liabilities	26,440	(1,153)	25,287
– *of which: retirement benefit liabilities*	*189*	*(2)*	*187*
Current tax liabilities	81	(9)	72
Liabilities under insurance contracts	22,379	(22,379)	–
Provisions	191	(1)	190
– *of which:*			
credit-related provisions on IRB portfolios	–	–	–
credit-related provisions on standardised portfolios	–	–	–
Deferred tax liabilities	137	(130)	7
Subordinated liabilities	1,876	–	1,876
– *of which:*			
perpetual subordinated debt included in tier 2 capital	*16*		
term subordinated debt included in tier 2 capital	*1,860*		
Total liabilities at 30 Jun 2020	253,352	(22,454)	230,898
Called up share capital	491	–	491
Share premium account	2,137	–	2,137
Other equity instruments	750	–	750
Other reserves	1,658	(29)	1,629
Retained earnings	3,110	(595)	2,515
Total shareholders' equity	8,146	(624)	7,522
Non-controlling interests	27	–	27
Total equity at 30 Jun 2020	8,173	(624)	7,549
Total liabilities and equity at 30 Jun 2020	261,525	(23,078)	238,447

Reconciliation of balance sheet - financial accounting to regulatory scope of consolidation (continued)

	Accounting balance sheet	De-consolidation of insurance/ other entities	Regulatory balance sheet
	€m	€m	€m
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 and otherwise mandatorily measured at fair value through profit and loss	11,957	(11,170)	787
Financial assets designated at fair value	—	—	—
Derivatives	45,724	(36)	45,688
Loans and advances to banks	6,798	(87)	6,711
Loans and advances to customers	56,956	470	57,426
– *of which:*			
impairment allowances on IRB portfolios	*(516)*	—	*(516)*
impairment allowances on standardised portfolios	*(166)*	—	*(166)*
Reverse repurchase agreements – non-trading	45,973	—	45,973
Financial investments	16,987	(12,093)	4,894
Assets held for sale	3	—	3
Prepayments, accrued income and other assets	16,820	(362)	16,458
– *of which: retirement benefit assets*	—	—	—
Current tax assets	164	(27)	137
Interests in associates and joint ventures	1	—	1
Goodwill and intangible assets	993	(613)	380
Deferred tax assets	229	—	229
Total assets at 31 Dec 2019	237,680	(23,918)	213,762
Liabilities and equity			
Deposits by banks	12,113	(13)	12,100
Customer accounts	57,550	416	57,966
Repurchase agreements – non-trading	20,213	—	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	18,953	1,075	20,028
Derivatives	45,115	4	45,119
Debt securities in issue	9,782	—	9,782
Accruals, deferred income and other liabilities	16,756	(1,238)	15,518
– *of which: retirement benefit liabilities*	*189*	*(3)*	*186*
Current tax liabilities	66	7	73
Liabilities under insurance contracts	23,292	(23,292)	—
Provisions	160	(3)	157
– *of which:*			
credit-related provisions on IRB portfolios	—	—	—
credit-related provisions on standardised portfolios	—	—	—
Deferred tax liabilities	175	(167)	8
Subordinated liabilities	1,376	—	1,376
– *of which:*			
perpetual subordinated debt included in tier 2 capital	*16*	—	*16*
term subordinated debt included in tier 2 capital	*1,360*	—	*1,360*
Total liabilities at 31 December 2019	229,209	(23,211)	205,998
Called up share capital	491	—	491
Share premium account	2,137	—	2,137
Other equity instruments	750	—	750
Other reserves	1,641	(30)	1,611
Retained earnings	3,424	(677)	2,747
Total shareholders' equity	8,443	(707)	7,736
Non-controlling interests	28	—	28
– *of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital*	—	—	—
Total equity at 31 Dec 2019	8,471	(707)	7,764
Total liabilities and equity at 31 Dec 2019	237,680	(23,918)	213,762

Own funds (not reviewed)

		At	
		30 Jun 2020	31 Dec 2019
Ref*		**€m**	€m
	Common equity tier 1 (‘CET1’) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**2,628**	2,628
	– ordinary shares	**2,137**	2,137
2	Retained earnings	**3,488**	3,546
3	Accumulated other comprehensive income (and other reserves)	**1,762**	1,545
5	Transitional adjustments due to additional minority interests	**—**	—
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**(514)**	(63)
6	**Common equity tier 1 capital before regulatory adjustments**	**7,365**	7,656
	Common equity tier 1 capital: regulatory adjustments	**—**	
7	Additional value adjustments	**(197)**	(214)
8	Intangible assets (net of related deferred tax liability)	**(113)**	(376)
10	Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	**(118)**	(29)
11	Fair value reserves related to gains or losses on cash flow hedges	**(61)**	(34)
12	Negative amounts resulting from the calculation of expected loss amounts	**(78)**	(117)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**(124)**	84
19	CET1 instruments of financial sector entities where the institution has a significant investment	**(457)**	(508)
22	Amount exceeding the 15 per cent threshold	**—**	—
28	**Total regulatory adjustments to common equity tier 1**	**(1,148)**	(1,193)
29	**Common equity tier 1 capital**	**6,217**	6,464
	Additional tier 1 (‘AT1’) capital: instruments	**—**	
30	Capital instruments and the related share premium accounts	**750**	750
36	**Additional tier 1 capital before regulatory adjustments**	**750**	750
	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**	750
45	**Tier 1 capital (T1 = CET1 + AT1)**	**6,967**	7,214
	Tier 2 capital: instruments and provisions	**—**	
46	Capital instruments and the related share premium accounts	**1,876**	1,376
51	**Tier 2 capital before regulatory adjustments**	**1,876**	1,376
	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)**	(470)
57	**Total regulatory adjustments to tier 2 capital**	**(470)**	(470)
58	**Tier 2 capital**	**1,406**	906
59	**Total capital (TC = T1 + T2)**	**8,373**	8,120
60	**Total risk-weighted assets**	**49,257**	48,051
	Capital ratios and buffers		
61	Common equity tier 1	**12.6%**	13.5%
62	Tier 1	**14.1%**	15.0%
63	Total capital	**17.0%**	16.9%
64	Institution specific buffer requirement[1]	**2,5%**	2.75%
65	– capital conservation buffer requirement	**2,5%**	2.5%
66	– countercyclical buffer requirement	**0,02%**	0.25%
68	Common equity tier 1 available to meet buffers	**8,1%**	9%
	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 per cent threshold and net of eligible short positions)	**177**	168
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 per cent threshold and net of eligible short positions)	**650**	680
75	Deferred tax assets arising from temporary differences (amount below 10 per cent threshold, net of related tax liability)	**101**	201

* *The references identify the lines prescribed in the EBA template that are applicable.*

Leverage ratio

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

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

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

Under the current regime, institutions are only required to report and disclose the leverage ratio and its components, but there is no minimum requirement on the ratio itself.

The new banking package published in June 2019 ('CRR2') introduces a minimum leverage ratio requirement of 3 per cent applicable as of 28 June 2021.

Nonetheless, the risk of excess leverage is managed as part of HSBC France's risk appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

As of 30 June 2020, following the current calculation rules, the leverage ratio is 3.4 per cent. If the ECB declared the exceptional circumstances making it possible to exclude certain exposures to central banks according to the rules defined by article 500b of the CRR, the leverage ratio would be 3.9 per cent.

