HSBC France
Annual Report and Accounts 2013

HSBC

The HSBC Group

HSBC is one of the largest banking and financial services organisations in the world.
HSBC purpose is to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfill their hopes and realise their ambitions.

Customers: 54 million.
Served by: 254,000 employees.
Through four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, Global Private Banking.
Located in: 75 countries and territories.
Across six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America, Latin America.
Offices: Over 6,300.
Listed on stocks exchanges in: London, Hong Kong, New York, Paris, Bermuda.
Shareholders: 216,000 in 131 countries and territories.

Highlights – Year ended 31 December 2013:
Reported profit before tax was up 9 per cent to USD 22,565 million.
Underlying profit before tax was up 41 per cent to USD 21,586 million.
Profit attributable to shareholders of the parent company was USD 16,204 million.
Total assets were USD 2,671 billion.

Geographical regions:
Profit before tax

	2013	
	USDm	%
Europe	1,825	8.1
Hong Kong	8,089	35.9
Rest of Asia-Pacific	7,764	34.4
Middle East and North Africa	1,694	7.5
North America	1,221	5.4
Latin America	1,972	8.7
Reported profit before tax	22,565	100.0

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This Registration Document was filed with the *Autorité des marchés financiers* on 3 March 2014, in accordance with article 212-13 of the AMFs General Regulations. It may be used in support of a financial transaction if supplemented by a Transaction Note that has received approval from the *Autorité des marchés financiers*. This document was produced by the issuer and is binding upon its signatories.

Annual Report and Accounts 2013

Contents

This is a free translation into English of the original Registration Document issued in French and provided solely for the convenience of English-speaking readers. In case of discrepancy, the French version prevails.

Report of the Board of Directors to the Annual General Meeting

HSBC France is the subsidiary of one of the most solid banking groups in the world, the HSBC Group, which aims to be the world's leading international bank. In France, HSBC aims to become the partner of reference to assist French companies in their international development and individuals in the management of their assets.

The businesses of HSBC France and developments in its organisation and structures

Main business and key strategic orientation

In 2013, HSBC France continued to consolidate its position as the main banking platform for HSBC in Continental Europe and continued to follow its ambition to develop through its four global businesses, under the 2014 Strategic Plan. This plan is based on a universal banking model and relies on a comprehensive range of banking and financial services aimed at a business and retail clientele wishing to benefit from the strengths of the HSBC Group, one of the world's leading financial organisations, and especially, its international presence, its solid financial position and its innovation in banking and technology. This plan is in line with that of the HSBC Group, which aims to accelerate its growth while improving efficiency and setting up the most demanding standards in terms of compliance, particularly as regards the struggle against money laundering, terrorism and corruption, under the "Global Standards" program implemented by the HSBC Group throughout the world. Thus, it notably plans to:

– continue to focus on wealth management for individuals;
– bolster international connectivity for Commercial Banking;
– strengthen Global Banking and Markets positioning in Paris as a strategic hub for the HSBC Group;
– strengthen synergies between businesses.

With this plan, HSBC France is aiming to improve its efficiency by simplifying procedures and adapting the organisational structure of each global business. Furthermore, the improvement in results is based on a generally more competent organisational structure, owing to an ambitious training policy. Employee training initiatives are primarily focused on increasing technical, products, tools and processes-related as well as risk management skills. Developing managers' team management skills remains a strategic priority.

Retail Banking and Wealth Management includes Personal Financial Services, Asset Management and Insurance activities. Retail Banking offers its customers personalised support and a Wealth Management approach. Capitalising on the HSBC Group strengths, HSBC France aims to become the leading bank in Wealth Management. With a strong presence in the largest French cities, with 317 branches, including 41 HSBC Premier Centres and 3 direct banking branches, HSBC France is supported by teams of experts specialised by customer profile and offers meeting HSBC Premier and HSBC Advance customers' aspirations. HSBC France has developed many initiatives designed to:

– improve the investment and advice offering in multi-management and brokerage platform to support the long-term investment needs of customers, particularly within the framework of preparations for retirement;
– continue to enhance the Wealth Management expertise of staff, especially for HSBC Premier, provide customers with products and services tailored to their individual expectations, while focusing on risk management;
– address the demand for multi-channel services and increase HSBC France's Premier customer base by a third.

Private Banking offers products and services tailored to the needs of resident and international high-net-worth individuals, through the expertise of its discretionary and advisory management teams and strong synergies with HSBC France's other global businesses, especially with Commercial Banking and Global Banking and Markets. HSBC France aims to develop its Private Banking business in France, by becoming the leading private bank for company executives, strengthening client support teams and increasing the synergies between the different businesses.

Commercial Banking offers an extensive range of domestic and international products and services providing daily support to businesses ranging from very small companies to multinationals. It is supported by:

– a recognised expertise in supporting businesses in their international development, especially in emerging markets, thanks to the HSBC network throughout the world,
– specialists in Cash management, Trade services and Factoring,
– a domestic network specialised by type and size of business (11 Corporate Banking Centres, 51 "*Centres d'Affaires Entreprises*" dedicated to SMEs and 15 "*Pôles Entrepreneurs*" dedicated to very small companies) and by a Business Direct branch for very small companies and non profits.

Commercial Banking aims to continue to strengthen HSBC France's international capabilities, by improving international expertise through international relationship managers, by strengthening operations that are core to international trade and implementing initiatives targeting international small- and mid-size companies (SMEs), and to become the main bank for its core customers by improving quality of service.

Global Banking and Markets is an ideal partner for large corporations and institutionals, helps their projects and transactions, both in France and worldwide thanks to HSBC's dimension as both a local and global player. HSBC offers a complete range of services both in Global Markets and Global Banking activities including: advisory, lending, structured finance, mergers and acquisitions, debt and equity capital markets, project finance, cash management, trade finance and market activities (rates, foreign exchange and equities). Consolidating this business is central to the Strategic Plan and will enable HSBC France to fulfil its role as a strategic platform for Continental Europe and as a centre of excellence in euro rate products and equity derivatives, primarily by increasing synergies with other countries and by broadening the range of products offered to large corporate clients. The plan is also designed to enable this core business to adjust to changes in the regulatory environment while preserving its reputation and its leading position in the official rankings.

Further evolution of the HSBC Group in France

The programme to simplify the HSBC France group structures continued, with the aim of dissolving units that no longer serve a purpose and selling or merging structures within the group in order to optimise and simplify the organisation.

In this context, in December 2013, HSBC France completed the acquisition, from HSBC Bank plc Paris Branch, of all shares representing the share capital of HSBC Assurances Vie (France), which becomes its subsidiary.

In addition, under the HSBC Group 10-year bancassurance agreement with AIG in Continental Europe, HSBC Bank plc Paris Branch sold, in May 2013, its French subsidiary HSBC Assurances IARD (France) to AIG Europe Limited.

The bank's performance in 2013

Economic climate

2013 was marked by a low economic growth context in France and in Europe with, in particular, a decline in business investment.

The equity markets were on an uptrend throughout 2013, reaching levels not seen for five years despite the various events punctuating the year, such as political uncertainty and fiscal instability in the eurozone, unrest in the Middle-East and the announced end of the US Federal Reserve's accommodative monetary policy. In this context, 2013 was marked by short-term interest rates down to record lows, while long-term rates moved back at year end to their early-2012 level after a period of decline, linked to U.S. rates stimulated by the announcement in May, then the realisation of tapering of purchases of securities by the US Federal Reserve. In France, consumer spending was resilient and retail lending began to pick up towards the year-end. By contrast, low interest rates had a negative impact on the deposit spread.

In a climate of uncertainty, business investment continued to decline and corporate deals such as mergers, acquisitions and initial public offerings were thin on the ground. Corporate credit risk continued to materialise, with the number of business failures increasing in 2013.

Banking union in Europe continued apace in 2013. The Capital Requirements Directive (CRD4) and the Capital Requirements Regulation (CRR) were adopted in June 2013 with the aim of introducing Basel III rules on new liquidity and solvency requirements in the European Union as of January 2014. In the longer-term, the new Single Supervisory Mechanism will place HSBC France, alongside the other major French banks, under the direct supervision of the European Central Bank (ECB) as of autumn 2014, after an exercise in risk assessment and review of asset quality, which must take place between February and August 2014. Many laws or regulations have already been or are in the process of being enacted in several countries or at European level (law on separation and regulation of banking activities, resolution mechanisms, financial transactions tax), which will prompt banks to rethink their organisation structure and risk appetite, strengthen their control systems and consumer protection policies. Some new laws and regulations are expected to take effect as of 2014.

The bank's performance is analysed below from three different perspectives, prepared in accordance with IFRS standards as defined in Note 1[1] of the consolidated financial statements:

- HSBC's operations in France (managed perimeter);
- HSBC France group's consolidated financial statements (legal perimeter);
- the country "France" as considered by HSBC Holdings plc in its analysis of geographical contribution to the HSBC Group's results.

HSBC France's performance on the basis of its individual financial statements, prepared in accordance with the principal accounting policies applicable to credit institutions in France[2], is analysed in the Note to the parent company financial statements entitled "2013 Highlights", page 220.

Contribution of France to the results of HSBC Group operations[3] (managed perimeter)

HSBC's operations in France reported profit before tax of EUR 654 million compared with EUR 559 million in 2012, an increase of 17 per cent. Adjusted for the change in own debt value under fair value option, profit before tax was EUR 657 million, a decrease of 3 per cent compared to 2012, which had benefited from high results of Global Markets business.

1 *See Note 1 of the consolidated financial statements page 109.*
2 *See Note 1 of the parent company financial statements page 220.*
3 *The comments on pages 3 to 6 relate to the contribution of France to the results of HSBC Bank plc operations, which includes the HSBC France group, including the results of entities legally owned by HSBC France but located outside France,* i.e. *the legal scope in its entirety, and also the Paris branch of HSBC Bank plc, which is engaged in equity derivative activities, as well as the results of HSBC Assurances Vie (France) until the end of 2013. It does not include the costs of funding and the debt on acquisition recognised by HSBC Bank plc Paris Branch.*
The financial figures are presented according to the IFRS as adopted by the HSBC Group.

2013 allowed Retail and Commercial Banking as well as Global Banking to deliver satisfactory revenue growth. The relative contribution of the various businesses to the global profit was therefore more balanced in 2013.

Net operating income was higher than 2012 level, increasing by 3 per cent to EUR 2,455 million and down 2 per cent to EUR 2,458 million adjusted for the change in own debt value.

Loan impairment charges and other credit risk provisions were EUR 97 million compared with EUR 117 million in 2012, a decrease of 17 per cent due to lower loan impairment charges and other credit risk provisions of Commercial Banking and reversals taken in Global Banking. It therefore stood at 0.25 per cent of the loan book versus 0.32 per cent in 2012. Loan impairment charges and other credit risk provisions remain at a low level (0.15 per cent) in the Retail business segment.

Operating expenses decreased year-on-year, by 1 per cent to EUR 1,700 million. This was mainly due to tight control over the staff costs and despite non-recurring expenses. In line with the HSBC Group's global strategy, France continues to seek efficiency gains to cope with the challenges of a changing market. The cost efficiency ratio improved from 72 per cent in 2012 to 69 per cent at the end of 2013.

Performance by global business

Commercial Banking

In line with the HSBC Group's strategy in France, Commercial Banking continued to focus on becoming the partner of choice for businesses, particularly in their international expansion.

In an environment of slack demand for corporate credit, HSBC France kept its medium and long term loan book at EUR 7.5 billion. This performance was driven by a strong commercial drive and the envelope of EUR 1 billion set aside early in the year to finance customers' international growth, which should be over allocated. The average outstanding of the total commercial loan book amounted to EUR 9.7 billion in 2013.

Evidencing the satisfactory business development, customers continued to demonstrate their confidence in the strength of the HSBC brand and non-interest bearing current accounts continued to grow, increasing by 4 per cent to almost EUR 7.3 billion.

Commercial Banking also continued to exploit synergies with Global Banking and Markets, seeking innovative solutions for its customers. This cooperation resulted in several major deals in debt issuance, initial public offerings and innovative financing structures.

Net operating income, driven by growth in net interest income, came to EUR 651 million compared with EUR 637 million in 2012, an increase of 2 per cent.

Loan impairment charges and other credit risk provisions decreased by 6 per cent compared with 2012 to EUR 73 million, resulting in a provisioning rate of 0.7 per cent, stable relative to the previous year.

Operating expenses were well controlled, decreasing by 4 per cent to EUR 386 million compared with EUR 401 million in 2012, giving a cost efficiency ratio of 59 per cent compared with 63 per cent the previous year.

In an uncertain economic climate, therefore, Commercial Banking once again delivered a solid performance. Profit before tax amounted to EUR 192 million compared with EUR 158 million in 2012, an increase of 22 per cent. Profit before tax almost doubled within a three year period, reflecting the relevant strategic positioning of this business-line.

HSBC's strategy in France is to support SMEs in their international expansion, reinforced by the revenue generated by French customers in other international HSBC Group entities. This revenue now represents the equivalent of one third of the revenue generated by the same companies in France. In 2013, international revenue increased by 22 per cent to more than USD 70 million. Revenue in France generated by customers of other HSBC Group entities increased by 49 per cent thanks to an improved host structure for international customers.

Retail Banking and Wealth Management

As part of the HSBC Group's strategic focus on Wealth Management, HSBC in France is consolidating its position as a leader in the mass affluent segment.

It now has about 850,000 customers in total and continues to win new customers in the HSBC Premier segment, its main target group, attracting around 36,000 new-to-bank relationships during the year. The proportion of HSBC Premier customers remained stable at more than 45 per cent.

Retail Banking and Wealth Management's strategy is based on two key areas: Wealth Management and mortgage lending.

Total assets under management owned by individual customers totalled EUR 34.4 billion compared with EUR 32.8 billion the previous year.

Wealth Management capitalised on the growth in customer deposits. The total deposit book increased to EUR 13.4 billion in 2013, driven by 2 per cent growth in deposits, in particular, sight deposits, with an outstanding at EUR 5.8 billion, increased by 6.4 per cent, a higher pace than market (4.6 per cent).

After several years of much higher market inflows in life insurance, inflows in 2013 remained lower than expected. However, net inflows remained positive due to the lower level of surrenders in 2013.

However, life insurance drew the benefit of a positive business mix effect, with unit-linked business accounting for a growing proportion of new inflows. Customer assets under management of the insurance company amounted to EUR 18.5 billion compared with EUR 17.6 billion one year earlier (+5 per cent).

Asset Management continued to diversify its product range and provide customers with tailored solutions. Assets managed and distributed remained stable at EUR 67 billion. World Selection products, which illustrate the investment performance of HSBC's experts and the HSBC Group's ability to offer innovative, original products, amounted to EUR 1 billion, an increase of EUR 0.3 billion compared with end-2012. HSBC's Asset Management capability was rewarded with first place in *La Tribune* newspaper's *Victoires des Sicav* fund awards.

The retail loan book increased by 14 per cent or more than EUR 2 billion to almost EUR 16 billion in a broadly slack lending market in France, which only managed 3 per cent[1]. New mortgage lending totalled more than EUR 5 billion, an increase of 61 per cent or EUR 1.9 billion compared with 2012. Margins on the new lending were satisfactory after taking account of the liquidity cost.

On the whole, net operating income rose sharply to EUR 1,014 million compared with EUR 895 million in 2012. Excluding the positive impact of non-qualifying hedges, net operating income driven by growth in net interest income, increased by 3 per cent, reflecting strong momentum in the various business activities.

Loan impairment charges and other credit provisions were under control at EUR 24 million compared with EUR 23 million in 2012.

Operating expenses totalled EUR 776 million compared with EUR 767 million the previous year.

Retail Banking and Wealth Management reported a profit before tax of EUR 214 million, compared with EUR 105 million in 2012. Excluding the positive impact of non-qualifying hedges, profit before tax amounts to EUR 162 million, an increase of 12 per cent.

Global Banking and Markets

HSBC France's core strategy in this business is to support large corporates, institutional investors and governments in their plans in both the French and international markets. It is the HSBC Group's platform for euro fixed-income products and structured equity derivatives.

In 2012, market conditions were extremely favourable for fixed-income and structured equity businesses, particularly in the first half. By contrast, in 2013, volatility levels in the markets were relatively low and more favourable to Transactional Banking and Global Banking, in keeping with the HSBC Group's strategy, which aims to strengthen its position as an internationally connected bank to capitalise on HSBC's comparative advantages.

HSBC France's expertise in supporting clients in their deals is reflected in the league tables. HSBC France ranked 3rd in Public Debt Capital Markets in euros[2], 5th in Debt Capital Markets[3] in France and 5th in Leveraged Acquisitions and Financing[4].

Global Markets delivered a good performance in a less buoyant market than in 2012. It systematically ranked among the top 5 market makers for eurozone countries, issuing significant volumes of government debt, particularly in France, where it ranked fourth among the primary dealers (SVT)[5]. HSBC was also named "Euro Bonds House of the Year"[6] for its role in some large deals such as EDF's EUR 6.2 billion hybrid debt issue. With its historical presence in France, HSBC is one of the few banks to have its entire euro platform in Paris and to make Paris one of its four global centres of expertise in the Capital Markets.

Net operating income of EUR 770 million, a fall compared with 2012. The decrease was relatively marked in Global Markets whilst Global Banking reported significant growth in net operating income during the period.

Revenue generated by French clients abroad rose by 13 per cent compared with 2012, reflecting HSBC France's reinforced positioning in supporting corporate clients in their international expansion. This revenue represented more than half of the total revenue generated by French clients within the HSBC Group. Revenue generated in France by clients of other Group entities also increased by 20 per cent in a slack economic environment in France.

Loan impairment charges and other credit risk provisions fell significantly in 2013, to EUR 0.3 million compared with EUR 17 million in 2012, due to impairment reversals during the year and a low default level.

Operating expenses amounted to EUR 501 million, a small increase from EUR 485 million in 2012.

Global Banking and Markets reported profit before tax of EUR 265 million compared with EUR 410 million in 2012.

Private Banking

The Private Banking business was integrated within HSBC France in 2012. This was also an opportunity to redefine and refocus its strategy on the high-net-worth segment and to adapt its products to a demanding clientele.

In a climate that was not particularly conducive to growth in Private Banking business, assets under management amounted to EUR 6 billion and net operating income remained stable at EUR 43 million. Operating expenses were down sharply to EUR 27 million from EUR 55 million in 2012, reflecting productivity gains and the positive outcome of an old litigation.

1 Banque de France.
2 *Dealogic 31/12/2013, "Euro SSA Bonds".*
3 *Bloomberg.*
4 *Dealogic 31/12/2013, "Bookrunner, deal value".*
5 Agence France Trésor.
6 IFR.

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

Profit before tax increased from EUR -9 million in 2012 to EUR 16 million in 2013. The result includes a EUR 15 million compensation received in respect of a legacy litigation, and confirms return to breakeven on the ordinary operations.

Contribution of HSBC operations to the French economy

HSBC in France operations contribute to the financing of the French economy over several ways:

Individuals financing

HSBC France contributed with dynamism to the housing market financing with increased lending volumes and a EUR 5 billion new loans (+61 per cent compared to 2012). The total loan book increased by 14 per cent in a year.

Corporates financing and international support

HSBC in France dedicated a EUR 1 billion envelope, fully allocated, to its SME customers' international development. This initiative will be renewed and increased to EUR 1.5 billion in 2014. Medium and long term lending balances remain stable at EUR 7.5 billion.

HSBC is positioned as a core bank for its French customers thanks to its presence over 75 countries around the world and faster growing emerging markets (China, India, Brazil…) and contributed to significant deals with its wholesale customers.

Governments and local authorities financing

HSBC France is a major participant in the public debt market in France, ranking second in the primary market for government securities[1]. The HSBC Group is also one of the main participant in the public debt market in Europe. This market allows securities issuance, eases secondary market liquidity and helps governments to access the market and finance their projects. With its historical presence in France, HSBC is one of the few banks to have its entire euro platform in Paris and to make Paris one of its four global centres of expertise in the Capital Markets.

Since 2008, local authorities increased their use of debt market which allows diversified financing sources for their investments (education, transports, etc.) in a situation of harder access to banking credit. HSBC France is positioned as the main bookrunner and arranger for local authorities issuances for more than ten years.

Other contributions

In addition, HSBC France undertakes corporate sponsorship notably in relation to environment, education and cultural activities (the detailed information is presented in the chapter Corporate, social and environmental responsability).

1 Agence France Trésor.

HSBC France group's consolidated results (legal perimeter)

The comments below relate to the consolidated results of HSBC France not including HSBC Bank plc Paris branch.

The HSBC France group reported a consolidated profit before tax of EUR 546 million compared with EUR 388 million the previous year.

Net operating income amounted to EUR 2,222 million, an increase of 6 per cent compared with 2012, driven mainly by:

- a good performance in all businesses, with a more even balance of revenue from the various operational businesses than in 2012;
- the impact of accounting adjustments, including the change in own debt value under fair value option (EUR -3 million in 2013 and EUR -118 million in 2012).

Loan impairment charges amounted to EUR 97 million compared with EUR 117 million in 2012, a decrease of 17 per cent despite the tough economic environment, particularly for business customers.

Operating expenses fell by 1 per cent year-on-year to EUR 1,575 million. As a result, the cost efficiency ratio improved from 76 per cent to 71 per cent.

Net profit attributable to the shareholders of the parent company was EUR 383 million compared with EUR 320 million in 2012.

The liquidity ratio remained high at 123 per cent, above the minimum required by French regulations. The ACF (Advances to Core Funding) ratio – an internal indicator used by the HSBC Group, which compares customer loans with stable deposits and funding with a remaining maturity in excess of one year – was 107.5 per cent, demonstrating HSBC France's solid liquidity position.

HSBC France repaid to the ECB its LTRO (Long-Term Refinancing Operation) borrowings in January 2013 and during the year made 2 issuances of secured debt and 2 issuances of unsecured debt totalling EUR 4.25 billion. The average maturity was 7.4 years and the average spread over Euribor 46 basis points.

On 13 December 2013, with the dual aim of aligning its capital structure with the structure of its business portfolio and optimising its capital allocation, HSBC France acquired the whole of HSBC Assurances Vie (France) from their common parent company HSBC Bank plc Paris Branch. Its results will be consolidated in the HSBC France perimeter as of 1 January 2014 and remain consolidated by HSBC Bank plc Paris Branch until 31 December 2013.

After consolidating HSBC Assurances Vie (France), HSBC France's Core Tier One equity increased by EUR 294 million during the period, reaching EUR 4,427 million at end-December 2013.

Furthermore in respect of 2013, HSBC France paid an interim dividend of EUR 120 million.

In 2013, risk-weighted assets decreased by EUR 1 billion to EUR 29.5 billion before the impact of the Basel I floor. As a result, the Core Tier One ratio rose from 13.5 per cent to 15.0 per cent. After the impact of the Basel I floor, the Core Tier One ratio was 13.7 per cent, well above the regulatory minimum.

Estimated Impact of the Basel committee's new rules

In June 2013, the Basel Committee's rules were transposed into European law (*via* the Capital Requirements Directive - CRD4 and the Capital Requirements Regulation - CRR) and will gradually apply to all European banks as of 1 January 2014. If all the Basel III standards were applied immediately at 31 December 2013 on the basis of current interpretations, the Common Equity Tier One (CET1) ratio could be estimated at 12.7 per cent, demonstrating the solidity of HSBC France's balance sheet.

Financial results for the country "France"[1] as considered by HSBC Holdings plc in its analysis of geographical contribution to the HSBC Group's results.

In 2013, the country "France", as considered by the HSBC Group, contributed to the global profit before tax of USD 750 million (EUR 567 million), versus USD 578 million (EUR 450 million) in 2012.

Difference in figures between the above figures and those of previous sections is mainly due to the integration in the above figures of the financing costs related to the CCF acquisition in 2000 by HSBC Bank plc.

Proposed resolutions

The Board of Directors has drawn up the following resolutions presented at the Ordinary General Meeting on 9 May 2014.

In Resolution 1, the Board proposes that the shareholders, having read the Board's management report, the Auditors' report on the financial statements and the reports of the Chairman and the Statutory Auditors on the practices of the Board and internal control and risk management procedures, approve the annual financial statements for the year ended 31 December 2013 as well as the transactions reflected in those statements or summarised in those reports.

Resolution 2 concerns the allocation of the 2013 net profit of EUR 331,373,925.23. Along with retained earnings of EUR 3,146,578,771.09, the profit available for distribution amounts to EUR 3,477,952,696.32. The dividend to be paid to the shareholders would be EUR 1.78 per share, for a total distribution of EUR 120,039,332.06. Therefore, retained earnings would amount to EUR 3,357,913,364.26. As the proposed dividend equals the interim dividend decided by the Board of Directors on 19 November 2013, there would be no final payment.

Resolution 3 proposes that the shareholders approve the consolidated financial statements at 31 December 2013, so as to comply with article L. 225-100 of the French Commercial Code, after having heard the Statutory Auditors' report on consolidated financial statements.

Resolution 4 proposes that the shareholders approve the related party agreements covered by article L. 225-38 of the French Commercial Code, after having heard the Statutory Auditors' report on these agreements.

Resolutions 5 and 6 propose that the shareholders renew the directorships of Mr Jean Beunardeau and Mr Gilles Denoyel for a term of three years ending with the Annual General Meeting that will be called to approve the financial statements of the year ending in 2016.

In accordance with the recommendation in paragraph 24.3 of the AFEP/MEDEF Code, to which the company refers pursuant to article L. 225-37 of the French Commercial Code, the shareholders are asked in Resolutions 7 and 8 to issue a favourable opinion on the components of compensation due or awarded to Mr Jean Beunardeau, Chief Executive Officer, and Mr Gilles Denoyel, Deputy Chief Executive Officer, in respect of the year just ended, as described in the Registration Document 2013 on pages 27 to 30.

In accordance with the provisions of article L. 511-41-1 B of the French Monetary and Financial Code, the shareholders are asked in Resolution 9 to approve the aggregate amount of compensation of all kinds paid in 2013 to executive members and professionals having a significant impact on risks, which amounts to EUR 30,522,736.

The 10th and last resolution is intended to grant full powers to the bearer of an original, a copy or an excerpt of the minutes of this General Meeting to carry out the required formalities.

1 *The contribution of the country "France" to the results of HSBC Group includes the HSBC France group, excluding the results of entities legally owned by HSBC France but located outside France, and also includes the Paris branch of HSBC Bank plc, which is engaged in equity derivative activities, as well as the results of HSBC Assurances Vie (France) until the end of 2013, and including the costs of funding and the debt on acquisition recognised by HSBC Bank plc Paris Branch.*

Senior Executives

Directors and members of the Executive Committee

Jean Beunardeau

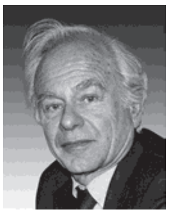
Chief Executive Officer, Head of Global Banking and Markets, France.

Age 52. Graduated from Ecole Polytechnique, Telecom engineer and Master of Economy, he began his career at the Ministry of Finance, mainly at the Treasury. He became Technical Advisor to the Prime Minister in 1995. He joined HSBC France in 1997 in Corporate Finance and became Managing Director in 2000. He was appointed Co-Head of Corporate Investment Banking and Markets, mainly in charge of Corporate and Investment Banking in March 2004. In 2005, he was appointed Senior Corporate Vice-President. In September 2007, he was appointed Head of Global Banking and Markets of HSBC France. Since 1 February 2010, he has been Deputy CEO and Deputy to the CEO, in addition to his current role as Head of Global Banking and Markets France. In November 2010, he was appointed Head of Global Banking, Continental Europe, HSBC Group. Since 10 January 2012, he has been CEO of HSBC France and retains his role as Head of Global Banking and Markets, France.

Gilles Denoyel

Deputy Chief Executive Officer, Deputy to the CEO, Chief Risk Officer.

Age 59. Graduate of the Ecole des Mines de Paris, the Institut d'Etudes Politiques and the Ecole Nationale d'Administration. In 1981, he was appointed *Inspecteur des Finances* (Financial Controller) at the Ministry of Finance. In 1985, he entered the French Treasury, where he successively held responsibilities on the Interministerial Committee for Industrial Reconstruction (CIRI) and in the Insurance Department, before being put in charge of the French Privatisation Programme. In June 1996, he joined HSBC France as Chief Financial Officer. He became Group General Secretary, member of the Executive Committee, put in charge of Logistics and Operations in 1998 and was appointed Senior Corporate Vice-President Finance in March 2000. In March 2004, he was appointed Deputy Chief Executive Officer of HSBC France, in charge of the support functions and the finance support services. In January 2006, he was appointed Deputy Chief Executive Officer of HSBC France, in charge of the Asset Management activities, the Insurance activities and the non-finance support services. Since September 2007, he has been responsible for all risk management and control activities, and also for relations with the regulatory supervisors. Since 10 January 2012, he has been Deputy to the CEO.



Philippe Pontet

Chairman Investment Banking.

Age 71. He joined HSBC France in 2005 as Vice-Chairman of Corporate Finance Europe. In February 2005, he was appointed member of HSBC France's Board. At the end of August 2007, he was appointed member of HSBC's New European Advisory council. Over the last 30 years he has held a number of leading positions in the French banking and industrial sectors, including Chairman and CEO of the banking group Crédit Industriel et Commercial; Chairman and CEO of Framatome; and Chairman of AREVA prior to joining HSBC in January 2005. Since September 2007, he has been Chairman Investment Banking.

Other members of the Executive Committee

Edward Archer	Head of Private Banking
Anne-Lise Bapst	Head of Communication
Marine de Bazelaire	Head of Corporate Sustainability
Xavier Boisseau	Head of Global Markets
Loïc Bonnat	Head of Principal Investments
Hubert Bouxin	Co-Head of Global Banking
Philippe Cieutat	Head of Strategy and Organisation
Anne-Catherine Colleau	Head of Operational Risk and Internal Control
Myriam Couillaud	Head of Human Resources
Laurent Facque	Head of Compliance
Matthieu Kiss	Chief Financial Officer
Marc de Lapérouse	Head of Legal
Mathilde Lemoine	Chief Economist - French Economic Research Department
Nathalie Léonard	Head of Tax
Malachy McAllister	Co-Head of Global Banking
Philippe Moiroud	Chief Operating Officer, HSBC France, and Chief Operating Officer, Global Banking and Markets, France
François Mongin	Head of HSBC France Internal Audit
Matteo Pardi	Head of Asset Management
Emmanuel Rémy	Head of Credit
Pierre Ruhlmann	Head of Retail Banking and Wealth Management
Guillermo Savignano	Head of Commercial Banking
Jean-Pierre Wiedmer	Head of Insurance

Composition of the Board of Directors

Composition of the Board of Directors of HSBC France on 14 February 2014[1]

Samir Assaf *Born in 1960*
Holds 1 HSBC France share. First elected: 2012. Term ends: 2016.

Principal position:
Member of the Group Management Board. Chief Executive Officer Global Banking and Markets, HSBC Group.
Chairman of the Board of Directors, HSBC France. Member of the HSBC France Nomination and Remuneration Committee.

Other directorships in the HSBC Group:
Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG.

Résumé:
Joined CCF in 1994 from Group Total, where he was Head of Treasury. At CCF, he was appointed Head of Markets in 1998. He joined HSBC in 2000 when the bank acquired CCF. Started at HSBC as Head of Global Markets at HSBC France and Head of Fixed Income Trading, Europe. In 2006, promoted to Head of Global Markets, Europe and Middle-East. In January 2008, he became Head of Global Markets and a Group General Manager in May 2008. On 1 January 2011, he was appointed Group Managing Director and a member of the Group Management Board. Since 22 November 2012, he has been Chairman of the Board of Directors of HSBC France.

Jean Beunardeau *Born in 1962* [2]
Holds 1 HSBC France share. First elected: 2008. Last re-elected: 2010. Term ends: 2014[3].

Principal position:
Chief Executive Officer, HSBC France.
Head of Global Banking and Markets, France.

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

Other directorships outside of the HSBC Group:
Director, Institut de la Gestion Déléguée. Director and Treasurer, Fondation ESTP. Member of the Supervisory Board, Société Anonyme des Galeries Lafayette (since 28 May 2013).

Gilles Denoyel *Born in 1954* [2]
Holds 1 HSBC France share. First elected: 2004. Last re-elected: 2010. Term ends: 2014[3].

Principal position:
Deputy CEO, Deputy to the CEO, Chief Risk Officer, HSBC France.

Other directorships in the HSBC Group:
Vice-Chairman of the Board, HSBC Assurances Vie (France). Director, HSBC Bank A.S. Director, HSBC Global Asset Management (France) (permanent representative of HSBC France). Directorship expired in 2013: Director, HSBC Assurances IARD (France).

Other directorships outside of the HSBC Group:
Director, DCNS. Director, Fonds de Garantie des Dépôts. Director, MEDEF (permanent representative of HSBC France). Director and Treasurer, Association Française des Banques. Chairman, Groupement des Banques Etrangères en France.

1 *As far as their directorship at HSBC France is concerned, the address of HSBC France's Directors and Senior Executives is the company's registered office, 103 avenue des Champs-Elysées, 75419 Paris Cedex 08, France.*
2 *Résumé available on page 8.*
3 *Director standing for re-election at the Annual General Meeting to be held on 9 May 2014.*

Véronique Duquesne *Born in 1964*
Holds 1 HSBC France share. First elected: 2012. Term ends: 2016.
Director elected by employees.

Principal position:
Processing Officer in Administration and Support Unit at Global Banking Agency and Operations, HSBC France.

Résumé:
Joined HSBC France in 1986.

Michel Gauduffe *Born in 1959*
Holds 1 HSBC France share. First elected: 2008. Last re-elected: 2012. Term ends: 2016.
Director elected by employees.

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

Other directorships in the HSBC Group:
Deputy Chairman of the Board, Institution de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Member of the Supervisory Board, France Actionnariat Fonds. Directorship expired in 2013: Deputy Chairman of the Board, Institution de Prévoyance Vernet.

Other directorship outside of the HSBC Group:
Director, APICIL-ARC.

Résumé:
Joined HSBC France in 1981.

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

Principal position:
Executive Vice-President Finance, Solocal Group.

Résumé:
Internal Auditor at PPG Industries in France and in the USA (1983-1985) and Strategy Consultant within The Boston Consulting Group in New York until 1989. From 1989 to 2002, held various positions within the Strategy and Development Department of the Pepsico Group then Chief Financial Officer of Pepsico in France. From 2002 to 2007, Chief Financial Officer - Beverage Division then Group Financial Controller of the Danone Group. From 2008 to 2010, Chief Financial Officer of the Smithfield Group then Chief Financial Officer of the Campofrio Food Group. In 2010, Executive Vice-President in charge of Finance, Purchasing and IT of the PagesJaunes Group, which became Solocal Group in 2013.

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

Other directorships:
Co-Chair, University of British Columbia Capital Campaign. Governor and Co-Founder, C.H.I.L.D. Foundation.
Director, Centre of Excellence for Marine Transportation (since October 2013).

Résumé:
British and Canadian nationality. He joined HSBC Bank Canada in 1987 and has served in various roles in Toronto and Vancouver including Senior Executive Vice-President, Chief Credit Officer, Senior Vice-President and Head of Special Credit, and Vice-President Toronto Commercial Banking. He was appointed Chief Operating Officer in December 1999 then President and Chief Executive Officer of HSBC Bank Canada from October 2003 to 5 January 2013, date of his retirement.

Composition of the Board of Directors (continued)

Philippe Houzé *Born in 1947*
Holds 1 HSBC France share. First elected: 1999. Last re-elected: 2012. Term ends: 2016.
Independent Director. Chairman of the HSBC France Nomination and Remuneration Committee.

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

Other directorships[1]*:*
Chairman, Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors, National Retail Federation (NRF-USA). Elected member, Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee, Bazar de l'Hôtel de Ville-B.H.V.

Résumé:
Director of Galeries Lafayette since 1974. Chairman of Monoprix from 1994 to 2013. President of the Insead France Council. Chairman of the Governing Board of Novancia Business School.

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

Principal position:
Member of the Group Management Board, HSBC Group. Chief Executive Officer, HSBC Bank plc (since 1 October 2013). Group Managing Director for the EMEA region (Europe, Middle-East, Africa) (since 1 October 2013).

Other directorships in the HSBC Group:
Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG (since 1 October 2013).

Résumé:
British nationality. He joined the HSBC Group in 1981. In 2003, he was appointed General Manager and Global Co-Head of the Group's Commercial Banking activities. He was appointed Group General Manager, Commercial Banking in 2006, then, in 2011, Global Head of Commercial Banking and also became a Group Managing Director and a member of the HSBC Group Management Board. Since October 2013, Alan Keir is Group Managing Director EMEA and Chief Executive Officer, HSBC Bank plc.

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

Principal position:
Chairman, Image 7.

Other directorships:
Chairman, Com Sept Finance. Chairman, Image 8. Managing Director, Anne Méaux Conseil. Member of the Advisory Committee, Women's Forum. Deputy Chairman, Association Force Femmes.

Résumé:
Attached to the press relations department of the Elysée palace from 1976 to 1981 then Communication Officer for Valéry Giscard d'Estaing, former President of the French Republic and for the UDF parliamentary group in the French National Assembly from 1981 to 1986. From 1986 to 1988, Communication Officer to the cabinet of Alain Madelin (French Ministry of Industry). Since 1988, Chairman of Image 7 which she founded in 1988.

1 *For the most part, appointments held in companies which do not belong to the group in which the Director holds his principal position.*

Thierry Moulonguet *Born in 1951*
Holds 1 HSBC France share. First elected: 2009. Last re-elected: 2013. Term ends: 2016.
Independent Director. Chairman of the HSBC France Audit and Risk Committee.

Other directorship in the HSBC Group:
Independent Director, HSBC Bank plc.

Other directorships outside of the HSBC Group:
Chairman and Chief Executive Officer, Revue Des Deux Mondes (since April 2013). Vice-Chairman of the Supervisory Board, Webedia (since September 2013). Director, Fimalac. Director, Fitch Rating Group Inc. Director, Groupe Lucien Barrière. Director, Valéo.

Résumé:
After having held several positions in the French public service, he joined the Finance Department of Renault in 1991. From 1999 to 2003, Senior Vice-President, Chief Financial Officer, Member of the Executive Committee and of the Board of Directors of Nissan. Until 30 June 2010, Executive Vice-President and Chief Financial Officer of the Renault Group, and then, until 31 March 2011, Director and Special Adviser to the President of the Renault-Nissan Alliance.

Philippe Pontet *Born in 1942*[1]
Holds 1 HSBC France share. First elected: 2005. Last re-elected: 2011. Term ends: 2015.

Principal position:
Chairman Investment Banking, HSBC France.

Other directorship in the HSBC Group:
Director, Valeurs Mobilières Elysées.

Guillaume Praud *Born in 1976*
Holds 1 HSBC France share. First elected: 2012. Term ends: 2016.
Director elected by employees.

Principal position:
Head of the branch Premier International Direct, HSBC France.

Résumé:
Joined HSBC France in 2000.

Philippe Purdy *Born in 1958*
Holds 1 HSBC France share. First elected: 2004. Last re-elected: 2012.Term ends: 2016.
Director elected by employees.

Principal position:
Sales representative, Mandelieu branch, HSBC France.

Résumé:
Joined HSBC France in 1982.

Peter Shawyer *Born in 1950*
Holds 1 HSBC France share. First elected: 2005. Last re-elected: 2013. Term ends: 2016.
Independent Director. Member of the HSBC France Audit and Risk Committee.

Other directorships in the HSBC Group:
Independent Director, Member of the Audit Committee and Member of the Risk Committee, HSBC Bank plc. Chairman, HSBC Bank International Limited (since July 2013). Director, Marks and Spencer Financial Services plc (since August 2013). Director, Marks and Spencer Savings and Investments Limited (since August 2013). Director, Marks and Spencer Unit Trust Management Limited (since August 2013).

Other directorships outside of the HSBC Group:
Chairman, British International Holdings Limited. Chairman, Ingenious Media Holdings. Chairman, Ingenious Asset Management Limited. Chairman, Veritek Global Ltd (since July 2013). Directorships expired in 2013: Director, Ingenious Asset Management International Limited. Director, FP Holdings Limited.

Résumé:
British nationality. He dedicated his entire career to Deloitte & Touche. He was Managing Partner and member of the Executive Committee at Deloitte & Touche in London until 2004.

1 *Résumé available on page 8.*

Composition of the Board of Directors (continued)

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

Principal position:
Deputy Chief Executive, HSBC Bank plc and Head of United Kingdom and of Retail Banking and Wealth Management Europe.

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

Résumé:
Portuguese nationality. Joined HSBC in 2007 from McKinsey & Co, where he was a Partner in the London office. From September 2007 to September 2009, Group Head of Strategy, HSBC Holdings plc. From October 2009 to December 2011, Group Head of Strategy and Planning and Chief of Staff to the Group CEO, HSBC Holdings plc. He was appointed Group General Manager in 2011.

Brigitte Taittinger *Born in 1959*
Holds 1 HSBC France share. First elected: 2008. Last re-elected: 2012. Term ends: 2016.
Independent Director.

Principal position:
Director of Strategy and Development at Sciences Po, Paris (since April 2013).

Other directorships:
Director, Ensemble Orchestral de Paris. Director, Opéra Comique. Director, Groupe Fnac (since April 2013).

Résumé:
Advertising Manager for Publicis from 1984 to 1988. Marketing Department of Groupe du Louvre from 1988 to 1990. Chairman and CEO of Annick Goutal from 1991 to 2012.

Jacques Veyrat *Born in 1962*
Holds 1 HSBC France share. First elected: 2009. Last re-elected: 2013.Term ends: 2016.
Independent Director. Member of the HSBC France Nomination and Remuneration Committee.

Principal position:
Chairman, Impala SAS.

Other directorships:
Chairman, Impala Holding. Director, Imerys. Director, Groupe Fnac (since April 2013). Director, Nexity (since May 2013). Member of the Supervisory Board, Eurazeo. Member of the Supervisory Board, Neoen. Member of the Supervisory Board, Sucres et Denrées (since September 2013). Directorships expired in 2013: Director, Poweo Direct Energie. Director, ID Logistics Group.

Résumé:
After having held various positions of responsibility in several French ministries, he joined the Louis Dreyfus Group in 1995. In 1998, he set up LDCom, renamed Neuf Telecom in 2004 and Neuf Cegetel in 2005. In April 2008, he left Neuf Cegetel when it was sold to SFR. In May 2008, he was appointed Chairman of the Louis Dreyfus Group. In 2011, he left the Louis Dreyfus Group and created the Impala Group.

Directorships held[1] by the members of the Board of Directors (composition at 14 February 2014)

Information as at 31 December of each year from the year of appointment to the HSBC France Board of Directors.