Summary reconciliation of accounting assets and leverage ratio exposures

		At	
		30 Jun 2020	31 Dec 2019
Ref*		**€m**	€m
1	Total assets as per published financial statements	**261,525**	237,680
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(23,078)**	(23,918)
4	– derivative financial instruments	**(51,907)**	(40,344)
5	– securities financing transactions ('SFT')	**(717)**	(4,966)
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**24,601**	25,040
7	– other adjustments	**(6,959)**	(1,112)
8	**Total leverage ratio exposure**	**203,464**	192,380

Leverage ratio common disclosure

		At	
		30 Jun 2020	31 Dec 2019
Ref*		**€m**	€m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**150,328**	122,089
2	(Asset amounts deducted in determining Tier 1 capital)	**(847)**	(1,100)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**149,480**	120,989
	Derivative exposures	**—**	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**4,012**	3,462
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**12,611**	12,904
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**—**	—
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(12,115)**	(10,090)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	**(1,345)**	(1,110)
9	Adjusted effective notional amount of written credit derivatives	**3,053**	5,583
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(2,738)**	(5,405)
11	**Total derivative exposures**	**3,477**	5,343
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**26,624**	45,973
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(65,110)**	(50,109)
14	Counterparty credit risk exposure for SFT assets	**64,394**	45,143
16	**Total securities financing transaction exposures**	**25,907**	41,007
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**24,601**	25,040
18	(Adjustments for conversion to credit equivalent amounts)	**—**	—
19	**Total off-balance sheet exposures**	**24,601**	25,040
	Capital and total exposures		
20	**Tier 1 capital**	**6,966**	7,214
21	**Total leverage ratio exposure**	**203,464**	192,380
22	Leverage ratio % – transitional	**N/A**	N/A
22b	Leverage ratio % – fully-loaded	**3,4%**	3.7%

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

Risk-weighted assets ('RWAs')

Overview of RWAs

		At 30 June 2020		At 31 December 2019	
		RWAs	Capital requirement	RWAs	Capital requirement
		€m	€m	€m	€m
1	**Credit risk**[1]	**39,083**	**3,127**	36,025	2,882
2	– standardised approach	**9,337**	**747**	10,771	862
3	– foundation IRB approach	**3,609**	**289**	2,579	206
4	– advanced IRB approach	**24,305**	**1,944**	20,798	1,664
5	– equity IRB	**1,832**	**147**	1,877	150
6	**Counterparty credit risk**	**3,672**	**294**	3,982	319
7	– mark-to-market	**1,052**	**84**	996	80
8	– original exposure	**—**	**—**	—	—
9	– standardised approach	**—**	**—**	—	—
10	– internal model method	**2,027**	**162**	2,036	163
11	– risk exposure amount for contributions to the default fund of a central counterparty	**61**	**5**	65	5
12	– credit valuation adjustment	**533**	**43**	885	71
13	**Settlement risk**	**—**	**—**	1	—
14	**Securitisation exposures in the non-trading book**	**604**	**48**	400	32
14a	– IRB ratings based method[2]	**—**	**—**	—	—
14b	– IRB supervisory formula method[2]	**219**	**18**	310	25
14c	– IRB internal assessment approach[2]	**309**	**25**	57	5
14d	– standardised approach[2]	**76**	**6**	33	3
19	**Market risk**	**2,425**	**194**	4,494	359
20	– standardised approach	**343**	**27**	325	26
21	– internal models approach	**2,082**	**167**	4,169	333
23	**Operational risk**	**3,473**	**278**	3,149	252
25	– standardised approach	**3,473**	**278**	3,149	252
29	**Total**	**49,257**	**3,941**	48,051	3,844

1 *'Credit Risk, here and in all tables where the term is used, excludes counterparty credit risk.*
2 *On 1 January 2019, a new securitisation framework came into force in the EU for news transactions. The new framework prescribes the four approaches listed in rows 14a-14d of the table above.*

Credit risk – RWA by exposure class

	Footnotes	At 30 June 2020		At 31 December 2019	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
IRB advanced approach		**24,305**	**1,944**	20,799	1,664
– central governments and central banks		**164**	**13**	86	7
– institutions		**329**	**26**	367	29
– corporates	1	**20,482**	**1,639**	17,053	1,364
– total retail		**3,329**	**266**	3,293	263
– *of which:*		–	–		
secured by mortgages on immovable property – small- and medium -sized enterprises ('SME')		***301***	***24***	*328*	*26*
secured by mortgages on immovable property non-SME		***1,871***	***150***	*575*	*46*
qualifying revolving retail		**–**	**–**	–	–
other SME		***631***	***50***	*512*	*41*
other non-SME		***526***	***42***	*1,878*	*150*
IRB securitisation positions		**604**	**48**	400	32
IRB equity		**1,832**	**147**	1,877	150
IRB foundation approach		**3,609**	**289**	2,578	206
– central governments and central banks		**2**	**–**	2	–
– institutions		**215**	**17**	210	17
– corporates		**3,392**	**271**	2,366	189
Standardised approach		**9,337**	**747**	10,771	862
– central governments and central banks		**–**	**–**	–	–
– regional governments or local authorities		**–**	**–**	2	–
– public sector entities		**11**	**1**	10	1
– international organisations		**–**	**–**	–	–
– institutions		**507**	**41**	506	40
– corporates		**4,752**	**380**	5,917	473
– retail		**117**	**9**	126	10
– secured by mortgages on immovable property		**554**	**44**	489	39
– exposures in default		**185**	**15**	203	16
– items associated with particularly high risk		**239**	**19**	230	18
– claims in the form of collective investments undertakings		**–**	**–**	–	–
– equity		**–**	**–**	–	–
– other items		**2,973**	**238**	3,288	263
Total		**39,687**	**3,175**	36,425	2,914

1 *'Corporates' includes specialised lending exposures subject to supervisory slotting approach.*

Counterparty credit risk[1] – RWAs by exposure class and product

	At 30 June 2020		At 31 December 2019	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
By exposure class				
IRB advanced approach	**875**	**70**	955	76
– central governments and central banks	**86**	**7**	75	6
– institutions	**789**	**63**	880	70
– corporates	**–**	**–**	–	–
IRB foundation approach	**1,615**	**129**	1,478	118
– corporates	**1,615**	**129**	1,478	118
Standardised approach	**470**	**37**	506	40
– central governments and central banks	**5**	**–**	6	–
– regional government or local authorities	**–**	**–**	–	–
– institutions	**379**	**30**	411	33
– corporates	**86**	**7**	89	7
CVA advanced	**437**	**35**	571	46
CVA standardised	**95**	**8**	314	25
CCP standardised	**180**	**14**	159	13
By product				
Derivatives (OTC and Exchange traded derivatives)	**2,794**	**224**	2,710	217
SFTs	**285**	**23**	322	26
Other	**–**	**–**	1	–
CVA advanced	**437**	**35**	571	46
CVA standardised	**95**	**8**	314	25
CCP default funds	**61**	**5**	65	5
Total	**3,672**	**294**	3,983	319

1 *Includes settlement risk.*

Market risk under standardised approach

		At 30 June 2020		At 31 December 2019	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
	Risk types				
1	Interest rate risk (general and specific)	148	12	128	10
2	Equity risk (general and specific)	—	—	—	—
3	Foreign exchange risk	82	6	127	10
4	Commodity risk	—	—	—	—
	Options[1]	—	—		
5	Simplified approach	—	—	—	—
6	Delta-plus method	113	9	70	6
7	Scenario approach	—	—	—	—
8	Securitisation	—	—	—	—
9	**Total**	343	27	325	26

1 *The number reported initially in 2019 under « Simplified approach » is now reported under « Delta-plus method » in 2020.*

Market risk under IMA

		At 30 June 2020		At 31 December 2019	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
1	**VaR (higher of values a and b)**	496	40	704	56
(a)	Previous day's VaR	117	9	214	17
(b)	Average daily VaR	496	40	704	56
2	**Stressed VaR (higher of values a and b)**	573	46	1,667	133
(a)	Latest SVaR	92	7	666	53
(b)	Average SVaR	573	46	1,667	133
3	**Incremental risk charge (higher of values a and b)**	541	43	891	71
(a)	Most recent IRC value	329	26	610	49
(b)	Average IRC value	541	43	891	71
5	**Other**	472	38	907	73
6	**Total**	2,082	167	4,169	333

Operational risk RWAs

	At 30 June 2020		At 31 December 2019	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
Own funds requirement for operational risk	3,473	278	3,149	252

Condensed financial statements

Consolidated income statement

		Half-year to		
		30 Jun 2020	30 Jun 2019	31 Dec 2019
	Notes	**€m**	€m	€m
Net interest income		**534**	545	550
– interest income		**930**	959	992
– interest expense		**(396)**	(414)	(442)
Net fee income	*3*	**437**	394	384
– fee income		**561**	555	538
– fee expense		**(124)**	(161)	(154)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis		**62**	13	17
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss		**(662)**	792	485
Changes in fair value of long-term debt and related derivatives		**(2)**	—	(1)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss		**30**	94	59
Gains less losses from financial investments		**7**	11	1
Net insurance premiums		**661**	1,252	824
Other operating income		**(86)**	91	96
Total operating income		**981**	3,192	2,415
Net insurance claims and benefits paid and movement in liabilities to policyholders		**(51)**	(2,061)	(1,319)
Net operating income before change in expected credit losses and other credit impairment charges		**930**	1,131	1,096
Change in expected credit losses and other credit impairment charges		**(229)**	(54)	(74)
Net operating income		**701**	1,077	1,022
– Employee compensation and benefits		**(494)**	(520)	(511)
– General and administrative expenses		**(484)**	(443)	(340)
– Depreciation and impairment of property, plant and equipment and right of use assets		**(70)**	(52)	(53)
– Amortisation and impairment of intangible assets		**(303)**	(11)	(191)
Total operating expenses		**(1,351)**	(1,026)	(1,095)
Operating profit/(loss)		**(650)**	51	(73)
Share of profit in associates and joint ventures		**—**	—	—
Profit/(loss) before tax		**(650)**	51	(73)
Tax expense		**150**	1	(18)
Profit/(loss) for the period		**(500)**	52	(91)
Attributable to:				
– shareholders of the parent company		**(499)**	52	(91)
– non-controlling interests		**(1)**	—	—

Consolidated statement of comprehensive income

	Half-year to		
	30 Jun 2020	30 Jun 2019	31 Dec 2019
	€m	€m	€m
Profit/(loss) for the period	**(500)**	52	(91)
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:	**3**	24	(6)
– fair value gains/(losses)	**3**	45	(11)
– fair value losses/(gains) transferred to the income statement on disposal	**(5)**	(11)	2
– expected credit losses recognised in income statement	**5**	—	—
– income taxes	**—**	(10)	3
Cash flow hedges:	**27**	58	(1)
– fair value gains/(losses)	**31**	69	(13)
– fair value losses/(gains) reclassified to the income statement	**9**	17	12
– income taxes	**(13)**	(28)	—
Exchange differences and other	**(13)**	2	(2)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability:	**2**	(15)	(1)
– before income taxes	**3**	(20)	(1)
– income taxes	**(1)**	5	—
Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk:	**192**	(104)	(9)
– before income taxes	**287**	(155)	(12)
– income taxes	**(95)**	51	3
Other comprehensive income/(expense) for the period, net of tax	**211**	(35)	(19)
Total comprehensive income/(expense) for the period	**(289)**	17	(110)
Attributable to:			
– shareholders of the parent company	**(288)**	17	(110)
– non-controlling interests	**(1)**	—	—

Consolidated balance sheet

	Notes	30 Jun 2020 €m	31 Dec 2019 €m
Assets			
Cash and balances at central banks		**36,032**	19,463
Items in the course of collection from other banks		**642**	775
Trading assets		**17,169**	14,837
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		**10,990**	11,957
Derivatives		**55,451**	45,724
Loans and advances to banks		**7,088**	6,798
Loans and advances to customers		**59,228**	56,956
Reverse repurchase agreements – non-trading		**26,623**	45,973
Financial investments		**21,707**	16,987
Asset held for sale		**3**	3
Prepayments, accrued income and other assets		**25,635**	16,820
Current tax assets		**127**	164
Interests in associates and joint ventures		**1**	1
Goodwill and intangible assets	4, 7	**603**	993
Deferred tax assets		**226**	229
Total assets		**261,525**	237,680
Liabilities			
Deposits by banks		**19,411**	12,113
Customer accounts		**67,084**	57,550
Repurchase agreements – non-trading		**11,883**	20,213
Items in the course of transmission to other banks		**241**	396
Trading liabilities		**23,674**	23,262
Financial liabilities designated at fair value		**18,269**	18,953
Derivatives		**53,485**	45,115
Debt securities in issue		**8,201**	9,782
Accruals, deferred income and other liabilities		**26,440**	16,756
Current tax liabilities		**81**	66
Liabilities under insurance contracts		**22,379**	23,292
Provisions	8	**191**	160
Deferred tax liabilities		**137**	175
Subordinated liabilities		**1,876**	1,376
Total liabilities		**253,352**	229,209
Equity			
Called up share capital		**491**	491
Share premium account		**2,137**	2,137
Other equity instruments	2	**750**	750
Other reserves		**1,658**	1,641
Retained earnings		**3,110**	3,424
Total Shareholders' equity		**8,146**	8,443
Non-controlling interests		**27**	28
Total equity		**8,173**	8,471
Total liabilities and equity		**261,525**	237,680

Consolidated statement of cash flows

	Notes	Half-year to		
		30 Jun 2020	30 Jun 2019	31 Dec 2019
		€m	€m	€m
Profit/(loss) before tax		**(650)**	51	(73)
Adjustments for non-cash items		**859**	114	251
– depreciation, amortisation and impairment of property plant and equipment, right of use and intangibles[1]		**373**	63	244
– net gain from investing activities		**(13)**	(20)	(13)
– change in expected credit losses gross of recoveries and other credit impairment changes		**228**	59	73
– provisions including pensions		**5**	18	61
– share-based payment expense		**6**	8	7
– other non-cash items included in profit before tax		**129**	(26)	(112)
– elimination of exchange differences		**131**	12	(9)
Changes in operating assets and liabilities		**11,321**	11,323	6,937
– change in net trading securities and derivatives		**(3,248)**	(2,295)	4,461
– change in loans and advances to banks and customers		**(2,626)**	3,591	(722)
– change in reverse repurchase agreements – non-trading		**7,602**	(600)	(7,286)
– change in financial assets designated at fair value and otherwise mandatorily measured at fair value		**967**	(1,240)	(493)
– change in other assets		**(3,003)**	(5,132)	1,685
– change in deposits by banks and customer accounts		**16,832**	2,692	1,344
– change in repurchase agreements – non-trading		**(8,331)**	376	916
– change in debt securities in issue		**(1,581)**	1,078	6,232
– change in financial liabilities designated at fair value and otherwise mandatorily measured at fair value		**(397)**	2,282	1,919
– change in other liabilities		**5,130**	10,513	(1,000)
– tax paid		**(24)**	58	(119)
Net cash from operating activities		**11,530**	11,488	7,115
Purchase of financial investments		**(4,749)**	(4,937)	(1,488)
Proceeds from the sale and maturity of financial investments		**2,135**	2,479	1,624
Net cash flow from the purchase and sale of property, plant and equipment and right of use		**(24)**	1	(59)
Net investment in intangible assets		**(33)**	(63)	(78)
Net cash flow on disposal/acquisition of subsidiaries, businesses, associates and joint ventures		**—**	(10)	—
Net cash from investing activities		**(2,671)**	(2,530)	(1)
Issue of ordinary share capital and other equity instruments		**—**	1,250	787
Subordinated loan capital issued[2]		**500**	500	—
Dividends paid to shareholders of the parent company		**(15)**	(11)	(10)
Net cash inflow from change in stake of subsidiaries		**—**	—	—
Dividends paid to non-controlling interests		**—**	(1)	—
Net cash from financing activities		**485**	1,738	777
Net increase/(decrease) in cash and cash equivalents		**9,344**	10,696	7,891
Cash and cash equivalents at beginning of the period		**49,616**	31,031	41,715
Exchange differences in respect of cash and cash equivalents		**(133)**	(12)	10
Cash and cash equivalents at the end of the period		**58,827**	41,715	49,616
Cash and cash equivalents comprise of :				
– cash and balances at central banks		**36,032**	15,233	19,463
– items in the course of collection from other banks		**642**	995	775
– loans and advances to banks of one month or less		**3,183**	3,665	3,085
– reverse repurchase agreement with banks of one month or less		**8,642**	16,143	20,390
– treasury bills, other bills and certificates of deposit less than three months		**2,236**	168	335
– net settlement accounts and cash collateral		**8,333**	6,248	5,964
– less: items in the course of transmission to other banks		**(241)**	(737)	(396)
Cash and cash equivalents at the end of the period[3]		**58,827**	41,715	49,616

1 *Included are the impacts of EUR 283 million Intangible impairment and write-off in 2020 (2019: included EUR 169 million of goodwill impairment).*
2 *New Tier 2 issuance explained in note 1g, in the section 'Significant events during the first half-year' – 'Tier 2 issuance (Subordinated loan)' in page 55.*
3 *At 31 December 2019, HSBC France re-presented cash and cash equivalents to reflect a consistent global approach to these amounts. The net effect of these changes increased cash and cash equivalents by EUR 3 billion at 30 Jun 2019.*