Director's name Principal position	First elected	Term ends	**2013**	2012	2011	2010	2009
Samir Assaf Member of the Group Management Board. Chief Executive Officer, Global Banking and Markets, HSBC Group. Chairman of the Board of Directors, HSBC France.	2012	2016	Directorships in the HSBC Group: Chairman of the Board of Directors, HSBC France. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.	Directorships in the HSBC Group: Chairman of the Board of Directors, HSBC France. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.	–	–	–
Jean Beunardeau Chief Executive Officer, HSBC France Head of Global Banking and Markets, France.	2008	2014[2]	Directorships in the HSBC Group: Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France). Director: Valeurs Mobilières Elysées, HSBC Assurances Vie (France). Directorships outside of the HSBC Group: Director: Institut de la Gestion Déléguée. Director and Treasurer: Fondation ESTP. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette.	Directorships in the HSBC Group: Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France). Director: Valeurs Mobilières Elysées, HSBC Assurances Vie (France). Directorships outside of the HSBC Group: Director: Institut de la Gestion Déléguée. Director and Treasurer: Fondation ESTP.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Director: Valeurs Mobilières Elysées, HSBC Global Asset Management (France) (permanent representative of HSBC France), HSBC Real Estate Leasing (France). Directorships outside of the HSBC Group: Chairman: X-Banque. Director: Institut de la Gestion Déléguée.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman of the Board: Foncière Elysées. Director: Nobel, HSBC Global Asset Management (France) (permanent representative of HSBC France), HSBC Real Estate Leasing (France). Directorships outside of the HSBC Group: Chairman: X-Banque. Director: Amicale des Anciens Elèves de Polytechnique, Institut de la Gestion Déléguée.	Directorships in the HSBC Group: Director: HSBC France, HSBC Epargne Entreprise (France), Nobel, HSBC Global Asset Management (France) (permanent representative of HSBC France). Chairman of the Board: Foncière Elysées. Directorships outside of the HSBC Group: Director: X-Banque, Amicale des Anciens Elèves de Polytechnique, Institut de la Gestion Déléguée.

1 *For the most part, appointments held in companies which do not belong to the group in which the Director holds his principal position.*
2 *Director standing for re-election at the Annual General Meeting to be held on 9 May 2014.*

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2013**	2012	2011	2010	2009
Gilles Denoyel Deputy CEO, Deputy to the CEO, Chief Risk Officer, HSBC France.	2004	2014[1]	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman of the Board: HSBC Assurances Vie (France). Director: HSBC Bank A.S., HSBC Global Asset Management (France) (permanent representative of HSBC France). Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Director and Treasurer: Association Française des Banques. Chairman: Groupement des Banques Etrangères en France.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman of the Board: HSBC Assurances Vie (France). Director: HSBC Assurances IARD (France), HSBC Bank A.S., HSBC Global Asset Management (France) (permanent representative of HSBC France). Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Director and Treasurer: Association Française des Banques. Chairman: Groupement des Banques Etrangères en France.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman of the Board: HSBC Assurances Vie (France). Director: HSBC Assurances IARD (France), HSBC Global Asset Management (France). Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Chairman: Groupement des Banques Etrangères en France. Treasurer: Association Française des Banques.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman of the Board: HSBC Assurances Vie (France). Director: Halbis Capital Management (France), HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Chairman: Groupement des Banques Etrangères en France. Treasurer: Association Française des Banques.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman of the Board: HSBC Assurances Vie (France). Director: Halbis Capital Management (France), HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Chairman: Groupement des Banques Etrangères en France. Member of the Board and Treasurer: Association Française des Banques. Member of the Orientation Committee: Euronext.
Véronique Duquesne Processing Officer in ASU at GBAO, HSBC France.	2012	2016	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	–	–	–

1 *Director standing for re-election at the Annual General Meeting to be held on 9 May 2014.*

Director's name Principal position	First elected	Term ends	**2013**	2012	2011	2010	2009
Michel Gauduffe Deputy Head of the Limoges branch, HSBC France.	2008	2016	Directorships in the HSBC Group: Director elected by employees: HSBC France. Vice-Chairman of the Board: Institution de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Member of the Supervisory Board: France Actionnariat Fonds. Directorship outside of the HSBC Group: Director: APICIL-ARC.	Directorships in the HSBC Group: Director elected by employees: HSBC France. Vice-Chairman of the Board: Institution de Prévoyance Vernet, Institut de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Member of the Supervisory Board: France Actionnariat Fonds. Directorship outside of the HSBC Group: Director: APICIL-ARC.	Directorships in the HSBC Group: Director elected by employees: HSBC France. Vice-Chairman of the Board: Institution de Prévoyance Vernet, Institut de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Member of the Supervisory Board: France Actionnariat Fonds. Directorship outside of the HSBC Group: Director: AGIRA.	Directorships in the HSBC Group: Director elected by employees: HSBC France. Vice-Chairman of the Board: Institution de Prévoyance Vernet, Institut de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Directorship outside of the HSBC Group: Director: AGIRA.	Directorships in the HSBC Group: Director elected by employees: HSBC France. Chairman of the Board: Institution de Prévoyance Vernet. Directorship outside of the HSBC Group: Director: AGIRA.
Martine Gerow Executive Vice-President Finance, Solocal Group.	2012	2016	Directorship in the HSBC Group: Independent Director: HSBC France.	Directorship in the HSBC Group: Independent Director: HSBC France.	–	–	–
Lindsay Gordon Company Director.	2013	2016	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Co-Chair: University of British Columbia Capital Campaign. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Centre of Excellence for Marine Transportation.	–	–	–	–

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2013**	2012	2011	2010	2009
Philippe Houzé Chairman of the Management Board, Groupe Galeries Lafayette.	1999	2016	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Chairman: Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors: National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee: Bazar de l'Hôtel de Ville-B.H.V.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Chairman: Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors: National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Director: Casino, Guichard-Perrachon. Chairman: Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors: National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Director: Casino, Guichard-Perrachon. Chairman: Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors: National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Director: Casino, Guichard-Perrachon. Vice-Chairman: Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors: National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.
Alan Keir Chief Executive Officer, HSBC Bank plc. Member of the Group Management Board, HSBC Group.	2013	2016	Directorships in the HSBC Group: Chief Executive Officer: HSBC Bank plc. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.	–	–	–	–
Anne Méaux Chairman, Image 7.	2011	2015	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Image 7, Image 8, Com Sept Finance. Managing Director: Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Image 7, Image 8, Com Sept Finance. Managing Director: Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Image 7, Com Sept Finance. Managing Director: Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.	–	–

Director's name Principal position	First elected	Term ends	**2013**	2012	2011	2010	2009
Thierry Moulonguet Company Director.	2009	2016	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, Valéo.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, Valéo.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, SsangYong Motor Co. Ltd, Valéo.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Director: Fimalac, Fitch Rating Group Inc.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Director: RCI Banque, Renault Retail Group.
Philippe Pontet Chairman Investment Banking, HSBC France.	2005	2015	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	Directorships in the HSBC Group: Director: HSBC France, Nobel.	Directorships in the HSBC Group: Director: HSBC France, Nobel.
Guillaume Praud Head of the branch Premier International Direct, HSBC France.	2012	2016	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	–	–	–
Philippe Purdy Sales representative, Mandelieu branch, HSBC France.	2004	2016	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.
Peter Shawyer Company Director.	2005	2016	Directorships in the HSBC Group: Chairman: HSBC Bank International Limited. Independent Director: HSBC France, HSBC Bank plc. Director: Marks and Spencer Financial Services plc, Marks and Spencer Savings and Investments Limited, Marks and Spencer Unit Trust Management Limited. Directorships outside of the HSBC Group: Chairman: British International Holdings Limited, Ingenious Media Holdings, Ingenious Asset Management Limited, Veritek Global Ltd.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman: British International Holdings Limited, Ingenious Media Holdings, Ingenious Asset Management Limited. Director: Ingenious Asset Management International Limited, FP Holdings Limited.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman: British International Holdings Limited, Ingenious Media Holdings, Ingenious Asset Management Limited. Director: Ingenious Asset Management International Limited, FP Holdings Limited.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman: British International Holdings Limited, Ingenious Media Holdings, Ingenious Asset Management Limited. Director: Ingenious Solar UK VCT 1 plc.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman: British International Holdings Limited, Ingenious Media Holdings.

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2013**	2012	2011	2010	2009
Antonio Simoes Deputy Chief Executive, HSBC Bank plc and Head of United Kingdom and of Retail Banking and Wealth Management Europe.	2012	2016	Directorships in the HSBC Group: Director: HSBC France, HSBC Bank plc, HSBC Bank A.S.	Directorships in the HSBC Group: Director: HSBC France, HSBC Bank plc, HSBC Bank A.S.	–	–	–
Brigitte Taittinger Director of Strategy and Development at Sciences Po, Paris.	2008	2016	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Director: Ensemble Orchestral de Paris, Opéra Comique, Groupe Fnac.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Director: Ensemble Orchestral de Paris, Opéra Comique.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman and CEO: Annick Goutal. Director: Ensemble Orchestral de Paris, Opéra Comique.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman and CEO: Annick Goutal. Director: Ensemble Orchestral de Paris, Opéra Comique.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman and CEO: Annick Goutal Director: Ensemble Orchestral de Paris, Opéra Comique. Member of the Board: Ensemble Intercontemporain.
Jacques Veyrat Chairman, Impala SAS.	2009	2016	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Impala SAS, Impala Holding. Director: Imerys, Groupe Fnac, Nexity. Member of the Supervisory Board: Eurazeo, Neoen, Sucres et Denrées.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman Impala SAS. Director: Poweo Direct Energie, Imerys, ID Logistics Group. Member of the Supervisory Board: Eurazeo.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman Impala SAS. Director: Direct Energie, Imerys, ID Logistics Group, Poweo. Member of the Supervisory Board: Eurazeo.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman and CEO: Louis Dreyfus SAS. Director: Direct Energie, Imerys. Member of the Supervisory Board: Eurazeo. Chairman of the Supervisory Board: Kurosawa BV.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman and CEO: Louis Dreyfus SAS. Director: Direct Energie, Imerys. Member of the Supervisory Board: Eurazeo. Chairman of the Supervisory Board: Kurosawa BV.

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

Under article L. 225-37 of the French Commercial Code, the Chairman of the Board of Directors of any French company issuing financial instruments admitted for trading on a regulated market is required to report to shareholders annually on the composition of the Board of Directors and on the application of the principle of balanced representation of men and women on the Board, the preparation and organisation of the Board's work, the internal control and risk management procedures and any restrictions on the powers of the Chief Executive Officer. This report is attached to the report referred to in articles L. 225-100, L. 225-102, L. 225-102-1 and L. 233-26.

I am pleased to present my report in this respect for the year ended 31 December 2013. Management is responsible for defining and implementing adequate and effective internal control and risk management procedures with oversight by the Board of Directors. This report has been drawn up in close collaboration with the main divisions concerned and in association with the Statutory Auditors.

The first part of this report, regarding corporate governance, was submitted to the Nomination and Remuneration Committee on 13 February 2014 and the second part, on internal control and risk management procedures to the Audit and Risk Committee, on 11 February 2014. The Board then approved the whole report on 14 February 2014.

The internal control and risk management regulations and procedures described herein apply to HSBC France and to all its consolidated subsidiaries.

CHAIRMAN'S REPORT ON CORPORATE GOVERNANCE

Corporate Governance Code

In accordance with law no. 2008-649 of 3 July 2008 concerning the adaptation to French law of Directive 2006/46/EC of 14 June 2006, the company shall, as a priority, refer, in preparing the report required under article L. 225-37 of the French Commercial Code, to the Corporate Governance Code for listed companies, published by the AFEP and the MEDEF, most recently updated in June 2013, while taking account of its status as an unlisted subsidiary. This code may be viewed at the head office.

The HSBC Group attaches a great deal of importance to respecting corporate governance rules, both for itself and for its subsidiaries. However, as HSBC France is a 99.9 per cent owned subsidiary of the HSBC Group and as its capital securities are not admitted to trading on a regulated market, some principles of the Corporate Governance Code have been adapted as for example some of the duties of the Nomination and Remuneration Committee.

HSBC France's Board of Directors therefore no longer decides on share award plans as the shares awarded to HSBC France employees are now HSBC shares. HSBC France applies the British corporate governance rules (the Combined Code on Corporate Governance) referred to by parent company HSBC Holdings plc in certain areas, in particular as regards share awards.

Other exceptions to the compliance with the Corporate Governance Code's recommendations for listed companies are specified below in this Report.

Board of Directors

Composition of the Board

At 31 December 2013, the Board of Directors had 18 members, including:

- the Chairman of the Board of Directors; the Chief Executive Officer; the Deputy Chief Executive Officer;
- the Chairman Investment Banking of HSBC France; the Chief Executive Officer and the Deputy Chief Executive Officer of HSBC Bank plc;
- eight Directors having no special relationship with the company and who may be deemed independent with respect to all criteria defined in the AFEP/MEDEF report, particularly regarding banking relationships; however, one of their numbers has been serving as a Director for more than twelve years. Nonetheless, the Board of Directors found that this criterion alone did not call into question his independence of judgement *vis-à-vis* the company, even though it constitutes an exception to the criteria defined in the AFEP/MEDEF report;
- four Directors elected or re-elected by the employees in 2012 for a term of four years, in accordance with the provisions of the French order of 21 October 1986.

Four Directors are non-French nationals. Other than the Directors elected by employees, the Board comprises three women and eleven men. The average age of the Directors in office is 55.5.

In 2013, the Board's composition changed as follows:

- on 27 February 2013, the Board of Directors co-opted Lindsay Gordon as a Director, replacing Peter Boyles, who had resigned; on 30 April 2013, the Annual General Meeting (AGM) then ratified this co-opting and renewed his appointment for a period of three years;
- on 30 April 2013, the AGM ratified the co-opting of Samir Assaf, as a Director, and renewed the term of office of Thierry Moulonguet, Peter Shawyer and Jacques Veyrat, for a period of three years; the directorship of Marcel Roulet ended at this meeting;
- on 10 December 2013, the AGM appointed Alan Keir as a Director for a period of three years.

In accordance with the recommendations of the AFEP/MEDEF report, the Nomination and Remuneration Committee reviewed the position of the Directors whose term of office expired at the AGM on 30 April 2013, and proposed that the Board vote to re-appoint them, taking into account their skills and active contribution to the work done by the Board.

In order to align the Directors' terms of office within the HSBC Group, a resolution was submitted and approved by the shareholders at the Combined General Meeting held on 30 April 2013, to reduce this term from four to three years.

The Board's work in 2013

As a general rule, before each Board meeting, the Directors receive an agenda together with the draft minutes of the previous Board meeting. In the week prior to the meeting, they also receive background information on agenda items, and a few days ahead of the meeting, a summary of key financial indicators. In the case of highly confidential issues, which cannot be disclosed in advance, the information is provided during the meeting itself. Furthermore, Directors are regularly advised of significant events affecting the company and receive the relevant documents.

The Board of Directors met four times during 2013, with an average attendance rate of 94.1 per cent compared with 87.3 per cent in 2012:

- 27 February 2013 (attendance rate: 94.1 per cent),
- 30 April 2013 (attendance rate: 100 per cent),
- 31 July 2013 (attendance rate: 94.1 per cent),
- 19 November 2013 (attendance rate: 88.2 per cent).

In 2013, the Board of Directors reviewed the quarterly, half-yearly and annual financial statements and approved the half-yearly and annual accounts. During each meeting, the Board reviewed the operations, financial results, and balance sheet of HSBC France. In particular, it also reviewed trends in costs and the bank's liquidity situation, and at the meeting held on 27 February 2013, the Board approved the budget for 2013. The Board reviewed the updated liquidity contingency plan (meeting on 31 July 2013).

At each of its meetings, the Board of Directors examined the group's results, business growth and position for each of its activities. The Chairman of the Board of Directors, who is also a Member of the Group Management Board of the HSBC Group, and Chief Executive Officer, Global Banking and Markets of the HSBC Group, commented, on a regular basis, the HSBC Group's development, results, latest news, as well as trends in the world economic environment and banking regulation. The Independent Directors shared with the Board their view of the economic situation and economic conditions in their business sector.

The Board of Directors was informed of changes in the bank's consolidation scope. In particular, it approved the acquisition by HSBC France, of HSBC Assurances Vie (France), from HSBC Bank plc (meeting on 19 November 2013).

At each meeting, the Board of Directors examined the group's situation with regard to risks: credit risk, market risk, results of stress tests conducted by HSBC France, as well as litigation, tax risk, compliance, operational risks and security and fraud risk. It approved the group's risk appetite (meeting on 27 February 2013) and, at each meeting, reviewed a dashboard used to assess performance and various indicators in light of the risk level accepted by the Board. Given the many latest developments, it was informed, at each of its meetings, of the main projects of regulatory changes and of their impacts on HSBC France, and in particular the law on separation and regulation of banking activities, European laws CRD4 and CRR, and HSBC France's supervision by the European Central Bank as of November 2014. Developments in the enquiries initiated by the various authorities as regards suspected manipulation of interbank rates were discussed in detail at each Board meeting.

At its meeting on 30 April 2013, the Board reviewed the Annual Report prepared in accordance with articles 42, 43 and 43-1 of regulation 97-02, sent to the *Autorité de contrôle prudentiel et de résolution*. It was kept informed of audits and investigations carried out by various authorities, in particular the *Autorité de contrôle prudentiel et de résolution* and the *Autorité des marchés financiers*, along with their findings, follow-up letters received, and replies from HSBC France. It approved the Chairman's report on corporate governance and internal control and risk management procedures (meeting on 27 February 2013). It also examined the mediator's report concerning her activity during 2012 (meeting on 30 April 2013).

At each meeting, the CEO and the Chairman of the Audit and Risk Committee commented on the Internal Audit work, in particular audit reports graded "needs improvement" and/or "not satisfactory" and changes in the number of open recommendations and in Internal Audit's organisation and methodology.

In the area of human resources, the Board was informed of the prevention system of psycho-social risks implemented (meeting on 27 February 2013).

The work of the Board Committees was set out in periodic, detailed reports from their respective Chairmen and was debated during Board meetings. Within this framework, the Board was kept informed about the main topics discussed and points of action identified by the Audit and Risk Committee, particularly with regards to risks, control and risk management system, internal audit, compliance and permanent control.

Apart from these major issues, the Board also discussed various other issues which are legally its responsibility.

Board committees

Nomination and Remuneration Committee

Composition of the Nomination and Remuneration Committee

Chairman:

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

Members:

- Jacques Veyrat — Appointed 2010
- Samir Assaf — Appointed 2012

In 2012, the Board appointed Samir Assaf as a member of the Nomination and Remuneration Committee, because although he is Chairman of the Board of Directors, he is not an executive officer of HSBC France and receives no remuneration or directors' fees from HSBC France for serving in his capacity as Chairman of the Board. The Board therefore considered him to be independent for purposes of giving his opinion on HSBC France's remuneration policy and discussing the remuneration of its Executive Directors. Moreover, he lends the Committee his experience in the area of compensation of financial market professionals, among others, and his knowledge of the rules defined by the HSBC Group. He can also make valuable contributions in drawing up succession plans for the management team.

The Nomination and Remuneration Committee's missions

The Committee's main tasks are as follows:

- making proposals to the Board of Directors regarding the appointment of Directors and members and Chairmen of the Board's specialist committees according to the desired balance in the composition of the Board as well as to the specific skills and reputation of the applicants;
- proposing a Chairman and a CEO to the Board, and proposing Deputy CEOs to the Board on the CEO's recommendation, for succession planning purposes or in the event of a vacancy;
- examining all remuneration of Executive Directors;
- making proposals and recommendations to the Board concerning remuneration, pension and protection plans, additional pension contributions, benefits in kind and various cash entitlements of Executive Directors;
- making recommendations on Directors' remuneration and, in particular, the distribution of Directors' fees;
- issuing opinions and recommendations on the executive remuneration policy and particularly on the remuneration structure;
- in accordance with regulation 97-02, carrying out an annual review of the remuneration policy and more particularly, the share of variable compensation paid to market professionals and Executive Directors, to ensure that they are consistent with the HSBC Group's policy and comply with French standards;
- making preparations for the Board's examination of corporate governance issues.

The Committee's recommendations on Executive Directors' remuneration are presented after prior approval by the Remuneration Committee of HSBC Holdings plc.

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

The Nomination and Remuneration Committee's work in 2013

The Committee met two times in 2013, with an attendance rate of 100 per cent. Its main work was as follows:

- it made proposals to the Board on changes in the Board's composition, with a concern for diversity of the Board, and on the appointments of new Directors in 2013: Lindsay Gordon (meeting on 27 February 2013) and Alan Keir (meeting on 12 November 2013);
- it made proposals to the Board on renewing the term of office of three Directors at the Annual General Meeting. A proposal was made to renew the term of office of Thierry Moulonguet (Director since 2009), Peter Shawyer (Director since 2005), and Lindsay Gordon (Director since 2013) (meeting on 27 February 2013);
- it proposed shortening the Director's term of office from four to three years in order to comply with the HSBC Group governance practices;
- it reviewed each Director's independence on the basis of the criteria defined in the AFEP/MEDEF code, to which HSBC France chose to refer, but also of criteria regarding skills, independence of thought and involvement (meeting on 27 February 2013);
- it made proposals to the Board on changes the Audit and Risk Committee's composition: appointment of Lindsay Gordon as a Member (meeting on 27 February 2013);
- it made proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the remuneration of Jean Beunardeau and Gilles Denoyel, setting out the fixed and variable elements of their remuneration and the number of shares without performance conditions, to be awarded to them (see section "Directors' remuneration") (meeting on 27 February 2013);
- it reviewed the 20 highest remunerations (meeting on 27 February 2013);
- it reviewed HSBC's general remuneration policy in France, taking into account regulations concerning in particular risk control and the contribution of the Risk Management and Compliance functions to the process for determining bonuses as well as the list of employees identified as not entirely complying with the risk and compliance rules and their associated remuneration (meeting on 27 February 2013);
- it reviewed the first part of the Chairman's report on corporate governance (meeting on 27 February 2013).

The Chairman of the Committee reported to the Board on its work at the Board meetings on 27 February and 19 November 2013. All of the Committee's work was submitted to the Board for approval.

Audit and Risk Committee

Composition of the Audit and Risk Committee

Chairman:

- Thierry Moulonguet (independent) — Appointed 2009 and 2010 as Chairman

Members:

- Martine Gerow (independent) — Appointed 2012
- Lindsay Gordon (independent) — Appointed February 2013
- Peter Shawyer (independent) — Appointed 2005

The four Committee members are highly qualified in the areas of finance and accounting, in risk analysis and in internal control, as they serve or have in the past served in the capacity of audit committee member, finance director, auditor or Chairman and Chief Executive Officer of a bank.

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

The Audit and Risk Committee's missions
The Audit and Risk Committee's main duties were reviewed, for the last time, in November 2011 and are defined in the Board's internal rules.

The Committee is responsible for assisting the Board by overseeing audit and risk matters:

- key responsibilities in relation to audit:
  - examining the integrity of the financial statements submitted to the Board of Directors in order to ensure that the data and information provided give a true and fair view of the company's operations and position,
  - reviewing financial and accounting policies and practices,
  - reviewing and discussing with management the effectiveness of internal control systems relating to financial reporting,
  - monitoring and reviewing the effectiveness of the Internal Audit function, considering the major findings of internal investigations and management's response, and ensuring that the Internal Audit function is adequately resourced and has appropriate positioning,
  - discussing with the Statutory Auditors the financial statements, the scope of audits, restatements made, compliance with accounting principles, market rules, legal and regulatory requirements, and the impact of any changes in accounting principles and practices,
  - making recommendations to the Board of Directors regarding the appointment, renewal or removal of the Statutory Auditors, their fees and any other issues concerning their duties,
  - assessing the independence and objectivity of the Statutory Auditors, including supervision of the turnover of the signing partners and the effectiveness of the audit process,
  - applying the code of conduct and the HSBC Group policy concerning the provision of non-audit services by the Statutory Auditors,
  - reviewing the Statutory Auditors' management letter together with management's response to it, and to monitor the implementation of recommendations made in the letter,
  - ensuring compliance of the company and its subsidiaries with directives issued by the supervisory authorities and with regulations applicable to them;
- key responsibilities in relation to risk:
  - overseeing and advising the Board on all high-level risk related matters,
  - advising the Board on risk appetite and tolerance in determining strategy,
  - advising the Board and/or the Nomination and Remuneration Committee on alignment of remuneration with risk appetite,
  - examining regular reports on risk management related to the group's activity, the way in which risks are controlled and monitored by management, and on emerging risks,
  - examining the effectiveness of the group's risk management framework internal control systems,
  - approving the appointment and removal of the Chief Risk Officer and ensuring his effective role,
  - reviewing any issue which arises from any report from Internal Audit, the Statutory Auditors' annual report and any queries raised by the Statutory Auditors, and responses from management, which relates to the management of risk or internal control,
  - examining management's reports and statements on the internal control system.

The Committee meets the Statutory Auditors and the Head of Internal Audit in private at least once per year to ensure that there are no unresolved issues or concerns. In carrying out these duties and responsibilities, the Committee may consult any adviser or expert as it deems appropriate. To give itself sufficient time to review the accounts before they are reviewed by the Board, the Audit and Risk Committee generally meets four days before the Board.

As required under the HSBC Group rules, the Audit and Risk Committee provides a half-yearly certificate to the Audit Committee and Risk Committee of HSBC Bank plc, HSBC France's direct shareholder, confirming, in particular, that the accounts were reviewed by the Committee and that the internal control system seems to be appropriate.

The Audit and Risk Committee's work in 2013
The Audit and Risk Committee met four times in 2013, with an attendance rate of 100 per cent, as in 2012:

- 21 February 2013 (attendance rate: 100 per cent);
- 26 April 2013 (attendance rate: 100 per cent);
- 25 July 2013 (attendance rate: 100 per cent);
- 16 November 2013 (attendance rate: 100 per cent).

Each meeting was also attended by the Statutory Auditors, the Deputy CEO in charge of risk, the Chief Financial Officer, the Chief Accounting Officer and the Head of Audit. The Chief Executive Officer attended Committee meetings to answer any questions. HSBC France executives also attend Committee meetings covering any subjects falling under their responsibility. Audit and Risk Committee members also met with the Statutory Auditors in private sessions prior to the Board meetings held to review the half-yearly and year-end accounts (meetings on 21 February and 25 July 2013).

The Committee dedicated again in 2013 a substantial part of its work to the review of major risks. It monitors the organisation of the risk control system on a regular basis and was informed of the progress in the new organisation of Risk functions and the new risk identification system that had been presented to it (meetings on 21 February and 26 April 2013).

In each of its meetings, the Audit and Risk Committee continued to review major risks with each of the persons in charge of controlling these risks, in particular:

- credit risk, with an individual review of major exposures, changes in credit outstandings and non performing advances by business, changes in and optimisation of risk-weighted assets and evolution in cost of risk and exposures and sectors on the worry list;

- market risk, including market risk trends compared with limits, changes in exposures, the fixing of limits, changes in risk-weighted assets of market activities and the results of the stress tests conducted on market risk. At each meeting, the Committee was informed of discussions regarding market risk with regulators, and results of internal audits. The Committee was informed regularly of trends in the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA), which were the subject of a detailed presentation at the meeting on 15 November 2013;
- legal and litigation risks;
- operational risks, including IT operational risks;
- security and fraud risk, including information security and business continuity.

The Committee was informed, at each of its meetings, of the progress of the work undertaken by the Operational Risk and Internal Control Department and of operational losses that occurred during the quarter. The internal control system, organised into three lines of defence that meet both HSBC Group requirements and the requirements of regulation 97-02, was presented to the Committee in detail (meeting on 15 November 2013). It reviewed, at each meeting, the risk assessment and in particular, the most significant ones with the action plans implemented. In accordance with regulation 97-02, the Committee was informed of services that are outsourced to other HSBC Group entities (meetings on 21 February and 25 July 2013) and the internal control framework that applies to services outsourced to external providers (meeting on 15 November 2013), as well as the list of essential outsourced services.

It examined, at each of its meetings, the dashboard concerning the bank's risk appetite, particularly the indicators failing to comply with the established objectives, and the results of recurrent or specific stress-testing exercises conducted.

In accordance with regulation 97-02 and professional standards, at its meeting on 21 February 2013, the Committee reviewed the links between risk and remuneration in the remuneration policy, and in particular, the involvement of Risk functions in remuneration policy and taking account of risks in determining remunerations.

At its meeting on 26 April 2013, it reviewed the Annual Report to the *Autorité de contrôle prudentiel* on internal control, prepared in accordance with regulation 97-02.

The second aspect of the Committee's work involved an in-depth review of the annual, half-yearly and quarterly financial statements prior to their presentation to the Board. The Audit and Risk Committee reviewed the parent-company and consolidated accounts. The 2012 consolidated financial statements were presented according to IFRS, with a distinction drawn between the legal and French managerial scope of consolidation[1]. Parent company financial statements for 2012 were presented according to French GAAP.

The Committee discussed the choices made by the company and presented by the Finance Department in drawing up its financial statements. The Statutory Auditors commented on their management letter and the aspects subject to particular attention at the time of preparing the 2012 financial statements (meeting on 21 February 2013). They presented their limited review on the financial statements at 31 March 2013, 30 June 2013 and 30 September 2013 (meetings on 26 April, 25 July and 15 November 2013). The Committee discussed the Statutory Auditors' programme and independence, approved the fees paid in 2012 by the HSBC France group to the Statutory Auditors and was informed of the change of engagement partner at one of the audit firms in accordance with rotation rules (meeting on 21 February 2013).

The Committee also examined, at each of its meetings, the bank's regulatory and liquidity ratios and its liquidity and funding situation. Finally, at its meeting on 25 July 2013, the Committee was informed of the updated liquidity contingency plan.

The last aspect of the Committee's work was internal audit, internal control, compliance and relations with the regulatory authorities. The Audit and Risk Committee looked at the results of controls conducted on financial statements. Within this framework, it reviewed the work carried out as part of the application of Sarbanes Oxley: the list of procedures concerned and its development, identified weaknesses, their impact and monitoring. It reviewed the points raised in the account controls certificates and in the Statutory Auditors' management letters follow-up. The Committee also verified the adequacy of provisions for identified risks.

It also regularly examined Internal Audit work and reviewed the main audit assignments, particularly those deemed insufficient. It paid particular attention to audit recommendations follow-up, progress in implementing them and the monitoring of the recommendations not yet implemented. The new Internal Audit methodology implemented by the HSBC Group and applied by HSBC France, was presented to the Committee (meeting on 15 November 2013). It approved the new audit charter and the 2013 annual audit plan (meeting on 21 February 2013) and then reviewed the progress of this plan at each subsequent meeting. Finally, the Committee was systematically informed of salient points discussed by the audit committees of HSBC France subsidiaries.

The Committee reviewed quarterly compliance reports, which state the main new Compliance issues and those already discussed at previous meetings, and reports issued to regulators: Annual Reports on the compliance of investment services providers for 2011 and 2012 and on the protection of clients' assets for the *Autorité des marchés financiers*, and questionnaire on the application of customer protection rules for the *Autorité de contrôle prudentiel et de résolution* (meeting on 25 July 2013), the Ombudsman's report (meeting on 26 April 2013) and the annual report on cheque controls (regulation 2002-01) (meeting on 21 February 2013). It examined the compliance action plan for 2013 (meeting on 21 February 2013) as well as the anti-money laundering system (meeting on 26 April 2013).

1 *See footnote 3 page 3.*

The Committee was informed of the findings of various audits carried out by the regulators and received the follow-up letters and answers on these missions: *Autorité des marchés financiers*, *Autorité de contrôle prudentiel et de résolution* and *ministère des Finances*, and of the action plans initiated to implement their recommendations. It reviewed the Chairman's report on internal control and risk management procedures (meeting on 21 February 2013) and the annual report to the *Autorité de contrôle prudentiel et de résolution* on the functioning of the internal control systems (permanent control and periodic control), as required under regulation 97-02 (meeting on 26 April 2013).

Finally, the Committee was informed, at each of its meetings, of the various regulatory reforms adopted or under discussion, particularly regarding capital requirement, liquidity risk management and leverage ratio (Capital Requirements Directive 4 (CRD4) and Basel III), derivatives, banking business model and European supervision implementation, and of their impact on HSBC France.

The Chairman of the Audit and Risk Committee reported on the key points of the Committee's work at the Board meetings held on 27 February, 30 April, 31 July and 19 November 2013.

Compensation

Compensation and advantages of Executive Directors

Remuneration policy

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

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

The variable component is determined on the basis of a number of objective performance indicators covering financial aspects (profit before tax, cost efficiency ratio, return on equity and on risk-weighted assets, etc.) and non-financial aspects (observance of compliance, reputational risk, customer relationship quality, brand reputation, recommendations and market share, talent retention, implementation of strategic decisions, etc.). These indicators are analysed in comparison with the previous year or relative to the budget for the year. To these criteria, is added, henceforth, an appreciation of individual behaviour with regard to the Group's values which are dependability, openness, listening, courage and integrity.

The variable component also takes account of market practices and, if necessary, changes in regulations. In accordance with the HSBC Group's deferral rules, this variable component is paid partly in non-deferred and partly in deferred remuneration and partly in cash and partly in shares.

Award of shares

In 2013, Executive Directors benefited from the allocation of bonus shares in HSBC Holdings plc in accordance with the HSBC Group's general policy.

The HSBC Group awards various categories of bonus shares:

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

With respect to 2013, HSBC France Executive Directors received Restricted Shares, for which the only criterion is to be with the company after a period of two or three years. Furthermore, Jean Beunardeau did receive Group Performance Shares as well as Samir Assaf who does not receive any remuneration from HSBC France.

Supplementary pension scheme

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

At 31 December 2013, Jean Beunardeau had accrued pension rights representing 8 per cent of his fixed 2013 salary and 3 per cent of his total 2013 cash remuneration. At 31 December 2013, Gilles Denoyel had accrued pension rights at HSBC France representing 28 per cent of his fixed 2013 salary and 16 per cent of his total 2013 cash remuneration.

The provision corresponding to the present value of these HSBC France pension commitments has been recorded in the HSBC France accounts at 31 December 2013, for an amount of EUR 5.1 million.

Remuneration

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

The remuneration of Jean Beunardeau, CEO of HSBC France, and Gilles Denoyel, Deputy CEO of HSBC France, is detailed on pages 27 to 30.

Regarding employment contracts, the Corporate Governance Code published by the AFEP and the MEDEF considers that the withdrawal of the Executive Directors' employment contract does not apply to unlisted subsidiaries. Therefore, it is considered that this recommendation does not apply to HSBC France, which is an unlisted subsidiary of HSBC Holdings plc.

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

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

Summary of compensation and options and shares awarded to each Executive Director (Table 1)

	2012		**2013**	
(in euros)	Amounts paid in 2012	Amounts due in respect of 2012	**Amounts paid in 2013**	**Amounts due in respect of 2013**
Jean Beunardeau				
Chief Executive Officer [1]				
Compensation (detailed in Table 2)	1,038,086	1,357,263	**1,277,360**	**1,227,818**
Value of the options awarded (detailed in Table 4)	–	–	**–**	**–**
Value of the free shares awarded (detailed in Table 6)[2]	812,439	857,263	**857,263**	**1,028,716**
Total	1,850,525	2,214,526	**2,134,623**	**2,256,534**
Gilles Denoyel				
Deputy CEO				
Compensation (detailed in Table 2)	741,847	777,822	**777,822**	**787,517**
Value of the options awarded (detailed in Table 4)	–	–	**–**	**–**
Value of the free shares awarded (detailed in Table 6)[3]	430,800	323,175	**323,175**	**332,870**
Total	1,172,647	1,100,997	**1,100,997**	**1,120,387**

1 *Deputy CEO then Chief Executive Officer from 10 January 2012.*
2 *This line shows the shares with and without performance conditions.*
3 *This line shows the shares without performance conditions.*

1 *Table numbers refer to table models provided by the* Autorité des marchés financiers *in its 10 December 2009, as amended on 17 December 2013, recommendation 2009-16 concerning the guide for compiling registration documents.*

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

Detailed breakdown of compensation paid to each Executive Director (Table 2)

(in euros)	2012 Amounts paid in 2012	2012 Amounts due in respect of 2012	**2013 Amounts paid in 2013**	**2013 Amounts due in respect of 2013**
Jean Beunardeau				
Chief Executive Officer [1]				
Fixed remuneration	500,000	500,000	**542,007**	**542,007**
Variable remuneration in cash	324,976	342,905	**342,905**	**274,324**
Deferred variable remuneration in cash	213,110	514,358	**392,448**	**411,487**
Exceptional remuneration	–	–	**–**	**–**
Directors' fees	–[2]	–[2]	**–**[2]	**–**[2]
Benefits in kind	–	–	**–**	**–**
Total	1,038,086	1,357,263	**1,277,360**	**1,227,818**
Gilles Denoyel				
Deputy CEO				
Fixed remuneration	450,000	450,000	**450,000**	**450,000**
Variable remuneration in cash	287,200	323,175	**323,175**	**332,870**
Deferred variable remuneration in cash	–	–	**–**	**–**
Exceptional remuneration	–	–	**–**	**–**
Directors' fees	–[2]	–[2]	**–**[2]	**–**[2]
Benefits in kind	4,647[3]	4,647[3]	**4,647**[3]	**4,647**[3]
Total	741,847	777,822	**777,822**	**787,517**

1 *Deputy CEO then Chief Executive Officer from 10 January 2012.*
2 *Renounced the payment of his fees by HSBC France (see page 32).*
3 *Company car.*

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

	Number of the plan and date of award	Type of options	Value of the shares under the method used for the consolidated accounts	Number of options awarded during the year	Exercise price	Period of exercise
None (see page 26).						

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

CCF options exercised in 2013

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

HSBC Holdings plc options exercised in 2013

	Number of options exercised	Exercise price EUR/share	Date of award	Expiry date
Jean Beunardeau	68,852	6.0216	02.05.2003	01.05.2013
Gilles Denoyel	86,065	6.0216	02.05.2003	01.05.2013

Shares awarded to each Executive Director in 2013 in respect of 2012 (Table 6)

HSBC Holdings plc shares without performance conditions

In respect of 2012, no HSBC France Executive Director, except Stuart Gulliver then Samir Assaf since 22 November 2012, but who do not receive any remuneration from HSBC France, has been awarded shares with performance conditions ("Group Performance Share").

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date	Date of availability
Jean Beunardeau	11.03.2013	60,671	EUR514,358	11.03.2015 for 66% and 11.03.2016 for 34%	11.03.2017 for 66% and 11.03.2018 for 34%
Jean Beunardeau	11.03.2013	40,447	EUR342,905	11.03.2013 for 100%	11.03.2013 for 100%
Gilles Denoyel	11.03.2013	38,120	EUR323,175	11.03.2015 for 66% and 11.03.2016 for 34%	11.03.2017 for 66% and 11.03.2018 for 34%

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

Shares awarded to each Executive Director in 2014 in respect of 2013 (Table 6)

HSBC Holdings plc shares with performance conditions[1]

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date	Date of availability
Jean Beunardeau	10.03.2014	ND	EUR342,905	10.03.2019 for 100%	On retirement

1 *The performance conditions to which is subject the acquisition of the Group Performance Shares are described page 26.*

HSBC Holdings plc shares without performance conditions

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date	Date of availability
Jean Beunardeau	10.03.2014	ND	EUR411,487	10.03.2016 for 66% and 10.03.2017 for 34%	10.03.2018 for 66% and 10.03.2019 for 34%
Jean Beunardeau	10.03.2014	ND	EUR274,324	10.03.2014 for 100%	10.09.2014 for 100%
Gilles Denoyel	10.03.2014	ND	EUR332,870	10.03.2016 for 66% and 10.03.2017 for 34%	10.03.2018 for 66% and 10.03.2019 for 34%

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

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

HSBC Holdings plc shares, without performance conditions, which vested for each Executive Director (Table 7)

The shares awarded in 2010 were vested for 50 per cent in 2012 and 50 per cent in 2013.

The shares awarded in 2011 were vested for 66 per cent in 2013.

	Date of award	Number of shares vested[1]	Vesting conditions (in case of special conditions)
Jean Beunardeau	01.03.2010	94,661	
Jean Beunardeau	15.03.2011	53,999	
Jean Beunardeau	11.03.2013	40,447	
Gilles Denoyel	01.03.2010	19,715	
Gilles Denoyel	15.03.2011	30,563	

1 *The shares awarded under the French sub-plan are available two years after the vesting. The shares awarded under the British plan are available at the vesting.*

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

	Number of options awarded/ exercised	Average exercise price	Date of award	Expiry date
CCF options awarded during the year, by the issuer and by any company of its group to its ten employees whose number of awarded options is the highest	None			
HSBC options awarded during the year, by the issuer and by any company of its group to its ten employees whose number of awarded options is the highest	None			
CCF options exercised during the year by the ten employees and former employees whose number of exercised shares is the highest	None			
HSBC options exercised during the year by the ten employees and former employees whose number of exercised shares is the highest	1,157,862	GBP7.08	02.05.2003	02.05.2013

HSBC Holdings plc free shares, without performance conditions, awarded in 2013 in respect of 2012, to the ten employees whose number of awarded shares is the highest

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	11.03.2013	505,212	EUR4,283,081	11.03.2015 for 66% and 11.03.2016 for 34% or 11.03.2013 for 100%	11.03.2017 for 66% and 11.03.2018 for 34% or 11.09.2013 for 100%

1 *Part of the free shares awarded to the target population, "code staff" and "reinforced-rule population", identified by the group, vests immediately and is available after six months of vesting.*

HSBC Holdings plc free shares, without performance conditions, awarded in 2014 in respect of 2013, to the ten employees whose number of awarded shares is the highest

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	10.03.2014	ND	EUR4,547,962	10.03.2016 for 66% and 10.03.2017 for 34% or 10.03.2014 for 100%	10.03.2018 for 66% and 10.03.2019 for 34% or 10.09.2014 for 100%

1 *Part of the free shares awarded to the target population, "code staff" and "reinforced-rule population", identified by the group, vests immediately and is available after six months of vesting.*

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

HSBC Holdings plc free shares, without performance conditions, vested in 2013, for the ten employees whose number of awarded shares is the highest

	Number of shares vested[1]	Vesting dates
Total value of the 10 highest awards of shares, vested in 2012 (employees or former employees)	1,975,805	
Of which award 2010	1,254,876	25.02.2013
Of which award 2011	669,523	15.03.2013
Of which award 2013	50,806	11.03.2013

1 *Including the shares awarded under the British plan, for which the dates and vesting rules are different or the non-deferred shares. The free shares are available, either two years after the vesting, or at the vesting date in the case of the British plan, or after six months of vesting in the case of immediate shares.*

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

Executive Director Function First appointed Term ends	Employment contract[1]	HSBC France supplementary pension scheme[2]	Compensation or benefits due or that may be due upon termination or change in duties	Compensation due under terms of non-compete agreement
Jean Beunardeau Chief Executive Officer[3] 1 February 2010[4] 2014	Suspended	Yes	No	No
Gilles Denoyel Deputy CEO 1 March 2004 2014	Suspended	Yes	No	No

1 *See page 27.*
2 *See page 26.*
3 *Deputy CEO then CEO since 10 January 2012.*
4 *Date of appointment as Deputy CEO.*

Directors' Fees

The maximum amount of Directors' fees payable each year was fixed at EUR 600,000, as decided by the Annual General Meeting of 21 December 2007.

Following a review of the level of Directors' fees paid, which had not been reviewed since 2005, and of sector practices, and in view of the increased amount of work required from Directors and members of the Board Committees, the Nomination and Remuneration Committee proposed to the Board of Directors to increase Directors' fees in 2011.