Consolidated statement of changes in equity

	Called-up share capital and share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI Reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Merger 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 2020	**2,628**	**750**	**3,424**	**47**	**34**	**(27)**	**1,587**	**8,443**	**28**	**8,471**
Profit/(loss) for the period	**—**	**—**	**(499)**	**—**	**—**	**—**	**—**	**(499)**	**(1)**	**(500)**
Other comprehensive income (net of tax)	**—**	**—**	**194**	**3**	**27**	**(13)**	**—**	**211**	**—**	**211**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**3**	**—**	**—**	**—**	**3**	**—**	**3**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– cash flow hedges	**—**	**—**	**—**	**—**	**27**	**—**	**—**	**27**	**—**	**27**
– re-measurement of defined benefit asset/ liability	**—**	**—**	**2**	**—**	**—**	**—**	**—**	**2**	**—**	**2**
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	**—**	**—**	**192**	**—**	**—**	**—**	**—**	**192**	**—**	**192**
– exchange differences	**—**	**—**	**—**	**—**	**—**	**(13)**	**—**	**(13)**	**—**	**(13)**
Total comprehensive income for the period	**—**	**—**	**(305)**	**3**	**27**	**(13)**	**—**	**(288)**	**(1)**	**(289)**
– Capital securities issued during the period		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Dividends to shareholders[2]	**—**	**—**	**(15)**	**—**	**—**	**—**	**—**	**(15)**	**—**	**(15)**
– Net impact of equity-settled share-based payments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Other movements	**—**	**—**	**6**	**—**	**—**	**—**	**—**	**6**	**—**	**6**
Total Others	**—**	**—**	**(9)**	**—**	**—**	**—**	**—**	**(9)**	**—**	**(9)**
At 30 Jun 2020	**2,628**	**750**	**3,110**	**50**	**61**	**(40)**	**1,587**	**8,146**	**27**	**8,173**

The following footnotes refer to the Consolidated statement of changes in equity as of the 30 June 2020:

1 At 30 June 2020, 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 135 million.

2 Dividends corresponds to EUR 15 million related to coupon payment on AT1 capital.

At 1 Jan 2019	842	500	3,647	29	(23)	(27)	1,587	6,555	29	6,584
Profit/(loss) for the period	—	—	52	—	—	—	—	52	—	52
Other comprehensive income (net of tax)	—	—	(119)	24	58	2	—	(35)	—	(35)
– 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	—	—	—	—	58	—	—	58	—	58
– re-measurement of defined benefit asset/liability	—	—	(15)	—	—	—	—	(15)	—	(15)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	(104)	—	—	—	—	(104)	—	(104)
– exchange differences	—	—	—	—	—	2	—	2	—	2
Total comprehensive income for the period	—	—	(67)	24	58	2	—	17	—	17
– Capital securities issued during the period[2]	1,588	—	—	—	—	—	—	1,588	—	1,588
– Dividends to shareholders[3]	—	—	(11)	—	—	—	—	(11)	—	(11)
– Net impact of equity-settled share-based payments	—	—	4	—	—	—	—	4	—	4
– Change in business combination and other movements[4]	—	—	(38)	—	—	—	—	(38)	—	(38)
Total Others	1,588	—	(45)	—	—	—	—	1,543	—	1,543
At 30 Jun 2019	2,430	500	3,535	53	35	(25)	1,587	8,115	29	8,144

The following footnotes refer to the Consolidated statement of changes in equity as of the 30 June 2019:

1 At 30 June 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 (48) million.

2 HSBC France made four capital increases: EUR 950 million on January 2019, EUR 336 million on February 2019, EUR 4 million on May 2019 and EUR 299 million on June 2019.

3 Dividends corresponds to EUR 11 million related to coupon payment on AT1 capital.

4 Merger reserves on the item 'Change in business combination and other movements' include EUR (36) million related to the acquisition of HSBC Bank plc activities in Italy, Spain, Belgium, the Netherlands, Ireland and Czech Republic by HSBC France on 1 February 2019 and the acquisition of HSBC Bank plc activities in Luxembourg by HSBC France on 1 March 2019, partially offset by the transfer of the badwill of EUR 38 million from Retained Earnings' to 'Merger Reserve', following the mergers of the two subsidiaries HSBC Bank Polska S.A. and HSBC Institutional Trust Services (Ireland) DAC into HSBC France branches on 1 April 2019.

Consolidated statement of changes in equity (continued)

				Other reserves						
	Called-up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI Reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger and other reserves	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jul 2019	2,430	500	3,535	53	35	(25)	1,587	8,115	29	8,144
Profit/(loss) for the period	—	—	(91)	—	—	—	—	(91)	—	(91)
Other comprehensive income (net of tax)	—	—	(10)	(6)	(1)	(2)	—	(19)	—	(19)
– debt instruments at fair value through other comprehensive income	—	—	—	(6)	—	—	—	(6)	—	(6)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—	—	—	—	—
– cash flow hedges	—	—	—	—	(1)	—	—	(1)	—	(1)
– re-measurement of defined benefit asset/ liability	—	—	(1)	—	—	—	—	(1)	—	(1)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	(9)	—	—	—	—	(9)	—	(9)
– exchange differences	—	—	—	—	—	(2)	—	(2)	—	(2)
Total comprehensive income for the period	—	—	(101)	(6)	(1)	(2)	—	(110)	—	(110)
– Capital securities issued during the period[2]	198	250	—	—	—	—	—	448	—	448
– Dividends to shareholders[3]	—	—	(10)	—	—	—	—	(10)	(1)	(11)
– Net impact of equity-settled share-based payments	—	—	2	—	—	—	—	2	—	2
– Change in business combination and other movements	—	—	(2)	—	—	—	—	(2)	—	(2)
Total Others	198	250	(10)	—	—	—	—	438	(1)	437
At 31 Dec 2019	2,628	750	3,424	47	34	(27)	1,587	8,443	28	8,471

The following footnotes refer to the Consolidated statement of changes in equity for the second semester 2019:

1 *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 (9) million.*

2 *HSBC France made one capital increase: EUR 198 million on September 2019 and issued Tier 1 Capital Instruments on December 2019 of EUR 250 milllion.*

3 *Dividends correspond to EUR 10 million related to coupon payment on AT1 other equity instrument.*

Notes on the condensed financial statements

1 Basis of preparation and significant accounting policies

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

HSBC France is a domiciled entity in France. The HSBC France condensed consolidated financial statements for the half-year up to 30 June 2020 contain the financial statements of HSBC France, its subsidiaries and HSBC France's interests in jointly controlled entities and associates.

The interim consolidated financial statements of HSBC France have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). They do not include all the information disclosed in the annual financial statements and have to be consulted within the HSBC France consolidated financial statements for the year ending 31 December 2019.

At 30 June 2020, there were no unendorsed standards effective for the period ending 30 June 2020 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC France.

The consolidated financial statements of HSBC France for the financial year 2019 are available upon request from the HSBC France registered office at 103 avenue des Champs-Elysées – 75419 Paris Cedex 08 or on the website www.hsbc.fr.

These interim consolidated financial statements were closed by the Board of Directors on 31 July 2020.

Standards applied during the half-year to 30 June 2020

There were no new standards or amendments to standards that had an effect on these interim condensed consolidated financial statements.

(b) Use of estimates and judgements

Management believes that the group's critical accounting estimates and judgements are those which relate to impairment of amortised cost and FVOCI financial assets, goodwill impairment, the valuation of financial instruments, deferred tax assets and provisions for liabilities. There were no changes in the current period to the critical accounting estimates and judgements applied in 2019, which are stated on pages 163 to 172 of the *Universal registration document* and *Annual Financial Report 2019*. However, the level of estimation uncertainty and judgement for the calculation of Expected Credit Losses has increased since 31 December 2019 as a result of the economic effects of the Covid-19 pandemic. Another consequence of the economic effects of Covid-19 is that the estimates and judgements with regard to the expected cash flows of cash generating units, that are applied to the impairment of non-financial assets, have become more sensitive and resulted in impairment charges and write-off on the period.

(c) Composition of HSBC France's group

The changes in the first half-year of 2020 are described in Note 12 of this document.

(d) Accounting policies

The accounting policies adopted by HSBC France for the interim consolidated financial statements are consistent with those described in Note 1 on the condensed financial statements of the *Universal registration document* and *Annual Financial Report 2019*.

(e) Future accounting developments

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020. It has not been endorsed for use in the EU. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, IFRS 17 is effective from 1 January 2023. The Group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are still developing. Therefore, the likely impact of its implementation remains uncertain.

(f) Going concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that the group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the increasing uncertainty that the global Covid-19 pandemic has had on HSBC's operations, as well as considering potential impacts from other Top & Emerging Risks, and the related impact on profitability, capital and liquidity.

(g) Significant events during the first half-year

Tier 2 issuance (Subordinated loan)

HSBC France has increased its Tier 2 capital by EUR 500 million on 22 May 2020 by issuing a subordinated loan with a maturity of 10 years subscribed by HSBC Bank plc.

Targeted Long-Term Refinancing Operation ('TLTRO')

In June 2020, HSBC France made repayment of all remaining amounts under TLTRO II and participated in the TLTRO III for EUR 10.6 billion.

Change in reportable segments

Effective from 1 January 2020, the HSBC group made the following realignments within its internal reporting to the Executive Committee:

- Simplification of the matrix organisational structure by merging 'Private Banking' and 'Retail Banking and Wealth Management' global business lines to form 'Wealth and Personal Banking'.
- Reallocation of Balance Sheet Management from Corporate Centre to the global businesses.

Single Resolution Fund ('SRF')

HSBC France contribution amounted to EUR 124.9 million for 2020 of which EUR 18.7 million recorded as committed payments. The total amount recognised as commitments to pay to the SRF fully collateralised by cash deposits is about EUR 64 million.

Impairment and write-off of intangible assets

Please refer to Note 7 Goodwill and intangible assets.

(h) Presentation of information

Information related to results by activity ('IFRS 8') are disclosed in the Report of the Board of Directors to the Annual General Meeting on pages 8 to 16.

The following sections are presented in the Risk and Capital sections:

- Credit risks: page 31 and following
- Market risks: page 37
- Liquidity risks: pages 36
- Capital management and allocation: page 38 and following.

2 Dividends

(a) Dividends related to 2020

There was no interim dividend distribution for the 2020 financial year during the first half of 2020.

(b) Dividends related to 2019

The Combined General Meeting of 13 March 2020 approved the proposal of the Board of Directors held on 18 February 2020 to not distribute a dividend in respect of the year 2019.

(c) Earnings and dividends per share

	Six months ended		
	30 Jun 2020	30 Jun 2019	31 Dec 2019
	€ per share	€ per share	€ per share
Basic earnings per share	**(5.08)**	0.59	(0.94)
Diluted earnings per share	**(5.08)**	0.59	(0.94)
Dividends per share[1]	**—**	—	—

1 *Coupons paid on other equity instruments are not included in the calculation of the dividends per share.*

Basic earnings per ordinary share were calculated by dividing the profit/(loss) attributable to ordinary shareholders of the parent company of EUR (499) million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 98,231,196 (first half of 2019: earnings of EUR 52 million and 88,530,930 weighted average number of shares; second half of 2019: loss of EUR (91) million and 96,664,800 weighted average number of shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive effects of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 98,231,196 (first half of 2019: 88,530,930 shares; second half of 2019: 96,664,800 shares).

At 30 June 2020, no potentially dilutive ordinary share has been issued.

(d) Other equity instruments

Total coupons on capital instruments classified as equity[1]

		Six months ended		
		30 Jun 2020	30 Jun 2019	31 Dec 2019
	First call date	**€m**	€m	€m
Perpetual subordinated capital securities				
– EUR 200 million issued at 4.56%	May 2022	**5**	5	4
– EUR 300 million issued at 4%	March 2023	**6**	6	6
– EUR 250 million issued at 3.46%	December 2024	**4**	—	—
Total		**15**	11	10

1 *Discretionary coupons are paid semi-annually on the perpetual subordinated capital instruments.*

3 Net fee income

Net fee income

	Half-year to		
	30 Jun 2020	30 Jun 2019	31 Dec 2019
	€m	€m	€m
Account services	**69**	64	72
Funds under management	**88**	89	95
Cards	**18**	23	22
Credit facilities	**65**	73	78
Broking income	**6**	4	3
Unit trusts	**2**	3	3
Imports/exports	**8**	8	8
Remittances	**22**	19	35
Underwriting	**55**	70	28
Global custody	**17**	12	19
Insurance agency commission	**10**	10	12
Other[1]	**201**	180	163
Fee income	**561**	555	538
Less: fee expense	**(124)**	(161)	(154)
Net Fee income	**437**	394	384
Global business[2]			
Wealth and Personal Banking	**129**	141	135
Commercial Banking	**116**	119	111
Global Banking and Markets	**192**	133	145
Corporate Centre	**–**	1	(7)

1 *The line 'Other' includes mainly HSBC group inter-company fees, some inter-bank fees and various other fees.*
2 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

4 Present value of in-force insurance business ('PVIF')

HSBC France's life insurance business reported through its subsidiary HSBC Assurances Vie, is accounted for using the embedded value approach which, *inter alia*, provides a comprehensive risk and valuation framework. The Present Value of In-Force ('PVIF') business asset represents the present value of the shareholders' interest in the profits expected to emerge from the book of in-force policies.

The calculation of the PVIF is based upon assumptions that take into account risk and uncertainty. To project these cash flows, a variety of assumptions regarding future experience is made by each insurance operation, which reflects local market conditions and management's judgement of local future trends.

Movements in PVIF

	Movement of first semester 2020	Movement on full year 2019
	€m	€m
At 1 Jan	**613**	500
Change in PVIF of long-term insurance business	**(124)**	113
– moving forward	**(34)**	(61)
– value of new business	**13**	29
– assumption changes and others	**12**	178
– market impact	**(122)**	(55)
– experience variances	**7**	22
At the end of the period	**489**	613

The PVIF moves from EUR 613 millions as of 31 December 2019 to EUR 489 millions as of 30 June 2020. The negative movement of EUR (124) millions is mainly due to market impact and other recurring effects.

(a) Key assumptions used in the computation of PVIF for main life insurance operations

Economic assumptions are set in a way that is consistent with observable market values. The valuation of PVIF is sensitive to observed market movements and the impact of such changes is included in the sensitivities presented below.

Key assumptions modifications[1]

	At	
	30 Jun 2020	31 Dec 2019
	%	%
Weighted average risk free rate	**0.50**	0.44
Weighted average risk discount rate	**1.65**	1.27
Expenses inflation	**2.00**	2.00

Risk margin over discount rate profits are[2]:

	At	
	30 Jun 2020	31 Dec 2019
	€m	€m
Operational risk	**19**	19
Model risk	**15**	15
Volatility risk	**112**	72

1 *For end of June 2020, market value future profits' discounted rate used for the PVIF is of 1.65 per cent, to which a risk margin of EUR 146.2 million is added. In 2019, market value future profits' discounted rate used for the PVIF was of 1.27 per cent, to which a risk margin of EUR 105.8 million was added.*
2 *Risk margins (Model risk, operational and volatility risk) are detailed separately.*

(b) 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 for HSBC Assurances Vie.

	At	
	30 Jun 2020	31 Dec 2019
	€m	€m
+100 basis points shift in risk-free rate	**127**	130
- 100 basis points shift in risk-free rate	**(270)**	(289)
+100 basis points shift in risk-discount rate	**10**	(7)
- 100 basis points shift in risk-discount rate	**(6)**	8

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 behaviour.

(c) 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 as of 30 June 2020 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:

PVIF sensitivity after tax

	Effect on total equity at 30 Jun 2020	Effect on total equity at 31 Dec 2019
	€m	€m
10% increase in mortality and/or morbidity rates	(14)	(14)
10% decrease in mortality and/or morbidity rates	14	15
10% increase in lapse rates	(20)	(21)
10% decrease in lapse rates	21	24
10% increase in expense rates	(39)	(41)
10% decrease in expense rates	39	41

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.

5 Fair values of financial instruments carried at fair value

The accounting policies, control framework, and the hierarchy used to determine fair values are consistent with those applied for the *Universal registration document* and *Annual Financial Report 2019*.