Hence, in its meeting on 15 February 2011, the Board of Directors decided to increase individual fees, in respect of the financial year 2011, as follows:

- each Director receives an annual flat fee of EUR 27,000 at the conclusion of the Annual General Meeting;
- the additional annual flat fee paid to Board Committees members amounts to:
  - EUR 12,000 for the members of the Nomination and Remuneration Committee,
  - EUR 14,000 for the Chairman of the Nomination and Remuneration Committee,
  - EUR 18,000 for the members of the Audit and Risk Committee,
  - EUR 30,000 for the Chairman of the Audit and Risk Committee.

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

In 2013, in respect of 2012, Jean Beunardeau, Peter Boyles, Gilles Denoyel, Philippe Pontet and Antonio Simoes renounced the payment of their fees. It has to be noted that, according to this rule, Samir Assaf, Chairman of the Board of HSBC France, does not receive any fees from HSBC France for his office.

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

The net total Directors' fees to be paid in May 2014 in respect of 2013 amount to EUR 0.31 million, compared with EUR 0.27 million paid in 2013 in respect of 2012.

Directors' fees and other compensation paid to Non-Executive Directors by HSBC France, the companies it controls and the companies which control it (the HSBC Group) (Table 3)

	Directors' fees paid in 2012 in respect of 2011	Directors' fees paid in 2013 in respect of 2012	Other compensation paid in 2012[1]	Other compensation paid in 2013[1]
Executive Directors of the HSBC Group companies				
Peter Boyles[2,3]	–	–	EUR851,237	–
Alan Keir[2,4]	–	–	–	–
Philippe Pontet	–	–	EUR861,740	EUR782,039
Antonio Simoes[2,5]	–	–	GBP856,462	GBP707,271
Directors elected by the employees[6]				
Evelyne Cesari[7]	EUR27,000	EUR17,982		
Véronique Duquesne[8]	–	EUR5,792		
Michel Gauduffe[8]	EUR27,000	EUR24,144		
Thierry Jacquaint[7,8]	EUR27,000	EUR17,982		
Guillaume Praud	–	EUR5,792		
Philippe Purdy[8]	EUR27,000	EUR24,144		
Independent Directors[9]				
Martine Gerow[10]	–	EUR2,858	–	–
Lindsay Gordon[11]	–	–	–	–
Philippe Houzé	EUR41,000	EUR26,035	–	–
Igor Landau[12]	EUR27,000	EUR5,715	–	–
Anne Méaux[13]	EUR6,750	EUR17,145	–	–
Thierry Moulonguet	EUR57,000	EUR156,685[14]	–	–
Marcel Roulet[15]	EUR27,000	EUR17,145	–	–
Peter Shawyer	EUR139,729[16]	EUR219,766[17]	–	–
Brigitte Taittinger	EUR27,000	EUR17,145	–	–
Jacques Veyrat	EUR39,000	EUR24,765	–	–

1 *Fixed and variable remuneration and benefits in kind.*
2 *Emoluments shown are paid by other HSBC Group companies in respect of his executive functions within the Group.*
3 *Resignation as Deputy Chairman and Director on 10 December 2012.*
4 *Appointment on 10 December 2013.*
5 *Co-optation on 22 February 2012.*
6 *From 2013, amounts paid, net of social security contributions.*
7 *Appointment ended on 26 September 2012.*
8 *Directors' fees paid to a trade union organisation.*
9 *From 2013, amounts paid, net of social security with holdings and income tax.*
10 *Appointment on 1 November 2012.*
11 *Co-optation on 27 February 2013.*
12 *Appointment ended on 15 May 2012.*
13 *Appointment on 31 October 2011.*
14 *Of which EUR 36,195 paid by HSBC France, excluding withholding tax.*
15 *Appointment ended on 30 April 2013.*
16 *Of which EUR 35,500 paid by HSBC France, excluding withholding tax.*
17 *Of which EUR 31,500 paid by HSBC France, excluding withholding tax.*

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

The following information is published in accordance with article 43-2 of regulation 97-02 and the professional standards laid down by the *Fédération bancaire française* (FBF), the French Banking Federation, following the publication of the ministerial decree of 13 December 2010, on governance and variable compensation for employees whose professional activities have a significant impact on the risk profile of the business.

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

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

The compensation policy in place in France falls within the framework of this general policy, while also ensuring that local professional standards and regulations are observed.

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

The People Committee, made up of the main Senior Executives of HSBC France (the Chief Executive Officer also in charge of Global Banking and Markets, the Deputy Chief Executive Officer in charge of the Risk functions, the Chief Operating Officer and the Head of Human Resources), reviews the main aspects of the compensation policy for France and approves it. It ensures that this policy fits in with the general principles of the compensation policy set by the HSBC Group for all of its subsidiaries, and in the light of the specific directives set by the global business lines. Lastly, it gives an opinion on the policy's compliance with local professional standards and the recommendations of banking supervisory bodies in France such as the *Autorité de contrôle prudentiel et de résolution*, the *Autorité des marchés financiers* and the *Fédération bancaire française*.

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

Lastly, on an individual basis, it reviews and validates the consistency of compensation paid to the regulated population and the reinforced-rule population, as well as the 20 highest compensation packages in collaboration with the HSBC Group's decision-making bodies and global business lines. It ensures that proposed individual compensation packages take into account any individual failures to meet the bank's operational, credit, compliance and reputation risk criteria.

On the basis of the compensation policy summary prepared by the *ad hoc* People Committee, the Nomination and Remuneration Committee, chaired by an independent Director, gives its opinion on the bank's policies and practices concerning compensation, ensuring their consistency with the HSBC Group policy and their compliance with applicable local standards, as well as that risk management and compliance issues are taken into account.

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

Main characteristics of the compensation policy

The compensation policy takes into account, on one hand, the overall performance of the company and, on the other hand, the individual performance of employees.

The overall performance of the company is analysed by business lines and activities and measured by financial metrics, such as a comparison of revenue and cost trends, the cost efficiency ratio, the pre-tax profit and the return on equity. The risk dimension is incorporated by using risk indicators such as changes in risk provisions, the level of risk-weighted assets and the corresponding return, the liquidity ratio, and the amount of operational losses. The overall assessment of these indicators, analysed by comparison to the previous year and against the current year budget, allows the determination of variable compensation budgets with respect to the year in question.

These budgets are then individually granted according to the individual performance of each employee. A differentiating approach benefits the highest performing employees. The individual performance of an employee is appraised by the manager twice yearly (mid-year and at the year-end) and a performance rating of between 1 and 5 is awarded:

- rating 1: outstanding performance;
- rating 2: excellent performance;
- rating 3: targets achieved - good performance;
- rating 4: performance below expectation - unsatisfactory performance;
- rating 5: performance well below expectation - very unsatisfactory performance.

The performance appraisal is based on achieving targets set for the employee by the manager at the start of the year.

These targets include both qualitative criteria (observance of compliance and internal control rules, quality of sales or quality of service, risk management – especially in terms of operational risks, follow-up of audit points, etc. – adherence to the HSBC Group's Global Standards, participation rates in mandatory trainings, customer recommendations, cross-businesses synergies, winning customers, etc.) and collective and/or individual financial criteria (income growth, cost control, growth of the profit before tax, etc.).

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

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

It is to be noted that Senior Executives (Group Classification 0, 1 and 2) are also evaluated on their adherence to the Group's values (dependability, openness, listening, courage and integrity).

In compliance with the rules laid down by the regulators, the variable compensation of employees whose professional activities have a significant impact on the entity's risk profile is subject to specific rules on deferment of compensation, and on structuring variable compensation between cash and shares.

As permitted under French regulations, HSBC France has opted to implement the HSBC Group's policy in these areas. This has resulted in the identification, at a global level, of a target population which is subject to all the rules set out in the Prudential Regulation Authority's Remuneration Code, which closely resemble French rules.

This target population at the level of the HSBC Group ("code staff") includes the HSBC Group top management as well as any HSBC Group employee whose function may have a significant impact on the bank's risk profile, *i.e.* "Group Executive Directors", "Group Managing Directors", "Group General Managers", "Significant Influence Functions (SIFs)" and "risk holders" (mainly members of Group and Regional executive committees of the Global Banking and Markets activities). For the year 2013, it represents 330 employees.

In France, a list of three employees has been identified by the HSBC Group as belonging to this target population.

For this population, deferred variable remuneration accounts for at least 40 per cent of their variable remuneration and 60 per cent of the highest variable remunerations. Moreover, for this population, variable remuneration granted in the form of shares accounts for 50 per cent of variable remuneration granted; this 50 per cent applies to both the deferred component and to its immediately paid fraction.

In addition, it was decided that 56 additional employees, who do not belong to the target population defined at the HSBC Group level but who nevertheless play a significant role within HSBC France, would be subject to a large part of the rules applicable to the target population, in accordance with the principle of proportionality provided for in the regulations.

This additional population ("reinforced-rule population"), which is identified locally, includes financial market professionals considered to be risk takers, the Heads of the Finance function and the Risk functions, the Executive Directors of HSBC France and the Heads of HSBC France's various business lines.

It should be noted that out of these 56 employees, 16 are employees of the French branch of HSBC Bank plc.

This second category of "reinforced-rule population" is submitted to rules noticeably more restrictive than the rest of the other employees who are subject to deferral rules (higher deferred proportion, from 40 to 60 per cent, in most cases).

For these two categories of employees (*i.e.* a total of 59 employees), 46 per cent of variable remuneration is deferred, and variable remuneration represents 63 per cent of total remuneration (fixed + variable). The deferred share-based portion is not vested by the employee until after a period of two years for 66 per cent and after three years for the remaining 34 per cent. This is furthermore subject to a two-year retention period starting from vesting, and there is a prohibition on hedging it.

It should be noted that beyond these two employee categories, the great majority of the company's senior managers are affected by the minimum deferred compensation rules laid down by the HSBC Group which, for 2013, provide for deferred compensation in the form of shares of between 10 per cent and 50 per cent of variable compensation, and to which the above rules on vesting and retention apply.

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

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

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

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

Compensation granted in respect of the financial year

The tables show the remuneration of professionals that have a significant impact on risk as at 31 December 2013.

Distribution between the fixed and variable portion

	Number of people concerned	Total 2013 compensation (in EUR)	Total fixed compensation (in EUR)	Total variable compensation (in EUR)
Executive members	2	3,372,274	992,007	2,380,267
Professionals having a significant impact on risks	57	31,112,947	11,781,784	19,331,162

Distribution between vested, paid or delivered amount and conditional deferred amount

(in euros)	Vested, paid or delivered amount	Conditional deferred amount
Executive members	881,518	1,498,749
Professionals having a significant impact on risks	10,748,409	8,582,753

Distribution between payment in cash and payment in shares or in equivalent instruments

(in euros)	Payments in cash	Payments in shares or equivalent instruments
Executive members	1,018,681	1,361,586
Professionals having a significant impact on risks	11,009,089	8,322,073

Outstanding variable compensation

(in euros)	Amounts of unvested deferred compensation in respect of the financial year	Amounts of unvested deferred compensation in respect of previous financial years
Executive members	1,497,621	3,137,388
Professionals having a significant impact on risks	8,582,753	15,016,971

This shows outstanding deferred compensation corresponding to total unvested deferred compensation, *i.e.* compensation that has been awarded but not yet paid (cash) or delivered (securities) and which is still subject to a future clawback mechanism or early departure.

This must include unvested deferred compensation awarded in respect of the previous financial year (column 1), as well as unvested deferred compensation relating to prior years (column 2).

The sums paid or securities delivered – even if they are still subject to a holding requirement – after application of the clawback mechanism, are not included in outstandings.

Securities and equivalent instruments are valued on the basis of value at the award.

Outstanding vested compensation in respect of prior years can be impacted by departures from the company.

Outstanding deferred compensation paid or reduced after adjustments according to results

(in euros)	Amount of deferred compensation paid	Amount of reductions made from deferred compensation
Executive members	1,911,811	–
Professionals having a significant impact on risks	16,447,232	–

The first column corresponds to sums paid or to securities delivered (even if they are still subject to a holding requirement) adjusted according to the results of the financial year for each prior year.

The second column corresponds to the amount of reductions on deferred compensation due to the results of the considered year, whatever the year of securities granted.

Securities and equivalent instruments are valued on the basis of value at the award.

Amounts paid in respect of hirings and terminations during the year

	Amount of severance payment paid and number of beneficiaries		Amount of sums paid for hirings and number of beneficiaries	
	Sums paid (in EUR)	Number of beneficiaries	Sums paid (in EUR)	Number of beneficiaries
Executive members	–	–	–	–
Professionals having a significant impact on risks	–	–	–	–

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

Termination compensation guarantees

	Severance pay guarantees granted during the year		
	Total (in EUR)	Number of beneficiaries	Highest guarantee (in EUR)
Executive members	–	–	–
Professionals having a significant impact on risks	–	–	–

This is aimed at “promised” severance pay granted during the reference financial year.

Conflicts of interest

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

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

Article IV-2 of the Board of Directors’ internal rules states that any Director who has a conflict of interest must report it to the Board and must abstain from voting on any corresponding motion, and that the Chairman may invite the Director not to attend the discussion.

Board of Directors' internal rules

The Board of Directors' internal rules were first established in 1996, and have been updated several times since their implementation.

These rules specify the Board's main duties:

- to discuss all issues relating to its legal and regulatory obligations and those arising from the company's Articles of Association;
- to determine the general direction of the company's activities and ensure that it is followed.

In addition, the rules confer certain duties on independent Directors sitting on the Board of Directors of a 100 per cent-owned subsidiary as follows:

- to discuss the strategy adopted by HSBC France;
- to oversee its implementation;
- to approve strategic investment and divestment plans and all transactions liable to have a significant impact on earnings;
- to oversee and control material risks;
- to ensure the quality of information provided to the shareholder and to the market through the financial statements and the Annual Report;
- to protect the reputation of the HSBC Group in France.

The Board's internal rules define the procedures for conducting Board meetings and providing information to the Board. They indicate the main duties and arrangements for exercising the function of Chairman, and the main duties of the Chief Executive Officer. Furthermore, the Board's internal rules define, in accordance with the HSBC Group rules, the duties, powers and responsibilities of the Audit and Risk Committee and the Nomination and Remuneration Committee (as stipulated above in the parts related to these Committees' assignments). They also incorporate a code of conduct to be followed by the Directors of HSBC France, setting out their rights and duties. Lastly, they define intervention rules on the HSBC Group listed securities for HSBC France Directors.

Self-assessment

In accordance with AFEP/MEDEF recommendations concerning assessment of the Board of Directors, HSBC has implemented a self-assessment process in 2011. This assessment was conducted internally, under the responsibility of the Nomination and Remuneration Committee and on the basis of Directors' answers to a detailed questionnaire. The main themes raised concerned the running and composition of the Board and its Committees, their effectiveness, the information available to Directors to perform their duties, relations between the Board and the bank and ways of improvement from Directors' point of view.

After analysis, a summary of answers given was presented to the Board in July 2011 by the Chairman of the Nomination and Remuneration Committee. The assessment process showed that Directors had a positive opinion of how the Board is run, as a more than 99 per cent-owned subsidiary of the HSBC Group. In order to respond to the wishes expressed by Directors concerning training, a training day intended for independent Directors focusing on strategy and the various business lines was held on 1 July 2011. In addition, an induction day was organised on 29 April 2013 for recently appointed Directors in priority and also proposed to all Directors already in office.

The Board's assessment procedure will be carried out regularly and the next one should be conducted in 2014.

General Meeting

Meetings are open to all shareholders. They are convened and transact business in accordance with the provisions of the law and regulations in force. According to article 22 of the Articles of Association, all shareholders, whatever the number of shares they own, are entitled to attend General Meetings and to take part in the deliberations, personally or through a representative, provided their shares are paid up in full for payments that are due and are registered on an account in their own name no later than midnight, Paris time, on the third business day preceding the General Meeting. However, the author of the notice to attend has the option at all times to reduce this period of time, as he so sees fit.

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

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

Restrictions on the CEO's powers

The CEO has the widest powers to represent the company in all circumstances within the limits of its corporate objects and subject to those powers expressly conferred by law on the collective body of shareholders and the Board of Directors.

In this respect, the Board of Directors has delegated its powers to issue bonds to Jean Beunardeau (Chief Executive Officer), Gilles Denoyel (Deputy Chief Executive Officer) and several Global Markets Officers. At present, there are no specific restrictions on the Chief Executive Officer's powers, but in practice, decisions involving the orientation of company activities are submitted to the Board of Directors for approval.

The Chief Executive Officer has delegated certain powers to the Deputy Chief Executive Officer and Senior Corporate Vice-Presidents, who may in turn delegate some of these powers to agents holding general powers of attorney reporting directly to them.

These powers concern:

- representation of the bank,
- banking operations,
- bank-related operations,
- litigation.

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

There are specific delegated powers concerning credit[1] and market[2] risk, for which the CEO delegates his powers.

1 *See Risk management page 77.*
2 *See Risk management page 82.*

CHAIRMAN'S REPORT ON INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

The general framework of internal control and risk management

Context

HSBC France has implemented a comprehensive and sound system of internal control and procedures adapted to the organisation and its various activities in order to:

- ensure optimal execution of its operations;
- control all types of risk to which HSBC France is exposed;
- control the quality and reliability of financial reporting and regulatory reporting;
- ensure compliance with current laws and regulations;
- ensure compliance with the HSBC Group standards.

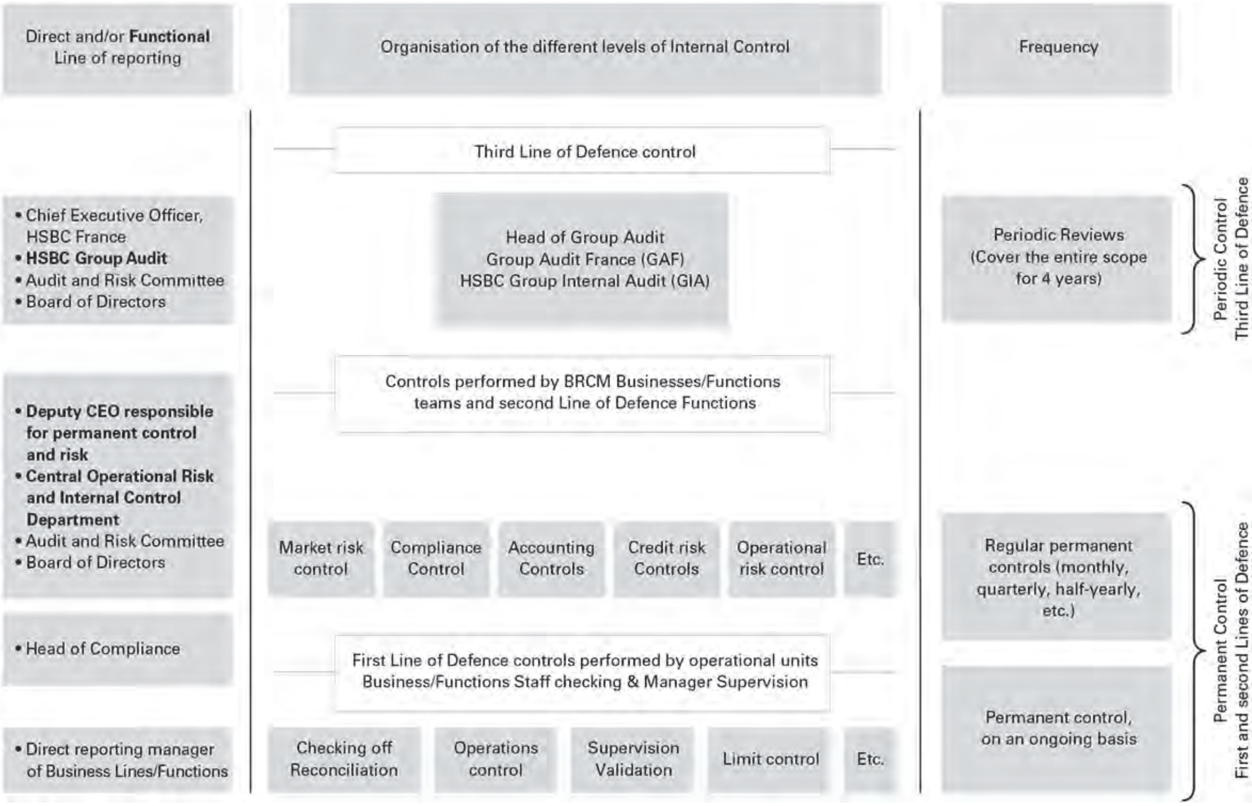
Internal control at HSBC France relies on:

- clear articulation of responsibilities of various actors and control levels;
- organisation charts and job descriptions with appropriate delegations of authority as well as functional and hierarchical lines clearly defined;
- segregation of duties;
- teams dedicated to internal control within businesses and central departments;
- transverse risk functions run and overseen by central functions;
- monitoring of the resources dedicated to permanent control in order to verify the adequacy in terms of skills and number;
- risk and control maps covering the entire scope of the HSBC Group in France;
- a code of conduct binding on all staff;
- comprehensive procedures covering all activities and more particularly specifying control responsibilities;
- outsourcing management policy;
- a sound process on new products or services;
- the existence of rules, tools and an organisation to assess, supervise and control the major risks;
- quality, security and integrity of information systems;
- quality and integrity of accounting and management information, based on accounting controls and an audit trail;
- business recovery plans and IT recovery plans;
- a reporting and committee framework ensuring effective coordination between different levels of control as well as a summary of assessments for the executive and decision-making bodies;
- the assessment of this permanent control framework by an independent third-level control (periodic control).

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

The diagram below explains the three levels of control at HSBC France:

- the operational units;
- dedicated permanent (second level of control) control teams;
- the periodic control teams, which assess the efficiency of permanent control.



In 2013, the HSBC Group has adopted a risk management and internal control structure, with reference to the three lines of defence, so as to ensure completion of its commercial aims while meeting regulatory and legal requirements and its accountabilities towards shareholders, customers and staff. This new operating model aims to strengthen the articulation between the different levels of internal control and risk management by clearly establishing accountabilities, which has lead HSBC France to review the definition and the risk functions structure as it was defined since 2009[1].

The first line of defence is made up of businesses, functions and HTS (HSBC Technology and Services) who are accountable for their day to day activities, processes and controls to mitigate these risks. They must ensure all risks within their activities and operations are identified, mitigated and monitored by an appropriate control environment that is commensurate with risk appetite. It is the responsibility of businesses, functions and HTS to establish dedicated teams, independent from operations that perform internal controls and manage operational risks (BRCM - Business Risk and Control Management).

The second line comprises nine functions (Risk (including Compliance), Finance, Human Resources, Legal, Communication, Marketing, Strategy and Planning, Company Secretary and Corporate Sustainability) whose role is to ensure that the risk appetite statement is observed in relation to the risks they are responsible for overseeing. They are responsible for developing policies and standards required to manage risks within risk appetite and tolerances, oversee their effective implementation and objectively monitor and challenge the performance of risk and control activities conducted by the businesses, functions and HTS *e.g.* by critically reviewing risk and control cartographies, key risk indicators and other review work.

Within the second line of defence ORIC (Operational Risk and Internal Control or *Direction du Contrôle Interne et des Risques Opérationnels* - DCIRO) has specific responsibilities in relation to the operational risk framework. These are:

- set the operational risk framework and policy and oversee their implementation;

1 *The management of each risk by its function is described in detail in the Risk management section pages 77 to 100.*

- provide quality assurance and challenge of risk and control cartographies, internal control monitoring plans, of the results of control monitoring activity conducted by the first line of defence and of the completeness of second line oversight of the business and functions;
- provide independent oversight of the operational risk profile, identify emerging risks and gaps and carry out specific reviews of key risk issues;
- escalate weaknesses and delays in action plans to the appropriate governance committees.

The main other second lines of defence functions are:

- Financial Crime Compliance and Regulatory Compliance function;
- Security and Fraud function, which oversees fraud risk, physical security, information security and business continuity;
- Retail Credit function, which oversees retail credit risks;
- Wholesale and Market Risk function, which oversees market and wholesale credit risks;
- Finance function as regards accounting, liquidity; structural interest rate, forex and tax;
- Human Resources function;
- Legal function;
- HTS function in charge of overseeing notably IT, Record Management, Vendor Risk Management, Health and Safety.

The third line of defence is Internal Audit, whose role is to provide independent assurance to the Senior Management and the Board of Directors over the design and functioning of risk management, governance and internal control processes. Internal Audit assurance assesses the management of the risks and controls by the first line as well as controls oversight by the second line.

This internal control and risk management framework refers to COSO 2[1]. In France, the Deputy CEO in charge of risk and permanent control (in accordance with regulation 97-02) is also Chief Risk Officer (CRO).

HSBC Group Manuals

The GSM (HSBC Group Standards Manual) sets out the standards that all HSBC Group companies must observe. It applies to all the HSBC Group's businesses all over the world. No dispensation is granted without the specific agreement of the HSBC Group Chairman.

All the HSBC Group's business activities must be fully documented in manuals or compendia of procedures. Functional Instruction Manuals (FIMs) contain detailed policies and procedures relating to a specific business or function, product or activity, which must be adhered to throughout the HSBC Group, barring dispensation granted by the FIM's owner for the HSBC Group.

In addition, HSBC France and its subsidiaries are required to document their operating procedures and their specific practices (Business Instruction Manuals – BIMs – or equivalent, and internal circulars). Internal circulars are the key vehicle for communicating internal standards and rules derived from French regulatory requirements or HSBC Group standards that apply to several or all the HSBC Group structures operating in France. They are readily available on the HSBC France Intranet. The drafting, circulation and storing of circulars are governed by precise rules (also formally set out in a circular) and are regularly updated.

The adequacy and effectiveness of these manuals have to be reviewed at least once a year; managers are required to report annually on the implementation thereof, to confirm that their business activities are fully covered by them, that they are comprehensive, and that existing procedures have been reviewed over the past year. Based on these confirmations, the Chief Executive Officer of HSBC France provides an aggregate certificate to the HSBC Group.

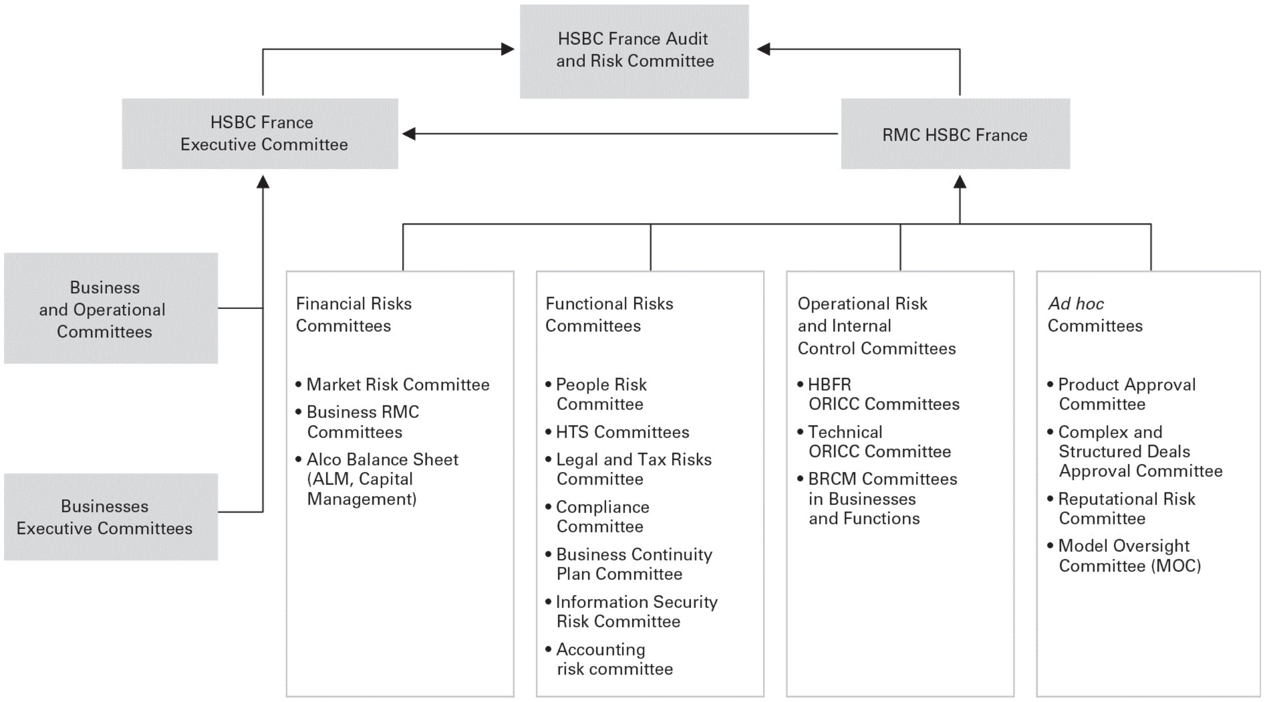
Handbook and Codes of Conduct

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

1 *Committee of Sponsoring Organisations of the Treadway Commission (COSO).*

The internal committees

Risks are supervised by a number of dedicated committees, the general organisation of which is shown in the diagram below.



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

Among these committees, the Risk Management Committee (RMC), the Operational Risk and Internal Control (ORIC) Committees, and the Compliance Committee play a key part in coordinating the control framework, summarising controls and monitoring risks.

This framework is completed by special risk committees in businesses and functions, combining the three levels of internal control, in order to manage, monitor and control the risks specific to each HSBC activity in France.

The Risk Management Committee (RMC)
The RMC, which is chaired by the Chief Risk Officer and includes most of the members of the Executive Committee, is an overaching committee overseeing risk management and permanent control. It meets every month to analyse HSBC France's main risks, as established by a previously agreed agenda.

The RMC reports functionally to its European equivalent in the HSBC Group through the communication of minutes. Locally, all risk assessments presented to the RMC are also used by the HSBC France's Executive Committee and the Audit and Risk Committee. The RMC covers all entities operating in France.

The RMC makes use of the work of all dedicated committees and summarises their findings. In particular, these committees include:

– for all risks including credit risks:
  - the Risk Management Committees dedicated to each business;
– for market, liquidity and global interest rate risks:
  - the Market Risk Committee,
  - the ALM Committee (Balance Sheet ALCO);
  - the Capital Management Committee (CMC);
– for "non-financial" risks:
  - the Legal and Tax Risks Committee,
  - the Compliance Committee,
  - the People Risk Committee, for risks relating to human resources,
  - HTS Committees,
  - the Information Security Risk Committee and the Business Continuity Committee,
  - the central ORIC (Operational Risk and Internal Control) Committees (ORIC Committee and Technical ORIC Committee);
– special committees:
  - the Product Examination Committee,
  - the Complex and/or Structured Deals Approval Committee,
  - the Reputational Risk Committee,
  - the Model Oversight Committee.

A report on independent resources and dedicated to operational risk and internal control (*i.e.* second level controls is carried out on a regular basis to check their adequacy in terms of skills and number.

The central Operational Risk and Internal Control Committees (ORIC Committee and Technical ORIC Committee)

Management and supervision of permanent control, as defined by regulation 97-02, is the responsibility of the ORIC Committee.

Its rules, drawn from those of the HSBC Group, are set out in a ToR (Terms of Reference) and have been adapted to the requirements of regulation 97-02. They are reviewed annually.

The ORIC Committee meets on a quarterly basis under the chairmanship of the Chief Risk Officer. The aim is to ensure that HSBC France group's operating permanent control and operational risk management framework meets the requirements of the *Autorité de contrôle prudentiel et de résolution* and the HSBC Group.

Within this framework, it is the committee's responsibility with regard to operational risk:

- to analyse the operational risks presented by the various businesses and functions (in particular major risks) by validating or adapting the controls proposed as necessary with a view to reducing the risks;
- to review the progress made in action plans, in particular those relating to risks deemed the most critical;
- to review major incidents (actual or potential losses and near misses) in terms of the amount or type of incident, as reported by the businesses and functions;
- to review the compliance of the operational risk framework in respect of regulatory requirements and the HSBC Group requirements (as defined in the GSM, the FIM or Group Circular Letters);
- to review cross-functional issues relating to operational risk management or methodological issues (such as risk assessment, monitoring tool), define and then periodically review operational risk monitoring indicators;
- to examine the results of the reviews relating to businesses and functions internal control or thematic reviews.

The ORIC Committee comprises:

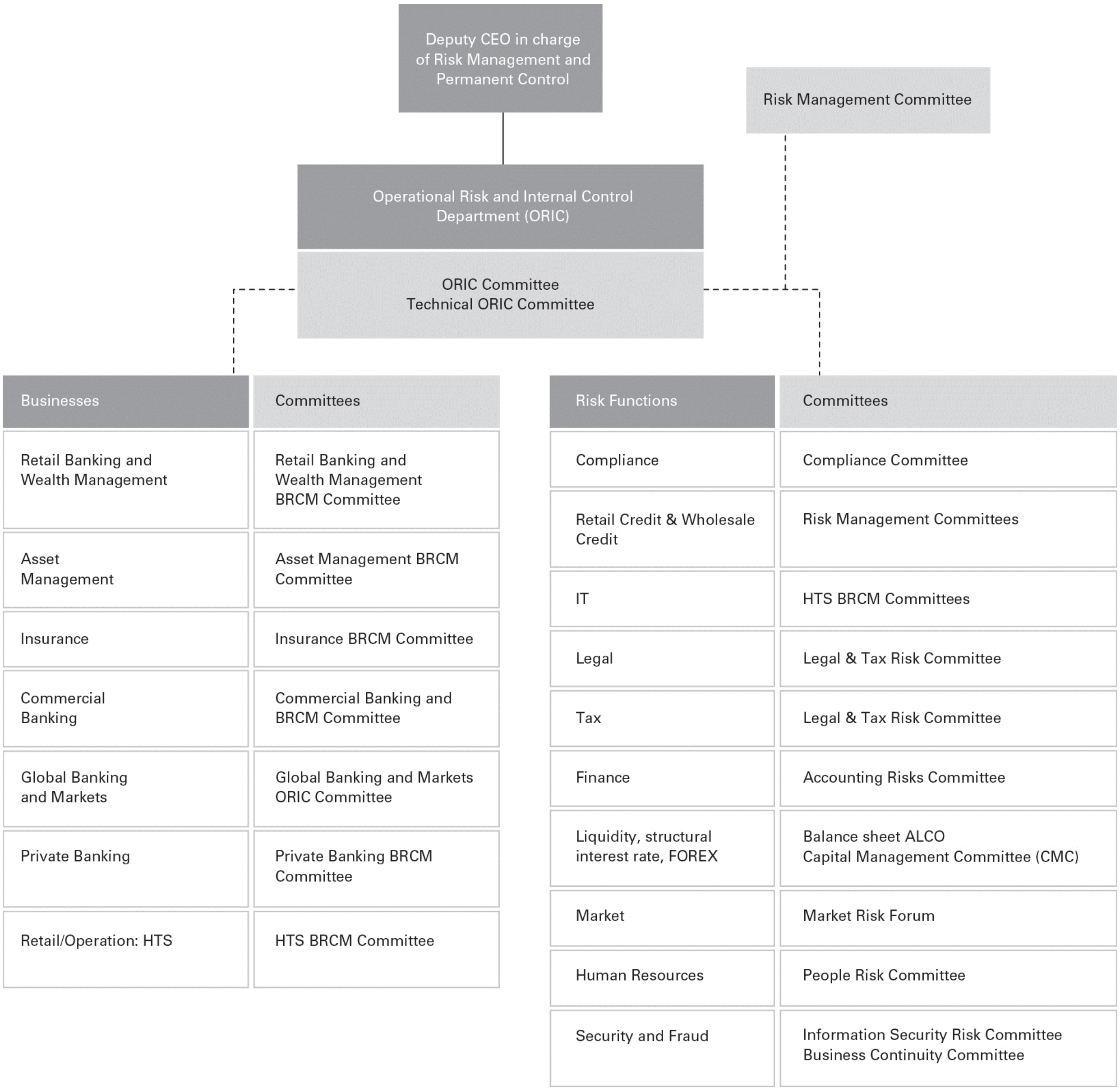
- heads of HSBC France businesses (Retail Banking and Wealth Management, Asset Management, Insurance, Commercial Banking, HSBC Technology and Services, Global Banking and Markets and Private Banking);
- heads of the main functions;
- the Head of Internal Audit, Head of Global Audit France (GAF);
- the Central ORIC (DCIRO) team, which coordinates the committee and acts as secretary;
- the HSBC France Company Secretary.

The summary of the work and findings of the ORIC Committee is regularly communicated to the Risk Management Committee and the Audit and Risk Committee of the HSBC France group.

The work of the ORIC Committee is based primarily on the summary of the work of the HSBC France Technical ORIC Committee, which combines all internal control and operational risk management teams of HSBC France businesses and functions (BRCM – Business Risk and Control Management), in the presence of a representative of Internal Audit.

The HSBC France Technical ORIC Committee meets quarterly a few days before the ORIC Committee. Discussion of the issues raised allows the Central ORIC (DCIRO) to achieve a summary of the highlights, which constitutes the supporting material for the ORIC Committee. The operating rules of the HSBC France Technical ORIC Committee are described in a specific ToR, which is reviewed annually.

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



Each business has an ORIC or BRCM (Business Risk and Control Management) Committee, which convenes at least once quarterly. The permanent members of these businesses' ORIC committees include at least one manager of HSBC France's executive body or the main entity of the businesses and the managers of the various functions contributing to the risk and permanent control framework. A Central ORIC representative attends the committee's meetings.

Each function holds a monthly or quarterly permanent control committee meeting, chaired by the function's manager, and attended by the function's members and experts, business and Central ORIC representatives and, for some of them, the Deputy CEO.

Permanent control

Principles

Permanent control is primarily based on controls carried out by the managers responsible for each activity. The purpose of these controls is to ascertain that the activity is conducted in accordance with all internal and external rules and is up to standard. The key responsibility for permanent control falls to the managers of the various businesses and functions, who must ensure that level-1 controls are conducted in a proper manner compliant with the HSBC Group Standards Manual (GSM), that states "controls should be considered as fully embedded in the activities".

In addition to first level controls, the HSBC France group's permanent control is based on a serie of procedures, under the responsibility of the Deputy Chief Executive Officer. These comprise primarily:

- the Central Operational Risk and Internal Control Department (DCIRO), in charge of coordinating permanent control procedures. The DCIRO oversees the work carried out by the ORIC (Operational Risk and Internal Control) and BRCM (Business Risk and Control Management) teams within the businesses and functions and reports hierarchically to these businesses and functions heads, as well as control teams within functions in charge of overseeing and coordinating the risks of their function. The hierarchical positioning of this department matches the organisational structure recommended by the HSBC Group as a whole, which combines coordination of permanent control framework (internal control) and supervision of operational risk framework within a single central team;
- the businesses and functions' internal control and operational risk teams (ORIC or BRCM teams), responsible for coordinating permanent control for the heads to whom they report directly;
- the nine functions including those involved in the second line of defence. In particular, the Compliance function ensures that all HSBC France group entities control the risk of non-compliance as defined in article 4 p) of regulation 97-02. Pursuant to article 11 of the regulation, the Chief Compliance Officer ensures the consistency and efficiency of compliance control;
- and lastly, a number of committees that examine the results of controls and the main incidents.

In addition to its internal periodic control framework, and with a view to complying with the provisions of the American Sarbanes-Oxley law (SOX), the HSBC Group has implemented since 2006 a framework for documenting and assessing internal control, with regard to the processes and operations involved in drawing up financial statements.

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

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

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

At each quarter, HSBC France's Audit and Risk Committee is informed of the results of controls carried out for SOX compliance purposes and of progress made in the action plans.

The ORIC/BRCM framework

The Operational Risk and Internal Control (ORIC) Department is responsible for coordinating permanent control and for providing a forward looking and transverse overview of risks. Central ORIC keeps an up-to-date reference framework of permanent control and ensures a comprehensive coverage of risks. This department oversees operational risk management and supervises the internal control work of the ORIC teams of the various businesses and functions with which a functional link has been formed.

This organisational structure, which meets specific French regulation requirements (regulation 97-02 in particular) has been approved by the HSBC Group.

The Central ORIC Department team works closely with the businesses and functions' internal control and operational risk management teams (ORIC and BRCM teams), and the functions of the second line of defence. Its role is to consolidate and harmonise, covering all entities or structures reporting to HSBC France on key issues such as reviews of risk and control maps, the design and monitoring of action plans, documentation of stress scenarios, incident declaration, monitoring the introduction of risk indicators, and even reviewing control plans, coordinating the formal definition of key controls and the contents of reports.

The strong functional relationship between the businesses and functions' internal control and operational risk management teams is based on the following four principles:

- monthly bilateral meetings between the Central ORIC Department and the internal control and operational risk management teams of the businesses and functions (including those involved in the second line of defence), at which the subjects discussed include developments in activity and risk trends, progress made in the annual control programme, major incidents (actual or potential losses and near misses), protection of information, etc. At least once a year, risk mapping (in particular operational risk) is more specifically reviewed, as is the draft control programme for the next year and the general assessment of resources allocated to permanent control;
- ORIC's participation in the committees, which include:
  - the ORIC and BRCM committees of the businesses,
  - the specialised function committees (Legal and Tax Risk, Compliance, IT, Permanent Control, Finance, etc.),
  - the Audit and Risk Committee of HSBC France and the Audit Committees of its subsidiaries;

- submission by the ORIC teams of Risk and Control maps (on an ongoing basis and at least once a year), support documents and minutes of the Audit Committees of HSBC France subsidiaries, annual contributions on internal control and risk management to the annual reports intended for the *Autorité de contrôle prudentiel et de résolution* (articles 42 and 43 of regulation 97-02);
- other “meeting points”:
  - Technical ORIC Committees and information meetings;
  - dedicated groups (methods, indicators, risk scenarios, etc.);
  - training and awareness-raising schemes (technical and regulatory watch, “workshops” and seminars, etc.);
  - review of the Internal Control teams and thematics or risks reviews.

Finally, this team acts as an interface with the HSBC Group ORIC function, particularly at its European level. Notably, it is involved in the consolidation and dispatch required reports as well as disseminating in France instructions and best practices of the Group.

Reliability, strengthening and enhancement of internal control and operational risk framework continued in 2013 with notably:

- in terms of general governance, the implementation of the HSBC Group “three lines of defence”, which is now finalized, and the designation of Business Risk and Control Management (BRCM) teams in the HSBC France businesses and functions, which have been reinforced notably in the Commercial Banking and Retail businesses and in some functions;
- the formalisation of the ORIC oversight plan including HSBC France businesses and functions risks;
- the continuous improvement of the ORION system rolled out since November 2011. Beyond the management of operational incidents, ORION is the sole risk management tool for risk maps and action plans. In 2013, the internal control plans and tests results have been input in ORION which is designed to become an Enterprise Risk Management tool;
- the redesign and update of the new businesses and functions risk cartographies, called the HSBC Group’s Risk and Control Assessment (RCA), integrating more advanced specifications requested by Global businesses and functions and allowing priorisation of risks and integrating extreme case scenario;
- the Risk and Control maps review in late 2013 by experts of the second line of defence and their submission by businesses and functions to the Chief Risk Officer. The Central ORIC Department (DCIRO) reviews the Risk and Control maps and the businesses and functions relevant Heads validate them. They are regularly updated according to material events occurred during the year and changes in the risk profile and regularly submitted to ORIC and BRCM Committees. RCAs serve as the basis of the ORIC risk management annual control programme;
- the enrichment and reliability of some operational risk indicators, for a better risk monitoring;
- the monitoring of risk appetite on a monthly basis and the determination of annual tolerance on operating losses, through close collaboration with Global businesses;
- participation in the work initiated by the HSBC Group, in particular on stress testing and the preparation of a possible transition to the advanced (AMA) methodology so as to calculate the regulatory capital requested for operational risks;
- the further enhancement of controls in areas such as information security and business continuity;
- the improvement in the supervision and control of third party services, including those provided by other HSBC Group entities;
- the updating of old circulars.