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
	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2020							
Assets							
Trading assets	15,502	1,614	53	17,169	—	—	17,169
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,589	5,747	2,399	10,735	255	—	10,990
Derivatives	44	35,992	613	36,649	18,802	361	55,451
Financial investments	13,731	6,440	1,087	21,258	443	76	21,701
Liabilities							
Trading liabilities	23,570	104	—	23,674	—	—	23,674
Financial liabilities designated at fair value	—	17,655	614	18,269	—	—	18,269
Derivatives	15	34,523	135	34,673	18,812	683	53,485
At 31 Dec 2019[1]							
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	2,697	6,678	2,325	11,700	257	—	11,957
Derivatives	27	28,197	442	28,666	17,058	328	45,724
Financial investments	7,571	7,957	1,006	16,534	447	75	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

1 *2019 balances have been re-presented following a refinement in application of the levelling methodology primarily for private debt and equity and real-estate investments during the period. The result of this is a total of EUR 16.0 billion moving from Level 1, and EUR 13.4 billion and EUR 2.6 billion into Levels 2 and 3 respectively. The change has impacted financial investments and financial assets designated and otherwise mandatorily measured at fair value.*

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 30 Jun 2020							
Transfers from Level 1 to Level 2	**28**	**368**	**—**	**—**	**—**	**6,609**	**—**
Transfers from Level 2 to Level 1	**1,763**	**40**	**80**	**—**	**—**	**—**	**—**
At 31 Dec 2019[1]							
Transfers from Level 1 to Level 2	2,411	1,046	—	—	—	—	—
Transfers from Level 2 to Level 1	615	35	—	—	—	—	—

1 *2019 balances have been re-presented following a refinement in application of the levelling methodology. The result of this is an increase in transfers from level 1 to level 2 and level 2 to level 1 of EUR 2.4 billion and EUR 0.6 billion respectively for financial investments and a decrease of EUR 1.2 billion in transfers from Level 1 to Level 2 for Assets designated and otherwise mandatorily measured at fair value.*

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

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
At 30 Jun 2020									
Private equity investments including strategic investments	**14**	**—**	**1,974**	**—**	**1,988**	**—**	**—**	**—**	**—**
Asset-backed securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Structured notes	**—**	**2**	**—**	**—**	**2**	**—**	**614**	**—**	**614**
Derivatives	**—**	**—**	**—**	**613**	**613**	**—**	**—**	**135**	**135**
Other portfolios	**1,073**	**51**	**425**	**—**	**1,549**	**—**	**—**	**—**	**—**
HSBC Group subsidiaries	**76**	**—**	**—**	**361**	**437**	**—**	**—**	**683**	**683**
Total	**1,163**	**53**	**2,399**	**974**	**4,589**	**—**	**614**	**818**	**1,432**
At 31 Dec 2019[1]									
Private equity investments including strategic investments	13	—	1,841	—	1,854	—	—	—	—
Asset-backed securities	—	—	—	—	—	—	—	—	—
Structured notes	—	2	—	—	2	—	307	—	307
Derivatives	—	—	—	442	442	—	—	130	130
Other portfolios	993	—	484	—	1,477	—	—	—	—
HSBC Group subsidiaries	75	—	—	328	403	—	—	469	469
Total	1,081	2	2,325	770	4,178	—	307	599	906

1 *2019 balances have been re-presented following a refinement in application of the levelling methodology. The result of this is an increase of EUR 2.6 billion of assets in Level 3; other portfolios increased by EUR 1.2 billion and private equity including strategic investments by EUR 1.4 billion.*

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 2020	**1 081**	**2**	**2 325**	**770**	**–**	**307**	**599**
Total gains/(losses) recognised in profit or loss	–	(46)	(78)	210	–	67	197
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	–	(46)	–	210	–	–	197
– 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	–	–	(78)	–	–	67	–
– 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	325	47	253	–	–	–	–
New Issuances	–	–	–	–	–	19	–
Sales	(243)	–	(83)	–	–	–	–
Settlements	–	–	(18)	(6)	–	39	3
Transfers out	–	–	–	(2)	–	(14)	(1)
Transfers in	–	50	–	2	–	196	20
At 30 Jun 2020	**1,163**	**53**	**2,399**	**974**	**–**	**614**	**818**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2020	–	–	5	161	–	13	217
– net income from financial instruments held for trading or managed on a fair value basis	–	–	–	161	–	–	217
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	–	–	–	–	–	–	–
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	5	–	–	13	–
– loan impairment recoveries and other credit risk provisions	–	–	–	–	–	–	–

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 2019[1]	722	2	2,192	615	—	292	435
Total gains/(losses) recognised in profit or loss	—	(2)	12	88	—	18	66
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	(2)	—	88	—	—	66
– 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	—	—	22	—	—	18	—
– 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	—	—	(10)	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	40	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	40	—	—	—	—	—	—
– cash flow hedges: fair value gains/(losses)	—	—	—	—	—	—	—
– fair value gains transferred to the income statement on disposal	—	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	85	2	239	1	—	104	45
New Issuances	—	—	—	—	—	41	—
Sales	(1)	—	(8)	—	—	(158)	—
Settlements	—	—	(167)	(26)	—	(1)	(29)
Transfers out	—	—	—	(22)	—	(3)	—
Transfers in	—	—	—	8	—	2	6
At 30 Jun 2019	846	2	2,268	664	—	295	523
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2019	—	—	12	88	—	22	66
– net income from financial instruments held for trading or managed on a fair value basis	—	—	—	88	—	—	66
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	—	—	—	—	—	—	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	12	—	—	22	—
– loan impairment recoveries and other credit risk provisions	—	—	—	—	—	—	—

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 Jul 2019	846	2	2,268	664	—	295	523
Total gains/(losses) recognised in profit or loss	—	—	9	91	—	(13)	66
– net income from financial instruments held for trading or managed on a fair value basis	—	—	—	91	—	—	66
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	—	—	—	—	—	—	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	(1)	—	—	(13)	—
– 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	—	—	10	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	(7)	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	(7)	—	—	—	—	—	—
– cash flow hedges: fair value gains/(losses)	—	—	—	—	—	—	—
– fair value gains transferred to the income statement on disposal	—	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	297	—	187		—	35	—
New Issuances	—	—	—		—	1	—
Sales	(40)	—	(20)		—	(12)	—
Settlements	—	—	(119)	15	—	24	16
Transfer out	(15)	—	—	(3)	—	(38)	(6)
Transfer in	—	—	—	3	—	15	—
At 31 Dec 2019	1,081	2	2,325	770	—	307	599
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 Dec	—	—	25	95	—	(4)	61
– net income from financial instruments held for trading or managed on a fair value basis	—	—	—	95	—	—	61
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	—	—	—	—	—	—	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	25	—	—	(4)	—
– loan impairment recoveries and other credit risk provisions	—	—	—	—	—	—	—

1 *2019 balances have been re-presented following a refinement in application of the levelling methodology. The result of this is an increase of EUR 2.6 billion of assets in Level 3; financial investments increased by EUR 1.1 billion and financial assets designated and otherwise mandatorily measured at fair value by EUR 1.5 billion.*

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 30 Jun 2020				At 31 Dec 2019[2]			
	Reflected in profit or loss		Reflected in other comprehensive Income		Reflected in profit or loss		Reflected in other comprehensive Income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m	€m	€m	€m	€m
Derivatives/trading assets/trading liabilities[1]	**19**	**(19)**	**—**	**—**	10	(10)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	**120**	**(121)**	**—**	**—**	127	(111)	—	—
Financial investments	**—**	**—**	**54**	**(57)**	—	—	54	(57)
HSBC Group subsidiaries	**21**	**(21)**	**4**	**(4)**	16	(16)	—	—
Total	**160**	**(161)**	**58**	**(61)**	153	(137)	54	(57)

1 *Derivatives, trading assets and trading liabilities are presented as one category to reflect the manner in which these financial instruments are risk-managed.*
2 *2019 balances have been re-presented following a refinement in application of the levelling methodology. The impact changes reflected through OCI due to financial investments is EUR 53 million and EUR 77 million reflected in profit or loss due to financial assets designated and mandatorily measured at fair value.*

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

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m
At 30 Jun 2020				
Private equity investments including strategic investments	**102**	**(102)**	**1**	**(1)**
Asset-backed securities	**—**	**—**	**—**	**—**
Structured notes	**6**	**(6)**	**—**	**—**
Derivatives	**19**	**(19)**	**—**	**—**
Other portfolios	**12**	**(13)**	**53**	**(56)**
HSBC Group subsidiaries	**21**	**(21)**	**4**	**(4)**
Total	**160**	**(161)**	**58**	**(61)**
At 31 Dec 2019[1]				
Private equity investments including strategic investments	116	(97)	1	(1)
Asset-backed securities	—	—	—	—
Structured notes	1	(1)	—	—
Derivatives	10	(10)	—	—
Other portfolios	10	(13)	53	(56)
HSBC Group subsidiaries	16	(16)	—	—
Total	153	(137)	54	(57)

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

1 *2019 balances have been re-presented following a refinement in application of the levelling methodology. The impact changes reflected through OCI due to other portfolios is EUR 53 million and EUR 77 million reflected in profit or loss due to Private equity including strategic investments (EUR 69 million) and other portfolios (EUR 8 million).*

Quantitative information about significant unobservable input in Level 3 valuations

The following table lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2020. The categories of key unobservable inputs are described in the Note 13 of the *Universal registration document and Annual Financial Report 2019*.