Awareness of all employees on risk management was continued in 2013 notably through regular meetings to raise awareness about topical issues or risk-related matters (Lunch and Learn) and through mandatory staff e-learning trainings.

Organisation of the Compliance function and dedicated oversight committees

The HSBC France group’s permanent control framework of the risks of non-compliance is coordinated by the Compliance Department. Since March 2006, all compliance personnel within the HSBC France group report to the Compliance Department so as to ensure full independence of the compliance function from operational activities, as required by regulation 97-02 and the articles 313-2 and 313-3 of the *Autorité des marchés financiers* (AMF) General Regulation. The HSBC France group’s compliance control framework and the internal organisation of the Compliance Department are set out in two general implementation circulars, which are updated regularly.

Under the “Global Standards” program implemented by the HSBC Group throughout the world, the Compliance function has evolved at Group level in 2013, with the creation of two functions:

- Financial Crime Compliance (FCC) focused on anti-money laundering, counter terrorist financing, international financial sanctions, anti-bribery and corruption;
- Regulatory Compliance (RC) focused on conduct of business, market conduct, general regulatory compliance management including stakeholder support.

The HSBC Group Compliance organisation should be implemented in France in the coming months.

The Chief Compliance Officer is responsible for compliance control at HSBC France, according to article 11 of the aforesaid regulation, and for coordinating the HSBC France group's compliance control framework. In addition, the Chief Compliance Officer also acts as the Compliance Officer for HSBC France's Investment Services (RCSI) according to articles 313-3 and 313-4 of the AMF General Regulations. The Chief Compliance Officer reports to the Deputy CEO.

The Compliance Department is responsible for overseeing control of the risk of non-compliance, as defined by article 4 p) of regulation 97-02, for all HSBC France group entities. Although his scope of intervention in that capacity extends to all measures applying to banking and financial activities, supervising due observance of regulations in certain specific areas devolves on other risk functions in the HSBC France group, functions of the second line of defence, which have the necessary expertise and means (accounting standards, capital ratios, control of major counterparty risks, recommendations on the security of information system, etc.). The Compliance Department's area of competence does not extend to enforcing rules outside the sphere of banking and finance (labour and social security law, regulations on the safety of people and property, etc.), which are supervised by other functions of the second line of defence of HSBC France.

The framework and the main risks of non-compliance identified are reviewed by dedicated oversight committees, representing both Compliance function and operational managers.

The Compliance Committee convenes quarterly under the chairmanship of the Chief Risk Officer of HSBC France, in the presence of the CEO and the Executive Committee members responsible for the businesses. The role of this committee is twofold: it makes decisions relating to the coordination of the Compliance control system, and reports to Senior Management about how the system is working, any incidents and the corrective measures applied.

Committees dedicated to anti-money laundering are also implemented in all businesses in order to deal with queries related to the anti-money laundering framework. The Compliance Department is responsible for organising these committees, and acts as the secretariat.

In specialised areas for which supervising due observance of regulations devolves on other functions of the second line of defence holding expertise and appropriate means, compliance is controlled within the framework of the HSBC France group's ORIC (Operational Risk and Internal Control) Committee, to which the functions are accountable for the smooth running of the control framework in place and for any identified weaknesses and failures thereof, as well as the Risk Management Committee (RMC), which is attended by the Chief Compliance Officer.

The Compliance Department is composed of six divisions which report to the Compliance Officer: five divisions specialised by business (Retail Banking and Wealth Management/Commercial Banking, Private Banking, Global Banking and Markets, Asset Management, Insurance) and a Central Compliance division. The Compliance Department (DCDO) is responsible for all employees in charge of Compliance, pursuant to regulation 97-02, and acting as Compliance Officers for Investment Services (RCSI) or Compliance and Internal Control Officer (RCCI) for the HSBC France group's legal entities concerned. In addition, some employees of the Compliance function are appointed as TRACFIN representatives for the HSBC France group's legal entities concerned.

The control of non-compliance risks is based on a permanent control system structured around the following themes:

Identification of non-compliance risk

The Compliance Department relies in particular on the Legal Department's monitoring of legislative and regulatory changes and developments in case law that will have an impact on the HSBC France group, their analysis of such changes and definition of their methods of application.

The analysis of non-compliance risks is documented in risk assessments listing the laws, regulations, professional rules and the HSBC Group internal rules that apply to each business or activity, and the procedures and controls that ensure compliance with these rules. Non-compliance risks affecting the HSBC France group's activities concern the following areas in particular: the struggle against money laundering, terrorist financing, international financial sanctions, corruption, customer protection, compliance with the rules of good conduct for the benefit of customers, the processing of claims, the remuneration policy, the protection of the integrity and transparency of financial markets, professional secrecy and the protection of personal data, business ethics, the prevention of conflicts of interest and the respect of regulatory requirements concerning cross border marketing.

Regarding customer protection and respect for the rules of good conduct, the HSBC Group will roll out worldwide the "Conduct Risk" framework that it currently implements in the United Kingdom.

"Conduct Risk" covers issues relating to the fair and equitable treatment of customers, or "Treating Customers Fairly", notably:

- the provision to customers of clear, accurate, precise and non mis-leading information on the nature and associated risks of products;
- offering to customers only those products which generate value for them and are suited to their risk profiles ("misselling risk");
- ensuring that management of investments is in accordance with the commitments, while charging for the products in a fair manner relative to the services provided and that is equitable across all customers.

Compliance risk maps are updated at least every six months.

Staff training and awareness
The Compliance Department, in connection with the Training Department, prepares an annual training plan for staff on non-compliance risks. Training sessions, on-site or through e-learning, are organised in the different businesses and functions.

Compliance review procedures and tools of detection and prevention
The HSBC France group has for several years now had specific procedures in place to review compliance, in accordance with the provisions of articles 11–1 to 11-3 of regulation 97-02.

With regard to risks relating to new products and services, as well as to significant changes to existing products, current procedures call for predefined and formal due diligence to be performed by the businesses and control functions concerned, including the Compliance Department, to ensure that all risks occasioned by the new product or service are duly analysed and taken into account. For that purpose, most of the businesses have set up bodies specifically to review commercial initiatives. At the HSBC France group level, new products and services that meet certain criteria are also subject to prior approval by the Product Examination Committee, which is chaired by the HSBC France CEO, and for which the Compliance Department serves as the secretariat. The Compliance Department is responsible for ensuring that the products comply with both legal and regulatory requirements and HSBC Group standards, and that the Committee's requests and decisions are taken into account before the products are launched.

Controlling compliance of operations relies, on the one hand, on tools of detection and prevention and on the other hand, on recurrent controls carried out by the Compliance Department and internal control and operational risk management teams. Control duties performed by Compliance Department teams (called compliance reviews) are aimed at ensuring due observance of regulatory provisions and the applicable internal rules within a particular activity. New products or services approved by the Product Examination Committee undergo a formal *ex-post* review within less than 6 months of their launch, usually coordinated by the internal control and operational risk management teams, to ensure they are marketed under the same conditions as those initially proposed to the Product Examination Committee, and that the related risks were fully comprehended during the approval process.

Overseeing the activities and results of compliance control
Operational oversight of the compliance control framework and follow-up on any identified discrepancies relies, first of all, on periodic and specific reporting procedures in the Compliance channel as well as the information conducted in the Compliance Committee. The Compliance Officers of each HSBC France group entity prepare a quarterly report on legal and regulatory compliance for the activity within the scope of his or her responsibility and send this report to the Head of Compliance for the business concerned.

Compliance exceptions are the subject of a report prepared by the Compliance Officer of the relevant entity that is passed on to the appropriate level of the compliance function. Action taken to remedy these incidents is then monitored on a regular basis using a dedicated tool called IRIS (Integrated Regulatory Information System). As part of its consolidated approach to the risks of non-compliance, the Compliance Department also centralises and follows up on the recommendations issued by the supervisory authorities after their intervention in the HSBC France group entities.

Organisation of accounting

Accounting procedures
The Finance Department is responsible for the proper application of the HSBC France group's accounting principles and accounting control procedures. It defines the procedures and controls to be applied in each legal entity's accounting department. This more particularly concerns accounting and reconciliation procedures designed to verify the existence, exhaustivity and validity of balance sheets, off-balance sheet accounts supporting the issuance of financial statements and, by construction, income statements.

Oversight of the accounting and regulatory audit trail is formally documented in a number of procedures and documents prepared under the responsibility of the departments of the Chief Accounting Officer (CAO) and Chief Operating Officer (COO). These are mainly documents relating to accounting tools and interfaces, accounting charts, certification of the financial statements, statements of user requirements, methods of operation for the audit trail.

The Finance Department maintains and disseminates accounting procedures manuals and circulars, that comply with French GAAP and International Financial Reporting Standards (IFRS). These principles are based essentially on the French Commercial Code, the fourth European Directive, IFRS and all CRC texts and recommendations. They are available on the HSBC France Intranet.

Outside of Finance and Accounting published documentation, internal circulars are sent to the accounting and financial staff of the Finance function in order to standardise the level of knowledge and understanding of accounting standards in the group.

Organisation of accounting production
The vast majority of reporting documents are produced monthly and on both a non-consolidated and consolidated basis. These reportings present collected data in comparison with those of the previous year and the budgeted objectives based on a budget prepared annually and updated quarterly.

The accounting production is managed by the Finance Department team, in charge of coordinating the Finance function, drawing up budgets and has organised meetings in 2013 regarding certification of the financial statements and training sessions on the Sarbanes-Oxley (SOX) framework.

HSBC France's accounting architecture is built around an interpreter converting each day into the accounting system the events coming from the operating systems.

The operating systems are comprised of specialised applications devoted to a particular activity (loans, credit, securities transactions, foreign exchange transactions, etc.). Some transactions, which are not managed by these systems or which are not ordinary events (taxes, provisions, etc.) are entered into the accounting system using secure manual data entry tools under "Sundry transactions". Like the other operating systems, they send events to the accounting interpreter, thereby benefitting from the controls already in place.

From July 2012, the accounting software application, Peoplesoft General Ledger (PSGL), is introduced across the HSBC France perimeter.

With PSGL, HSBC France has adopted the HSBC Group's chart of accounts, a common language for the accounting and financial function in France enabling better alignment of its processes with those of the Group.

Two sets of accounts are prepared, one under French GAAP and one under IFRS. The HSBC Group's integrated "System 11" consolidation software produces IFRS-compliant consolidated financial reporting statements that also meet all the requirements of the *Autorité de contrôle prudentiel et de résolution* (ACPR) and the parent company.

The introduction of a financial and balance sheet datawarehouse has facilitated reconciliation and ensures that accounting, financial, regulatory and management reports are consistent with financial accounting. The datawarehouse stores data from both HSBC France and its subsidiaries. It contains various types of data: accounting data, inventories, or detailed breakdowns of carrying values depending on the information required for internal and external disclosure. Consistency controls have been established within the datawarehouse, which feeds the consolidation software and is used to produce the various French regulatory reports *via* the Evolan Report software.

The Chief Accounting Officer's (CAO) teams developed a tool to make use of the audit trail which mainly relies on the"datawarehouse". This tool makes it possible to track down the initiating event of a transaction in the operating system. It is also in place for the accounting audit trail and used for financial statements (balance sheet and income statement) and for the SURFI "*Situation*" (financial position) and "*Compte de résultat*" (earnings) statements. The tables that have been put in place allow for the production of the book-keeping vouchers for all the aforesaid statements contract by contract on demand.

Archiving procedures are numerous; financial position statements available online: M (current month), M-1, M-2, MAR (quarterly), JUN (half-yearly), SEP (quarterly), DEC (annual). The other financial position statements remain stored in the databases and are available on demand (36 months of history).

Accounting production controls
The bank's financial control environment is based on three mains areas:

- a framework of monthly accounting certification;
- communication of results and performance management;
- Sarbanes-Oxley (SOX) internal financial control.

According to the HSBC Group's rules, HSBC France draws up a monthly certificate of accounting reconciliation which is sent to the HSBC Group Finance Division, Europe. This certificate attests that all balance sheets and off-balance sheets accounts are properly reconciled and summarises accounting reconciliation certificates provided by the various accounting and financial heads of HSBC France and its subsidiaries. These certifications are formally documented through AssureNET, the Group's accounting certification application, which has been used since the July 2012 closing by HSBC France and subsidiaries that have the PSGL accounting software. The use of AssureNET has been extended to the real estate subsidiaries of Global Banking and Markets as of March 2013 and to the Insurance, Asset Management and Factoring subsidiaries in the course of the second quarter 2013.

This monthly accounting certification reporting is based on the principle that each general ledger account is assigned to a specific owner who is responsible for its reconciliation. Any irregularities revealed by the reconciliation certificate give rise to the establishment of a corrective action plan by the relevant businesses and departments. The Finance Department's accounting control service conducts reviews in HSBC France businesses and functions and its subsidiaries to ascertain the quality of the supporting documents in support of the reconciliation process.

The financial control function, which is partly located within the businesses, reports monthly the HSBC Group Senior Management, the Heads of the businesses and functions and to the Finance Department.

The financial reports are submitted on a monthly basis to the CFO who presents the results to the Executive Committee each month and reports to the HSBC France Audit and Risk Committee and the HSBC France Board of Directors and also reports to the HSBC Group Finance Department.

The HSBC France's Audit and Risk Committee examines the quarterly, interim and annual financial statements submitted to the Board of Directors.

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

In order to comply with the American Sarbanes-Oxley Act (SOX), which is applicable to the HSBC Group, HSBC France's management must carry out an in-depth assessment of the internal control procedures used in drawing up financial statements. The most significant processes supporting the publishing of these financial statements are thus the subject of detailed documentation and specific controls, supervised on a regular basis as part of the quarterly review system. These detailed analyses of flows of transactions to accounts help improve audit trail control. Weaknesses identified by such controls must be corrected as soon as possible and a dedicated team has been set up to oversee and coordinate all such work.

Internal Audit plays an active role in ensuring that the SOX arrangements are properly applied, by carrying out its periodic control assignments. The SOX team – part of the Finance Department – has access via the HSBC Group's Audit Issues Database (AID) to the audit issues raised by the various audit teams, enabling it to follow up the SOX recommendations issued by periodic controls across the entire accounting and financial scope. In addition, the Statutory Auditors, for their part, conduct an annual review of the framework on behalf of the HSBC Group Auditors, who in turn give their opinion on the SOX 404 report prepared by the management of HSBC Holdings plc.

Each quarter, HSBC France's Audit and Risk Committee is informed of the results of controls carried out for SOX compliance purposes and of progress made in the action plans. A certificate signed by the CEO, the CFO, and the Head of Internal Audit is sent twice a year to HSBC Bank plc, attesting to the effectiveness of financial internal control procedures and where appropriate specifying any weaknesses undergoing correction as identified by those in charge of assessing controls.

Periodic controls

In accordance with regulation 97-02 as amended, the role of Internal Audit is to provide Senior Management and the Audit and Risk Committee of HSBC France, objective assurance about risk management and the internal control system implemented by the bank. Periodic controls of HSBC France aim to ascertain the compliance of operations, the levels of risk actually incurred by the institution, due observance of the procedures and the effectiveness and appropriateness of the control frameworks implemented, by means of independent investigations conducted centrally by staff qualified for this purpose.

As part of HSBC Group's risk management framework, Internal Audit (INA) comprises the third line of defence, coming successively behind the businesses and functions' own first line of defence and the separate second-line of defence teams (ORIC, Compliance, Security, etc). Whilst the first- and second-line of defence are taken into account, INA has unlimited initiative in the scope of its own work. This independence lies in the fact that Internal Audit is responsible to provide Senior Management and the Audit and Risk Committee of the bank, an independent and objective assurance on the risks it is exposed to and their level of control. As such, Internal Audit pays attention, on the one hand, to respect national and community legislation applicable to the field audited and, on the other hand, to the correct application of standards, guidelines and procedures in force within the Group.

In accordance to article 10 of regulation 97-02, the periodic control framework applies to the entire company, as well as to companies under exclusive or joint control.

Further to the INA 13 strategic review, initiated in 2010 by HSBC Group Audit (Global Internal Audit – GIA), 17 global audit teams have been implemented and whose role is to provide expert coverage of HSBC Group's businesses and functions.

These specialised audit teams are consolidated and comprise amongst others, five regional audit teams (Europe, Middle-East, North America, Asia-Pacific and Latin America) along with country audit functions, including Global Audit France (GAF) whose responsibilities are limited to covering HSBC France.

HSBC France's periodic control is therefore now covered conjointly by two entities:

– Global Audit France (GAF, ex HFIA), a general audit team based in France, in the main historically auditing central functions, Retail Banking and Wealth Management, Commercial Banking, banking operations, IT and strategically important projects. GAF comprises 35 members of staff mainly split between business auditors and IT auditors;
– the global teams, specialised by business and/or function, based principally in London and Hong Kong, whose areas of involvement depend on the following functional structure:
  - European and GBM Audit, responsible for auditing Global Banking and Markets and the European region;
  - Asia-Pacific and CMB Audit, responsible for auditing Commercial Banking in the Asia-Pacific region;
  - RBWM and GPB Audit, responsible for auditing Private Banking, Retail Banking and Wealth Management, Insurance and Pension Costs, Asset Management and mechanisms for protecting customer of Retail Banking;
  - Risk and Finance Audit, responsible for auditing Wholesale and Retail credit risk, risk strategy (models, risk appetite and stress tests), legal and compliance risks, control management of operational risk, physical and information security, fraud risk capital adequacy and liquidity requirements, asset and liability management, accounting, management control and tax;
  - Technology and Services Audit, responsible for the main central functions and banking production, third party risks, IT and communication infrastructures and systems and their security, IT data application developments, IT projects and organisational changes, in support of the business audit teams.

There are six francophone members of the global audit teams based in Paris, primarily assigned to audits in France within the above areas.

The scopes of local audit and global audit converge and are consolidated in the HSBC France audit plan, with both parties holding regular discussions. In this respect, beyond the audits led by GAF alone, its members respond increasingly jointly alongside those of global teams.

The Head of HSBC France Internal Audit (Inspector General) reports to HSBC France's CEO and functionally to the Head of European and GBM Audit.

In accordance with the aforementioned regulation 97-02, all audit work undertaken in France is done-so under the control of HSBC France's Inspector General who is responsible for periodic control within the Bank and subsidiaries.

All Audit work is performed in accordance with the HSBC Group's audit standards, as set out in particular in the Global Audit Standards Manual (GASM). The GASM is updated on a regular basis, and is re-read by auditors at least once a year and its policies applied during each audit.

The GASM was heavily revised in October 2013 and comprises the following five keystones:

– a change in GIA's organisational structure as described above. These teams are now pooled along five axes as opposed to the previous three. Legal and Compliance audit, which is of a particularly sensitive nature, is covered by a dedicated team. Also, Global Audit implemented a central team to govern, in particular, the development and updating of the department's internal standards and procedures, and their effective communication, the consistency of the HSBC Group Audit Plan and the supervision of quality assurance work;
– a qualitative improvement in audit work undertaken in the HSBC Group: Internal Audit will strive for consistency in methodology for risk assessment and report writing, the further identification of issue root causes and replacing audit recommendations with agreed and time-bound management action plans;
– the definition of five categories of audit work: governance, processes and controls audits; thematic audits; project audits; regulatory audits dictated by regulation and regulatory authorities, and special investigation audits; and risk management framework audits, designed to assess the control environment of a specific type of risk. These last audits will thus focus on strategy for risks and the risk appetite, risk governance, how they are taken into account in the process, data and IT systems, resources, skills and qualifications implemented;
– a change in the way risks are evaluated: issues can be assessed as very high risk in addition to the previous high and medium risks. The report grades for Control Risk and Management Awareness are aligned along a scale of three: satisfactory, needs improvement or not satisfactory;
– upgrading the in-house audit information system (AIS), developed on Lotus Notes. The new AIS will consolidate all audit works subsequent to 1 October 2013 in a single system, and tools necessary to carry them out. Additionally to the detailed description of auditable objects, it integrates a risk assessment module, audit plans, audit history and audit testing programmes. Acting as a workflow, AIS enables Internal Audit to track and monitor the implementation of recommendations and action plans, and retain the associated audit trail.

In addition, the HSBC Group's auditing standards are set forth, in GAF, in internal procedures or appropriate operating procedures. The reference framework formed by these documents, with the GASM, is used by the audit teams to conduct their audits. This corpus is revised and updated annually. Similarly, an internal staff website has been constructed (iGAF) to publish regularly important information on the organisation of the Audit within HSBC France to the team, including the Group various policy, structure charts, internal procedures, standards and mission planning.

In addition to regular discussions held with Global Audit, a number of other elements contribute to maintaining an independent and up to date view of key risks in France, in particular:

– the Inspector General participates in the HSBC France Executive, Risk Management, Compliance, Operational Risk and Internal Control committees, the HSBC France Audit and Risks Committee, and that of its subsidiaries;
– the senior audit managers or the heads of audit missions participate in the risk committees of the different businesses and functions;
– regular bilateral meetings, usually quarterly, between the Inspector General, GAF senior management and the different heads of businesses and functions;
– regular meetings, usually quarterly, between the Inspector General, GAF Senior Management and the Statutory Auditors.

In terms of information feedback, audit reports are sent to the management or the person in charge of the audited entity or process, who is ultimately responsible for ensuring that Internal Audit's recommendations are implemented, as well as any recommendations made by the supervisory authorities or the Statutory Auditors. The Deputy CEO, also Chief Risk Officer, the Compliance Officer and the Head of Operational Risk and Internal Control always receive a copy of the reports on periodic control.

The audit reports relating to HSBC France, subject to an adverse rating of the risk control and/or the management awareness, are systematically presented and commented to HSBC France's Audit and Risk Committee by the Inspector General. This Committee also monitors high risk audit recommendations which have exceeded the six months deadline for implementation.

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

Finally, the HSBC France Internal Audit function is a member of the Inter Audit Committee (*Comité Inter-Inspections Générales* – CIIG), which assembles eight French banks together to undertake concerted audits of vendors providing services to at least five members as required by article 37 of regulation 97-02. In 2014, GAF, on behalf of HSBC France, will succeed BPCE as secretary of this committee.

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

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

Samir Assaf
Chairman

Paris, 14 February 2014

Statutory Auditors' report prepared in accordance with article L. 225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board

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

Year ended 31 December 2013

To the shareholders,

In our capacity as Statutory Auditors of HSBC France, and in accordance with article L. 225-235 of the French Commercial Code ("*Code de commerce*"), we hereby report on the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French Commercial Code ("*Code de commerce*") for the year ended 31 December 2013.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by article L. 225-37 of the French Commercial Code ("Code de commerce") particularly in terms of the corporate governance measures.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information; and
- to attest that this report contains the other disclosures required by article L. 225-37 of the French Commercial Code ("*Code de commerce"*), it being specified that we are not responsible for verifying the fairness of these disclosures.

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

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

These standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board in accordance with article L. 225-37 of the French Commercial Code ("*Code de Commerce*").

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by article L. 225-37 of the French Commercial Code ("*Code de Commerce*").

Paris-La Défense and Paris, on 3 March 2014

KPMG Audit FS II	BDO France – Léger & Associés
Pascal Brouard	Fabrice Chaffois
Partner	*Partner*

Corporate, social and environmental responsibility

HSBC Group's Corporate Sustainability strategy

The HSBC Group aims to create a robust, resilient and sustainable business in which its clients can have confidence, its communities can trust and its employees can take pride.

Its continuing financial success depends, in part, on its ability to identify and address environmental, social and ethical factors which present risks or opportunities for the business. These can affect its reputation, drive employee engagement, help manage the risks of lending, leverage savings through eco-efficiency and secure new revenue streams. The way it does business is as important as what it does: its responsibilities to its customers, employees and shareholders as well as to the countries and communities in which the HSBC Group operates go far wider than simply being profitable.

Human rights

HSBC applies human rights considerations directly as they affect its employees and indirectly through its suppliers and customers, in the latter case in particular through its project finance lending. Human rights issues most directly relevant for HSBC are those relating to the right to just and favourable conditions of work and remuneration, the right to equal pay for equal work, the right to form and join trade unions, the right to rest and leisure and the prohibition of slavery and child labour. Alongside its own commitments, such as the HSBC Code of Conduct for Suppliers (in place since 2005), the HSBC Group Standards Manual, HSBC values and its business principles, the HSBC Group has signed up to global commitments and standards, including the Global Compact, the Universal Declaration of Human Rights and the Global Sullivan Principles. It ensures that the loans it grants to finance projects conform to society's expectations on issues such as the treatment of local communities and indigenous peoples' rights, and in particular, through the Equator Principles which it has subscribed to.

Sustainability risk framework

Recognising that businesses can have an impact on the environment and communities around them, the HSBC Group, for over 10 years, has been developing, implementing and refining its approach to working with its business customers to understand and manage these issues. It assesses and supports customers in six sensitive sectors using its own policies and, in financing for projects, using the Equator Principles as a starting point. By extending their application to all relevant corporate loans and providing independent assurance on their implementation, the HSBC Group goes beyond the minimum requirements of the Equator Principles framework. Its sustainability risk framework is based on robust policies, formal processes and well-trained, empowered people.

In 2013, HSBC was approached by non-governmental organisations (NGOs) raising concerns regarding the implementation of its Forest Land and Forest Products Sector Policy. The HSBC Group welcomes constructive feedback from NGOs and regularly engages with a number of NGOs and campaign groups on matters of shared interest. If its clients do not comply fully with its policies, or cannot show that they are on a credible path to do so, it will exit its relationship with them.

Climate Business Strategy

HSBC defines Climate Business as seeking long-term commercial business opportunities that arise in the transition to a low-carbon economy. Its Climate Business revenues are growing year on year and includes clients in the solar, wind, biomass, energy efficiency, low carbon transport and water sectors. HSBC's Climate Change Centre of Excellence, part of its Global Research team focusing on business risks and opportunities created by climate change, was established in 2007 and their research estimates that the climate business sector could exceed USD 2,200 billion by 2020.

Sustainable operations strategy

The strategy for the development of global standards includes eight goals to be delivered by HSBC Technology and Services (HTS), which employs around a third of the Group workforce and is in charge of running the operations, including real estate, IT infrastructure and supply chain. One of these goals, known as "Reduce", is to cut annual carbon dioxide emissions per employee by a tonne between 2012 and 2020, from 3.5 to 2.5 tonnes.

To tackle this challenge, the HSBC Group set a 10-point sustainable operations strategy at the start of 2012. This strategy covers issues from sustainability leadership and engagement, supply-chain collaboration and ambitious targets to reduce its use of energy and reduce waste. The HSBC Group made progress in 2013, but recognises that stretching goals like these will take time to achieve. The HSBC Group has capitalised on "quick wins" where possible, but has also spent time to analyse thoroughly and prepare for achieving these targets. It will report on this issue in detail in the HSBC Group's Sustainability Report 2013.

The 10-point sustainable operations strategy[1]

1. Engage all employees in delivering improved efficiency by 2020 with training and sustainability leadership programme.
2. Increase energy consumption from renewables from 24 per cent to 40 per cent and increase self-generated electricity capacity from zero to 5 per cent.
3. Collaborate with the supply chain to achieve sustainable savings through efficiency and innovation.
4. Improve the energy efficiency of Group data centres.
5. An annual USD 5 million investment in an HSBC Eco-efficiency Fund has been committed to trial sustainable innovation.
6. Increase the recycling of HSBC's waste from 60 per cent to 100 per cent of office waste and e-waste.
7. Work on all new and redesigned buildings costing over USD 10 million in HSBC portfolio of 7,500 buildings will be done to LEED certification standards.
8. Reduce annual energy consumption per employee by 1 MWh.
9. Reduce paper usage, ensure it comes from sustainable sources, and encourage paperless banking for all retail and commercial customers.
10. Continue to promote alternatives to travel, reducing travel carbon emissions per employee.

1 *Further details on our progress with achieving our sustainability operations programme will be published in the HSBC Group's Sustainability Report 2013 in May 2014.*

Community Investment

In 2013, the HSBC Group donated a total of USD 117 million to community investment projects.

HSBC Water Programme

2013 was the second year of the HSBC flagship environmental project, the HSBC Water Programme. This is a five-year, USD 100 million programme in partnership with Earthwatch, WaterAid and WWF to deliver water provision, protection, information and education across the world. In 2013, the HSBC Group developed the programme by connecting specific parts of its business with HSBC Water Programme activities.

Youth Education

Education is key to prosperity. The HSBC Group seeks to help young people fulfil their potential through global and local investment in education programmes. Its programmes span various levels of need, including financial literacy training, scholarships, cultural awareness programmes and teaching life skills.

In 2013, the HSBC Group launched the three-year GBP 30 million "Opportunity Partnership", to help transform the lives of 25,000 disadvantaged young people in the United Kingdom through education, training and work.

Staff volunteering

Thousands of HSBC employees globally are involved every year through volunteering for these Community Investment programmes. HSBC will report in detail on this in the HSBC Group Sustainability Report 2013.

HSBC France's role in the economy and in favour of corporate sustainability

HSBC France's solidity

HSBC France is a subsidiary of the HSBC Group, which is one of the world's largest banking groups as confirmed for many years by the league table compiled by The Banker (published by the Financial Times). In 2013, HSBC ranked fourth in this table. Each year, when presenting its strategy and giving annual updates to the public and investors, HSBC confirms that France is one of its 20 priority markets, among five in Europe.

HSBC France has a solid balance sheet and has highly satisfactory financial ratios. Its liquidity ratio of 123 per cent is kept higher than the minimum required by French regulations. The ACF (Advances to Core Funding) ratio – an internal indicator used by the HSBC Group, which compares customer loans outstanding with stable deposits and financing with a maturity of more than one year – reach 107.5 per cent, demonstrating HSBC France's solid liquidity position. The Core Tier One ratio is 13.7 per cent, well above the regulatory minimum. Applying all CRR Basel III standards on the basis of current interpretations, the Common Equity Tier One (CET1) ratio is estimated at 12.7 per cent assuming immediate application from 31 December 2013. This confirms the solidity of HSBC France's balance sheet.

Finally, HSBC France has strong financial ratings from the largest global credit-rating agencies. It is rated AA- with negative outlook by Standard and Poor's, A1 with stable outlook by Moody's and AA- with stable outlook by Fitch.

HSBC France's territorial, economic and social impact

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

Corporate, social and environmental responsibility (continued)

HSBC France – Main breakdown items of the operating income

(in millions of euros)	**2013**	2012
Levies and taxes	**530**	506
Dividend payment	**120**	240
Salaries and employee benefits (net of payroll tax)	**738**	794

In a French mortgage market where new lending is declining, after a decline already in 2012, HSBC France's Retail Banking and Wealth Management business continued to grow its loan book, with EUR 5.1 billion in new residential mortgage loans, an increase of 61 per cent compared with 2012. The total customer loan book grew by 14 per cent over the year.

As regards HSBC's Commercial Banking business in France, clients rushed to take advantage of the additional EUR 1 billion of funding provided by HSBC to support their international expansion, and the full amount was totally assigned by the end of August 2013. This funding was used to the benefit of over 2,500 HSBC business customers and enabled new business with 170 international companies. Thanks to this funding, all the financing needs of these SMEs (productive investment needs, customer receivables, documentary credits, etc.) were covered. Short term financing represented two thirds of the total amount and 54 per cent of the beneficiary companies are SMEs (turnover of less than EUR 50 million). Based on this success, HSBC in France decided to reconduct this kind of campaign in 2014. The aim is to continue supporting businesses with their development and to increase business lending further. The average and long term outstanding loans are maintained at EUR7.5 billion at the end of 2013.

French regional authorities have found it harder to access bank credit since 2008. Using capital markets enables them, in this context, to optimise and diversify the cost of funding their investments (schools, transport, etc.), thus contributing to the appeal and dynamism of the areas under their responsibility.

In 2013, French regional authorities made greater use of the bond markets. HSBC France is supporting this trend through its unrivalled experience in this market segment. It is a top-ranked lead manager of French regional authority bond issues, handling 24 transactions out of 74 in 2013, and 68 out of 196 since 2000. In 2013, HSBC was also the top-ranked arranger of EMTN (Euro Medium Term Note) programmes for French regional authorities, handling 14 out of 17 in the market. In addition, HSBC has arranged over 90 per cent of commercial paper programmes for French local authorities since 2001, handling 19 out of 21, including two in 2013.

Finally, HSBC France is continuing to adapt its branches and websites to meet the needs of the disabled. In 2013, 158 of its 318 branches were accessible to people with disabilities. The www.hsbc.fr website, like all of the HSBC Group's public websites, complies with the "Web Content Accessibility Guidelines 2.0" (WCAG 2.0) defined by the World Wide Web Consortium (W3C). In addition to these rules, HSBC websites are regularly reviewed by an independent firm. These reviews are defined and conducted directly by the Marketing Department at Group level for public websites.

Sustainability at HSBC France

Governance

In order to deploy and effectively implement this strategy in France, HSBC France created in 2008 a Sustainability Department, reporting to the Chief Executive Officer. Consisting of a team of seven, it coordinates the implementation of the action plans developed in collaboration with representatives of each of the business lines concerned.

A Sustainability Committee brings them together quarterly, with a main objective of reporting on progress in or problems with the deployment of this strategy.
In 2012, this committee was merged with the Corporate Sustainability Finance Committee. Accordingly, the new quarterly Sustainability Committee alternately brings together heads of business lines in order to validate the strategic direction, and operational managers in charge of implementing action plans.

Since 2009, the bank in France has strengthened these arrangements by setting up a committee focused on the Group's environmental footprint, in charge of defining and monitoring action plans in support of the HSBC Group's "Reduce" strategy. It is comprised of business line managers who are responsible for these objectives: purchasing, IT, real estate, travel, logistics, communication and sustainability.

Action and reporting

In support of its activities, HSBC France is a member of the ORSE (*Observatoire de la Responsabilité Sociale de l'Entreprise*) and the steering committee of the *IMS-Entreprendre pour la Cité* organisation. These two independent institutions work with member companies, stakeholders from civil society and their transnational counterparts in order to fully define the issues and identify best practice in the field of corporate responsibility.
HSBC France also serves on the *Collège des Directeurs du Développement Durable* (C3D), an independent organisation set up to publicise the opinions of heads of Corporate Sustainability from medium-sized and large companies and organisations.

Finally, to report on its progress, since 2011 HSBC France has been publishing the *Revue de la Fondation HSBC pour l'Education* (HSBC Foundation for Education Review) and distributes the present chapter, alongside the sustainability report of its parent company, HSBC Holdings plc. In France, these documents are available on the HSBC France website[1] exclusively.

Relations with individuals or organisations interested in the company's activities

Retail and corporate customer consultation

Customer experience and satisfaction
For HSBC France, the customer experience must meet expectations and be in line with the level of service demanded by the HSBC Group. In fact, HSBC aims to be the benchmark bank for wealth management and the leading international commercial bank and strives for excellence in the quality of services provided to its target customers.

A dedicated team is responsible for monitoring the experience for customers. For retail customers, a "customer's voice" system enables the bank to measure its performance in terms of customer satisfaction on a monthly and quarterly basis, along with a twice-yearly comparison with competitors. A survey into service quality at branch level is also conducted regularly. These results (customer scores and comments from each branch) are submitted to branch managers, and, since 2011, have been used in calculating the variable remuneration element for all branch employees, alongside the results of mystery shopper branch visits. These indicators are used to propose action plans aimed to improve customer satisfaction.

The retail customer satisfaction rate has been stable since the end of 2012. In the fourth quarter of 2013, the rating for very satisfied customers stood at 48 per cent, putting HSBC above the average of its competitors[2]. The proportion of customers recommending HSBC during the last two years is 36 per cent, down compared to 2012, but still well above the market[2].

The CEP (Client Engagement Program), which assesses overall client satisfaction in the Business Banking and Corporate Banking segments, was carried out for the third consecutive year in 2013, and scores have been rising since 2011. This survey measures the solidity of relationships between clients and the Bank by producing ratings in seven areas (overall satisfaction, value, confidence, relationships, "Emotion", loyalty, recommendations).

The 2013 survey confirmed that Commercial Banking clients show a high level of satisfaction:

– the Business Banking score rose by one point to 82 points out of 100, making HSBC the leading player in this segment, although its lead over its rivals has narrowed;
– the Corporate Banking score rose 2 points to 78 points out of 100, taking it closer to the top scores achieved by HSBC's main competitors.

The HSBC clients' loyalty is partly the result of high-quality relationships with HSBC contact people: the satisfaction score for this indicator is 87 points out of 100 for Business Banking and 80 points out of 100 for Corporate Banking. HSBC's international dimension is a real plus for the HSBC clients.

They expect banks to offer increasing expertise along with information about solutions to support them with their international development.

Customer service
The overall number of complaints recorded in 2013 by HSBC France rose significantly relative to 2012. Complaints from retail and professional clients were 94 per cent higher than in the year-earlier period. The increase is largely due to the introduction of a new complaint management system in November 2012, along with staff training stressing the need to record instances where customers are not satisfied more effectively.

In 2013, payment methods were the main area of complaint, accounting for 25 per cent of the total. Complaints concerned cheques, domestic and international transfers and bank cards (delays, errors, fraud and pricing).

The second area of complaint concerned account operation and pricing, representing 24 per cent of complaints: disputes, requests for refunds of various charges and commissions, and requests for explanation of account statements.

19 per cent of complaints were about online banking, mainly because of the new secure client authentication system. This system is at the leading edge of IT security and online fraud prevention, but was initially regarded as restrictive by many clients.

Customer service and support complaints accounted for 9 per cent of the total, mainly due to changes of relationship manager, regarded as too frequent, and difficulties experienced by customers in contacting their advisor.

By the end of 2013, the number of complaints sent to HSBC France's ombudsman rose by 18 per cent compared with 2012, and the number of complaints handled directly by the ombudsman through the referral process by 66 per cent. This was mainly the effect of new regulations introduced by the French Prudential Control and Resolution Authority, which now requires banks to inform customers of all types of recourse available to them when responding to complaints if the response is not entirely favourable to the customer.

1 *www.hsbc.fr/section* Développement Durable.
2 *Retail Banking and Wealth Management Barometer – HSBC, 4th quarter 2013.*

Corporate, social and environmental responsibility (continued)

Commercial Banking also introduced a new system for handling customer complaints in November 2012. Increasing use of this system throughout 2013 enabled the business line to capture complaints in a more exhaustive manner and to analyse them more effectively. The main reasons for complaints were money flows (62 per cent), remote banking services (12 per cent) and account management issues (11 per cent). This more accurate analysis enables to use resources more effectively to improve the quality of service delivered to HSBC customers. To support this objective, a quality manager focusing on corporate clients was appointed in 2013.

Employee consultation

For seven years, HSBC has carried out regular global surveys of its staff to measure their commitment and the extent to which they feel supported in their work. The Global People Survey (GPS) is the main component of this initiative. It covers all staff and all key aspects of the business, particularly employees' pride in belonging to the business, their understanding of the HSBC Group strategy, their understanding of risk and their adoption of the HSBC Group values.

This survey was carried out annually until 2011, but now takes place every two years. In 2013, all staff were surveyed. The response rate was 54.6 per cent, and the overall commitment rate was 54 per cent. Regarding staff who volunteered in a programme of community investment organised by HSBC France, the engagement rate reached 61 per cent.

Employee consultation is also structured through the stress monitoring process and the system for detecting work-related stress[1].

Social relations: discussions with employee representatives and summary of collective agreements

In January 2013, elections were held to appoint people to represent employees on the four works committees for Paris and the French regions, along with Employee Representatives.

Over 55 per cent of employees in France voted for the unions of their choice, confirming the legitimacy of those unions as part of employee-management dialogue.

Union representativeness is calculated on the basis of the first round of Works Council elections, or failing that, Employee Representative elections.

At the end of the election process, six unions obtained over 10 per cent of the vote, which is sufficient to establish their representativeness. 286 representatives were elected in total:

– CFDT: 24.0 per cent;
– CFTC: 12.7 per cent;
– CGT: 10.4 per cent;
– FO: 10.9 per cent;
– SNB: 25.0 per cent;
– UNSA: 15.8 per cent.

1 *See page 66.*

At the end of these elections, new members of the Central Works Council and Health, Safety and Working Conditions Committee were appointed.

Throughout 2013, Management presented plans on matters such as reorganisations and process optimisation to HSBC France's various employee representation bodies (Central Works Council, Works Committees and Health, Safety and Working Conditions Committees). These plans mainly concerned the Human Resources Department, the Finance Department and the Business Premises Department (DIE), along with the Retail Banking and Wealth Management and Commercial Banking businesses. More than 500 meetings were held and more than 3,800 questions were dealt with during 2013 in relation to these plans and other work done in conjunction with these bodies and Employee Representatives.

The 2014 Strategic Plan Monitoring Committee also met four times in 2013. In those meetings, Management presented to Employee Representatives progress updates relating to the Strategic Plan for each of the businesses concerned, as well as associated assistance measures (early retirement, supported retirement, internal mobility and training leading to qualifications).

Negotiations with unions, meanwhile, resulted in the signing of seven agreements and three amendments to existing agreements:

– Termination agreement relating to the HSBC France employee profit-sharing agreement of 27 June 2012;
– Termination agreement relating to the HSBC France incentive plan agreement of 27 June 2012;
– Group agreement relating to employee profit-sharing;
– Group agreement relating to incentive plans;
– Amendment 1 to the HSBC France agreement relating to the Mobile Staff Team;
– Agreement relating to exceptional disbursements from employee profit-sharing and incentive plans;
– Agreement relating to the HSBC France - HSBC Global Asset Management (France) "Contrat de Génération" (generation contract);
– Amendment to the Working Hours agreement of 15 October 2008 relating to "comptes épargne-temps" (working time savings accounts);
– Agreement on the monetisation of paid leave accrued within working time savings accounts at 31 December 2013;
– Amendment to the healthcare cost system agreement of 15 October 2008.

Subcontractor and supplier policy

The policy regarding corporate sustainability, responsible practices and ISO (International Standard Organisation), FSC (Forest Stewardship Council) and AFNOR (*Association Française de Normalisation*) Diversity Label certifications among HSBC subcontractors and suppliers is still applied when selecting suppliers *via* tender. This assessment is carried out in all tenders, and can determine 15 to 20 per cent of each bidder's final score.

The HSBC Group also seeks to ensure that its suppliers and subcontractors comply with the Code of Conduct regarding applicable ethical principles. Subcontractors and suppliers must accept and sign this Code as a condition for bidding in a tender.

In 2013, the use of the Group's back office platforms (Group Service Centres – GSC) continued for the main business lines of HSBC France (Commercial Banking, Retail Banking and Wealth Management, Global Banking and Markets) as well as for some global functions (Compliance, Human Resources, Finance and the Operations Department). The Krakow, Bangalore, Hyderabad and Cairo sites remain the main partners of the HSBC Group in France. The main tasks allocated to GSCs are payment services and account management operations.

At the end of 2013, the total workforce of HSBC's GSCs working for France was around 800 on a full-time equivalent basis.

Communications
To raise awareness about its commitments, HSBC France participates in targeted events in order to convey to a diverse audience, both internal and external, its vision of corporate sustainability, as well as information and data relating to its policy in this area. This approach promotes a rich dialogue with all stakeholders. Accordingly, HSBC France was, in particular, a partner for the seventh consecutive year in the *Ateliers de la Terre*, an annual international sustainable development forum; in Green Dating, a monthly sustainable economy meeting; in PEXE, a French eco-business association; in GreenUnivers regarding market-based financing of ecotechnologies; and in Ecocity, a global summit on sustainable cities.

Fair commercial practices: ensure business integrity through governance, compliance and respect for human rights.

Governance
Corporate governance is one of the cornerstones of the strategy of HSBC France. Since its integration within the HSBC Group, the bank has continued to apply the corporate governance rules of listed companies, while taking into account its unlisted subsidiary status.

In accordance with French law no. 2008-649 of 3 July 2008, transposing the European directive 2006/46/EC of 14 June 2006, the company refers in the first instance to the Code of Corporate Governance for listed companies published by AFEP and MEDEF in December 2008 and last revised in June 2013.

However, since HSBC France is a 99.9 per cent subsidiary of the HSBC Group and its shares are not listed on a regulated market, certain principles of the Code of Corporate Governance had to be adapted. In some areas, HSBC France applies the Combined Code on Corporate Governance, to which its parent company, HSBC Holdings plc, refers.

On 31 December 2013, HSBC France's Board of Directors consisted of 18 Directors: three people who hold positions within the HSBC Group, three members of the Executive Committee of HSBC France, eight independent Directors and four Directors elected by the employees. Not including Directors elected by the employees, the Board comprises three women and eleven men. In addition, the Board of Directors is assisted by two committees: an Audit and Risk Committee composed of independent Directors and a Nomination and Remuneration Committee, chaired by an independent Director. The Board of Directors receives regular updates on the company's corporate sustainability policy and on the way the bank's business lines manage the social and environmental impact of their activities.

Compliance
The Compliance function, established at HSBC France in 2001, is responsible for ensuring that the company's activities are carried out with integrity and professionalism, complying with laws, regulations and best practice applicable in France.

In 2013, there was a focus on ways of protecting savers, an area in which processes were improved. HSBC France also applied new HSBC Group standards intended to strengthen rules on the primacy of customers' interests.

The HSBC Group started a major project on compliance matters. This "Global Standards" project aims to ensure that each HSBC Group entity has the best standards in terms of preventing the risk of financial crime. The intention is to continue bolstering procedures and detection tools, particularly as regards the prevention of money laundering and international financial sanctions.

Accordingly, HSBC France delivered specific training to all staff in 2013, covering the following three themes: prevention of money laundering, international financial sanctions and the prevention of corruption.

Other actions in support of human rights
The HSBC Group is a signatory of the Global Compact, which applies to all of its subsidiaries including HSBC France. Its commitment in support of human rights is described above in the "Human rights" paragraph of the present chapter.

2013 highlights

Integration of corporate sustainability within business lines

The three key trends that shape the way that corporate sustainability issues are integrated into the banking business in France are:

– the need to anticipate the impact of climate change on the bank's activities;
– the increasing attention paid to environmental, social and governance issues in the assessment of company performance; and
– the development of the social and solidarity-based economy.

Corporate, social and environmental responsibility (continued)

Sustainability risk management

In 2003, the HSBC Group adopted the Equator Principles, which are a set of voluntary guidelines that help financial institutions to assess and monitor the social and environmental impact of infrastructure projects.

The HSBC Group has, on its own initiative, extended the Equator Principles beyond Project Finance to cover corporate loans, export financing and other project financing tools.

In addition, assessing the environmental and social impact of financing granted to the bank's customers has been integrated into the HSBC Group's risk management procedures, which are applied by all teams worldwide. To ensure consistency in analysis and approval procedures, a system of environmental and social risk assessment has been established to record and monitor client companies operating in sensitive sectors throughout the world, and to obtain more precise information on the Group exposure when managing risk over time.

The sectors identified as priorities, and for which an internal policy has been developed in order to determine the manner in which they are supported, are forest land and forest products, freshwater infrastructure, mining and metals, chemicals, energy and defence equipment. Outside these sectors, HSBC also remains sensitive to the impacts that a particular client may have in terms of sustainable development. This is embodied in the requirement for Global Banking bankers, to know precisely the sustainable development policies of the customers for whom they are responsible.

To improve its risk management, the HSBC Group regularly reviews its internal sector policies. The most recent revisions related to chemicals - where the policy was simplified - and defence. HSBC Global Asset Management (France) has publicly confirmed that companies making cluster bombs are excluded from all its actively managed funds and is working to exclude them from its tracker funds.

HSBC's business dealings in these sensitive sectors always involve dialogue with the client, to help it comply with international standards. However, as a last resort, the Group may decide to cease all relations with a client that does not meet its requirements or which has not made significant progress in this direction. HSBC may also refuse to process a specific transaction if it does not comply with its internal policy.

For several years now, HSBC has been measuring clients' compliance with its sustainability risk policies. In 2012, 0.10 per cent of clients were non-compliant, a 0.05-point improvement relative to 2011[1]. In 2012, the HSBC Group conducted an internal audit of relationship managers in a number of countries including France, regarding their compliance with assessment procedures related to environmental and social risks associated with loan applications.

Apart from procedures required by the Group that involve the implementation of sector-specific policies, Global Banking and Markets teams are made aware of sustainable development risks through awareness-raising sessions, in coordination with the Sustainability Risk managers of the bank's credit risk teams. In Commercial Banking, these matters are also covered in regular meetings with contact persons.

Opportunities related to the impact of climate change

Since 2011, HSBC France has closely monitored the main economic sectors that generate innovations and climate change solutions, in order to understand better how the bank can support the companies concerned in their domestic and international development.

In practical terms, this "Climate Business Sector" initiative involves identifying a dedicated co-ordinator and business consultants within the network and in the Credit department, and setting up a cross-functional committee that meets monthly. In support of the new system, the Sustainability Department has published technology guides (regarding solar, wind, water, waste, eco-industries in France, biomass and electric vehicles, supplemented in 2013 by high service-level buses), market summaries (financing, bank competition and legislative environment) and a client brochure.

With its expertise in these areas, HSBC France has supported the successful IPO of a French company specialising in energy storage, refinanced a company specialising in solar photovoltaic power and supported the development of agriculture and forestry projects among other initiatives.

HSBC France is also involved in the working group set up in 2013 by the *Institut de la Gestion Déléguée* (IGD)[2] regarding "sustainable cities". The group is due to report on its work at the end of 2014. HSBC is the only bank within the group, and aims to enhance the financial viability of various types of projects that will be identified in France or abroad, particularly in emerging markets.

In 2010, HSBC France introduced a mobilisation plan to continue the process of raising awareness among management, employees and customers within branches, and to integrate corporate sustainability as a factor contributing to the performance of day-to-day banking relationships. Two branches were chosen to run pilot projects: Borély in Marseille and Mathurins in Paris. In 2012, action plans were established for each of the three main areas of the HSBC Group's corporate sustainability policy (sustainable finance, operational environmental efficiency and community investment), in order to boost team cohesion and enhance customer perception.

In 2013, a progress report was prepared on these action plans within two pilot branches, giving rise to various recommendations intended to help deploy best practice. In particular, the automatic printing of certain listings was stopped, presentations of HSBC France's strategy and

1 *Details on 2013 figures will be published in the HSBC Group's Sustainability Report 2013 in May 2014.*
2 *IGD is a business foundation that brings together public- and private-sector entities that want to optimise production of general-interest services through the right combination of public- and private-sector expertise.*

sustainability-related products were made during client meetings within branches, and several projects supported by the *Fondation HSBC pour l'Education* were publicised among retail and business clients.

A service comprising energy audits of retail customers' real-estate assets was developed with *Bureau Véritas* in 2011 and tested in certain pilot branches in 2012. Despite positive qualitative feedback from both staff and clients, it was not possible to roll out the service across the network due to the small number of audits performed.

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

Article 225 of the Grenelle 2 law, which makes it compulsory to supply and verify governance, social and environmental information, supports a fundamental trend characterised by the growing interest of asset management firms notably in the Principles for Responsible Investment of the United Nations (PRI), along with the growing expectation of investors to include long-term issues when assessing companies' performance. HSBC France supports these expectations through various services and products.

In 2013, HSBC France's cash equity team continued to put its SRI (Socially Responsible Investment) asset-management clients in touch with companies' sustainability officers and external experts, who deal with various subjects such as the impact of urban sprawl on business performance and "liberated management".

Application of ESG criteria in portfolio management

Since June 2006, HSBC Global Asset Management (France) has been a signatory to the Principles for Responsible Investment. Among the six principles, the first states that "we will incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes".

To meet these obligations, HSBC Global Asset Management (France) initially used a team of specialist ESG analysts. In 2012, in line with the spirit of the principles, which apply to all aspects of asset management, a decision was taken to integrate ESG analysis with equity and credit analysis. As a result, the global head of ESG research provided analysts with a matrix of issues by sector, and an ESG analysis framework. An ESG champion was appointed in each of 23 management entities, including two in the Paris office covering equities and bonds. Their role is to help integrate ESG criteria into overall issuer analysis.

More recently, a 20-hour e-learning course has been introduced for all asset managers and ESG champions. A global ESG research intranet tool that is fed, electronically and securely, with external CSR research from specialist companies - *i.e.* Vigeo, GMI (Global Metrics International), Oekom, Ethix and Eiris - provides analysts with ESG information that is vital for their own in-house analysis. For each new investment case, the aim is for HSBC's in-house research team to produce, as well as financial analysis, an ESG analysis that supports the qualitative analysis and investment decision-making process.

Update on Socially Responsible Investment Funds

The HSBC SRI range has been designed to meet the needs of all its customers – institutions, asset managers, multi-manager funds, companies, associations and retail customers – and has continued to develop. The offering now forms part of HSBC France's core range of solutions. It is also available through the life insurance contracts and employee savings plans offered by HSBC in France.

In 2013, the *HSBC Actions Développement Durable* investment fund saw assets under management rise 15 per cent to EUR 238.9 million, while the *HSBC Oblig Développement Durable* fund saw assets under management increase 28.4 per cent to EUR 71.9 million. The *HSBC EE Diversifié Responsable et Solidaire* fund, reserved for employee savings plans, has increased assets under management every year since its inception, and assets under management rose EUR 14.2 million to EUR 52.1 million in 2013. Although bond, equity and diversified SRI funds recorded growth in 2013, overall SRI assets under management fell for the second consecutive year. This was due to a reduction in money-market interest rates, which resulted in a significant reduction in money-market fund assets, and the SRI money-market fund was no exception.

Year-on-year returns at end-December 2013 were impressive, and in line with those achieved in traditional asset management. In Morningstar's[1] "Eurozone Large-cap Equity" category, the *HSBC Actions Développement Durable* fund was ranked in the first quartile over one year and in the second quartile over three and five years. In Morningstar's "EUR Diversified Bond" category, the *HSBC Oblig Développement Durable* bond fund was ranked in the second quartile over one year and in the first quartile over three and five years.

As regards SRI employee savings plans, the highlights in 2013 were as follows:

– the transformation of *HSBC EE Obligations Responsables* subfund, recently authorised by the AMF. While retaining its SRI character, the subfund is also solidarity-based since 2 January 2014 and is called *HSBC EE Obligations Responsables et Solidaires*;
– since the merger of the *HSBC EE Actions Euro* employee savings mutual fund with the *HSBC EE Actions Responsables* fund in October 2012, the reference euro equities product offered to all clients is now exclusively SRI-based;

1 *© 2013 Morningstar, Inc. All rights reserved. The information presented: (1) belongs to Morningstar and/or its information providers, (2) may not be reproduced or redistributed and (3) is not guaranteed to be accurate, complete or up to date. Neither Morningstar nor its information providers may be held liable for any damage or loss arising from the use of this information. Past performance is not a guide to future performance.*

Corporate, social and environmental responsibility (continued)

- the www.ere.hsbc.fr website offers a dedicated space to SRI which is regularly updated;
- for the fifth consecutive year, *HSBC Actions Développement Durabl*e and *HSBC Oblig Développement Durable*, the umbrella funds of the *HSBC EE Actions Responsables* and *HSBC EE Obligations Responsables* subfunds, obtained SRI Novethic 2013 accreditation[1]. This label is awarded annually to Socially Responsible Investment funds (SRI) whose management systematically takes into account environmental, social and governance (ESG) criteria[1];
- the Inter-Trade Union Committee on Employee Savings Plans (*Comité Intersyndical de l'Epargne Salariale* - CIES) has also renewed its accreditation for HSBC Epargne Entreprise (France)'s SRI employee savings range, which includes four sub-funds: *HSBC EE Actions Responsables*, *HSBC EE Diversifié Responsable et Solidaire*, *HSBC EE Obligations Responsables* and *HSBC EE Monétaire Etat*.

In 2013, total assets under management in open-ended funds rose from EUR 150 million to EUR 176 million.

Development of social entrepreneurship and of a social and solidarity-based economy
A socially responsible company puts people and its social impact at the heart of its business plan. It finds itself at the crossroads of three main movements that are the social and solidarity-based economy, the concept of the social business (understood to be a business that is self-sufficient financially, and indeed profitable, and that aims to address a given social objective) and the adoption of a market-based approach to social action, including the transition from model based on grants to a model based on calls for projects.

As regards microfinance, HSBC France's partnership with the Adie (*Association pour le droit à l'initiative économique*) began in 2007 and continues in 2013 with an annual credit facility of EUR 2 million. This has enabled 295 microentrepreneurs to launch businesses and 310 disadvantaged people to return to work through personal microloans.

HSBC France also shows its commitment through its EUR 1 million stake, held since 2008, in the *Financités* venture capital fund, its EUR 500,000 stake in *Business Angels des Cités* since 2010, and its EUR 1 million stake in the Citizen Capital venture-capital fund. This latter fund provides capital to growing SMEs and supports them in their projects.

The solidarity-related investments of the *HSBC EE Diversifié Responsable et Solidaire* fund were allocated as follows in 2012: EUR 308,700 to SIFA, EUR 850,000 to Adie and EUR 2,150,000 to *Habitat et Humanisme*, an increase of 67 per cent over 2012.

In 2013, Private Banking continued its approach, initiated in 2011, of developing its range of philanthropic services. HSBC makes its partners and contacts available to its Private Banking clients, alongside its banking network, expertise and the experience and knowledge of its employees to support its customers in their philanthropic initiatives and to help them to build or develop their projects. Within the context of this support, the bank offers its clients the possibility of participating in "*Rencontres des Philanthropes*", which are exclusive and discreet meetings attended by philanthropists, and of attending quarterly themed meetings led by a philanthropist and an expert.

Operational environmental efficiency

2012-2020 Objectives
In order to support the HSBC Group's "Reduce" strategy, which aims to make HSBC the most energy-efficient bank by 2020 by reducing CO_2 emissions by 1 tonne per employee and per year, HSBC France is focusing its attention on four objectives:

- improving energy efficiency;
- reducing CO2 emissions, notably those related to business travel;
- reducing paper consumption;
- reducing production of non-recycled waste.

Improving energy efficiency – sustainable use of resources
In 2013, efforts focused on renovating buildings, optimising floorspace, promoting remote working, and achieving for the first time "high performance" accreditation as part of the *Attestation de Qualité Environnementale d'Utilisation* (environmental quality certification for building usage) for the *Coeur Défense* building, issued in October 2013 by Certivéa. Through this initiative, HSBC France has signed a commitment with the owner and the manager of the building to participate in efforts to control its environmental footprint in these premises. HSBC France is the first occupying company to achieve this level of certification.

Water consumption
The figures for HSBC France water consumption increased primarily due to a change in methodology on 1 January 2013. This has for positive effect to improve the scope of the data reporting and not to exclude any site, including sites for which water consumptions are integrated into condominium charges and thus brought to HSBC France knowledge sometimes several years after the facts. This new methodology also helped established estimates on a more reliable standard.

However, this increase in consumption masks efforts which continue to be made, as the tracking of water leaks or removal of air conditioning with lost water, when the site allows it, and the raising awareness of the various internal stakeholders and the external partners.

Greenhouse gases and carbon footprint
In accordance with the decree no. 2011-829 relating to greenhouse gas emission footprints and the local climate energy plan, was issued on 11 July 2011.

1 *More information on Novethic website: http://www.novethic.fr/novethic/v3/isr-investissement-socialement-responsable-label-isr.jsp.*

HSBC France compiled and published reporting documents showing a clear reduction in tonnes of CO_2 equivalent produced, for the second consecutive year.

HSBC France's main sources of CO_2 emissions relate to energy consumption and transportation.

The company's greenhouse gas emission footprint is available on the HSBC France's website, in the "*Développement Durable*" section[1].

Reducing CO_2 emissions related to business travel
Between 2012 and 2013, HSBC France's CO_2 emissions related to business travel fell because of a revised travel policy, efforts to monitor areas where the policy is being applied incorrectly and a fall in kilometres travelled, including a shift from air to train travel.

Initiatives in 2013 included the ongoing streamlining of the automobile fleet, resulting in a reduction in vehicles' average carbon emissions, the introduction of a new online reservation tool that clearly displays travel-related CO_2 emissions, and increased use of new technologies.

HSBC France is one of ten companies involved in the *La Défense Seine Arche* area's intercompany travel plan (*Plan de Déplacements Interentreprises* - PDIE), covering its three central sites concerned. A survey of 30,000 employees concerned by the PDIE initiative showed that there is large potential for developing low-impact transport. An action plan has been devised in this area, which will result in a "Charter of commitment to the *La Défense Seine Arche* area's intercompany travel plan 2014-2017".

Pollution and waste management

Reducing production of non-recycled waste
Across all central sites, individual waste baskets have been removed and waste collection points including recycling bins have been installed. The rate of waste recycling has improved significantly.

Reducing paper consumption and improving paper recycling
Several major paperless projects resulted in reduced paper consumption in 2013:

– a further 100,000 clients moved from paper to electronic statements, with almost 34 per cent of the client base now receiving electronic statements. This is reducing paper consumption by an estimated 1,800,000 sheets and 1,200,000 envelopes per year;
– certain listings are no longer being published automatically, and this will save almost 1.3 million pages per year. When stacked, this volume of paper would be twice as high as the *Arc de Triomphe*.

Overall, these two paperless initiatives will save around 12.4 tonnes of paper and help to reduce the carbon footprint of over 12 tonnes of CO_2 per year[2].

Other initiatives such as:

– making increasing amounts of printed material available online,
– having correspondence printed by specialist providers,

have also reduced inventories of paper and forms, and avoided the need to destroy large amounts of inventory when designs are updated.

Protecting biodiversity
Through its environmental philanthropic programmes (see the "Employee commitment through awareness and philanthropy" section), the application of the Equator Principles and environmental and social risk management procedures in its lending and project finance activities (see "Integration of corporate sustainability within business lines" section), the HSBC Group, including HSBC France, contributes to the protection of biodiversity.

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

Emissions into the atmosphere, soil and water
The banking activity does not require any industrial process that may affect the atmosphere, soil and water. The only impacts of HSBC France which could affect the environment are related to its waste management, mostly computing and paper waste. The computing waste is revalued or recycled by a company specialised in computer hardware reconditioning, which employs disabled people or on insertion.

The share of recycled waste is 78 per cent in 2013, an 8 point progress compared with 2012.

HSBC's activity presents no environmental or pollution risk other than those associated with financial activities, which are committed to managing environmental impacts as stated in the "Risk management related to the impact of climate change" section.

Valeurs Mobilières Elysées (formerly known as Nobel), a wholly-owned subsidiary of HSBC France acquired in 1986, was initially a manufacturing company that ended its manufacturing activities in 1965. Pursuant to a prefectoral order, Valeurs Mobilières Elysées has measured, for several years, the quality of groundwater in the area in which it conducted its manufacturing activities. The observations for 2013, carried out at the five facilities under the control of a qualified technical expert, are in line with those for previous years and confirm that the quality of groundwater is satisfactory, with concentrations below the required levels for all parameters concerned.

Consideration of noise
The banking activity is a service activity without industrial process and does not thus generate particular noise pollution.

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

Financial risk
Given its business sector, HSBC France has no provision or guarantee regarding environmental risks.

1 *See www.hsbc.fr.*
2 *DEFRA 2012 (upstream and combustion): 976 kg CO_2 equivalent per tonne of paper.*

Corporate, social and environmental responsibility (continued)

Employee Support

The data below is supplied in accordance with article R. 225-105-1 of the French Commercial Code in application of article L. 225-102-1 paragraph 5 of the same Code.

The workforce on 31 December 2013 and changes since 2012

Employees – total

	2013[1]	2012	2011[2]	2010[3]	2009[4]
Total HSBC France group	**9,891**	9,851	10,335	10,479	10,677
of which HSBC France	**9,198**	9,424	9,860	9,706	9,748
of which subsidiaries and branches	**693**	427	475	773	929

Employees – full-time equivalent

	2013[1]	2012	2011[2]	2010[3]	2009[4]
Total HSBC France group	**9,533**	9,570	10,030	10,121	10,350
of which HSBC France	**8,857**	9,152	9,564	9,365	9,435
of which subsidiaries and branches	**676**	418	466	756	915

1 *HSBC Assurances Vie (France) became a subsidiary of HSBC France in 2013.*
2 *HSBC Private Bank France was integrated within HSBC France (via a legal merger) in 2011.*
3 *In 2010, the fund valuation activity (HSBC Securities Services (France)) was sold to CACEIS.*
4 *In 2009, most employees of HSBC Financial Products (France) moved to HSBC Bank plc Paris Branch, which is outside the perimeter mentioned above.*

The HSBC France workforce continued to contract slightly in 2013

This decrease was primarily a result of retirements and employee resignations.

642 new employees were hired in 2013 (including mobility within the Group), breaking down into 223 on permanent contracts and 419 on fixed-term contracts, including 245 on youth apprenticeships (fixed-term training contracts).

845 employees left the company, with retirements making up 30 per cent of the total, the end of fixed-term contracts 32 per cent and resignations 8 per cent.

The retention rate among the best-performing staff was 98 per cent.

The structure of the workforce remained stable, with 67 per cent of staff having managerial status, and 49 per cent of managers being women.

On 31 December 2013, 1,077 employees worked under the voluntary part-time work agreement, equal to just over 11 per cent of registered employees.

According to DOETH 2012 (*déclaration obligatoire d'emploi de travailleurs handicapés* – mandatory employment of disabled workers declaration) definitions, disabled people made up 2.5 per cent of the workforce, as opposed to the target of 6 per cent. As a result, HSBC France paid EUR 1.56 million to Agefiph in 2013.

At the end of 2013, HSBC France employed 334 disabled people.

Remuneration and incentive schemes

Salaries and salary developments

In 2012, in the absence of an agreement, management unilaterally decided to implement just one measure in relation to 2013. This measure involved setting aside a financial package to allow individual pay rises in the following situations:

– to promote professional equality between men and women (pay and career equality), as well as fairness between full-time employees and part-time employees;
– for employees having taken long-term maternity leave, adoption leave or parental education leave;
– for the assessment and possible revision of remuneration for employees with disabilities;
– for the assessment and possible revision of remuneration for employees over 50 years old who have not received a selective pay rise in the last five years (from 2009 to 2013);
– for the assessment and possible revision of remuneration for staff representatives, in accordance with the agreement of 30 October 2007 on the exercise of the right to organise within HSBC France.

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

Collective incentive plans

A new group employee profit-sharing and incentive system was negotiated in 2013. It covers all employees of HSBC France, HSBC Global Asset Management (France) and HSBC Assurances Vie (France), and applies for three years (2013, 2014 and 2015).

The incentive agreement also contains the profit-sharing agreement. The overall distribution limit was set at 8.75 per cent of the "group" payroll (excluding bonuses).

Profit-sharing is based on statutory arrangements, while the incentive plan is based on a percentage of profit before tax.

The individual distribution method, which is 50 per cent based on hours worked and 50 per cent based on a capped salary, aims to favour those on the lowest salaries.

HSBC France company savings plan
HSBC France has a company savings plan in which staff can invest their profit-sharing or incentive payments or make a voluntary payment, and receive an employer top-up payment capped at EUR 2,424 per year.

This company savings plan includes a range of 12 funds, three of which take into account corporate sustainability criteria in addition to the normal financial criteria.

HSBC Holdings plc options and bonus shares
With effect from 2001 and following the integration of CCF (Credit Commercial de France) within the HSBC Group, CCF decided that it would no longer grant CCF options to its employees, since they could participate in the stock-option and share purchase plan of HSBC Holdings Group (B shares) through a French sub-plan compliant with French legislation and tax rules.

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

In 2005, HSBC Group fundamentally revised its employee option and bonus share policy and implemented the HSBC Share Plan, approved by the General Meeting of May 2005. The regulations provide for the establishment of a French sub-plan (Schedule 5 of the general regulations), which complies with French legislation and tax rules.

The regulations were revised in 2011 in order to take into account amendments to regulations governing the plan and to formalise the rules of the "Group Performance Share Plan" aimed at the HSBC Group's executives. The French sub-plan (Schedule 5 of the new regulations) also underwent a review to ensure its compliance with local social-security and tax rules.

The objective of the HSBC Share Plan is to motivate executives to create shareholder value and to recognise individual performance. Allotments may also be made under this plan to attract or retain talented staff. From 2006 onwards, the general policy of the HSBC Group is to no longer grant stock options (except when required by a country's laws and tax rules) but to give priority to the allotment of bonus shares.

The HSBC Group now recognises two categories of bonus shares:

- "Group Performance Shares", which have the following specific conditions:
  - a five year vesting period,
  - a restricted period beyond the vesting period, which runs until retirement,
  - a performance condition measured using eight indicators (four financial and four non-financial) from the performance scorecard of the manager concerned;
- "Restricted Shares", which are not subject to specific performance conditions, but which definitively vest for employees remaining within the Group at the end of a period of one, two or three years.

Capital increase reserved for employees (and retired employees) of the HSBC Group in France
Between 29 October and 13 November 2013, HSBC Group staff in France were again offered the opportunity to buy shares as part of a capital increase, *via* the tax-efficient employee savings plan.

Through this transaction, employees were able to subscribe HSBC shares with a discount of 20 per cent, up to an individual limit of EUR 3,500.

The total number of shares subscribed through this transaction was 2 million and the total investment was EUR 13 million.

Staff welfare
The consolidated amount of payments to the Works Committees and the Central Works Council, based on a percentage of the payroll, was EUR 3.3 million in 2013.

HSBC France also pays into the HSBC France Employee Social Fund an amount equal to 0.05 per cent of HSBC France's basic payroll. A Joint Committee in charge of monitoring the fund defines its action policy and decides on the aid it grants to employees. The social fund may in particular provide financial support through the payment of healthcare costs for single-parent families struggling with their situation.

In 2013, HSBC France also made EUR 10.7 million of socially-oriented payments (housing, back-to-school payments, transportation, childcare, parental allowances and HSBC France loyalty and long-service awards).

Work organisation

Organisation of working hours
Pursuant to the agreement on working hours signed in October 2008, the working year totals 1,592 hours, excluding the paid "solidarity day".

For employees whose working hours are recorded, working time shall be organised in two possible ways:

- on the basis of 38 hours per week, or 7 hours 36 minutes per day based on a 5-day working week. The number of RTT (reduction in working hours) days in 2013 was 15.5 days for a Monday-to-Friday working week, and 19.5 days for a Tuesday-to-Saturday working week;
- on the basis of 37 hours per week, or 7 hours 24 minutes per day, based on a 4.5-day working week. The number of RTT days (reduction in working hours) in 2013 was 10 days for a Monday-to-Friday working week, and 13 days for a Tuesday-to-Saturday working week.

Corporate, social and environmental responsibility (continued)

Executives working on the basis of a fixed number of days per year are those who hold a position involving a significant amount of autonomy in their time management, and whose main task is to coordinate and lead a team and/or whose duties require a high level of expertise in their profession.

Rights to RTT days for employees working on the basis of a fixed number of days per year, as for executives, vary according to their weekly working pattern.

Overtime
HSBC France employees worked 101,000 hours of overtime in 2013, up to 15 per cent from 2012.

Work performed in excess of regulated hours relates mainly to hours worked under the exceptional work agreement, the volume of which increased by 33 per cent compared to 2012.

Absenteeism
In 2013, maternity leave was nearly at the same level than in 2012, with appointments made in recent years resulting in an increased number of women and younger people in the workforce.

Absenteeism due to illness was flat compared to the previous year. The rate of absenteeism due to illness was 3.2 per cent for 2013 compared with 3.4 per cent in 2012.

Staff wellbeing and safety

Health and safety
HSBC France has Health, Safety and Working Conditions Committees (CHSCTs) for all its activities in France.

These CHSCT committees have greater resources than those provided for by law, particularly in relation to site visits and the number of representatives.

Agreements relating to the Works Committee and Employee Representative elections in 2013 have strengthened the resources of CHSCTs, especially in terms of the number of representatives.

In 2013, the CHSCTs continued their involvement in consultations relating to ongoing branch renovations and improvements as well as supporting reorganisations relating to employee working conditions.

Monitoring stress
Since 2004, HSBC France has suggested that employees in the Paris region answer the Stress Medical Observatory questionnaire during their periodic medical examination. In 2010, this provision was extended to employees in the provinces. An independent firm with IPRP (expert in occupational risk prevention) accreditation is in charge of processing the collected data using a scientific methodology.

2012 results confirm the slight decrease in stress levels already noted within the company in the previous two years. Groups expressing less favourable psychological experiences were found among staff aged 50 years and over, women, retail banking employees, business line technicians processing banking transactions and people travelling more than two hours per day.

These surveys have helped HSBC France identify factual elements and then implement action plans to heighten awareness about stress factors and to reduce them through targeted action, particularly in terms of workload, work organisation, ergonomics, special support during organisational changes and suitable training that takes into account developments in the business.

Framework for preventing work-related stress
A joint Steering Committee involving management, unions, CHSCT representatives, the Occupational Health Department and the Stress Medical Observatory continued their work, with the support of Cabinet Technologia, on the working conditions of HSBC France employees.

The Steering Committee, based on Technologia's 2012 study, adopted five priority action plans and delegated them to specific working groups consisting of staff from the businesses concerned.

These action plans related to training managers in the prevention of stress-related illnesses, performance appraisals and processes in the Retail Banking and HTS businesses.

A survey has been developed and sent to a sample of 3,000 employees, in order to update the mapping carried out in 2012.

These efforts are intended to monitor the effectiveness of initiatives to enhance the wellbeing of HSBC France staff.

Accidents at work and occupational illnesses
Very few staff are affected by occupational illnesses. They account for an insignificant proportion of total illnesses.

In 2013, the work accident frequency rate (number of lost-time accidents / number of hours worked x 10^6) was 8.7 and the injury severity rate for work and travel-related accidents (number of days lost / number of hours worked x 10^3) was 0.2.

Work/life balance
In late 2010, HSBC France introduced a remote working system which enables employees, if their jobs allow it, to perform part of their activity from home. This arrangement is on a voluntary basis and uses the principle of alternating throughout the same week between one to three days of remote working and a minimum of two consecutive days of work on company premises.

As of 31 December 2013, 582 employees (6 per cent of the total workforce), primarily in support functions, have opted for this solution, which has been widely implemented within the HSBC Group, and their average level of satisfaction is high.

Remote working significantly reduces weekly travel time, which helps to reduce the company's carbon footprint and allows employees to have a better work/life balance.

Furthermore, in October 2012, the bank's Senior Management sent a message to all executives in order to improve the adoption of best managerial practice, especially with regards to working patterns. Except in exceptional circumstances or crisis situations, employees must not be contacted during their holidays, weekends or outside of working hours and, except in emergencies, meetings must not be scheduled before 9am or after 6pm.

Training

Following on from initiatives in previous years arising from the Strategic Plan, HSBC continued to offer training courses to help staff deal with changes and transformations in the various businesses.

The 2013 training plan was therefore based on:

– continuing to offer courses leading to qualifications in Retail Banking and Wealth Management, including adjustments following suggestions by those taking the courses and by management. Particular attention has been paid to the practical validation of skills by management;
– the Relationship Manager Proposition: a self-assessment tool that enables Relationship Managers to assess their training needs with reference to a skills benchmark. This tool should also enable those affected to engage in a dialogue with their managers about their career development aims, and determine the necessary managerial support.

Commercial Banking has continued to roll out training in strategic subjects (development of international connectivity, risk management, client relationship management), by broadening its offering to different staff profiles: three or four levels for each module, depending on the position. The business line has adopted a communication policy that encourages staff to take the initiative with their own training by signing up, with the agreement of their managers, for specific sessions, and it has also provided a skills self-assessment tool for this purpose.

In Investment Banking, the more widespread use of "roadmaps" (provided to staff to identify development opportunities and the resulting training needs) is enabling management to publicise the training offering more widely and make it easier to understand. Major initiatives continued, focusing on the technical themes of products, client relationships and management, and training was offered more broadly to new types and levels of staff. Both Investment Banking and Commercial Banking want to give staff the chance to access both of their training offerings, in order to facilitate mobility between the businesses.

HSBC Technology and Services (HTS) has focused on developing its staff's technical skills, and is promoting access to market-acknowledged training giving rise to qualifications. More targeted training for the Support and Change Management teams has been organised to develop skills in order to provide a better service for the bank's internal clients.

All training for Support functions has been focused on the specific technical requirements of their teams, and on English-language classes.

A training programme has been devised for Human Resource staff to help them develop fundamental skills in terms of their impact on business lines, their advisory role, change management and operational excellence.

Given the Group's international matrix organisation, HSBC France's 2013 training plan focused on language-learning, particularly English. All business lines and support functions are invited to support all staff with this effort. Accordingly, the HR Development Department has substantially improved the training range and learning opportunities by offering:

– immersive learning, either locally or in the United Kingdom;
– individual lessons by telephone;
– individual coaching as part of its various learning formulas.

These efforts have been very well received by both business lines and staff.

As regards the "Training for all" (*Formations pour tous*) catalogue, 2013 was a year of updating content. New managerial content was introduced in the fourth quarter: "Managing a team on a day-to-day basis" is aimed at Grades 5, 6 and 7, while Group "Values-led high performance culture" training will be offered in English to European senior managers with Grades 0, 1 and 2, in London and Paris. The aims of this training are to ensure that a common culture based on HSBC's values (dependability, openness, listening, courage and integrity) is disseminated and implemented within all teams, and to hold genuinely sincere and open meetings with all staff. The training also meets staff needs regarding the clarity of strategic messages, their expectations regarding professional development, and appropriate managerial support.

Around the world, the HSBC Group has rolled out an ambitious programme of regulatory e-learning courses on the themes of preventing money-laundering, preventing corruption, protecting information and managing operational risks. These are now recurring themes, and will in future years be regularly updated and added to in response to events and regulatory developments.

To make all of these training initiatives easier to understand, and in addition to the online catalogue that can be accessed by all staff, HSBC carries out regular communication with business lines and sends monthly bulletins to all staff, informing them of upcoming sessions and the number of available spaces.

Diversity and equality of treatment

The global corporate agreement on Diversity and Equality signed by unions and management in 2011 remained in force in 2013. The objectives of the bank are to promote equality between men and women with regard to career and remuneration, to improve paternity leave, to support the careers of employees with disabilities, and to increase the proportion of women at grades where they are underrepresented.

Corporate, social and environmental responsibility (continued)

In this regard, the bank is committed to increasing the proportion of women in each executive grade by four percentage points in three years. To better identify and combat gender discrimination in the development of careers and remuneration, two methods of analysis supported by both unions and management have been implemented.

One concerns careers and is to monitor promotion indicators for men and women over several years.

The other one deals with remuneration, with a specific focus on wage equality. In fact, since 2004, the bank has spent EUR 6.7 million in this area. The same wage equality analysis is carried out for staff representative bodies, people with disabilities and employees over 50 years of age.

In 2013, HSBC France also continued to implement its action plan focused on women's careers, in order to help women access positions at the highest level of the company. This priority is shared by the HSBC Group, which has deployed it worldwide. Specific development initiatives for talented women were introduced in 2012 and continued in 2013. The objective is to help women colleagues progress to the highest level.

An agreement in this area has been signed with France's ministry for women's rights.

In addition, HSBC France has continued to emphasise better detection of women during talent reviews and when developing succession plans.

As of 31 December 2013, six women sat on the HSBC France Executive Committee, and women accounted for 49 per cent of executives and 36 per cent of point-of-sale Directors (Branches, Corporate Business Centres and Corporate Banking Centres).

Integrating young people and passing on knowledge

A "*Contrat de Génération*" (generation contract) was signed by HSBC France and HSBC Global Asset Management (France) in September 2013. It is intended to support the sustainable integration of young people into the workforce and maintain employment among older people, thus making it easier to pass on skills and expertise within the bank. HSBC has made a commitment to ensuring that 25 per cent of all people recruited on permanent contracts until December 2015 will be aged 26 or under. It has also set up an "Older employee development unit" for staff aged 55-58.

Efforts to combat discrimination

HSBC values meritocracy. Given the same level of skills and performance, everyone has the same chances of being hired and of progressing throughout the company, regardless of their ethnic and social origins.

In 2013, HSBC France continued its internal communication campaign against discrimination, through posters and displays placed in walkways at head office and in branches. At the same time, compulsory e-learning training for managers continued in 2013.

Non-compulsory awareness training for all employees was also maintained. This training aims to make staff aware of stereotypes and prejudices in the way in which we view others as well as within the context of individual actions and decisions. The awareness campaign and training programme focus on various possible causes of discrimination: ethnic origin, sex, family status, sexual orientation, age, disability and a person's way of working (remote working or not).

At the same time, like every year, HSBC France conducted a "summer job" operation in connection with its partner associations focusing on equal opportunities: IMS, *Entreprendre pour la Cité*, Mosaik-RH, *Sciences Po* and *Tremplin*. This initiative is intended to enhance diversity of origin among candidates for summer assistant jobs. In 2013, a total of 101 young people, including three disabled people, were given summer jobs lasting between one and three months through these associations.

Disabilities

At 31 December 2013, HSBC France had 334 disabled employees. In 2013, 40 new employees stated that they were disabled, twice the figure seen in 2012.

As regards keeping disabled people in work, each situation is treated separately, in conjunction with the special disabilities advisor. If a workstation needs to be adjusted, the Disabilities Advisory Department takes care of it and pays for it. In 2013, 29 workstation adjustments were carried out, including ergonomic chairs, armrests, special mice, keyboards for partially sighted people, ZoomText magnification software and 24-inch screens. A computer-based telephone system for partially sighted staff was deployed in July 2013, and is used by seven employees.

In terms of recruitment, HSBC is continuing to work with Handiformabanque, the *Tremplin* charity and a recruitment consultancy specialising in the CVs of disabled employees. Three disabled employees were recruited through these efforts in 2013.

To improve day-to-day living standards, 372 disabled employees or employees with a disabled direct relative received CESU cheques financed entirely by HSBC (+15 per cent relative to 2012), and ten employees received support in buying individual equipment to alleviate their disability, such as hearing aids.

Fundamental conventions of the International Labor Organisation

HSBC France promotes and complies with the provisions of the ILO's fundamental conventions concerning respect for freedom of association and the right to collective bargaining, and the elimination of discrimination in respect to employment and occupation. Furthermore, within the context of the HSBC Group's commitment to the United Nations Global Compact, HSBC France is fully compliant.

Employee commitment through awareness and community investment

In 2013, HSBC France donated nearly EUR 2.3 million to charitable programmes. In 2013, more than 1,100 of the HSBC France group's employees completed 1,640 voluntary assignments, representing nearly 12,100 hours, including 78 per cent performed during working hours. In line with the HSBC Group's policy, 68 per cent of donations were allocated to projects related to education (53 per cent) and the environment (15 per cent).

As regards education, the main initiatives in 2013 were as follows:

– assistance given by the *Fondation HSBC pour l'Education*, which continued its work for the eighth consecutive year. Through its 2013 call for projects, both internal and external, the *Fondation* supported 52 educational institutions and charities, benefiting more than 11,000 children in deprived areas of mainland France;
– continuing and increased support for projects to prevent drop-outs from school of young people from deprived areas through the *Fondation*'s support for four new projects: *Agir pour l'Ecole*'s reading programme, the ACTE (support for temporarily excluded students) initiative adopted in secondary schools in Seine Saint Denis, a "sponsors' alliance" set up by Admical to help prevent children becoming disengaged from school, and the *Unis-Cité* charity's Booster project aimed at re-engaging young people aged 16-18 through a period of community service lasting 6-9 months;
– tutoring provided by HSBC France staff to around 100 students from deprived areas, with one week internship for students in third grade of highschool, tutoring for beneficiaries of *Institut Télémaque, Fondation Egalité des Chances* (equal opportunities foundation), *Sciences Po*'s student diversity programme, foreign students with bursaries from ESTP and students with higher-education bursaries through the partnership recently signed with Frateli;
– increased support for financial education programmes in conjunction with *Entreprendre pour Apprendre* to encourage business creation, in addition to HSBC's continuing support for the training provided by ADIE to help people develop their businesses. HSBC also helps people in financial difficulties, with excessive debts or excluded from the banking system through its support for the CRESUS charity;
– initiatives to raise awareness of the projects HSBC supports among its customers: for the third consecutive year, HSBC France organised a concert by one of the charities it supports at the bank's head office, and organised branch-based exhibitions of art produced by young people involved in projects supported by HSBC.

As regards the environment, the main events in 2013 were as follows:

– the launch of the HSBC Water Programme in France (see "HSBC Group Corporate Sustainability strategy - Community investment"). This involved 100 staff receiving training in water-related issues, then helping to collect data as part of Earthwatch's worldwide research into water quality, and the selection of a first water project in France, proposed by the Surfrider charity.
– the promotion and organisation of environmental initiatives involving staff and clients. In 2013, 31 nature projects were organised with the ONF (French national forestry office), including roughly 530 employees and 10 clients.
– ongoing support for educating young people about environmental protection through two programmes: *Eco-Ecole* with the *Fondation pour l'Education à l'Environnement en Europe* (FEEE), and *Sauvons la Biodiversité* with the *Maud Fontenoy Fondation*, on which 54 staff worked and in which 188,000 children were involved.
– support for research carried out by the 2° Investing Initiative in the impact of climate change on finance activities, in addition to research already carried out through the *Institut Paris Europlace*'s Carbon Finance Chair and SRI Chair.

Across these two priority areas, 41 teams, 630 staff and at least 74 branches (around 22 per cent of the network) were involved in team-based volunteering in 2013.

HSBC France also supported the HSBC Group's response to the disaster in the Philippines, contributing EUR 59,000 in matched donations.

The HSBC Group in France also maintained its cultural policy in favour of talented young artists through the 19th edition of the *Prix HSBC pour la Photographie* and its 20th year of support for young musicians from the Aix academy. These two programmes help to expand the cultural horizons of people supported by the *Fondation HSBC pour l'Education*.

Corporate, social and environmental responsibility (continued)

Methodological details on corporate, social and environmental information

Scope of reporting

The scope of each indicator is shown in the table of sustainability performance indicators of the HSBC Group in France. The scope may vary depending on the availability of data or type of indicator.