	Fair value[1]				Full range of inputs		Core range of inputs	
	Assets	Liabilities	Valuation technique	Key unobservable inputs	Lower	Higher	Lower	Higher
	€m	€m			%	%	%	%
At 30 Jun 2020								
Private equity including strategic investments	**1,988**	**–**	**See notes below[4]**	**See notes below[4]**	**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	**–**	**–**						
Loans held for Securitisation	**–**	**–**						
Structured notes	**2**	**614**						
– equity-linked notes	**–**	**327**	**Model – Option model**	**Equity volatility**	**–**	**–**	**–**	**–**
– fund-linked notes	**–**	**–**	**Model – Option model**	**Fund volatility**	**–**	**–**	**–**	**–**
– FX-linked notes	**–**	**–**	**Model – Option model**	**FX volatility**	**–**	**–**	**–**	**–**
– other	**2**	**287**						
Derivatives	**974**	**818**						
Interest rate derivatives	**926**	**751**						
– securitisation swaps	**155**	**1**	**Model – DCF[3]**	**Prepayment rate**	**50**	**50**	**50**	**50**
– long-dated swaptions	**669**	**592**	**Model – Option model**	**IR volatility**	**18**	**33**	**20**	**32**
– other	**102**	**158**						
Foreign exchange derivatives	**1**	**1**						
– foreign exchange options	**1**	**1**	**Model – Option model**	**FX volatility**	**5**	**16**	**5**	**16**
Equity derivatives	**47**	**66**						
– long-dated single stock options	**–**	**–**	**Model – Option model**	**Equity volatility**				
– other	**47**	**66**						
Credit derivatives	**–**	**–**						
– other	**–**	**–**						
Other portfolios	**1,625**	**–**						
Total Level 3	**4,589**	**1,432**						
At 31 Dec 2019[5]								
Private equity including strategic investments	1,854	–	See notes below[4]	See notes below[4]	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	2	307						
– 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	770	599						
Interest rate derivatives	721	574						
– 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	49	25						
– long-dated single stock options	–	–	Model – Option model	Equity volatility	–	–	–	–
– other	49	25						
Credit derivatives								
– other	–	–						
Other portfolios	1,552	–						
Total Level 3	4,178	906						

1 *Including Level 3 amounts with HSBC Group subsidiaries.*
2 *Collateralised Loan Obligation/Collateralised Debt Obligation.*
3 *Discounted Cash Flow.*
4 *See notes on page 191 of the* Universal registration document *and* Annual Financial Report 2019.
5 *2019 balances have been re-presented following a refinement in application of the levelling methodology. The result of this is an increase of EUR 2.6 billion of assets in Level 3; other portfolios increased by EUR 1.2 billion and private equity including strategic investments by EUR 1.4 billion.*

6 Fair values of financial instruments not carried at fair value

The basis for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue and subordinated liabilities is consistent with that detailed in the *Universal registration document* and *Annual Financial Report 2019*.

		Fair value			
	Carrying amount	Level 1 – quoted market price	Level 2 – using observable inputs	Level 3 – with significant unobservable inputs	Total
	€m	€m	€m	€m	€m
At 30 Jun 2020					
Assets					
Loans and advances to banks	**7,088**	**—**	**7,089**	**—**	**7,089**
Loans and advances to customers	**59,228**	**—**	**—**	**59,312**	**59,312**
Reverse repurchase agreements – non-trading	**26,623**	**—**	**26,623**	**—**	**26,623**
Financial investments: debt securities at amortised cost	**6**	**—**	**—**	**6**	**6**
Liabilities					
Deposits by banks	**19,411**	**—**	**19,438**	**—**	**19,438**
Customer accounts	**67,084**	**—**	**67,078**	**—**	**67,078**
Repurchase agreements – non-trading	**11,883**	**—**	**11,883**	**—**	**11,883**
Debt securities in issue	**8,201**	**—**	**8,201**	**—**	**8,201**
Subordinated liabilities[1]	**1,876**	**—**	**1,916**	**—**	**1,916**
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	1,376	—	1,429	—	1,429

1 *During 2020, HSBC France has issued New Tier 2 Capital (Tier 2 instrument) subscribed by HSBC Bank plc for EUR 500 million with a maturity of 10 years .*

Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. They include cash and balances at central banks and items in the course of collection from and transmission to other banks, all of which are measured at amortised cost.

7 Goodwill and intangible assets

We considered the pervasive macroeconomic deterioration caused by the outbreak of Covid-19, along with the impact on forecast profitability, to be an indicator of capitalised software impairment. As a result, interim impairment tests were performed at 30 June 2020.

Goodwill

As at 30 June 2020, the test performed on Asset Management did not raise any specific comment.

Key assumptions in VIU calculation

	Goodwill at 30 June 2020	Discount rate	Nominal growth rate beyond initial cash flow projections	Goodwill at 31 December 2019	Discount rate	Nominal growth rate beyond initial cash flow projections
	€m	%	%	€m	%	%
Asset Management	**66**	**8.00**	**1.70**	**66**	**8.00**	**1.70**
Total goodwill in the CGU's listed above	**66**			**66**		

Other Intangible Assets

30 June Impairment Test

An impairment test was performed at 30 June 2020 by comparing the net carrying amount of capitalised software assets with their recoverable amounts. Recoverable amounts were determined by calculating an estimated VIU ('Value In Use'). Our cash flow forecasts have been updated for changes in the external outlook, although current economic and geopolitical risks increase the inherent estimation uncertainty.

We recognised EUR 283 million of capitalised software impairment and write-off. This impairment reflected underperformance and deterioration in the future forecasts, substantially relating to prior periods.

Key assumptions in VIU calculation

We used a number of assumptions in our VIU calculation, in accordance with the requirements of IAS 36:

- Management's judgement in estimating future cash flows: We considered past business performance, the scale of the current impact from Covid-19 outbreak on our operations, current market conditions, and our macroeconomic outlook to estimate future earnings. As required by IFRSs, estimates of future cash flows exclude estimated cash inflows or outflows that are expected to arise from restructuring initiatives before an entity has a constructive obligation to carry out the plan, and would therefore have recognised a provision for restructuring costs. This means that the benefits of certain strategic actions are not included in this impairment assessment.
- Long-term growth rates: The long-term growth rate is used to extrapolate cash flows in perpetuity because of the long-term perspective within the group.
- Discount rate: Rates are based on a Capital asset pricing model ('CAPM') calculation. Discount rate used is 8,9%.

Future Software Capitalisation

HSBC France will continue to invest in digital capabilities to meet its strategic objectives. However, software capitalisation where impairment was identified will not resume until the performance outlook indicates future profits are sufficient to support capitalisation. The cost of additional software investment will be recognised as an operating expense until such time.