Thus, corporate indicators concern the HSBC Group in France (excluding HSBC Assurances Vie (France) and HSBC Bank plc Paris Branch) or HSBC France, whereas environmental indicators concern the HSBC Group in France or HSBC France. The social indicators relating to "Company saving schemes: total assets of the SRI (Socially Responsible Investment) range" and to "Investment of the company savings fund *HSBC EE Diversifié Responsable et Solidaire* fund for the benefit of solidarity-based companies" are communicated within the scope of HSBC Global Asset Management (France).

Change in scope

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

Reporting period

The annual reporting period is the calendar year (from 1 January to 31 December). For environmental indicators, the reporting period is from 1 October 2012 to 30 September 2013.

Reporting tools and processes

For environmental indicators

The reporting tool is that which is used by the HSBC Group, that is, Metrix, developed by Enablon. Its main functions include the collection of energy data (kWh) and CO_2 emissions, water (m^3), paper (tonnes), waste (tonnes), km travelled and CO_2 emissions, collection of other data: comments, operational surface areas (m^2), number of sites, workforce (FTE), initiatives, dual validation at country level, then at regional and global levels and, finally, dashboards.

For social indicators

The HSBC Group uses the Peoplesoft HR database. Information that appears in reporting documents is the result of querying this database.

Details on the definition of certain indicators

Environmental indicators

CO_2 emissions resulting from the consumption of electricity, gas, fuel oil, urban heating and air conditioning. Transport-related CO_2 emissions correspond to journeys made by train and plane (which are purchased through travel agencies), by taxi, and by hired cars or the group car fleet.

Social indicators

The total workforce comprises employees under permanent and fixed-term employment contracts. Internship, temporary and suspended contracts, employees taking early retirement, employees on long-term sick leave, permanently disabled employees and expatriates are included. Holiday auxiliary staff are excluded.

Recruitment and redundancy figures include employees under permanent and fixed-term employment contracts. More than one hire will be recorded for a person hired more than once under a fixed-term contract during the reporting period. Likewise, an employee whose contract changes from a fixed-term contract to a permanent contract will be recorded as a hire.

The number of employees who work from home include those having signed an endorsement to their contract enabling them to work from home.

61 per cent of training hours relate to effective training hours achieved as of 30 September 2013, the remaining 39 per cent are estimated from the training software. The latter will be certified through the 2014 tax declaration process.

Societal indicators

Concerning the "Investment of the company savings fund *HSBC EE Diversifié Responsable et Solidaire* fund for the benefit of solidarity-based companies" indicator, the companies considered as solidarity-based are those having received "solidarity-based" approval from the prefecture or those with related solidarity-based status, *i.e.* those whose assets constitute at least 35 per cent of securities issued by solidarity-based companies.

Table of sustainability performance indicators of the HSBC Group in France

Indicator	Change 2013	2012	2011	Unit	Scope*	Reference documents GRI 3	ISO 26000	Global Compact
1 Pre-tax earnings	**654**	559	191	EURm	HSBC in France			
Total shareholders' equity	**5,391**	5,213	4,820	EURm	HSBC France group			
Operating ratio	**69**	72	85	%	HSBC in France			
Liquidity ratio	**123**	124	152	%	HSBC France group			
Advances to Core Funding (ACF) ratio	**107.5**	97.3	86.7	%	HSBC France group			
Core Tier 1 Ratio (Basel II)	**13.7**	12.6	10.7	%	HSBC France group			
Common Equity Tier 1 (CET1) Ratio	**12.7**	ND[1]	ND[1]	%	HSBC France group			
Sustainable Economy (Social indicators)								
2 Amount of loans granted to SMEs (European definition))	**1,115**[2]	556.7	714.3	Total loans outstanding (EURm)	HSBC in France	FS 6		
3 Number of financing for regional authorities made on the bond market	**24**	16	12	Number	HSBC France			
4 Equator principles – Category A - number of projects financed and their value	**ND**[3]	0 and 0	0 and 0	Total number of loans and EURm	HSBC in France	FS 3	6.3.5; 6.6.3	Principle 2
Equator principles – Category B - number of projects financed and their value	**ND**[3]	0 and 0	1 and 100	Total number of loans and EURm	HSBC in France			
Equator principles – Category C - number of projects financed and their value	**ND**[3]	1 and 128	1 and 100	Total number of loans and EURm	HSBC in France			
Consultancy	**ND**[3]	3	3	Number	HSBC in France			
5 Lines of credit allocated to Adie	**2**	2	2	EURm	HSBC France			
Amount of microfinance loans made *via* ADIE partnership	**1.673**	1.570	0.590	Total loans outstanding (EURm)	N/A	FS 7		
Number of microcredits disbursed (Adie)	**605**	593	257	Number	N/A			
6 SRI assets under management	**762**	825	2,123	EURm	HSBC Global Asset Management (France)	FS 10, 11, 12		
Company saving schemes: total assets of the SRI range	**176**	150	86	EURm	HSBC Global Asset Management (France)			
7 Investment of the company savings fund HSBC EE *DiversifiéResponsable et Solidaire* fund for the benefit of solidarity-based companies	**3,309: 850 Adie, 309 SIFA, 2,150 *Habitat et Humanisme***	1,984: 350 Adie, 309 SIFA, 1,325 *Habitat et Humanisme*	1,829: 250 Adie, 309 SIFA, 1,270 *Habitat et Humanisme*	EURK	HSBC Global Asset Management (France)	FS 10, 11, 12		
Holdings in "societal" funds during the year	**–**	–	1/ Citizen Capital	EURm	HSBC France	FS 7		
8 Number of customer complaints submitted to the Ombudsman	**647**	548	552	Number	HSBC France	PR 8	6.7	
Number of complaints processed and signed by the Ombudsman	**116**	70	88	Number	HSBC France		6.7	
9 Level of satisfaction of our retail customers: customers claiming to be "very satisfied" (Q4)	**48**	50	55	%	HSBC France			
Customer recommendations during the past two years (Q4)	**36**	40	38	%	HSBC France			

Corporate, social and environmental responsibility (continued)

Indicator	Change 2013	2012	2011	Unit	Scope*	Reference documents GRI 3	ISO 26000	Global Compact
Environmental Footprint[4]								
10 Energy Consumption	**64**	63	66	GWh	HSBC in France	EN 3, EN 4	6.5.5	
Energy consumption in MWh/FTE[5]	**6.67**	6.58	6.58	MWh/FTE[5]	HSBC in France			
11 Transportation	**37.33**	39.42	40.3	Millions of km	HSBC in France	EN 16	6.5.5	Principles 7 & 8
12 Direct CO_2 emissions	**9.77**	10.21	10.37	Thousands of tonnes equiv. CO_2	HSBC in France	EN 16	6.5.5	Principles 7 & 8
- direct CO_2 emissions (Energy)	**4.95**	4.89	4.93		HSBC in France			
- direct CO_2 emissions (transportation)	**4.82**	5.32	5.44		HSBC in France			
13 Water Consumption	**158**	150	151	Thousands of m^3	HSBC in France	EN 8	6.5.4	Principles 7 & 8
Water consumption per FTE[5]	**16.53**	15.67	16.05	m^3	HSBC in France			
14 Paper Consumption	**1,555**	1,535	1,803	Tonnes	HSBC in France	EN 1, EN 2, EN 22	6.5.4	
% of FSC paper	**93**	91	90	%	HSBC in France			
15 Waste production	**1,490**	1,729	1,926	Tonnes	HSBC in France	EN 1, EN 2, EN 22	6.5.4	Principles 7 & 8
Waste production per FTE[5]	**156**	181	192	Kg	HSBC in France			
% of recycled waste/total waste	**78**	72	77	%	HSBC in France			
Human resources and security								
16 Total workforce[6]: Women (W) / Men (M)	**5,258 W / 3,940 M**	5,410 W / 4,014 M	5,645 W / 4,215 M	Number	HSBC France	LA 14	6.3.7	Principle 6 Principles 7 & 8
Recruitments	**642**	548	1,188	Number	HSBC France			
Dismissals	**82**	85	62	Number	HSBC France			
17 Organisation of working hours Absenteeism[7]	**3.2**	3.4	–	%	HSBC France			
18 Equal treatment:								
- number of persons with disabilities	**334**	310	289	Workforce	HSBC France social results		6.3.7	Principle 6
- number of recruitments via the IMS and Mozaik HR	**101**	88	25	Total number	HSBC France		6.3.7	
- % of employees less than 30 years old	**14.0**	13.8	17	%	HSBC France			
- % of employees over 50 years old	**30.5**	29.6	29	%	HSBC France			
- % of women in management	**16.6**	17.5	18	%	HSBC France			
19 % of non-executive directors at 31.12 (without function in the HSBC Group)	**44**	47	44	%	HSBC France		6.2	
20 Number of employees teleworking	**582**	498	344	Number	HSBC France	LA 7	6.4.6	
21 Health and Safety:								
- number of fatal accidents at work	**0**	0	0	Number	HSBC France	LA 7	6.4.6	
- number of accidents resulting in more than 3 days of work incapacity	**115**	119	124	Number	HSBC France	LA 7	6.4.6	
- rate of work- and travel-related accidents[8]	**9.1**	9.3	11.4	Rate	HSBC France			
- severity rate of work-and travel-related accidents[9]	**0.2**	0.2	0.2	Rate	HSBC France			
22 Workforce split by status, gender and contract of employment:								
Total Workforce	**9,198**	9,424	9,856	Number	HSBC France			
- Of which unlimited term contracts	**8,755**	9,104	9,466	Number	HSBC France			
- of which women managers	**3,012**	3,062	3,096	Number	HSBC France			
- of which men managers	**3,093**	3,187	3,318	Number	HSBC France			
- of which women clerical staff	**2,005**	2,156	2,305	Number	HSBC France			
- of which men clerical staff	**645**	699	747	Number	HSBC France			
- Of which fixed term contracts	**443**	320	390	Number	HSBC France			
- of which women managers	**32**	24	35	Number	HSBC France			
- of which men managers	**35**	28	26	Number	HSBC France			
- of which women clerical staff	**68**	102	113	Number	HSBC France			
- of which men clerical staff	**26**	29	394	Number	HSBC France			
- of which women in apprenticeship	**141**	66	24	Number	HSBC France			
- of which men in apprenticeship	**141**	71	83	Number	HSBC France			
23 Training	**270,812**[10]	284,297	202,509	Total number of hours	HSBC France			Principle 6

Indicator	Change 2013	2012	2011	Unit	Scope*	Reference documents GRI 3	ISO 26000	Global Compact
Commitment and patronage								
24 Sponsorship Budget (EUR)	**2.3**	2.6	2.3**	EURm	HSBC in France		6.8	
% of the sponsorship budget / pre-tax earnings	**0.35**	0.46	1.2	%	HSBC in France		6.8	
% approx. employees involved in volunteer SD activities	**13**	20	35	%	HSBC in France		6.8	
Number of hours of volunteer work during work hours	**9,502**	8,621	–	Hours	HSBC in France		6.8	

1 *This ratio is calculated from June 2013.*
2 *Including leasing.*
3 *Details on 2013 figures will be published in the HSBC Group's Sustainability Report 2013 in May 2014.*
4 *Figures calculated over the period from 1 October 2012 to 30 September 2013.*
5 *Full-Time Equivalent.*
6 *See also page 64.*
7 *Number of working days of absences due to sickness / number of total theoretical working days.*
8 *Rate of work- and travel-related accidents calculated using the following ratio: (number of accidents resulting in lost time/number of hours worked)*10^6.*
9 *Severity rate of work- and travel-related accidents calculated using following ratio: (number of working days lost due to work-and travel-related accidents/number of hours worked)*10^3.*
10 *Provisional figure.*

* *HSBC France is a 99.9 per cent subsidiary of the HSBC Group. The HSBC France group corresponds to the perimeter of the consolidated financial statements and HSBC France corresponds to the perimeter of the individual financial statements. HSBC in France's scope of operations comprises the operations of the HSBC Group in France, which includes the HSBC France group, HSBC Assurances Vie (France), HSBC Assurances IARD (France) until May 2013 and the Paris branch of HSBC Bank plc (excluding intra-group financing costs).*

** *An additional payment of EUR 1.8 million for the* Fondation HSBC pour l'Education *and EUR 0.9 million for the* Prix HSBC pour la Photographie *were made to the* Fondation de France *under the aegis of which are placed these two programs. This amount will be consumed within 3 years from 2012, and will be included in this table as and when they are awarded to final beneficiaries.*

Corporate, social and environmental responsibility (continued)

Report of one of the Statutory Auditors, as designated independent third-party body on the social, environmental and societal information provided in the Report of the Board of Directors

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

Year ended 31 December 2013

To the shareholders

In our capacity as Statutory Auditor of HSBC France and designated independent third-party body whose applications for accreditation have been deemed admissible by COFRAC, we hereby present to you our report on the social, environmental and societal information (the "CSR Information") in the Report of the Board of Directors for the year ended 31 December 2013. This report is prepared in accordance with the provisions of Article L. 225-102-1 of the French Commercial Code.

Responsibility of the company

The Board of Directors is responsible for establishing a report that includes the CSR Information specified in Article R. 225-105-1 of the French Commercial Code, prepared in accordance with the guidelines used by the company (the "Guidelines"), summarised in the Report of the Board of Directors, chapter "Methodological details on corporate, social and environmental information" and available at its head office.

Independence and quality control

Our independence is defined by regulations, the code of ethics for our profession and the provisions of Article L. 822-11 of the French Commercial Code. We have also set up a quality control system that includes policies and documented procedures to ensure compliance with rules of ethics, professional standards and applicable laws and regulations.

Responsibility of the Statutory Auditor

On the basis of our work, our responsibility is to:

- attest that the required CSR Information appears in the Report of the Board of Directors or that the exclusion of any information is explained in accordance with paragraph 3 of Article R. 225-105 of the French Commercial Code (Attestation of completeness of CSR Information);
- express a limited assurance on the fact that the Information is presented fairly, in all material aspects, in accordance with the Guidelines (opinion on the fair presentation of CSR Information).

Our work has been performed by a team of around ten people between December 2013 and February 2014 for around 13 weeks. To assist us in conducting our work, we called upon our corporate responsibility experts.

We performed the procedures below in accordance with professional standards applicable in France, with the order dated 13 May 2013 establishing the manner in which independent third-party body must carry out their work, and with ISAE 3000[1] concerning our opinion on the fair presentation of CSR Information.

1 – Attestation of completeness of CSR Information

- On the basis of interviews with the individuals in charge of the relevant departments, we reviewed the company's sustainable development strategy with respect to the social and environmental impact of its activities and its societal commitments and, if applicable, any initiatives or programmes it has implemented as a result.
- We compared the CSR Information included in the Report of the Board of Directors with the list provided in Article R. 225-105-1 of the French Commercial Code.
- If certain information was excluded, we verified that an explanation was provided, in accordance with Article R. 225-105, paragraph 3 of the French Commercial Code.
- We verified that the CSR Information covered the consolidated scope, i.e. the company and its subsidiaries as defined in Article L. 233-1 and the companies it controls, as defined in Article L. 233-3 of the French Commercial Code, subject to the limitations described in the note on the methods used, chapter "Methodological details on corporate, social and environmental information" of the Report of the Board of Directors.

Based on these procedures and taking into account the limitations mentioned above, we attest that the Report of the Board of Directors includes the required CSR Information.

1 *ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.*

2 – Opinion on the fair presentation of CSR Information

Nature and scope of our procedures

We conducted a dozen interviews with approximately 15 people responsible for preparing CSR Information in departments in charge of data collection processes and, where appropriate, those responsible for internal control procedures and risk management, to:

– assess the Guidelines with respect to their relevance, completeness, reliability, neutrality and understandability, taking into account best practices in the industry, if applicable;
– verify that a data collection, compilation, processing and quality control process has been implemented to ensure the completeness and consistency of the Information and review the internal control and risk management procedures involved in the preparation of the CSR Information.

We determined the nature and scope of tests and quality control processes, based on the type and importance of the CSR Information with respect to the characteristics of the company, the social and environmental impacts of its business activities, its sustainable development strategy, and industry best practices.

For the CSR information we considered to be most important (listed in the tables below):

– at the parent company level, we consulted documentary sources and conducted interviews to corroborate qualitative information (organisation, policies, actions, etc.), verified that this information was coherent and consistent with the rest of the information in the Report of the Board of Directors, implemented analytical procedures, and verified the calculation and the consolidation of data on a sample basis, and we verified its consistency and correlation with the other information in the Report of the Board of Directors;
– at the entity level, for a representative sample of entities selected[2] on the basis of their business activity, contribution to consolidated indicators, where they operate and a risk analysis, we conducted interviews to verify the proper application of procedures and performed substantive tests using sampling techniques, to verify calculations and reconcile data with supporting documents. The selected sample accounted for 93 per cent of the workforce and 100 per cent of the Group's quantitative environmental information.

Reporting scope	**Social and societal indicators**
HSBC France	Workforce split by status and gender Number of recruitments and dismissals Number of employees teleworking Number of training hours % of women in management
HSBC Global Asset Management (France)	HSBC EE Diversifié Responsable et Solidaire fund for the benefit of solidarity-based companies Company saving schemes: total assets of the SRI range
HSBC in France (HSBC France, HSBC Assurances Vie (France) and HSBC Bank plc Paris Branch)	Amount of loans granted to SMEs Number of financing for regional authorities made on the bond market

Reporting scope	**Environmental indicators**
HSBC in France (HSBC France, HSBC Assurances Vie (France) and HSBC Bank plc Paris Branch)	Direct CO_2 emissions related to Energy consumption (electricity/gas/fuel/heat/cold) and Transportation (plane/rail/road) Energy consumption per FTE % of FSC paper consumption/total paper consumption

2 *HSBC Group in France, HSBC France, HSBC and Insurance subsidiaries, HSBC Global Asset Management (France).*

Qualitative Information	
Social aspects	Social dialogue Training policy Wage policy Diversity and Equality policy
Environmental aspects	Environmental policy Waste recycling policy Multi-corporate travel plan
Social aspects	Commitments to Global Compact Commitments to Equator Principles Commitments to Principles for Responsible Investment Social oriented partnerships

For the rest of the CSR information, we assessed whether it was consistent with our knowledge of the company.

Lastly, we assessed the adequacy of the justifications provided to explain the entire or partial exclusion of certain information.

We consider that the sampling methods and sizes of the samples used, based on our professional judgment, enable us to form a conclusion of limited assurance; a higher level of assurance would have required more extensive work. Due to the use of sampling techniques and other inherent limitations of the functioning of any information or internal control system, the risk of non-detection of a material misstatement in the CSR Information cannot be completely eliminated.

Conclusion

Based on our work, we did not identify any material anomaly likely to call into question the fact that the CSR Information has been presented fairly, in all material aspects, in accordance with the Guidelines.

Paris-La Défense, on 3 March 2014

KPMG Audit FS II

Philippe Arnaud
Partner
Climate Change & Sustainability Services

Pascal Brouard
Partner

Risk management and control within the HSBC France group

All the HSBC France group's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of different types of risks.

In compliance with the requirements of regulation 97-02 and the demands of the HSBC Group, the HSBC France group has established a permanent control and risk management system as set out in the Chairman's report on the internal control procedures and risk management procedure[1].

This framework relies on a three line of defence structure.

The second line of defence comprises functions whose role is to ensure that the risk appetite statement is observed in relation to the risks they are responsible for overseeing. They are responsible for developing policies and standards required to manage risks within risk appetite and tolerances, oversee their effective implementation and objectively monitor and challenge the performance of risk and control activities conducted by the businesses, HSBC Technology and Services (HTS) and other functions, e.g. *by critically reviewing risk and control assessments, key risk indicators and other review work.*

FINANCIAL RISK

Credit risk

In the HSBC France group, credit risk management is overseen by three separate functions within Risk functions:

- Wholesale Credit Risk Department: this combines the Credit teams (Approval and Early Collection units) allocated to Global Banking and Markets and Commercial Banking, Recovery for Commercial Banking clients (excluding "*Pôles Entrepreneurs*" dedicated to very small companies) and monitoring and IEC teams (Commercial Information and Research), combined within a "Risk detection and monitoring" unit. The "Models" team is also part of the Wholesale Credit Risk Department;
- Retail Credit Risk Department: in addition to a management and statistical portfolio analysis function, this unit comprises the Credit (approval) teams dedicated to Retail Banking and Wealth Management and Private Banking clients, an enlarged Retail Early Collection unit covering both Early Collection (*Service Recouvrement Amiable*) and Recovery units from Retail clients and "*Pôles Entrepreneurs*" cases, and also Decision-making Systems and Processes teams;
- Risk Business Management, including the Risk Strategy Department: this unit groups together support and control functions, *i.e.* Risk administration, Reporting, Credit review team and Remote Monitoring, Accounting and Internal Control (Business Risk and Control Management) of Risk function. This entity also handles risk appetite, stress scenarios, emerging risks and regulatory oversight.

Independently of the businesses they relate to, these departments report directly to the Deputy CEO in charge of risks, and report functionally to the HSBC Group Risk Department Europe.

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally in the lending, trade finance, treasury and leasing businesses. The HSBC Group has standards, policies and procedures dedicated to monitoring and managing risk from all such activities.

Governance

HSBC Holdings plc is responsible for the credit risk management framework and provides centralised oversight and management of credit risk for its subsidiaries worldwide. In addition, each HSBC Group entity is accountable for:

- monitoring exposures to sovereign entities, banks and other financial institutions. HSBC's credit and settlement risk limits for counterparties in these sectors are approved and overseen by Group Credit Risk, to optimise the use of credit availability and avoid excessive risk concentration;
- monitoring intra-group exposures to ensure they are maintained within regulatory limits;
- controlling cross-border exposures, through the imposition of country limits with sub-limits by maturity and type of business. Country limits are determined by taking into account economic and political factors, and applying local business knowledge. Transactions with countries deemed to be at high risk are considered on a case-by-case basis.

The RMCs (Risk Management Committees), chaired by the Head of the business concerned or a delegate, attended by the Deputy CEO, provide the HSBC France RMC with information and approval on regards credit risk.

Credit risk management for each of the main businesses (Global Banking and Markets, Commercial Banking, Retail Banking and Wealth Management) is supervised by the HSBC France Risk Management Committee[2] (RMC), which meets monthly, chaired by the Deputy CEO. The committee's minutes along with a summary are then submitted to the monthly risk monitoring committee meetings organised by the "Europe" Risk Management Department.

1 *See Chairman's report pages 39 to 52.*
2 *See Chairman's report page 42.*

Risk management and control within the HSBC France group (continued)

RMC is the main committee responsible for lending policy and permanent control for the Credit function in the HSBC France group. Its responsibility is to monitor the Wholesale Credit Risk and Retail Credit Risk Departments and the Credit function's activities, and to define the strategic direction of the HSBC France group's policy as part of the HSBC Group's general directives. It is informed by the two departments of the main lending decisions, the state and development of the various lending portfolios, the efficiency of the Basel II framework it uses to define its lending policy, and the permanent control results reported.

RMC attendees are informed of any incidents in the Credit function and of the corrective measures taken. A summary of this information is presented to the quarterly session of the ORIC Committee (Operational Risk and Internal Control).

The control framework

The Head of Wholesale Credit Risk and the Head of Retail Credit Risk are accountable for the permanent control in the HSBC France group's Credit function.

The two departments are the second line of defence of the Credit function. To ensure that information flows efficiently to all levels, controls are managed and adapted to the staff involved according to pre-established intervention thresholds for monitoring, provisioning, level of credit authority, etc.

Controls are performed by dedicated internal controllers who carry out second-level independent controls (internal control teams BRCM (Business Risk and Control Management) of Risk Business Management, Global Banking and Markets and Commercial Banking, Retail Banking and Wealth Management and subsidiaries), but also on agents also involved in operating activities (credit managers, credit analysts, branch managers and relationship managers and wholesale and retail risk monitoring departments) and the Credit review team.

The two Heads of Credit functions are informed of any major issues relating to these activities within their respective scopes.

Tools

In compliance with regulation 97-02, each entity in charge of credit risk has set up a system to cover all risks: risks inherent in lending activities have been listed in businesses risk maps for each business (Commercial Banking, Global Banking and Markets, Retail Banking and Wealth Management) and in Credit functions risk maps. These maps set out the required checks and reports required by the various participants and their frequency.

This structure is complemented by a permanent control framework for the central coordination of Basel II lending, involving:

– data quality (quality of the data used);
– Basel II monitoring (assessment of Use Test).

Internal control procedures are updated at least annually and validated by the Heads of permanent control for the Credit function by the review of risk maps. They are also updated whenever a major change is made requiring the revision of controls or coverage of new risks.

Description of lending procedures

Lending Credit authorities

The power to grant loans is limited to those holding lending credit authorities. Beneficiaries are notified in writing according to precise standards. Credit authorities are allocated to individuals by name and not position. There is no lending committee: decisions are made individually.

HSBC France's CEO holds credit authorities within the authority limits delegated by HSBC Bank plc. He has delegated his credit authorities to the Deputy CEO, who in turn has sub-delegated them to each of the Credit departments. For amounts in excess of these limits, cases are sent to the HSBC Bank plc Credit Department for approval and, above a certain threshold, to the HSBC Group (HSBC Holdings plc) Risk Department for an absence-of-objection statement ("concurrence").

Working in concert with the Deputy CEO, the CEO has also delegated some of his credit authorities in limited amounts:

– to the CEOs of banking subsidiaries;
– to the heads of commercial entities in the network and their employees.

A holder of credit authorities is able to grant loans in compliance with the HSBC Group and HSBC France group lending directives. In case the credit authorities are exceeded, the holder escalates the requested credit approval to the upper level.

The credit risk measurement and monitoring framework

The objectives of the monitoring and control of lending are:

– to anticipate adverse changes in our counterparties in order to enable us to take all steps to safeguard the interests of the HSBC France group;
– to identify within the branch network the main areas of risks according to the main risk indicators;
– to conduct credit reviews in the branch network.

The identification, measurement, monitoring and control of credit risk are carried out in compliance with the HSBC Group directives (Group Standards Manual and Functional Instruction Manuals), local directives (Wholesale Credit Local Procedure) and the policy laid down by the RMC risk management committees (Global Banking and Markets, Commercial Banking and Retail Banking and Wealth Management).

Everyone involved in the lending process is part of credit risk control; everyone involved in the approval process is accountable. However, the responsibility for overseeing a loan falls mainly on the entity that granted the loan. Furthermore, the management structure in that entity must play its part in monitoring and managing credit risk.

Second-level controls are performed by dedicated credit risk monitoring teams.

The Credit Review France team is involved in the second line of defence and takes a risk-based approach in order to select the entities to be audited and put together samples of credit cases to be reviewed. It also works according to the principle of an audit cycle of a maximum of three years for Global Banking, Leveraged Finance, HSBC Factoring (France) and Corporate Banking Centres (CBC) and of two years for the rest of its perimeter. At the request of the Deputy CEO, in charge of risks, the team can perform ad hoc audits of various issues relating to credit.

Since the merger with the Monitoring team in October 2012, Credit Review France performs field and remote credit reviews. Global Banking units, Leveraged Finance, HSBC Factoring (France) and Corporate Banking Centres (CBC) are audited through field reviews only, whereas Corporate Business Centres (*Centre d'Affaires Entreprises* – CAE), Entrepreneurs divisions (*Pôles Entrepreneurs*) for the Commercial Banking network and Retail Banking and Wealth Management branches are audited alternatively through field and remote reviews.

Credit quality[1]

The HSBC Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of losses. For individually significant exposures, risk ratings are reviewed regularly and amendments are implemented promptly when necessary. Within the HSBC Group's retail portfolios, risk is assessed and managed using a wide range of risk and pricing models.

This risk rating system is based on the probability of default and loss estimates, in accordance with the internal rating methods required by the Basel II framework for calculating regulatory capital.

Guarantees received and other mitigating credit risk factors

The HSBC Group entities are required to implement guidelines on the acceptability of specific classes of guarantees received or credit risk mitigation and determine valuation parameters. Such parameters are expected to be cautious, regularly reviewed and supported by empirical evidence. Security structures and legal covenants are subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with local market practice.

Loans and advances[2]

Securities received are an important factor in mitigating credit risk. It is however the HSBC Group's policy to ensure that customers have the resources to repay their loans rather than to rely on securities. In certain cases, depending on the customer's standing and the type of product, facilities may be unsecured.

The principal types of security are as follows:

– in the personal sector, mortgages over residential properties;
– in the commercial and industrial sector, pledges on the business assets being financed;
– in the commercial real estate sector, pledges on the properties being financed;
– in the financial sector, pledges on financial instruments such as debt securities and equities in support of financial transactions;
– in the credit sector, credit derivatives[3] including Credit Default Swaps (CDS) are also used to manage credit risk in the HSBC Group's loan portfolio.

The HSBC France group does not disclose the fair value of collaterals held as security on unpaid but not depreciated loans and advances or depreciated debts, as it is not available.

Other securities[4]

Other securities held as guarantees for financial assets other than loans and advances are determined by the structure of the instrument. Debt securities, treasury and other eligible bills are generally unsecured with the exception of Asset Backed Securities (ABS) and similar instruments, which are secured by portfolios of financial assets.

Derivatives[5]

The ISDA (International Swaps and Derivatives Association) master agreement or, in France, the FBF (*Fédération bancaire française*) contracts are the HSBC Group's preferred agreement for documenting derivatives activity. They provide the contractual framework within which dealing activity across a full range of over-the-counter products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or if other pre-agreed termination events occur. It is common, and the HSBC Group's preferred practice, for the parties to execute a Credit Support Annex (CSA) in conjunction with the ISDA master agreement.
Under a CSA, collateral is passed between the parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions.

1 *See the Consolidated financial statements, Note 36 Risk management page 179.*
2 *See the Consolidated financial statements, Note 33 Assets charged as security for liabilities and collateral accepted as security for assets page 173.*
3 *See the Consolidated financial statements, Note 14 Derivatives pages 144 to 147.*
4 *See the Consolidated financial statements, Note 36 Risk management pages 175 to 197.*
5 *See the Consolidated financial statements, Note 2l pages 118 to 120 and Note 14 pages 144 to 147.*

Risk management and control within the HSBC France group (continued)

Deposit accounts
Settlement risk on multiple transactions, particularly those involving securities and equities, is substantially mitigated through assured payment systems or delivery *versus* payment mechanism.

Concentration risk[1]

HSBC France puts the greatest emphasis on the quality and integrity of its risky assets base (including off-balance sheet commitments) and has introduced strict limits to avoid undue concentration of risk.

Risk diversification is a core principle within the HSBC Group. Risk concentration can come in a number of forms, including: a large concentration on a single counterparty, excessive commitment to geographical areas or business sectors, as well as from risk deriving from a lending portfolio that is too concentrated or that has correlated exposures.

The LCEP document (Large Credit Exposure Policy) sets out the policy of the HSBC France group on controlling large risks, and it also forms part of the policy of HSBC Bank plc, HSBC Holdings plc and meets the requirements of the French banking regulator, the *Autorité de contrôle prudentiel et de résolution.*

The purpose of the LCEP is to ensure that:

– all HSBC France subsidiaries scrupulously adhere to both current policy and local regulatory requirements on large lending commitments in the jurisdictions in which they operate, and that they also apply the rules established by the local supervisory organisations;
– there is an appropriate framework procedure by which large commitments and concentrations of risk can be monitored and controlled;
– commitment to one individual borrower, or to a group of closely connected borrowers, should not become excessive in comparison to the capital base of HSBC France or HSBC Bank plc;
– excessive concentration and/or the combining of major exposures are excluded;
– commitments to geographical areas or business sectors should be strictly monitored to ensure that risky assets are diversified;
– reports to the Boards of Directors of HSBC France group subsidiaries, to HSBC France group Senior Management, and to the Boards of HSBC Bank plc and HSBC Holdings plc, and also to all supervisory bodies are compliant, consistent and in line with the HSBC Group policy.

To facilitate effective oversight and control, HSBC France, HSBC Bank plc and HSBC Holdings plc all hold centralised databases of information into which commitments are entered and by which they ensure that LCEP requirements are satisfied.

At the level of the Wholesale Credit Risk Department, the risk concentration is monitored using the supervision software programs, CARM and HUB (Vigirisk), which recover the authorisations and the balances outstanding from the operational systems and prepare monitoring reports.

Concentration risk by counterparty
Risk exposure limits are classified into three categories:

– category A: all loans recognised on the balance sheet and trade facilities such as guarantees and standby letters of credit;
– category B: off-balance sheet treasury risks such as currency and interest rate swaps;
– payment: principally intraday risk on payment commitments and foreign exchange business with or in the name of our customers.

Commitments to a single counterparty or group of counterparties, excluding financial institutions and central governments/central banks

- Requirements of the HSBC Bank plc and the Prudential Regulation Authority (PRA)

No exposure (total of categories A and B) may exceed 25 per cent of applicable capital, individual company or consolidated, of HSBC Bank plc without the prior agreement by the PRA.

To ensure that HSBC Bank plc complies with the PRA and LCEP requirements:

– authorisations (total of categories A and B), for HSBC France on the same counterparty or the same group of counterparties, in the normal course of its business may not exceed 25 per cent of HSBC France consolidated capital;
– HSBC France must obtain approval from HSBC Bank plc before taking additional authorisation exceeding 25 per cent of HSBC France consolidated capital.

There may be occasions where transactions exceeding this total (to a maximum of 50 per cent of HSBC France consolidated capital), are possible on condition that:

– the risk relates to foreign exchange transactions or interest-rate products;
– the counterparty groups have an acceptable risk profile, have close relations with the HSBC Group, and are of significant importance to it;
– the risk is short-term.

Furthermore, settlement exposures within the normal course of operations should not exceed 25 per cent of HSBC France's consolidated capital. No settlement exposure should exceed 50 per cent of capital.

Any exposure representing more than 25 per cent of HSBC France's capital needs to be approved locally by the Deputy CEO for control of major risks, but also needs to follow the normal approval process from the usual authorities.

1 *See the Consolidated financial statements, Note 36 Risk management pages 175 to 197.*

However, for any exposure representing more than 50 per cent of HSBC France's consolidated capital, an appropriate exemption request must be sent for approval to the Regional department. This exemption should be documented and reviewed annually.

For LCEP limits, directives are sent by the HSBC Group and are transposed at the HSBC France level, then approved by the Chief Credit Officers and the Deputy CEO in charge of risks.

A quarterly report on all risks (the total of categories A and B, and payment risk on an individual basis and settlement risk applicable to these counterparty groups) exceeding 10 per cent of HSBC France's capital must be submitted to HSBC France Senior Management, to the Board of Directors of HSBC France, to HSBC France's RMC, to HSBC Bank plc's Wholesale and Market Risk RMC and to the Boards of Directors of HSBC Bank plc and HSBC Holdings plc. This quarterly report must also be submitted to the HSBC France Audit and Risk Committee.

- *Autorité de contrôle prudentiel et de résolution* (the French banking regulator) requirements

HSBC France group's net weighted risks (as defined by the *Autorité de contrôle prudentiel et de résolution*) in the course of its ordinary business must not exceed 20 per cent of HSBC France group capital as based on external investment-grade ratings and internal counterparty ratings and 15 per cent for counterparties that do not have an external rating or (in the absence of an external rating) an internal rating of investment grade level.

In no case, even if the commitment is compliant with *Autorité de contrôle prudentiel et de résolution* requirements, can any HSBC France group commitment be authorised if it would result in the requirements of either the HSBC Group or PRA being exceeded.

In addition to quarterly monitoring, a daily control procedure has been introduced at relationship manager level to ensure that no accounts for which they are responsible exceed the limits.

Commitments to financial institutions

Commitments (categories A and B) to financial institutions should not exceed 25 per cent of HSBC France's capital after deducting protection and risk deduction techniques eligible for the BIPRU (Prudential sourcebook for Banks, Building Societies and Investment Firms).

Within the framework of these global commitments to financial institutions, type A and B commitments to the following exposures should not exceed 10 per cent of HSBC France's capital within the normal course of operations:

– exposures with a maturity of more than one year;
– exposures to subsidiaries of financial institutions that are not financial institutions themselves.

Furthermore, settlement exposures within the normal course of operations should not exceed 25 per cent of HSBC France's consolidated capital.

Dispensations are nevertheless possible if it is necessary for HSBC France to maintain commitments above the aforementioned thresholds. However, each situation should be kept at the minimum and request of dispensation should be sent to the Regional department (HSBC Bank plc Risk) for approval and must be documented and reviewed each year.

These exemptions should not result in the failure to comply with the policy relating to control of major risks applicable to HSBC Bank plc.

As is the case for all Group entities, HSBC France has delegated responsibility to HSBC Holdings plc for approving all limits for banks and certain non-bank financial institutions, on the basis of the recommendations made by the Head of Wholesale Credit Risk and Relationship Managers in charge of banks.

All commitments to banks, building societies and non-bank financial institutions are controlled *via* the Carm for Banks application. HSBC Holdings plc's Risk Management Department sets the overall limit for each counterparty, and oversees and reviews these limits on a regular basis.

A quarterly statement of HSBC France's 50 largest commitments (both categories A and B) to financial institutions (excluding non-bank financial institutions) is given to HSBC France's Senior Management, the Board of Directors of HSBC France, HSBC France's RMC, HSBC Bank plc's Wholesale and Market Risk RMC, HSBC France's Audit and Risk Committee and the Boards of Directors of HSBC Bank plc and HSBC Holdings plc.

Sectorial concentration risk

It is an HSBC France group principle to avoid excessive concentration in any business sector, and to take corrective measures if necessary. The Wholesale Credit Risk Department is responsible for supervising compliance with this principle.

Some business sectors are governed by their own Caps and business sector directives laid down by HSBC France and/or the HSBC Group.

The software application used for monitoring industry concentration risk is Vigirisk, which centralises the balances outstanding from the various information systems.

The Caps are monitored quarterly and notified to Risk Management Global Banking and Markets. Any modifications to Caps must be approved by RMC Global Banking and Markets.

Geographical area concentration risk

The overall risk limits for countries and central governments/central banks are determined by experience, current events and local knowledge as well as by the latest political, economic and market information. Consideration of the duration of the exposure is also very important in setting overall limits.

Commitments (categories A and B) should not exceed 25 per cent of HSBC France's capital apart from in the case of certain specific exposures:

– exposures to governments and central banks located in a country benefiting from a zero weighting according to the standardised methodology (S&P rating of AAA to AA-);

Risk management and control within the HSBC France group (continued)

- exposures to multilateral development banks (as rated in the glossary of the PRA Handbook) and international organisations (as rated in the BIPRU) with a zero weighting;
- exposures to central governments and central banks of the European Union denominated in the local currency benefiting from a zero weighting (BIPRU 3.4.5).

However, it should be noted that regardless of how the country with zero weighting is qualified, all propositions are submitted for individual risk approval and authorisations are registered as normal.

The exposure risk on countries, central governments and central banks is monitored by the HSBC Group Risk Department, which establishes all overall limits. Overall limits for single countries are revised at least annually or at short intervals depending on circumstances. These limits are monitored continuously and adjustments may be made at any time.

A quarterly report on country cross-border risk exposure (categories A and B grouped) in excess of 10 per cent of HSBC France's capital is given to Senior Management, the Audit and Risk Committee and the Board of Directors of HSBC France, to HSBC Bank plc and HSBC Holdings plc.

Market risk

Market risk monitoring system

The risk management policy determined by HSBC France Senior Management oversees market risk by global limits, which it reviews, and also validates the proposals made by Market Risk Management in the Market Risk Committee.

The HSBC Group assigns these global limits to HSBC France which are after divided by business and translated into operational limits within each entity by the Market Risk Managers.

These global limits are defined in terms of lists of authorised instruments, underlying assets, markets and maturities, Value at Risk (VaR) limits, sensitivity levels, maximum loss and stress tests. They are revised at least once a year by the Market Risk Committee. The committee can amend them as required.

The process for allocating market limits and the permanent market risk control system as a whole involve a number of people from the HSBC Group and HSBC France, as well as specific committees, the roles of which are set out below.

Types of limits[1]

The maximum exposure and risk that HSBC France intends to bear are defined in a set of limits.

Local mandate limits, or Room Mandates

The HSBC Group annually allocates HSBC France and HSBC Bank plc Paris Branch a local room mandate per entity. It covers the most significant limits in terms of:

- Value-at-Risk, overall, total trading, sub-limits of VaR on interest rates, foreign exchange, equities;
- sensitivity to risk factors including option factors (interest rates, government curve, inflation, volatility, exchange rates), and various "spread" factors;
- Exposure At Default (EAD) per bond issuers;
- maximum daily and monthly losses, referred to as "max-loss";
- authorised instruments, per maximum maturity, market/currency and pay-off.

A "one pager" summary version for each Entity Room Mandate (HSBC France and HSBC Bank plc Paris Branch) is submitted for approval by the Deputy CEO and reviewed annually at the HSBC France Market Risk Committee.

There is also a more detailed version of each Entity Room Mandate, with greater granularity.

The limits set by HSBC France Market Risk Committee

Annually, this Committee reviews and sets "one pager" entity mandate limits for HSBC France and HSBC Bank plc Paris Branch on the recommendation of the Head of MRMaC France (Market Risk Management and Control).

Operational limits

Market Risk Management and Control (MRMaC) issues the Room Mandate limits for HSBC France and HSBC Bank plc Paris Branch as detailed operational limits or "desk mandates". These limits are allocated to each business unit (management unit) and, if necessary, broken down by sub-business. They cover the following indicators:

- sensitivity to risk factors including option factors (interest rates, government curve, inflation, volatility, exchange rates), including various "spread" factors;
- instruments authorised:
  - per maximum maturity,
  - per pay-off type;
- additional limits governing specific activities.

These limits are set to be consistent with the VaR limits allocated by the HSBC France Market Risk Committee and with those allocated overall to HSBC France.

Governance at the HSBC Group level

Wholesale and Market Risk (WMR)

In the HSBC Group, market risk supervision is carried out within the Wholesale and Market Risk Department. Its Head reports to the HSBC Group Chief Risk Officer. This department is in charge, *via* the Market Risk Management and Control (MRMaC) entity, of allocating risk limits to the various HSBC Group entities by means of Site Entity Room Mandates once they have been approved by the HSBC Bank plc ALCO and RMC bodies. Similarly, this department is in charge of monitoring exposure at the HSBC Group level and of granting temporary limits. The Wholesale and Market Risk has a European dimension.

1 *See the Consolidated financial statements, Note 14 Derivative instruments pages 144 to 147 and Note 32 Maturity analysis of financial assets and liabilities pages 170 to 172.*

Europe Middle-East Africa Market Risk Management and Control: MRMaC EMEA

The Head of MRMaC EMEA, who reports directly to Global Head MRMaC and to European Head Wholesale Credit and Market Risk, supervises the Room Mandates review process. He submits them for review by WMR. He is the functional manager of the Head of MRMaC France.

HSBC France bodies and persons responsible for market risk monitoring

The HSBC France Market Risk Committee

Its task is to supervise all market risks, to ensure that appropriate controls exist and to approve the main rules included in the supervision system.