8 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Other provisions	Total
	€m	€m	€m	€m
Provisions (excluding contractual commitments)				
At 31 Dec 2019	**22**	**44**	**33**	**99**
Additions	**–**	**2**	**7**	**9**
Amounts utilised	**(5)**	**(2)**	**(18)**	**(25)**
Unused amounts reversed	**(3)**	**(1)**	**(5)**	**(9)**
Exchange and other movements	**(1)**	**(1)**	**–**	**(2)**
At 30 Jun 2020	**13**	**42**	**17**	**72**
Contractual commitments[1]				
At 31 Dec 2019				**61**
Net change in expected credit loss provisions and other movements				**58**
At 30 Jun 2020				**119**
Total provisions				
At 31 Dec 2019				**160**
At 30 Jun 2020				**191**

1 *The contractual commitments provisions at 30 June 2020 represented IAS 37 provisions on off-balance sheet loan commitments and guarantees, for which expected credit losses are provided following IFRS 9.*

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

9 Contingent liabilities, contractual commitments and guarantees

		At	
		30 Jun	31 Dec
		2020	2019
	Footnotes	**€m**	€m
Guarantees and contingent liabilities:			
– financial guarantees		**1,207**	1,209
– performance and other guarantees		**8,088**	9,256
– other contingent liabilities		**64**	95
At the end of the period		**9,359**	10,560
Commitments:			
– documentary credits and short-term trade-related transactions		**516**	1,020
– forward asset purchases and forward deposits placed	1	**63,799**	44,105
– standby facilities, credit lines and other commitments to lend	2	**49,240**	44,568
At the end of the period		**113,555**	89,693

1 *The increase of forward asset purchases and forward deposits placed are due to the increase of reverse repurchase and repurchase agreements activities.*
2 *Standby facilities, credit lines and other commitments to lend are based on original contractual maturity.*

The above table discloses the nominal principal amounts, which represents the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

10 Legal proceedings and regulatory matters relating to HSBC Group entities generally

HSBC Group entities, including HSBC France, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and in the section 2.19a "Legal risks and litigation management" of the *Universal registration document* and *Annual Financial Report 2019*, HSBC France considers that none of these matters is significant. HSBC France recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 30 Jun 2020.

Anti-money laundering and sanctions-related matters

In December 2012, among other agreements, HSBC Holdings agreed to an undertaking with the UK Financial Services Authority which was replaced by a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013, and again in July 2020, and consented to a cease-and-desist order with the Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('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'). In December 2012, HSBC Holdings, entered into an agreement with the office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions.

HSBC's engagement with the Skilled Person appointed pursuant to the 2013 Direction was terminated in February 2020 and a new Skilled Person with a narrower mandate has been 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 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 subs idiaries will be indemnified by HSBC Bank plc in respect of certain liabilities relating to the activities of HTIE and/or Somers prior to the acquisition of HTIE (newly HSBC France Dublin Branch).

The Madoff-related proceeding HTIE is involved in is 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 decision. In July 2020, the Irish Supreme Court ruled in favour of Defender Limited on certain aspects of the High Court judgement and returned the case to the High Court for further proceedings.

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 that dismissal. Following the US Supreme Court's denial of certiorari in June 2020, the cases were remanded to the US Bankruptcy Court, where they are now pending.

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.

11 Transactions with related parties

HSBC France has increased its Tier 2 capital by EUR 500 million on 22 May 2020 by issuing a subordinated loan with a maturity of 10 years subscribed by HSBC Bank plc.

Excluding these operations, there were no change in the related party transactions described in the *Universal registration document* and *Annual Financial Report 2019* that have had a material effect on the financial position or performance of the HSBC France's group in the six months leading up to 30 June 2020.

12 Changes in consolidation perimeter during the first half-year of 2020

The table below shows the changes, in the first half-year of 2020, within the legal perimeter published in the *Universal registration document* and *Annual Financial Report 2019*, Note 36.

Removals:	Additions:
Finanpar 7	HSBC GB Inv -Economic scale Japan Eq

13 Events after the balance sheet date

In line with the Group's strategy announced in February 2020, HSBC France has presented, in early July, to the Social and Economic Council a reorganisation plan for the GBM business in France. Its objective is to preserve the bank’s future competitiveness and to focus on our strategic positioning while reducing the size of GBM business in France. The social plan project (*‘Plan de Sauvegarde pour l’Emploi’*) considers 235 job positions cut. Negotiations with social bodies have been launched mid-July and should be finalised end of October. At this stage, the net best estimate of the related costs is around EUR 69 million.

There have been no other significant events between 30 June 2020 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.

Statutory Auditors' review report on the 2020 half-year financial information

PricewaterhouseCoopers Audit

63 rue de Villiers
92208 Neuilly-sur-Seine Cedex

BDO Paris Audit & Advisory

43-47 avenue de la Grande-Armée
75116 Paris

For the six-month period ended 30 June 2020

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

To the Shareholders,

HSBC FRANCE

103, avenue des Champs-Elysées
75419 Paris Cedex 08

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

- the review of the accompanying condensed interim consolidated financial statements of HSBC France, for the six months ended June 30, 2020;
- the verification of the information contained in the interim management report.

These condensed interim consolidated financial statements were prepared under the responsibility of the Board of Directors on July 31, 2020, based on information available at that date in the evolving context of the COVID-19 crisis and difficulties in understanding its impacts and future prospects. Our role is to express a conclusion on these financial statements based on our review.

1 Conclusion on the financial statements

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

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

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

2 Specific verification

We have also verified the information given in the interim management report on the condensed interim consolidated financial statements prepared on July 31, 2020 subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed interim/half-year[1] consolidated financial statements.

Neuilly sur Seine and Paris, August 3, 2020

French original signed by

PricewaterhouseCoopers Audit
Agnès Hussherr

BDO Paris Audit & Advisory
Michel Léger

Person responsible for the universal registration document and its amendments

Mr Jean Beunardeau, Chief Executive Officer.

Statement by person responsible for the Universal Registration Document and its amendments

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

I certify, to the best of my knowledge, that the condensed accounts for the first half of the financial year have been prepared in accordance with the relevant accounting standards and give a fair view of assets and liabilities, financial position and result of the company and of all the entities included in the consolidation, and that the interim management report on pages 8 to 16 presents a fair review of the significant events that occurred during the first six months of the financial year, their impact on the accounts and the major related party transactions, as well as a description of the principal risks and uncertainties for the remaining six months of the financial year.

Paris, 3 August 2020

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

	Date		
	First appointed	Re-appointed	Term ends
Incumbents			
PricewaterhouseCoopers Audit[1] Represented by Agnès Hussherr[2] 63, rue de Villiers 92200 Neuilly-sur-Seine	**2015**	**2018**	**2024**
BDO Paris Audit & Advisory[3] Represented by Michel Leger[4] 43-47 avenue de la Grande Armée 75116 Paris	**2007**	**2018**	**2024**

1 *Member of the Compagnie Régionale des Commissaires aux comptes of Versailles.*
2 *PricewaterhouseCoopers Audit represented by Agnès Hussherr starting from 2020.*
3 *Member of the Compagnie Régionale des Commissaires aux comptes of Paris.*
4 *BDO Paris Audit & Advisory represented by Michel Leger starting from 2019.*

Cross-reference table

The following cross-reference table refers to the main headings of the 2019/980 delegated regulation supplementing the 2017/1129 regulation (Annex I and Annex II) implementing the directive known as 'Prospectus' and to the pages of the 2019 Universal Registration Document D.20-0071.

17	**Related party transactions**	page 50 to 52, 216 to 217, 218 to 221, 252 to 253	page 68
18	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
18.1	Historical financial information	pages 19, 155 to 221, 226 to 253, 271	
18.2	Interim and other financial information	N/A	pages 48 to 70
18.3	Auditing of historical annual financial information	pages 222 to 225 and 254 to 256	
18.4	Pro forma financial information	N/A	–
18.5	Dividend policy	pages 183 and 267	page 55
18.6	Legal and arbitration proceedings	pages 137 to 138, 215 to 216, 250 to 251	pages 67 to 68
18.7	Significant change in the issuer's financial position	pages 19, 218 and 251	page 68
19	**Additional information**		
19.1	Share capital	pages 213, 243 and 267	–
19.2	Memorandum and Articles of Association	pages 265 to 267	–
20	**Material contracts**	page 266	–
21	**Documents available**	page 265	–

Sections of Annex II of the 2019/980 delegated regulation		**Pages in the 2019 Universal Registration Document filed with the AMF on 19 Feb 2020**	**Pages in this amendment to the Universal Registration Document**
1	**Information to be disclosed about the issuer**	page 2	page 2

The following elements are included by reference:

- 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 the 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
- the consolidated financial statements for the year ended 31 December 2019 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 155 to 221 and 222 to 225 of the universal registration document D.20-0071 filed with the AMF on 19 February 2020; the information can be found here : https://www.hsbc.com/-/files/hsbc/investors/investing-in-hsbc/all-reporting/subsidiaries/2019/annual-results/hsbc-france/200219-hbfr-en-2019-annual-report-final.pdf

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

Any person requiring additional information on the HSBC France group may, without commitment, request documents by mail:

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