The HSBC France Market Risk Committee is chaired by the Deputy CEO in charge of risks and meets monthly. It includes the heads of the businesses concerned by these risks and the main heads of the associated control functions: the Head of MRMaC France, the Head of Quantitative Risk and Valuation Group (QRVG) and the Global Banking and Markets Chief Operating Officer. The following are also members of the HSBC France Market Risk Committee: the Chief Financial Officer, and the Global Banking and Markets Product Control Officer.

MRMaC France acts as secretary of the committee.

The HSBC France Market Risk Committee reviews risks and results indicators, analyses any significant events observed during the previous month, including any breaches of "one-pager" mandate limits, (see page 82 "Types of limits"), instructs requests for permanent limits, and reviews temporary limits.

The committee also validates changes to calculation methods and risk measurement methods relating to secured funds.

All entities generating market risks must apply for renewal or extension of limits annually.

The Risk Management Committee (RMC)

The Head of the MRMaC team determines on a monthly basis the main points of the Market Risk Committee to be raised to the HSBC France RMC in terms of market risk.

The Global Banking and Markets Chief Operating Officer

With regard to his responsibility for Global Banking and Markets Risk, the Global Banking and Markets Chief Operating Officer is responsible in particular for QVRG, Product Control and ORIC. He and the Head of MRMaC France are responsible for informing Senior Management of the content and development of market risk exposures. For this purpose, the Global Banking and Markets Chief Operating Officer, together with the MRMaC France Head of control functions, sets up regular information meetings for the Deputy CEO in charge of risks, which are attended by the Heads of QRVG and Product Control.

Market Risk Management and Control

Within Wholesale and Market Risk (WMR), MRMaC designs, develops and implements the market risk management policy. This in particular covers:

– permanent monitoring of market risks;
– the development and implementation of procedures complying with regulatory requirements and with best practices;
– allocation of market risk limits within the HSBC Group compatible with the HSBC Group's strategy and risk appetite;
– approval of new products;
– consolidation of exposure at the HSBC Group level of market risks and Value at Risk (VaR) calculations.

The Head of MRMaC France reports on a hierarchical basis to the Deputy CEO in charge of risks and permanent control and functionally to the Head of MRMaC EMEA.

The Head of Traded Risk France is responsible for both MRMaC France and Traded Credit France. He is responsible for permanent control of market risk in accordance with regulation 97-02, and for ensuring the consistency and effectiveness of the market risk control framework. He is referred to as Head of MRMaC France in this section on market risk.

In general, it is up to the Head of MRMaC France to provide Senior Management and HSBC France's Market Risk Committee with comments and explanations concerning any significant breaches of max-loss and limits (One pager Room Mandate), or any positions he deems useful for Senior Management to know about.

The Head of MRMaC France is a member of the HSBC France Market Risk Committee, the HSBC France Balance Sheet ALCO and the HSBC France Capital Management Committee. He takes part in the periodic Senior Management information meeting organised by the Chief Operating Officer of Global Banking and Markets and in the HSBC France Audit and Risk Committee.

MRMaC is made up of two teams: the Market Risk Management (MRM), a team of 8 people, and the Market Risk Control (MRC), a team of 14 people.

Market Risk Management (MRM)

Market Risk Management (MRM) defines market risk mandate limits, deals with breaches of limits and exceptional situations, analyses positions, monitors positions depending on market movements, analyses the appropriateness of risk metrics (sensitivity, VaR, stress scenarios), defines and prepares a summary analysis of market risks for Senior Management, is involved in improving risk monitoring procedures and implements new indicators, as required by market developments.

Risk management and control within the HSBC France group (continued)

The MRM team prepares the annual review of Room Mandates and, after in-depth analysis and approval from the HSBC France Market Risk Committee, submits it to WMR for approval *via* the Head of MRMaC EMEA.

Market Risk Management then defines one-pager and detailed Room Mandates, together with the desk mandates that apply to each business unit or management unit.

Market Risk Control (MRC)

The Market Risk Control teams are responsible on a day-to-day basis for checking adherence to all of the various market risk limits, regardless of the level of the market risk mandate and the nature of the limit in question. They report any breaches of these limits and also any consumption in excess of a warning threshold set at 80 per cent of the limit. They are responsible for reporting on weekly stress tests. They also carry out the backtesting.

Backtesting compares the *ex ante* calculated VaR figures with *ex post* daily P&L (Profit and Loss) figures. This comparison tests the ability of VaR to control the expected P&L variations and therefore helps assess the quality of the internal model. Any shortcomings in the VaR model will particularly come to light if the day's P&L figures exceed 99 per cent VaR or where VaR systematically and overwhelmingly exceeds daily P&L figures.

Backtesting is carried out both on profits and losses, using extreme quantiles (1 per cent and 99 per cent) of theoretical VaR distributions. The "backtesting violation" exceptions are reported and analysed.

The model is backtested by taking 99 per cent, one-day VaR figures and comparing them with daily results determined from changes in market prices assuming constant positions. Backtesting is done daily. Its results are reviewed monthly in a special HSBC Group committee and notified quarterly to the regulator.

The Market Risk Control structure is in line with that of the businesses.

A dedicated team produces and distributes HSBC France's consolidated market risk reports for Senior Management and for the HSBC Group Consolidation. The team is also responsible for producing the various periodical summary statements required for both internal needs (RMC pack, annual reports, etc.) and external needs, such as supervisory authorities.

Market Risk Control reports hierarchically to the Head of MRMaC France and functionally to the Head of Global MRC.

Quantitative Risk and Valuation Group (QRVG)[1]

Models developed by the front office research team are used in managing, valuing and assessing the risks of some derivative products. These models as well as VaR models are validated by an independent, specialist unit, the Quantitative Risk and Valuation Group (QRVG). Its manager reports on a local level to the Global Banking and Markets Chief Operating Officer and functionally to the Head of QRVG EMEA.

Valuation Committee

Reporting to the Head of Product Control, it includes QRVG, Product Control and MRMaC members, and representatives of the financial functions of Global Banking and Markets and front office representatives. It meets within the first two weeks of the following month for discussion between all parties of the parameters of the models used by the front office. Also examined during these meetings are changes in the main calibration and price control indicators. A review is carried out of operations that are specifically modelled in front office/back office systems: "booking" by the custodian, specific features not modelled in the systems.

This Committee also examines the methods for calculating provisions regarding market activities.

Market risk in 2013

HSBC France's market risk mandate for 2013 was a continuation of that adopted in 2012. The European Central Bank (ECB) support to peripherical countries and discussions on the establishment of the European supervisory mechanism led to relatively less volatile markets than in 2011 and early 2012. In 2013, risk appetite slightly increased in the least vulnerable eurozone countries including supra-national issuers.

Throughout 2013, HSBC France continued to play a major role as a platform for the HSBC Group in eurozone government bonds and euro and USD-denominated derivatives.

Particular attention was paid to monitoring positions on eurozone government bonds, which continued to be the main drivers of movements in capital markets earnings in 2013.

Exposure to the debts of various eurozone countries, particularly those of peripheral countries, was maintained during the year 2013 within the allocated risk limits.

Throughout the year 2013, HSBC France operated with a multiplying factor equal to the minimum level for calculating the regulatory capital requirement.

1 *See the Consolidated financial statements, Note 14 Derivative instruments pages 144 to 147 and Note 36 Risk management, pages 157 to 197.*

Structural interest-rate risk

Structural interest-rate risk is managed in accordance with HSBC Group standards and centrally by the Asset, Liability and Capital Management Department which is part of the Finance Department (ALCM).

This structural interest rate risk affects banking operations and structural components of the balance sheet and does not affect market operations. The main objective of HSBC France structural rate risk management is to suppress the sensitivity of net income to interest rates by managing the fixed interest rate gap (imbalance between expected fixed interest inflows and outflows by maturity ranges).

Structural interest rate risk arises mainly from the changes in disparities between future returns on assets and future costs of liabilities stemming from variations in interest rates. Analysis of this risk is complicated, as a result of the need to make assumptions, partly due to the options available to borrowers on some products, for instance early repayment of property loans, but also because of the behaviour of depositors with regard to balances that by contract are withdrawable on demand, such as current accounts. When necessary, behavioural features, which are different from contractual features, are assessed to determine the actual underlying interest rate risk.

Governance

The body responsible for monitoring structural interest rates, liquidity and forex risks is the Balance Sheet ALCO which is headed up by the ALCM, which reports to the Risk Management Committee. The Balance Sheet ALCO, which meets every month, brings together the CEO, the Deputy CEO in charge of risks, the Chief Financial Officer and the main heads of businesses and support functions concerned by ALCM. It examines risk indicators prepared by the Finance Department and analyses all significant changes in the financial and regulatory environment relating to these risks.

Its duty is to supervise balance sheet risks in a systematic manner, to ensure that appropriate controls exist, to approve on an annual basis the main management rules and limits included in the supervision framework and to regularly monitor each behaviour assumption and the interest rate liquidity and foreign exchange risk positions.

Any incidents observed during structural interest rate, liquidity and forex risk management processes and the corrective measures taken are presented to the Balance Sheet ALCO on a quarterly basis.

HSBC France analyses a number of indicators each month on a consolidated basis, allowing for effective monitoring of interest rate risk (including static gaps, calculating the sensitivity of results, stress scenarios, etc.).

The ALCM coordinates the work of the TALCO Rate Committee, a sub-committee of the Balance Sheet ALCO, which meets monthly to supervise structural interest-rate risk management in the Commercial Banking retail businesses. The TALCO Rate meeting minutes and all the above mentioned interest-rate risk indicators are submitted monthly to Balance Sheet ALCO for approval.

Interest-rate risk measurement and supervision system (and methods)

The interest-rate risk assessment process is performed monthly and is based on Commercial Banking businesses interest rate gap analysis. Each month, a gap is calculated reflecting assumptions on changes in assets and liabilities, based on which hedges are set up.

Indeed, on the basis of information produced indirectly by the central systems and/or reports provided by the entities, ALCM measures monthly and supervises structural interest-rate risk on an individual entity basis, where the risk is significant and on a consolidated basis for the other entities. Centralising the process enables ALCM to manage risk in the best way possible and to lay down rules for transferring this risk to the department responsible for markets activities (Global Markets).

The net interest rate risk exposure is transferred to dedicated trading books managed by the trading room through a series of internal deals (cash or swap) between the business units and the trading room. Net exposure is managed through the use of derivatives to close the market position. The breakdown of derivative instruments by types of contract used is set out in Note 14 of the Consolidated financial statements[1].

The structural interest-rate risk management model sets out a framework of operational limits to be adhered to in deciding upon new hedging transactions. As such, the new gap after hedging must ensure that the staggered residual exposure is kept to within the limits.

A principal management tool for the structural interest-rate risk is the control of the interest-rate sensitivity of the projected net margin under varying interest rate scenarios. In addition, following simulation work carried out to comply with Basel II Pillar 2 requirements on the Economic Value of Equity, each month, HSBC France also measures the impact on equity of an across-the-board rise or fall of 200 basis points.

Risk is measured and hedging transactions are carried out centrally by the ALCM: these activities rely on a set of formalised controls that are certified on a monthly basis. The process for the execution and accounting justification of hedging transactions is documented, key controls have been identified and certificates drawn up according to the HSBC Group standards, in accordance with the Sarbanes-Oxley Act.

1 *See pages 144 to 147. The principal accounting policies relating to derivatives are presented in Note 2l of the Consolidated financial statements pages 118 to 120.*

Risk management and control within the HSBC France group (continued)

Liquidity risk

Liquidity risk is defined as the risk that HSBC France does not have sufficient financial resources to meet its obligations as they fall due, or will access to such resources only at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required.

The objective of the HSBC France's liquidity and funding management framework is to ensure that all foreseeable funding commitments can be met when due, and that access to the wholesale markets is co-ordinated and cost-effective. To this end, HSBC France maintains a diversified funding base comprising core retail and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by maturity which are held to enable HSBC France to respond quickly and smoothly to unforeseen liquidity requirements.

HSBC France maintains strong liquidity positions and manages the liquidity profiles of its assets, liabilities and commitments with the objective of ensuring that its cash flows are balanced appropriately and that all its anticipated obligations can be met when due.

HSBC France adapts its liquidity and funding risk management framework in response to changes in the mix of business that the HSBC Group undertakes, and to changes in the nature of the markets in which HSBC France operates. The HSBC Group also seeks to continuously evolve and strengthen its liquidity and funding risk management framework.

HSBC France's liquidity risk is managed centrally by the Asset, Liability and Capital Management Department (ALCM) which is part of the Finance Department. The TALCO Liquidity chaired by ALCM, closely monitors the liquidity risk measuring systems and coordinates short-term management. This committee, which is a sub-committee of the Balance Sheet ALCO, is attended monthly by those responsible for carrying out operations (Balance Sheet Management), and for preparing reports and monitoring (Finance Department) and with businesses representatives. This committee is tasked with managing liquidity ratios, preparing the funding plan, looking into alternative sources of funding and handling any matters relating to liquidity.

Policies and procedures

The management of liquidity and funding is primarily undertaken locally in HSBC France in compliance with practices and limits set by the Balance sheet ALCO. It is the HSBC Group's general policy that each banking entity should be self-sufficient when funding its own operations.

Liquidity risk is monitored by tracking a number of indicators which are updated monthly for the TALCO Liquidity and for Balance Sheet ALCO. These indicators are as follows:

– monitoring the French liquidity ratio, as required by French regulations;
– producing PRA regulatory reports;
– Operational Cashflow Projections per various stress scenarios and considering the level of liquid assets necessary in relation thereto;
– monitoring balance sheet liquidity and Advances to Core Funding ratio against internal and regulatory requirements;
– maintaining a diverse range of funding sources;
– managing the concentration and profile of debt maturities;
– managing contingent liquidity commitment exposures within pre-determined caps;
– maintaining funding plans;
– monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
– maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business.

Primary sources of funding[1]

Current accounts and savings deposits payable on demand or at short notice form a significant part of HSBC France's funding, and the HSBC Group places considerable importance on maintaining their stability. For deposits, stability depends upon preserving depositor confidence in the Group's capital strength and liquidity, in line with its commercial policy.

HSBC France's participation in December 2011 in the European Central Bank's three-year Long-Term Refinancing Operation (LTRO) fell within the framework of the conservative and cautious financing policy of HSBC France, which prior to the operation respected all of its regulatory and internal ratios. HSBC France subscribed in 2011 to EUR 5 billion out of a total of EUR 1,012 billion. This debt has been repaid in full amount at the first opportunity in January 2013.

Given HSBC France's need to renew its long term debt maturing in 2013-2014, HSBC France has issued EUR 2 billion of senior EMTN and EUR 2.2 billion of covered bonds with maturities ranging from 5 to 10.5 years. At the same time, deposits increased by EUR 2.7 billion to EUR 33.3 billion at 31 December 2013 compared with EUR 30.6 billion at 31 December 2012.

1 *See the Consolidated financial statements, Note 32 Maturity analysis of financial assets and liabilities pages 170 to 172.*

Pursuant to the objective of diversifying its sources of funding, HSBC France had led in 2011 the transformation of its French covered bonds structured programme into HSBC SFH (France), a "*Société de Financement de l'Habitat*" fully regulated by the ACPR. The outstanding amount of "*Obligations de Financement de l'Habitat*" issued by the structure as of 31 December 2013 stands at EUR 4.2 billion.

The management of liquidity risk

HSBC France uses a number of major measures to manage liquidity risk, as described below:

French regulatory ratio

HSBC France monitors the one month French regulatory ratio, as required by French regulators. Banks are required to maintain this ratio greater than 100 per cent at all times, to make sure that their liquid assets are sufficient to cover their liabilities as they fall due within one month.

It is calculated for HSBC France on a stand alone basis and each subsidiary subject to it makes its own calculation. In 2013, the average liquidity ratio of HSBC France on a stand alone basis was 125 per cent, compared with 131 per cent in 2012.

Advances to Core Funding ratio

HSBC France emphasises the importance of core customer deposits as a source of funds to finance lending to customers, and discourages reliance on short-term professional funding. This is achieved by placing limits on the HSBC entities which restrict their ability to increase loans and advances to customers without corresponding growth in core customer deposits or long term debt funding. This measure is referred to as the Advances to Core Funding ratio. Advances to Core Funding ratio limits are set by the Balance sheet ALCO and validated by the HSBC Group.

The ratio expresses loans and advances to customers as a percentage of the total of core customer deposits and term funding with a remaining term to maturity in excess of one year. In case of a breach of limit, HSBC France would correct the situation by accessing additional funding sources such as interbank or collateralised lending markets. In 2013, the average Advances to Core Funding ratio was 106 per cent, compared with 88 per cent in 2012.

The HSBC Group also uses measures other than the Advances to Core Funding ratio to manage liquidity risk, including projected cash flow scenario analyses.

Projected cash flow scenario analyses

HSBC France uses a number of standard projected cash flow scenarios designated to model both Group-specific and market-wide liquidity crises, in which the rate and timing of deposit withdrawals and drawdowns on committed lending facilities are varied and the ability to access interbank funding and term debt markets and generate funds from assets portfolios is restricted. The appropriateness of the assumptions under each scenario is regularly reviewed by the HSBC Group.

Stressed one month coverage ratio

The stressed one month coverage ratio is derived from these scenario analyses, and expresses the cash inflows as a percentage of cash outflows over a one month time horizon in an HSBC France-specific scenario. HSBC France is required to target a ratio of 100 per cent or greater. In 2013, the average "stressed one month coverage ratio" was 107 per cent, compared with 112 per cent in 2012.

Both ratio and cash flow limits reflect the local market place, the diversity of funding sources available and the concentration risk from large depositors. Compliance with entity level limits is monitored and reported regularly to the HSBC Group.

Off-balance sheet commitments

In the normal course of business, HSBC France provides customers with committed facilities, including committed backstop lines to conduit vehicles sponsored by the HSBC Group and standby facilities to corporate customers. These facilities increase the funding requirements of HSBC France when customers choose to raise drawdown levels over and above their normal utilisation rates. The liquidity risk consequences of increasing levels of drawdown are analysed in the form of projected cash flows under different stress scenarios.

Structural foreign exchange risk

As HSBC France is part of the HSBC Group, its exchange rate position is limited. Structural foreign exchange exposition arising from banking operations is systematically transferred to the trading room which manages exchange rate risk according to the limits set by the Market Risk Committee.

There is also an exchange rate risk on equity due to investments in foreign currency that are not hedged by financing in foreign currency. This exposure, termed as "structural", corresponds to net investments in subsidiaries, branches or associated companies for which the euro is not the functional currency.

HSBC France's investments in foreign subsidiaries are small in amount. The structural foreign exchange exposure is mainly linked to these subsidiaries' profits retained in reserves. This exposure and the sensitivity of capital ratios to variation in exchange rates are monitored by the Balance Sheet ALCO.

HSBC Holdings plc terms this risk as "structural", and monitors it through exposure and capital adequacy sensitivity indicators calculated by the Finance Department. The analysis of these ratios is presented to the Balance Sheet ALCO on a quarterly basis.

Risk management and control within the HSBC France group (continued)

Risk management of Insurance operations

The risk governance framework of HSBC Assurances Vie (France) focuses on several committee, whose responsibility is to manage the exposure of the business to risks according to the limits of the risk appetite. The main committees involved in the risk governance are the following:

- the Actuarial Control Committee validates the changes in assumptions, methodology and processes that result in a material impact on profit before tax or solvency position;
- the Local Insurance Model Oversight Committee validates and controls the models used by the business;
- the Asset and Liabilities Committee manages the asset-liability risk, monitors the economic and regulatory capital levels and the investment risks (market, credit and liquidity risks);
- the Insurance Risk Meeting monitors the insurance risks, including the lapse rate (redemption, mortality and morbidity), the reinsurance strategy and the non-economic assumptions used in the models;
- the BRCM Committee is in charge of the operational, regulatory and compliance risks.

The Insurance Risk Management Committee's (RMC) responsibilities extend to all risks to which the Insurance business is exposed. The RMC uses the risk reports from the above committees and exercises governance on those committees, overseeing their structure and their running. The RMC reports to the Audit Committee the significant issues and the actions being taken to manage them.

Capital management[1] (audited information except where stated)

In compliance with the European Union's Banking Directive, the *Autorité de contrôle prudentiel et de résolution* (ACPR – French banking regulator) requires each bank and banking group to maintain a specific ratio of total capital to risk-weighted assets. Data on capital adequacy are sent to the ACPR that lays down the minimum capital adequacy requirements for the HSBC France group.

Governance

The Board of Directors has the ultimate responsibility of managing HSBC France group's capital base. A number of committees help the Board of Directors in this role. These are the Executive Committee, the Risk Management Committee (RMC), the Balance Sheet ALCO, the Capital Management Committee (CMC). The governance and supervision of resilience tests committee (SOC) was merged with the CMC in 2012. The Finance Department co-ordinates the various aspects of capital management. These are regulatory reports, capital adequacy planning, assessment of resilience to stresses and management of sources of capital.

Methods

The HSBC France group's capital resources policy is to conserve its capital base through the diversification of its sources of capital and an efficient allocation of capital. The HSBC Group ensures that at all times it maintains a prudent relationship between its total capital, as measured according to the criteria used by the ACPR for supervisory purposes, and the varied risks of its business.

Regulatory capital

The HSBC France group capital is divided into two tiers. Tier 1 capital comprises only common equity as no hybrid securities eligible for inclusion in additional Tier 1 capital have been issued by the HSBC France group. Core Tier 1 capital is comprised of shareholders' funds attributable to the Group and minority interests, after adjusting for items reflected in shareholders' funds which are treated differently for the purposes of capital adequacy (mainly cash flow hedge reserves, reserves arising from revaluation of property, unrealised gains arising on the fair valuation of instruments held as available-for-sale and the credit spread on HSBC France's own debt and on derivatives). The book values of goodwill and intangible assets are deducted from Tier 1 capital.

Tier 2 capital, in addition to qualifying subordinated loans, is comprised of part of the property revaluation reserves and part of the unrealised gains on the fair valuation of instruments held as available-for-sale. To calculate the total amount of regulatory capital, the carrying value of financial investments in banks is deducted from these two categories of capital, plus any items specified by regulations.

Regulatory capital requirements

Pillar 1

Basel II provides three approaches for the calculation of Pillar 1 credit risk capital requirements. The standardised approach requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories to which it applies risk type weightings. The Internal Ratings-Based (IRB) foundation approach, allows banks to calculate their credit risk regulatory capital requirement on the basis of their internal assessment of the probability that a counterparty will default (Probability of Default – PD), with quantification of Exposure At Default (EAD) and an estimate of loss in the event of default (Loss Given Default – LGD), the two latter being subject to standard supervisory parameters. Lastly, the advanced IRB approach allows banks to use their own internal assessment of not only PD, but also the quantification of EAD and LGD. Expected losses are calculated by multiplying EAD by PD and LGD. The capital requirement under the IRB approach is intended to cover unexpected losses and is derived from a formula specified in the regulatory rules, which incorporates these factors and other variables such as maturity and correlation.

1 *See the Consolidated financial statements, Note 36 Risk cover and regulatory ratios page 191 and Note 30 Fair value of financial instruments carried at fair value pages 163 to 169.*

To measure its credit risk, with the approval of the ACPR, the HSBC France group has used the advanced IRB approach for sovereign risk in relation to banks and retail clients since late 2007. As of 2009, HSBC France received approval from the ACPR to use the advanced IRB approach for Commercial Banking clients (LGD in 2009, EAD in 2012). Only some residual exposures are still measured using the foundation or standard approach as an exception.

Market risks are measured, with ACPR approval, using Value at Risk (VaR) models or standard rules laid down by the ACPR. As regards the counterparty risk, four calculation approaches are defined by Basel II to determine exposure values: the standardised method, mark-to-market, initial risk and internal model methods.

The HSBC France group uses internal models based on VaR to calculate capital requirements for market risk, and the mark-to-market approach for counterparty credit risk.

Basel II also introduced capital requirements for operational risk which, again, contains three levels of sophistication. The capital required under the foundation approach is a simple percentage of income, whereas under the standardised approach banks apply three different percentages of income according to each of eight businesses defined by the regulations. Lastly, the advanced approach uses the banks' own statistical analysis and operational risk data modelling to determine capital adequacy requirements. The HSBC France group has adopted the standardised approach.

Pillar 2

The second pillar of Basel II (supervisory review and evaluation process) involves both banks and regulators taking a view on whether a bank should hold additional capital against risks not covered in Pillar 1. Part of the Pillar 2 process is the Internal Capital Adequacy Assessment Process (ICAAP), which is the bank's self assessment of risks not captured by Pillar 1. A report on this assessment, regularly updated, is made to the ACPR.

Pillar 3

Pillar 3 of Basel II is related to market discipline and aims to make banks more transparent by requiring them to publish more details on their risks, capital and risk management. The HSBC Group in France does not publish its own set of Pillar 3 disclosures but these are included in the disclosures that HSBC Holdings plc makes available on the investor relations section of its website.

Regulatory changes

Regulations moved into a new phase in June 2013 with the promulgation of the CRD4 and the CRR (Basel III). These new rules, which foresee in certain cases transitional measures (phase-in), will be implemented from January 2014.

Resilience testing

The resilience testing exercises required by the supervisory authorities assess the impact on capital and liquidity of very adverse but plausible scenarios, and so come up with measures to mitigate these effects. They are also a tool that the bank's management can use in its task of managing capital and liquidity, to enable it to consider corrective measures if the early signs of such scenarios emerge. The testing programme carried out by HSBC France in 2013 includes certain specific scenarios required by Senior Management, the HSBC Group or its supervisory authority (Prudential Regulation Authority).

Risk management and control within the HSBC France group (continued)

Regulatory capital position

The table below sets out the analysis of regulatory capital:

Composition of regulatory capital

(in millions of euros)	2013	2012
Tier 1:		
Shareholders' funds of the parent company	**5,391**	5,213
Non-controlling interests	**46**	48
Less: dividends to be paid to the parent company	–	(240)
Less: items treated differently for the purposes of capital adequacy	**(57)**	(153)
Less: contribution to shareholders' funds of HSBC Assurances Vie (France)	**(275)**	
Less: goodwill capitalised and intangible assets	**(362)**	(363)
Less: deductions in respect of expected losses	**(57)**	(64)
Less: subordinated securities of HSBC Assurances Vie (France) consolidated by the equity method	**(259)**	–
Less: investments in credit institutions exceeding 10% of capital	–	(309)
Total qualifying Tier 1 capital	**4,427**	4,133
Tier 2:		
Reserves arising from revaluation of property and unrealised gains on available-for-sale securities	**46**	44
Perpetual subordinated loan and term subordinated loan	**22**	55
Less: deductions in respect of expected losses	**(57)**	(64)
Less: subordinated securities of HSBC Assurances Vie (France) consolidated by the equity method	**(11)**	–
Less: investments in credit institutions exceeding 10% of capital	–	(35)
Total qualifying Tier 2 capital	–	–
Total qualifying Tier 3 capital	–	–
Investments in other banks and other financial institutions	–	(5)
Other deductions	–	–
Total capital	**4,427**	4,128
Total risk-weighted assets *(unaudited)*	**32,343**	32,673
Total risk-weighted assets before the additional requirement due to the floor *(unaudited)*	**29,487**	30,501
Capital ratios: ***(unaudited)***		
Total capital	**13.7%**	12.6%
Tier 1 capital	**13.7%**	12.6%
Tier 1 capital before the additional requirement due to the floor	**15.0%**	13.5%

The above figures were computed in accordance with the EU banking consolidation directive and the ACPR prudential standards. The group complied with the ACPR's capital adequacy requirements throughout 2013 and 2012.

In 2008, HSBC France had granted a EUR 650 million subordinated loan to HSBC Bank plc. This subordinated loan was paid off on 23 December 2013, releasing the capital requirement due to the investments exceeding 10 per cent of capital.

On 13 December 2013, HSBC France acquired the insurance company HSBC Assurances Vie (France).

Tier 1 and Tier 2 capital

The contribution to shareholders' funds of the insurance company is deducted from Tier 1 for EUR 275 million. HSBC Assurances Vie (France) subordinated securities held by HSBC France are deducted from Tier 1 for EUR 259 million and from Tier 2 for EUR 11 million. Other capital variations result mainly from the year profit redeemed by the variation of the credit spread of derivatives (DVA) for EUR 30 million and of the interim dividends for EUR 120 million.

Risk-weighted assets

The fall in risk-weighted assets is mainly due to the decrease of market risk.

In 2013, EUR 2.5 billion of additional requirements due to the floor are included in the risk-weighted assets, in addition to EUR 771 million linked to HSBC France holding of HSBC Assurances Vie (France) shares.

OPERATIONAL RISKS

Operational risk is the risk of losses arising from shortcomings or failings attributable to internal processes, employees, IT systems or external events including those that are unlikely to occur but which present a significant risk of loss, including the risks of internal and external fraud.

Identification and management of operational risks

Governance

The operational risk management framework is the responsibility of a central team: the Operational Risk and Internal Control Department (DCIRO).

This department, which reports to the Deputy CEO in charge of risks and permanent control, centralises work relating to the operational risk management and supervision of permanent control framework.

Within this framework, a specific Operational Risk and Internal Control (ORIC) Committee conducts, for the entire HSBC France group, regular reviews of businesses and risk functions, operational risks, the results of controls carried out, and progress made in action plans implemented to mitigate identified risks and operational losses.

ORIC or BRCM (Business Risk and Control Management) Committees within the businesses and risk functions are responsible for overseeing management of the operational risks and permanent controls of each entity.

The HSBC France group has procedures covering the process for the identification, reporting, management, control and prevention of operational risks, specifying in particular that:

- operational risk management is first and foremost the responsibility of managers through how they run their operations;
- IT systems are used to identify and report operational risks and generate regular and appropriate reports;
- identification and assessment of risks and controls across the entire scope are updated at least once a year in order to identify any significant changes;
- operational losses are collated and reported.

The HSBC Group uses the standardised approach for calculating the regulatory capital needed to cover operational risks. To estimate economic capital, the HSBC Group uses the same concept, but as applied to certain specific businesses in the HSBC Group's structure instead of the eight businesses of the regulatory approach. The HSBC Group has, however, started work centrally on developing an economic capital model. The HSBC Group is planning in the medium term to make an eventual transition to the advanced method (AMA) for calculating the regulatory capital required to cover operational risks.

Identification and risk measurement through risk and controls mapping

HSBC France and its businesses are exposed to all the types of operational risks that banks face, particularly:

- risk of mistakes in processing transactions, particularly market transactions;
- risk of fraud, internal and external (in particular Internet fraud, fraudulent transfers, bank card fraud, etc.);
- risk related to information security;
- risk related to customer relations.

Operational risks include reputational risk. Any lapse by HSBC France in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk which may impact its relationship with its clients, counterparts, shareholders, regulators and any other stakeholders. Safeguarding and building upon the Group's reputation is the responsibility of every employee of HSBC France.

Business-line internal control and operational risk management teams (Business Risk and Control Management) coordinate work, within their entities, to identify operational risks liable to affect their business. In conjunction with the business head concerned, they analyse and quantify those risks. This risk map covers the whole operational risks exposure of the business including the first and second level of key controls required to monitor these risks. Action plans are drawn up for all risks identified as significant according to their grading, and progress made is monitored by business-line internal control and operational risk management teams.

Each risk function also lists the risks for which it is responsible and to which it is exposed in its day-to-day operations.

To prepare risk maps, internal control and operational risk management teams in the businesses and functions comply in particular with the provisions of the Operations FIM Group manual using, where appropriate, a process-based approach.

Operational risk and incident analyses and reports

DCIRO prepares monthly reports for the HSBC France and HSBC Group Senior Management, and presents summary reports to the relevant bodies (the HSBC France ORIC Committee, Risk Management Committee, and the Audit and Risk Committee).

These reports in particular cover:

- an executive summary explaining movements on losses over the past period and the principles of the operational risks management framework;
- a "heat map" covering indicators of exposure to each type of operational risk (*i.e.* excluding credit and market risk) accompanied by a description of the main problems and associated action plans for the main types of risk (Top Existing Risks);
- the main incidents in the past period and the associated action plans;
- the oversight assurance reviews summary performed by DCIRO relating to BRCM teams or thematics issues.

Risk management and control within the HSBC France group (continued)

Reporting statements are prepared on the basis of declarations made in the HSBC Group's incidents and operational risks management system, Orion, which should ultimately constitute an Enterprise Risk Management (ERM) tool. This application allows for decentralised management of the risk identification and updating process, declarations of operating losses and the monitoring of action plans decided with a view to mitigating the criticality of risks deemed to be major.

The operational risk management and control framework is organised around risk functions, whose responsibility is to provide a second line of defence in the main categories of risk to which the bank is exposed. The nature and monitoring of the main risks are discussed above and below.

Non-compliance risk

Management of the risk of non-compliance is described in the Chairman's report on pages 46 to 48.

Legal risks and litigation management

The HSBC France Legal Department (DAJ) is responsible for HSBC France group's legal risks oversight as a second line of defence, and helps the various HSBC France group businesses to prevent and control legal risk. The DAJ is in charge of litigation follow-up.

Prevention of legal risks

The DAJ is responsible for running the Legal and Tax Risks Committee which meets quarterly to examine situations likely to give rise to specific and significant legal or tax risks. It also runs the Complex and Structured Transactions Committee, which examines the legal, accounting, tax and financial, and reputational risks arising from complex structured transactions. The DAJ participates in the Products Examination and ORIC (Operational Risk and Internal Control) Committees, in the RMC (Risk Management Committee) of the HSBC France group, and is involved in due diligence procedures for market operations, structured transactions and any new acquisition (or disposal) of an entity by the HSBC France group.

The DAJ is principally responsible for managing risks, directly or indirectly, connected with defense litigation matters. It is involved in dealing with credit files requiring special management or in default. The DAJ monitors other risks that might have a legal impact.

Control framework of legal risk

The Legal and Tax Risks Committee, chaired by the Chief Risk Officer (who is also Deputy CEO), meets quarterly to ensure that the risks framework for legal and tax risks remains adequate in the face of changes in laws, regulations and group organisation. The Committee also examines the monitoring of incidents raised previously, the results of implemented controls, along with any new incidents and measures taken. It reports on its activities to the HSBC France group ORIC Committee.

Each HSBC France subsidiary that is subject to regulation 97-02 draws up a half-yearly legal permanent control report, signed by a lawyer and the Head of permanent control for the subsidiary on behalf of itself and the companies it controls. These reports highlight any significant matters revealed by controls, or any control deficiencies and proposed action plans to resolve any incidents observed while effecting any controls.

At the HSBC France level, the lawyers responsible for legal risk in the various businesses prepare legal control certifications which, taken as a whole, cover all major legal risks identified for all HSBC France entities.

On the basis of these reports, HSBC France's Head of Legal prepares a half-yearly general certification on the Legal function's permanent control.

This framework is wholly effective and a detailed description of it is given in a regularly updated circular.

Litigation monitoring[1]

The situation of the risks arising from significant litigation in progress against the HSBC France group is examined quarterly by a committee chaired by the Chief Risk Officer and is made up of representatives of the Finance Department, the Credit Department and the DAJ. This committee gives a considered opinion on the basis of which Senior Management decides upon the amount of the litigation provision to be charged or written back.

Cases in progress as at 31 December 2013 involving legal risks likely to have a significant effect on the financial situation of the HSBC France group net assets are set out below. These cases have given rise to appropriate provisions, as necessary.

Interbank fees relating to electronic cheque processing (CEIC)

In 2002, a number of banks with retail networks, including HSBC France, forming part of an inter-branch committee sponsored by the French Banking Federation, introduced a system of interbank fees applying to the new electronic cheque processing termed *Echange d'Images Chèques* (EIC), the cheque image exchange system.

In March 2008, the French Competition Authority sent notification of a complaint to the 12 members of the committee – including HSBC France – for the introduction of interbank fees when the EIC was set up.

On 20 September 2010, the French Competition Authority took an unfavourable decision as regards the scheme introduced in 2002. In substance, it found that the CEIC constituted an illegal scheme, the purpose of which included effects on the cost of processing cheques causing an increase in costs charged on "major remitter" customers. The banks involved in setting up this charging system were fined a total of EUR 384.9 million. HSBC France was ordered to pay a fine of EUR 9.05 million. HSBC France, together with the other banks that were fined, except the *Banque de France*, decided to appeal this unfavourable decision.

1 *See the Consolidated financial statements, Note 40 Legal proceeding and regulatory matters page 202.*

The banks actually contest as much the anticompetitive purpose as the anticompetitive effect of the CEIC and argue that it has no significant effect on the costs of banking services. The banks, including HSBC France, further question the method used in calculating the fines imposed upon them.

On 23 February 2012, the Paris Court of Appeal overturned the decision of the French Competition Authority, finding that the Authority had failed to demonstrate a restriction by object. The Paris Court of Appeal cleared the banks of wrongdoing and ordered the repayment of fines paid by the banks. The French Competition Authority is appealing to the Supreme Court against the decision.

The hearing before the Supreme Court will take place on 18 November 2014.

Enquiry by the French Competition Authority on the interbank fees relating to all means of payment other than cheques

On 16 April 2009 and 22 September 2010, HSBC France along with some ten other banks and the GIE Cartes Bancaires CB received questionnaires from the French Competition Authority regarding the interbank fees applied to means of payments used in France. This followed a complaint made by the *Fédération des entreprises du commerce et de la distribution* (FCD) due to the existence, or due to levels considered excessive, of multilateral or bilateral interbank commissions related to the usage of means of payment. The French Competition Authority decided to conduct research into the practices of the largest French banks and bank card networks operating in France (Visa Europe, Mastercard Europe SPRL, Mastercard France, Mastercard International Inc., the GIE Cartes Bancaires CB and the GIE Carte Bleue Visa) on interbank fees paid and received for all means of payment used in France (direct debits, transfers, debit and credit cards) between 2000 and 2008.

The French Competition Authority, having expressed, "competition concerns" with regard to the GIE Cartes Bancaires CB, in light of the replies to the questionnaires as much from the GIE as from the banks, accepted the opening of an undertaking procedure.

On 7 July 2011, the Competition Authority announced its decision to make the commitments proposed by the GIE Cartes Bancaires CB under this procedure mandatory. To our knowledge, no appeal has been made against this decision.

As regards interbank fees applied to payment methods other than cheques and cards, the French Competition Authority also agreed to an undertakings procedure. On 14 March 2012, it set out its competition concerns and in response to those concerns, the banks have drawn up a draft set of undertakings. In July 2013, the French Competition Authority stated that the banks had fulfilled their commitments and decided, that a further cost assessment study should be carried out regarding the exceptional SEPA means of payment. This study and the banks' adjustments offers shall be submitted to the Competition Authority no later than 1 October 2014, which should finally resolve this matter.

The Apollonia case

As was the case for around twenty other banks, HSBC worked during a limited period of time (from early 2006 to April 2007), and mainly in one branch, with a financial adviser and estate agent, known as Apollonia. The latter offered its clients (mainly independent professionals) "turnkey" tax efficient products of the "*Loueur Meublé Professionnel* (LMP)" (professional lessor of furnished accommodations) type and for a small number of investors "*Loi Robien*" type tax efficient products.

Between April 2006 and April 2007, 184 property loan applications were approved, for a total of EUR 29 million, bearing in mind that different media have said the total amount of operations by Apollonia with all banks purportedly reached around EUR 2 billion.

At the end of September 2008, HSBC France became aware of the use of inappropriate marketing methods by Apollonia. Moreover, it appeared that most of the borrowers took out several loans through Apollonia from various banks without notifying HSBC France.

Five notaries have been indicted for conspiracy to commit organised fraud, forgery and use of forgeries. HSBC France is involved as a civil law party, giving it access to the criminal file. From this, it has become apparent that a very large proportion of the official agency authorisations, signed by the buyers giving authority to sign purchase and sales deeds, were not properly prepared.

HSBC France systematically files proceedings against those investors with loan repayments due but the hearings are held in abeyance because of the criminal proceedings underway. However, in order to settle the financial aspects of the matter, without waiting for the outcome of criminal proceedings, out-of-court settlements have already been reached with some borrowers and talks are continuing with other borrowers. Proceedings have also been commenced against the notaries involved and their insurer MMA. These proceedings have also been adjourned for the time being.

Adequate provisions have been recorded for the Apollonia case in the light of information available to Senior Management.

Euribor enquiry

See Note 40 of the consolidated financial statements with regard to other significant legal proceedings and regulatory matters relating to HSBC entities, including HSBC France.

To date, as far as HSBC France is aware, it is not threatened by any other regulatory, civil law or arbitration proceedings that are in progress or in suspense against it that might have, or over the last 12 months have had, any significant effect on the financial situation or the profitability of the company and/or of the group. As reported in the French press, in April 2013 French judicial authorities opened an investigation against unnamed persons on the grounds of alleged illicit solicitation for banking and financial services, organised money laundering of funds obtained through illicit banking or financial solicitation, and organised money laundering for the purpose of tax evasion in the matter involving client data stolen from HSBC Switzerland and relating to French residents.

Risk management and control within the HSBC France group (continued)

Tax risk

The HSBC France Tax Department (DAF), which oversees as a second line of defence the HSBC France group's tax risk, was set up at the beginning of 2010 by splitting the former Legal and Tax Department. It reports directly to the Deputy CEO in charge of risks.

This Department assists the HSBC France group's various businesses, along with its subsidiaries, to prevent and control tax risks.

The Department has analysed the major tax risks and has mapped them. Some tax positions are debated with the authorities.

Prevention of tax risks

The DAF attends to the Legal and Tax Risks Committee, which is run by the DAJ, and also to the HSBC France group Complex and Structured Transactions Committee, the Product Examination Committee, and the ORIC (Operational Risk and Internal Control) and WMOC (Wealth Management Oversight Committee).

Tax risk monitoring system

Each of HSBC France's subsidiaries, directly covered by regulation 97-02, prepares tax certificates half-yearly for itself and for the companies that it controls.

On the basis of these certifications, HSBC France's Head of Tax confirms the HSBC France group's tax compliance to the HSBC Group twice a year.

The whole of this framework is operational and a detailed description of it is given in a circular.

Accounting risk

The accounting risk control framework is described in the Chairman's report on pages 48 to 50.

IT Systems Risk

IT risk management

IT risk has consequences mainly on four levels:

- operational: even if the activity is not directly based on an IT process, closure of the IT service generally results in a shutoff or slowdown in the bank's production;
- financial: IT expenditure (hardware, software, know-how) constitutes a significant proportion of the bank's assets;
- legal: regulations require oversight of the security of the IT system (*Loi Informatique et Libertés*, LCEN, SOX Act, LSF, etc.);
- projects: wrong design or mismanagement of projects could lead to serious consequences and have significant impacts on operations in the future.

IT risks are assessed using the HSBC Group's methodology. Control of these risks is based on a governance and organisational structure meeting Group standards and best practice guidelines (CMM, ITIL, COBIT) used in the financial services and banking industry.

Missions and coverage

HSBC France's IT function forms part of HSBC Technology and Services (HTS) and relies on four departments to support the IT services delivered to the HSBC France businesses and support functions:

- IT Operations (ITO) Department, in charge of the implementation and maintenance of systems and infrastructures on which are hosted the banking functionalities rolled out within the businesses and functions of HSBC France;
- Software Delivery (SwD) Department, in charge of the development and maintenance of intra group or third parties software solutions;
- Change Delivery (CD) Department, in charge of managing major change programmes within HSBC France, under the authority of the Chief Operation Officer (COO) in France;
- Risk and Administration (RA) Department, in charge of monitoring and managing operational risks of HTS activities in France;

The missions of the IT function are covered by the following HSBC Group manuals:

- Group Standard Manual (GSM): 10.6 Information Technology;
- HTS Functional Instruction Manual (HTS FIM).

As part of the second line of defence on the IT risks, the IT function aims to implement an IT risk reduction strategy that is consistent with the information system strategy. This strategy also aims to meet the information system's confidentiality, integrity and availability requirements with respect to the bank's businesses. This IT function monitors risks following this typology of risks:

- loss of information system integrity;
- loss of sensitive data confidentiality;
- loss of key personnel;
- failure to comply with legal duties as regards projects monitoring, IT assets management or infrastructure implementation;
- human or code errors;
- loss of expertise relating to projects and/or technologies of HSBC in France key services;
- unavailability or damage of information system and critical services performance and capacity;
- infrastructure and/or software vulnerabilities relating to external and internal threats;
- loss or lack of controls relating to sensitive functions or processes for outsourced services located in other HSBC entities in the world or provided by external suppliers;

- loss of or damage to audit trails relating to IT critical resources stored in the log book;
- failure of key suppliers in the regulatory sense leading to loss of critical services recovery or quality services damage;
- internal or external fraud.

The IT risks control framework

The identification of all IT risks and control is performed in accordance with the RCA Group (Risk and Control Administration) methodology. To reflect the organisational structure, IT Departments risks are identified around three mapped departments, namely CD, ITO and SwD.

Each IT risk cartography is revised annually and updated so as to reflect the main risk profile changes such as:

- global risk level assessed by the IT function;
- internal or external incidents and/or significant regulatory changes;
- significant changes or new processes or systems relating to the IT function;
- identification of a significant control issue through processes such as follow up and controls monitoring, SOX or issues raised by the regulator, the internal or external auditors.

For each significant IT risk identified, the IT functions identify and document key controls so as to mitigate the risk. In addition, a description of the current monitoring for each key control is identified.

The IT permanent control information (results of control reviews, progress with the control plan, change in risk reviews and control assessments, any failures and remedial actions taken) are communicated monthly to HTS' governance body (Comex). Permanent control work and results are also reported monthly in the Risk Management Committee (RMC) and quarterly in central ORIC Committee meetings.

In addition, to comply with the US Sarbanes-Oxley Act, the HSBC Group has set up a permanent control documentation and assessment framework, co-ordinated by the Finance Department, relating to the IT processes involved in preparing financial statements.

Risk monitoring

The HTS IT functions prepare a control plan on an annual basis. This plan sets out the key control monitoring activities that are performed annually. Their monitoring is performed by the HTS IT functions through a detailed controls assessment, key indicators monitoring or thematic reviews.

The results of risk assessments and controls form the basis of the annual control plan. It is approved annually.

Any major IT problem identified through control monitoring is reported to HTS' permanent control management and HSBC France's permanent control supervision department (DCIRO).

Information security policy

The information security policy includes information both in electronic and paper format, and must cover technological, organisational and human risks.

Risks relating to information security are a central concern of the HSBC Group and HSBC in France. To reduce risks in this area, numerous directives have been adopted over the last few years and all HSBC in France employees are reminded of them on a regular basis.

The security measures applicable within the HSBC Group are laid out in a set of standards, made up of various documents such as the Functional Instruction Manuals and the Security Secondary Standards. These standards apply to all HSBC France employees and are based on industry best practice, unless they are more restrictive. Each entity, business or department is responsible for applying the standards and incorporating them into the everyday work of its employees.

Monitoring and governance of IT systems security risk are the responsibility of the Information Security Risk team (ISR). This team is part of the Security and Fraud Risk Department (SFR), under the responsibility of the Chief Risk Officer.

ISR's objectives are particularly:

- to monitor the data security risks borne by the bank;
- to reduce security risks to an acceptable and/or accepted level by the Senior Management (notion of risk appetite);
- to safeguard the HSBC brand and its reputation;
- to minimise losses arising from the security incidents;
- to ensure that security measures are consistent throughout all entities.

To achieve these objectives, it is necessary to:

- lay down the data security requirements in local policies and procedures;
- to ensure that everyone knows the data security requirements and that the businesses incorporate the data security requirements in their day-to-day work;
- to monitor the activities of Business Information Risk Officers (BIROs), who are the business representatives of ISR and are tasked with implementing security policies within businesses;
- deploy a second line of defence for ensuring that the bank is compliant with the HSBC Group's safety standards;
- to provide "expert" assistance on ISR matters to all entities.

Risk management and control within the HSBC France group (continued)

The various ISR activities are intended to ensure the integrity and confidentiality of information belonging to HSBC and its clients:

- checks of management of user access to the bank's applications and operating systems, and the password management policy;
- applications security, to ensure that applications used within the company have been developed in accordance with the rules and comply with the bank's security policies;
- business-line controls, to ensure that businesses comply with HSBC Group policy regarding the treatment of sensitive data, supported by BIROs (Business Information Risk Officers);
- infrastructure security, involving penetration tests and work to ensure the security level of the bank's technical infrastructure;
- risks relating to service providers, involving checks that the services the bank entrusts to certain providers are performed with the required level of safety;
- incidents and threats, involving work to manage threats within HSBC France and any security incidents, including the preparation and monitoring of remedial action plans;
- communication and training, involving the preparation of annual communication and training plans and their implementation.

Fraud prevention

Within the Security and Fraud Risk (SFR), the anti-fraud unit's main task is to ensure that the measures for protecting the group against internal and external fraud are comprehensive, efficient and appropriate.

This involves:

- preventative action, incorporating special anti-fraud controls into procedures identified as sensitive to the risk of fraud;
- detection work, using software or reports for detecting fraud;
- investigation or enquiry work where internal or external fraud is identified.

In terms of governance, fraud prevention requires coordination between all parties involved: businesses, internal control and operational risk management teams, Compliance, Credit and Human Resources. For this purpose, a SFR representative sits in on business BRCM Committee meetings.

As regards frauds designated as major, there is a fraud response group that meets in exceptional circumstances, such as in the event of internal fraud or targeted attacks on HSBC France client Internet platforms.

Amongst the activities carried out regularly within the unit are:

- involvement at an early stage in installing systems and designing processes to cut down vulnerability to fraud;
- making employees and clients more aware of fraud;
- analysing trends in fraud and the ways in which it is carried out, as well as gathering information;
- investigations on the basis of reports received, alerts generated by systems or other detection methods;
- funds recovery actions;
- support in instigating legal proceedings;
- monitoring corrective actions taken on detecting a fraud.

Amongst the priority areas covered within this unit are systems, procedures and controls relating to:

- recruitment of permanent or temporary employees, including service providers;
- client identification and authentication, whatever the service channel: Internet, branches, call centres, mobiles;
- the collection and update of sensitive customer information in databases;
- instructions in connection with means of payment;
- opening accounts by means of any of the service channels, in cooperation with Compliance and Credit Risk Departments;
- the existence of the segregation of duties principle and of traceability of transactions to deter internal frauds by whatever process.

Following on from the measures taken in 2012, the focus in 2013 was on the prevention and detection of Internet frauds notably with the launch of 2FA (2 Factors Authentication) method based on a one time log on password for Retail Banking and Wealth Management customers allowing them to use a soft or hard token for their transactions.

The Fraud Department is also tracking suspicious clients logons with a dedicated software allowing high-level surveillance of the behaviour of client connections.

HSBC France propose to its clients the opportunity to upload the "Trusteer" tool dedicated to remote banking security notably to prevent digital identity theft and to detect malwares.

Mortgage frauds were a key area of concern in 2013 for HSBC France as well as all the other banks in France. In the context of a deteriorated economic environment, customers have overvalued their income in order to get mortgage loans. Therefore HSBC France has fully reassessed its internal control framework so as to prevent this type of fraud.

Rogue trading and counterparty fraud are covered by the Global Banking and Markets control units and therefore do not fall directly within the anti-fraud unit remit. Instead, it becomes involved at the stage of investigation when an internal fraud has been detected or is suspected in connection with counterparty risk.

2013 cost of fraud report

The total for internal and external frauds represents around 55 per cent of the total of typical operational losses, *i.e.* EUR 12.4 million. This total has risen as a result of client frauds such as credit frauds, which are better identified and clearly marked out from credit risk itself. The number of cases in the year remained more or less constant at around 1,000, of which 200 were frauds and 800 attempted frauds, but the unit amounts have increased.

Frauds carried out by customers

Frauds carried out by customers are defined as the customer's deliberate intention to deceive the bank by any means, such as false discounted bills, drawings made after the depositing of dishonoured cheques or bills, and loans obtained on the basis of false documents.

In 2013, these frauds represented around EUR 5.4 million (43 per cent of the total of frauds). The false documents relating to mortgage loans rank first in the frauds' categories.

External frauds

These are frauds committed by third parties against customers' accounts or against the bank: plastic card fraud, opening an account with identity dissimulation, identity theft, presenting falsified or fake cheques, fake payment transfers.

In 2013, these frauds represented around EUR 6.8 million (55 per cent of the total of frauds) including EUR 3.3 million of plastic card fraud.

In line with the French banking sector trend, the number of losses attributable to fake transfers decreased but the unit loss (by case) increased. The call back procedure remains the main preventive tool as regards frauds relating to false payments.

Losses caused by an Internet virus increased in terms of both the number of cases and the amount. Furthermore, as the Internet and online banking present a high risk of fraud, the anti-fraud unit is closely involved in the implementation of new customer authentification systems and management of Internet fraud.

Internal frauds

These are frauds committed by employees with or without outside complicity, including frauds committed by HSBC service providers and HSBC temporary staff.

In 2013, these frauds represented around 2 per cent of typical operational losses.

Business continuity

The Recovery Plan

The purpose of the Business Recovery Plan (BRP) is to ensure that business can carry on or continue to run at the minimum level considered necessary to safeguard the interests of the business, its employees and its customers, in the event of a major disaster or disruption likely to have a significant impact on the business of HSBC France and/or of its subsidiaries, or to produce a significant deterioration in the image of the business.

The HSBC Group's Global Risk FIM (Functional Instruction Manual) specifies that: "Each department or business unit should devise a business recovery plan that takes account of the risks for their business activities, analysis of the impact, requirements in terms of resources etc., resulting in the creation of a business continuity management plan that needs to be updated, tested and approved by management at least once a year (and more frequently if major changes occur). This plan must describe how ordinary activity can resume after an adverse event or an interruption to business activity".

A list of four types of business interruption is proposed in the FIM:

– loss of premises (*e.g.* fire, flooding, blocked access, etc.);
– loss of personnel (*e.g.* contagious disease, etc.);
– loss of systems (*e.g.* IT virus, shutdown of central systems, etc.);
– loss of supplier and critical internal dependence.

These various kinds of interruption have been used in analysing the impact prior to the implementation of HSBC France's Business Recovery Plans.

These four types of business interruption can be used to cover the following FBF scenarios:

– centenial floods (reviewed in 2013);
– accidents, nuclear, radio, biological, and chemical attacks;
– health risks (under review);
– multiple bomb attacks;
– widespread electricity breakdown;
– general transport strike;
– service provider failure;
– cyber attack consequences.

The HSBC Group standards (GSM section 10.5 and Global Risk FIM) provide that each department or entity must have at the minimum a business recovery plan which is kept updated and which is tested at least annually (more frequently in the event of major changes). The plan must describe how activity is to be resumed at a pre-agreed level after a major incident.

Regulation 97-02 requires that each main establishment should lay down a business recovery plan which should be updated and should be tested regularly.

Because of the size of HSBC in France and the large number of its geographical locations and businesses to be covered, each business, department, subsidiary and central function has prepared a Business Recovery Plan appropriate to its business according to its assessment of the risk of the unavailability of a property and also of the absence of all or some of its employees, an IT system or an internal or external service provider.

Risk management and control within the HSBC France group (continued)

Within each unit and depending on their size, a BRP correspondent (coordinator) – who may be dedicated or not – is appointed by name. The correspondent reports to a named manager (RPCA, Champion or Sponsor accountable for allocating the necessary resources) and is in charge of the general coordination of the framework within the entity. He organises and supervises the implementation of technical resources and annual tests. He also manages the preparation of or prepares reports on tests and initiates appropriate procedures to make corrections or changes if necessary. He is in charge of communications and methodological support within the entity, keeping the plans and various deliverables, saving them on the space made available by the central team and declaring any measures taken within his entity.

Each head of department must monitor and approve the deliverables requested within his scope.

A BRP Editor for each business has been appointed by name since the end of 2012, reporting on a hierarchical basis to the head of the activity concerned and on a functional basis to the business entity's coordinator. He is in charge of conducting impact analysis (use of Group tools) and writing up and revising BRPs.

A central structure for organising and managing these plans (SFR BCM team), located within the Security and Fraud Risk Department, ensures that the exercise is comprehensive, that the plans are copied centrally so as to be accessible by the various departments involved in implementing them, and that the system is consistent throughout.

This central structure is responsible for organising business recovery co-ordination committee meetings and for communicating about organisational, technical and testing strategies.

All important documents, the detailed Business Recovery Plans for departments and subsidiaries, and the necessary technical documents are held as a copy in a central "documents database", which can be accessed by authorised employees from all the company's locations. There must nevertheless be a copy of these documents on the secured dedicated space of these entities.

The Major Incident Group

Activation of the implementation of BRPs is based on a multi-tiered management system:

– the business crisis committee if the trigger incident is restricted to just the entity or of limited seriousness;

– a committee at the level of HSBC France's Senior Management called MIG (Major Incident Group).

The MIG can be activated in two ways, depending on the seriousness of the incident and the risk to be covered:

– the level 2 MIG consists of a dozen or so deputies to business heads or heads of operational functions covering the cross-functional activities needed to manage a major incident or crisis (Communication – Human Resources – Real Estate – IT – Markets – Operations – Security – Logistics). This committee is chaired by the Chief Risk Officer or Chief Operating Officer (acting), seconded by four dedicated working parties (Communication – Human Resources – Real Estate and IT – Business Continuity). This committee, activated by a cascade warning process initiated by a security post (technical control post (TCP): active 24/7), triggers all or part of the BRP if necessary after analysis.

– the level 3 MIG is made up of business or function heads and chaired by the CEO of HSBC France and benefits from the same supports.

The detailed structure of MIG and its workgroups, the principles and structure established, the description of the contacts and the escalation process, the contact details of those involved, and the "reflex" files to be implemented in case of activation are contained in a reference document called MIM (Major Incident Manual), which is continuously updated by the HSBC France group SFR/BCM manager. This manual together with a reference list (major incident members list) are provided regularly to the members of the crisis system.

Emergency measures are planned to manage incidents as soon as they occur in order to ensure the protection of people, communications, safeguarding and rebuilding of assets.

The resources and fallback site

The HSBC France Management has approved an internal-fallback site solution and authorised the resources for implementing it.

The main special fallback site, located in a Parisian suburb, is fitted with shared, general-use workstations, as well as trading stations.

This secure site is open and accessible to personnel on the decision of MIG at the request of businesses during scheduled tests, validated by the RPCA in the event of a transport strike or during programmed tests. It resembles a normal group operations site and is made up of a number of open plan office areas together with the necessary technical resources (computer terminals, telephones, printers, faxes and special equipment – scanners, specialist readers) to continue carrying out the business activities decided upon in the appendices of the Business Recovery Plans.

In the event of a crisis, priority will be given to Markets, Asset Management, bank transactions processing, non-production IT facilities and other businesses or functions regarding their Business Impact Analysis (BIA) criticality.

All essential activities are covered by Business Recovery Plans.

Human Resources

Risks relating to human resources management and control system

At the end of 2013, the main HR risks with potentially significant impacts on the operation of HSBC France were as follows:

– psycho-social risks created by a poor working environment, inadequate working conditions or inadequate managerial practices;
– data security risks relating to the loss or unauthorised distribution of sensitive data relating to staff;
– legal risks relating to non-compliance with regulations;
– risks of non-payment of employment taxes.

HSBC France's Human Resources Department is involved in the second line of defence of the Human Resources (HR) risk of the HSBC France group.

For this purpose, it has mapped the transverse risks relating to HR as well as the HR function risks. This document is updated at least once a year and is used in support of the annual control plan.

The internal control also relies on risk indicators (Operational Risk and People Risk), which are commented monthly at the Risk Management Committee.

The People Risk Committee was set up in 2009. It meets quarterly to review the continuing appropriateness of the permanent control system of the Human Resources risk function. The members of this Committee are the main Heads of HSBC France's Human Resources Department, the legal entities of HSBC in France and the HR DCIRO correspondent.

The Committee reviews progress on points previously put forward for improvement and unresolved audit points and the results of controls and new action plans arising from them. It approves the due diligences and results of post-implementation reviews of new processes or products. It ensures that service providers are listed and that the risks relating to the services provided have been assessed. It reports on its work to the HSBC France ORIC Committee.

The committees

Role of the HSBC France People Committee

The purpose of the People Committee is to enable the main HSBC France Senior Managers (CEO, Deputy CEO in charge of risks, COO and the Head of Human Resources), on a monthly basis, to tackle all human resources issues of strategic importance, in accordance with the HSBC Group HR policy and developments in it.

On the subject of compensation, the People Committee carries out various roles both on the overall and individual aspects.

Compensation policy

It examines the main thrust of the compensation policy put forward by the Human Resources Department for France and approves it.

It ensures that this policy fits in with the general principles of the compensation policy set out by the HSBC Group for all of its subsidiaries, in accordance with the specific directives set by the businesses.

It gives its opinion on whether this policy complies with local industry standards and the recommendations of the French bank supervisory authorities (*Autorité de contrôle prudentiel et de résolution*, *Autorité des marchés financiers*, *Fédération bancaire française*).

Variable compensation arrangements

It checks that all variable compensation arrangements in place in the bank's various businesses are in line with the general principles set out in the compensation policy for France, the HSBC Group and the global businesses and comply with the requirements of the supervisory authorities.

It reviews the variable compensation packages awarded either locally or by global businesses to French staff on the basis of the performance of each business, while taking risk and compliance into account.

It approves the structure of these packages, *i.e.* the split between fixed and variable salary, between immediate compensation and deferred compensation in application of the HSBC Group rules, particularly in connection with deferred compensation and local industry standards on the subject.

Individual awards

It reviews and approves the consistency of remuneration of population covered by the order of 13 December 2010 (except for the members of the People Committee) before submitting them to the appropriate HSBC Group decision-making bodies.

It reviews the businesses' 20 highest earners (except the members of the People Committee) in conjunction with the HSBC Group's decision-making bodies and the global businesses.

It ensures that proposed individual compensation packages take account of any individual failures to meet the bank's credit risk, compliance and reputation criteria.

At the end of the meeting, the Committee prepares a summary of the decisions taken on compensation. This summary is presented at the Nomination and Remuneration Committee of the Board of Directors that follows the People Committee.

Role of the Nomination and Remuneration Committee

On the basis of a summary produced by the People Committee, the Nomination and Remuneration Committee gives its opinion on the bank's compensation policies and practices, ensuring they are consistent with the HSBC Group policy and that they comply with applicable local standards. It also ensures that risk management and compliance issues are taken into account.

Its scope of responsibility covers all compensation policies and practices in place within the company, with a more in-depth review of market professionals and Executive Directors.

Risk management and control within the HSBC France group (continued)

It also reviews the remuneration paid to Executive Directors and submits its recommendations to the Board of Directors.

Role of the Risk and Compliance functions as regards remuneration policies

The Risk and Compliance functions are, in accordance with the HSBC Group rules (Functional Instruction Manual – FIM and Group Standards Manual – GSM) referred to for advice on laying down compensation policies and introducing new variable compensation systems.

Since 2009, situations of failure of compliance and infringements of internal rules of procedure, identified by the Risk and Compliance functions, have been taken into account when awarding variable compensation.

To strengthen the Risk and Compliance functions, throughout the year and especially during the annual salary review process when individual variable compensation is decided, certain changes were made in 2010.

On a practical level, these functions are responsible, in their respective fields of operation, for:

– listing, throughout the year, all instances of non-adherence to compliance rules and/or rules of internal procedure and/or rules concerning risk;
– notifying the cases listed to the manager of the business involved or to his deputy and to HSBC France's Head of Compliance;
– advising the HR managers involved of cases observed that are likely to lead to disciplinary proceedings;
– listing and summarising all problems of breaches of compliance regulations and/or internal procedures and/or risk procedures and notifying them to the Head of the Risk function;
– keeping a record of each of the breaches and any resolution of them;
– if necessary, providing feedback to management for possibly making changes to the "balanced scorecard" of the employees involved in the breaches.

Especially during the salary review process, the Head of Compliance must take part in meetings organised by the HR Department in the presence of the managers concerned and the Deputy CEO in charge of risks, in order to assess the severity of cases on the basis of information reported by risk functions and the business's summary of that information.

As regards the most significant cases of non-compliance with rules and/or internal procedures, and/or risks as identified during the year, managers and the Deputy CEO in charge of risks must make decisions about:

– the impact (significant, marginal or nil) on the variable compensation of the employees concerned;
– whether the "clawback" rule needs to be applied, cancelling some or all previously awarded shares, depending on the severity of the event.

After these decisions, the HR Department validates the impact of the adjustments on the variable compensation of the employee concerned.

If the proposed variable compensation requires it (above a certain threshold), Risk and Compliance functions may be asked to contribute to the preparation of a business case setting out the compliance breach and/or internal rule breach and its impact on variable compensation.

The Human Resources Department notifies the People Committee of the list of decisions giving a summary of the individual and/or group behaviour that breached internal rules in terms of risk or compliance.

Environmental risk

The management of environmental risks is described in the Corporate, social and environmental responsibility section on pages 60 to 63.

Dependency

HSBC France outsources services outside the HSBC Group and from other parts of the HSBC Group and has put in place governance structures and systems to ensure the monitoring of such activities, particularly those identified as "essential" within the terms of regulation 97-02.

In 2013, HSBC France transferred part of its IT production, development and testing for businesses excluding Global Banking and Markets segment, to the HSBC Group's two European IT centres as part of the Data Centre Integration project.

Insurance and risk coverage

The HSBC Group in France is covered by the main global insurance programmes taken out by HSBC Holdings plc in London regarding the coverage of the major risks (bankers' risks, fraud, professional liability, directors' and officers' liability).

As regards the specific insurance requirements of its operations and in compliance with French regulations, HSBC France organises local insurance programmes centrally, *via* its Insurance Risk Department, on behalf of the HSBC Group in France. In particular, insurance is used to cover professional liability relating to regulated activities, fleet of cars, etc.

Generally, the levels of coverage, retentions and excesses are:

– in line with insurance market conditions, business areas, practice and legislation;
– commensurate with the value of the assets and the potential impact on the balance sheets of HSBC France and HSBC Holdings plc.

The total amount of insurance premiums paid in 2013 represented 0.27 per cent of the net operating income of the HSBC France group.

Most of the programmes, notably international, involve the participation of an HSBC Group captive reinsurance subsidiary.

Broker, insurance and expert partners are chosen in accordance with a strict selection and solvency supervision policy.

Financial highlights *

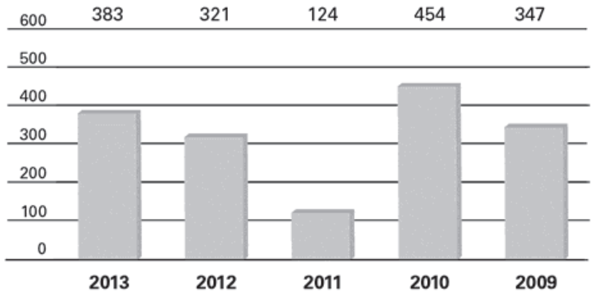
HSBC France group

(in millions of euros)	**2013**	2012	2011	2010	2009
Profit before tax	**546**	388	59	512	406
Profit attributable to shareholders	**383**	321	124	454	347
Profit before tax for the HSBC Group's operations in France[1]	**654**	559	191	628	548
At 31 December					
Shareholders' funds	**5,391**	5,213	4,820	4,832	5,060
Loans and advances to customers and banks	**68,247**	76,486	82,984	95,291	80,485
Customers' accounts and deposits by banks	**70,499**	75,356	75,234	86,055	90,373
Total assets	**208,893**	225,208	221,390	210,836	213,444
Number of employees (full-time equivalents)	**9,533**	9,570	10,030	10,121	10,350
Capital ratios					
Total capital[2]	**13.7%**	12.6%	10.7%	12.0%	12.2%
Core Tier One capital[2]	**13.7%**	12.6%	10.7%	12.1%	12.2%
Cost efficiency ratio	**70.9%**	75.9%	90.6%	73.0%	73.9%

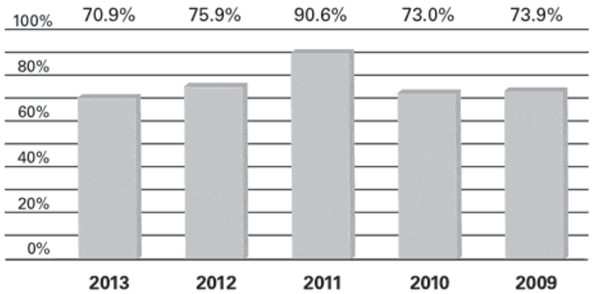
The financial highlights are influenced by changes in the group structure over the five years. The most significant changes are as follows:

- in 2009: disposal by HSBC France of its equity derivatives business to HSBC Bank plc Paris Branch;
- in 2010: disposal by HSBC France of HSBC Securities Services (France) to CACEIS;
- in 2011: disposal by Sinopia Asset Management of Sinopia Asset Management (Asia Pacific) Limited to HSBC Global Asset Management (Hong Kong) Limited and Sinopia Asset Management (UK) Limited to HSBC Global Asset Management (UK) Limited. Disposal by HSBC Private Bank France of LGI to HSBC Private Bank (Luxembourg) SA;
- in 2013: acquisition by HSBC France of 100 per cent of the share capital of HSBC Assurances Vie (France) from HSBC Bank plc Paris Branch.

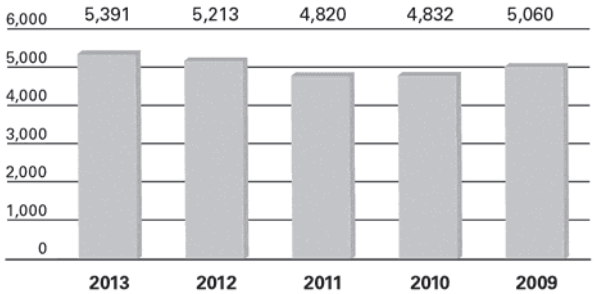
Profit attributable to Shareholders (in millions of euros)



Cost efficiency ratio



Shareholders' funds (in millions of euros)



* *Published consolidated financial information – HSBC France legal perimeter. In accordance with IFRS as endorsed by the EU.*

1 *The contribution of France to the results of the HSBC Bank plc operations includes the HSBC France group, i.e. the results of entities legally owned by HSBC France but located outside France, i.e. the legal scope in its entirety, and also the Paris branch of HSBC Bank plc, which is engaged in equity derivative activities, as well as HSBC Assurances Vie (France) and HSBC Assurances IARD (France), to the exclusion of the costs of funding and the debt on acquisition recognised by HSBC Bank plc Paris Branch.*

2 *Capital ratios under Basel II, with an additional requirement due to the Basel I floor in 2013, which increased the risk-weighted assets by EUR 1.8 billion and decreased the Core Tier One capital ratio by 1.3 basis point.*

Financial highlights * (continued)

Ratings

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

	Standard & Poor's	Moody's	Fitch
Long-term rating	AA -	A1	AA -
Outlook	Negative	Stable	Stable
Short-term rating	A-1+	P-1	F1+
Last update	23 August 2012	29 October 2013	6 December 2013

HSBC France's ratings have been reviewed during the year by all the agencies and remained unchanged despite the persistent sluggish economic environment and increasing regulatory requirements for financial institutions. Due to the strong integration of France within the HSBC Group, HSBC France's ratings evolved coherently with those of its parent company HSBC Bank plc.

Consolidated financial statements

Consolidated income statement for the year ended 31 December 2013

(in millions of euros)	*Notes*	**31.12.2013**	31.12.2012
Interest income		**1,508**	1,663
Interest expense		**(405)**	(650)
Net interest income		**1,103**	1,013
Fee income		**949**	960
Fee expense		**(216)**	(224)
Net fee income		**733**	736
Trading income		**380**	352
Net income from financial instruments designated at fair value		**(31)**	(108)
Gains less losses from financial investments		**11**	58
Dividend income		**3**	7
Other operating income		**23**	38
Total operating income before loan impairment (charges)/release and other credit risk provisions		**2,222**	2,096
Loan impairment charges and other credit risk provisions		**(97)**	(117)
Net operating income	*4*	**2,125**	1,979
Employee compensation and benefits	*5*	**(921)**	(993)
General and administrative expenses		**(597)**	(543)
Depreciation of property, plant and equipment	*19*	**(48)**	(47)
Amortisation of intangible assets and impairment of goodwill	*18*	**(9)**	(8)
Total operating expenses		**(1,575)**	(1,591)
Operating profit		**550**	388
Share of profit in associates and joint ventures		**(4)**	–
Profit before tax		**546**	388
Tax expense	*7*	**(163)**	(67)
Net profit of discontinued operations		**–**	–
Profit for the period		**383**	321
Profit attributable to shareholders of the parent company		**383**	320
Profit attributable to non-controlling interests		**–**	1

(in euros)			
Basic earnings per ordinary share	*9*	**5.68**	4.75
Diluted earnings per ordinary share	*9*	**5.68**	4.75
Dividend per ordinary share	*9*	**1.78**	3.56

Consolidated financial statements (continued)

Consolidated statement of comprehensive income for the year ended 31 December 2013

(in millions of euros)	**31.12.2013**	31.12.2012
Profit for the period	**383**	321
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments:		
– fair value gains/(losses) taken to equity	**19**	200
– fair value gains/(losses) transferred to the income statement on disposal	**(7)**	(58)
– amounts transferred to/(from) the income statement in respect of impairment losses	**(1)**	2
– income taxes	**(3)**	(52)
Cash flow hedges:		
– fair value gains/(losses) taken to equity	**(111)**	80
– fair value (gains)/losses transferred to income statement on disposal	**(93)**	(57)
– income taxes	**72**	(8)
Exchange differences	**(7)**	–
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on defined benefit plans	**(3)**	(23)
Other comprehensive income for the period, net of tax	**(134)**	84
Total comprehensive income for the period	**249**	405
Total comprehensive income for the year attributable to:		
– shareholders of the parent company	**251**	404
– non-controlling interests	**(2)**	1
	249	405

Consolidated balance sheet at 31 December 2013

ASSETS

(in millions of euros)	*Notes*	**31.12.2013**	31.12.2012
Cash and balances at central banks	*34*	**5,994**	6,770
Items in the course of collection from other banks	*34*	**607**	815
Trading assets	*12*	**41,601**	40,577
Financial assets designated at fair value[1]	*13*	**6,239**	5
Derivatives	*14*	**59,506**	90,258
Loans and advances to banks	*32*	**23,086**	28,132
Loans and advances to customers	*32*	**45,161**	48,354
Financial investments available for sale[1]	*15*	**23,690**	8,258
Interests in associates and joint ventures	*17*	**2**	6
Goodwill and intangible assets[1]	*18*	**869**	377
Property, plant and equipment	*19*	**594**	295
Other assets	*21*	**342**	296
Deferred tax assets	*24*	**61**	200
Prepayments and accrued income		**1,141**	865
TOTAL ASSETS		**208,893**	225,208

LIABILITIES AND EQUITY

(in millions of euros)	*Notes*	**31.12.2013**	31.12.2012
Liabilities			
Deposits by banks	*32*	**22,589**	32,992
Customer accounts	*32*	**47,910**	42,364
Items in the course of transmission to other banks	*30*	**585**	771
Trading liabilities	*29*	**37,031**	36,271
Financial liabilities designated at fair value	*22*	**8,129**	5,654
Derivatives	*14*	**56,591**	89,114
Debt securities in issue	*33*	**9,017**	10,655
Liabilities under insurance contracts[1]	*27*	**19,354**	–
Retirement benefit liabilities	*5*	**161**	152
Other liabilities	*23*	**996**	539
Current taxation	*7*	**15**	27
Accruals and deferred income		**897**	1,143
Provisions for liabilities and charges	*25*	**163**	97
Deferred tax liabilities	*24*	**2**	2
Subordinated liabilities	*28*	**16**	166
TOTAL LIABILITIES		**203,456**	219,947
Equity			
Called up share capital	*34*	**337**	337
Share premium account		**16**	16
Other reserves and retained earnings		**5,038**	4,860
TOTAL SHAREHOLDERS' EQUITY		**5,391**	5,213
Non-controlling interests		**46**	48
TOTAL EQUITY		**5,437**	5,261
TOTAL EQUITY AND LIABILITIES		**208,893**	225,208

1 *In December 2013, the HSBC France group acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc.*

Consolidated financial statements (continued)

Consolidated statement of changes in equity for the year ended 31 December 2013

31.12.2013 (in millions of euros)	Called up share capital	Share premium	Retained earnings	Other reserves: Available-for-sale fair value reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Share-based payment reserve	Other reserves: Associates and joint ventures	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2013	**337**	**16**	**4,639**	**68**	**78**	**2**	**69**	**4**	**5,213**	**48**	**5,261**
Share capital issued, net of costs	–	–	–	–	–	–	–	–	–	–	–
Dividends to shareholders	–	–	(360)	–	–	–	–	–	(360)	–	(360)
Net impact of equity-settled share-based payments	–	–	–	–	–	–	(23)	–	(23)	–	(23)
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–
Other movements[1]	–	–	286	25	–	–	–	(1)	310	–	310
Total comprehensive income for the period	–	–	407	8	(132)	(28)	–	(4)	251	(2)	249
At 31 December 2013	**337**	**16**	**4,972**	**101**	**(54)**	**(26)**	**46**	**(1)**	**5,391**	**46**	**5,437**

1 *In December 2013, the HSBC France group acquired 100 per cent of the shares in HSBC Assurances Vie (France), owned by the French branch of HSBC Bank plc. The impacts in the consolidated financial statements, related to the acquisition of HSBC Assurances Vie (France) are presented in Note 3 on page 128.*

31.12.2012 (in millions of euros)	Called up share capital	Share premium	Retained earnings	Other reserves: Available-for-sale fair value reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Share-based payment reserve	Other reserves: Associates and joint ventures	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2012	337	16	4,334	(24)	63	2	89	4	4,821	48	4,869
Share capital issued, net of costs	–	–	–	–	–	–	–	–	–	–	–
Dividends to shareholders	–	–	–	–	–	–	–	–	–	–	–
Net impact of equity-settled share-based payments	–	–	–	–	–	–	(13)	–	(13)	–	(13)
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–
Other movements	–	–	8	–	–	–	(7)	–	1	(1)	–
Total comprehensive income for the period	–	–	297	92	15	–	–	–	404	1	405
At 31 December 2012	337	16	4,639	68	78	2	69	4	5,213	48	5,261

Consolidated cash flow statement for the year ended 31 December 2013

(in millions of euros)	*Notes*	**31.12.2013**	31.12.2012
Cash flows from operating activities			
Profit before tax		**546**	388
Net profit on discontinued operations		**–**	–
– non-cash items included in net profit	*35*	**(36)**	59
– change in operating assets	*35*	**20,776**	3,322
– change in operating liabilities	*35*	**(15,965)**	(2,219)
– change in assets/liabilities classified as held for sale (including cash flows)		**–**	–
– elimination of exchange differences		**(120)**	(60)
– net (gain)/loss from investing activities		**(17)**	(63)
– share of profits in associates and joint ventures		**(4)**	–
– dividends received from associates		**–**	–
– tax paid		**(180)**	(12)
Net cash flows from operating activities		**5,000**	1,415
Cash flows (used in)/from investing activities			
Purchase of financial investments		**(3,859)**	(3,738)
Proceeds from the sale of financial investments		**2,133**	3,170
Purchase of property, plant and equipment		**(340)**	(79)
Proceeds from the sale of property, plant and equipment		**3**	11
Purchase of goodwill and intangible assets		**(6)**	(7)
Net cash outflow from acquisition of and increase in stake of subsidiaries		**275**	–
Net cash inflow from disposal of subsidiaries		**–**	–
Net cash outflow from acquisition of and increase in stake of associates		**–**	–
Proceeds from disposal of associates		**2**	–
Net cash flows (used in)/from investing activities		**(1,792)**	(643)
Cash flows (used in)/from financing activities			
Issue of ordinary share capital		**–**	–
Net purchases of own shares		**–**	–
Increase in non-equity non-controlling interests		**–**	–
Subordinated loan capital issued		**–**	–
Subordinated loan capital repaid		**(150)**	–
Dividends paid to shareholders		**(360)**	–
Dividends paid to non-controlling interests		**–**	–
Net cash flows (used in)/from financing activities		**(510)**	–
Net increase in cash and cash equivalents		**(7,304)**	772
Cash and cash equivalents at 1 January		**29,820**	29,033
Effect of exchange rate changes on cash and cash equivalents		**(9)**	15
Cash and cash equivalents at 31 December		**22,507**	29,820

In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France), owned by the French branch of HSBC Bank plc.

Consolidated financial statements (continued)

Notes to the consolidated financial statements

1 Basis of preparation

a *Compliance with International Financial Reporting Standards*

HSBC France has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union (EU). IFRSs comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2013, there were no unendorsed standards effective for the year ended 31 December 2013 affecting the consolidated financial statements at that date, 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.

Standards adopted in 2013

On 1 January 2013, the HSBC Group and HSBC France adopted the following significant new standards and revisions to standards for which the financial effect is insignificant to these interim consolidated financial statements:

– IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, IFRS 12 “Disclosure of Interests in Other Entities” and amendments to IFRS 10, IFRS 11 and IFRS 12 “Transition Guidance”. IFRS 10 and 11 are required to be applied retrospectively.

– Under IFRS 10, there is one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage. This replaces the approach which applied to previous financial statements which emphasised legal control or exposure to risks and rewards, depending on the nature of the entity. The HSBC Group and HSBC France control and consequently consolidate an entity when they are exposed, or have rights, to variable returns from their involvement with the entity and have the ability to affect those returns through their power over the entity.

– In accordance with the transitional provisions of IFRS 10, HSBC France reviewed the population of investments in entities as at 1 January 2013 to determine whether entities previously consolidated or unconsolidated in accordance with IAS 27 “Consolidated and Separate Financial Statements” and SIC 12 “Consolidation – Special Purpose Entities” changed their consolidation status as a result of applying IFRS 10. The result of this review was that the effect of applying the requirements of IFRS 10 did not have a material effect on these consolidated financial statements. Therefore no restatements are necessary on application of IFRS 10.

– IFRS 11 places more focus on the investors’ rights and obligations than on the structure of the arrangement when determining the type of joint arrangement in which HSBC France is involved, unlike the previous approach, and introduces the concept of a joint operation. However, IFRS 11 does not require information to be provided for periods prior to initial application.

– IFRS 12 is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including for unconsolidated structured entities. However, IFRS 12 does not require information to be provided for periods prior to initial application.

IFRS 13 “Fair Value Measurement” establishes a single framework for measuring fair value and introduces new requirements for disclosure of fair value measurements. IFRS 13 is required to be applied retrospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application. Disclosures are provided in Notes 30 and 31.

Amendments to IFRS 7 “Disclosures – Offsetting Financial Assets and Financial Liabilities” which requires disclosure of the effect or potential effects of netting arrangements on an entity’s financial position. The amendment requires disclosure of recognised financial instruments that are subject to enforceable master netting arrangements or similar agreements. The amendments have been applied retrospectively. Disclosures are provided in Note 37.

Amendments to IAS 19 “Employee Benefits” (“IAS 19 revised”). IAS 19 revised is required to be applied retrospectively. The most significant amendment for HSBC France is the replacement of the interest cost on the plan liability and expected return on plan assets with a finance cost comprising the net interest on the net defined benefit liability or asset. This finance cost is determined by applying to the net defined benefit liability or asset the same discount rate used to measure the defined benefit obligation. The difference between the actual return on plan assets and the return included in the finance cost component reflected in the income statement is presented in other comprehensive income. The effect of this change is to increase the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate.

Consolidated financial statements (continued)

1 Basis of preparation *(continued)*

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

These consolidated financial statements were approved by the Board of Directors on 14 February 2014.

During 2013, in addition to the above, the HSBC France group adopted a number of standards and interpretations, and amendments, as a result of the evolving market practices which impacted the accounts as detailed below.

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b *Consolidation*

The HSBC France group's (the "group") consolidated financial statements consist of the financial statements of HSBC France, its subsidiaries, HSBC France's interests in jointly controlled entities and associates as at 31 December.

Acquisitions

Acquired subsidiaries are consolidated from the date at which control passes to HSBC France until the date on which this control ends. As allowed under IFRS 1, HSBC France has opted not to restate business combinations that took place before 1 January 2004, the date at which it adopted IFRS.

HSBC France's acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is recognised at fair value at the date on which HSBC France takes control, taking into account the costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities are recognised at fair value at the acquisition date. The difference between the acquisition cost and fair value of the portion of identifiable net assets attributable to HSBC France is recognised as goodwill if positive and immediately taken to income if negative.

Consolidation methods

Companies controlled by the group are fully consolidated. Exclusive control over a subsidiary is determined by the ability to govern the subsidiary's financial and operating policies in order to benefit from its activities. Control results from:

– the direct or indirect ownership of a majority of the subsidiary's voting rights;
– the power to appoint, remove or gather a majority of members of the subsidiary's Board of Directors or equivalent governing bodies;
– the power to govern the financial and operating policies of the entity under a statute or an agreement.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity.

Jointly controlled companies are reported using the equity method. HSBC France has joint control over a company when, as part of a contractual agreement, strategic financial and operating decisions relating to the company's activity require the unanimous consent of all the venturers sharing control.

Companies over which HSBC France has significant influence are accounted for as associates. Significant influence is the power to participate in the financial and operating decisions of an entity without controlling it. Significant influence is assumed if 20 per cent or more of an entity's voting rights are held.

Lastly, HSBC France consolidates distinct legal entities created specifically to manage a transaction or a group of similar transactions ("special purpose entities"), even if there is no capital link, provided that HSBC France controls the entities in substance, based on the following criteria:

– the entity's activities are being conducted on behalf of HSBC France, such that HSBC France benefits from these activities;
– HSBC France has decision-making and managing powers to obtain the majority of benefits arising from the entity's ordinary activities. These powers include the ability to dissolve the entity, to change its charter or Articles of Association and to veto proposed changes of the Special Purpose Entities' (SPE) charter or Articles of Association. These powers may have been delegated through an autopilot mechanism;
– HSBC France is able to obtain the majority of the benefits from the entity and may therefore be exposed to risks arising from the entity's activities;
– HSBC France retains the majority of the risks related to the entity in order to obtain benefits from its activity.

1 Basis of preparation *(continued)*

The amount of non-controlling interest is measured either:

- at fair value; or
- at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the income statement. In the event that the amounts of net assets acquired is in excess of the amount or the fair value of the group's previously held equity interest, the difference is recognised immediately in the income statement.

Changes in a parent company's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Entities that are controlled by the group are consolidated from the date that the group obtains control until the date the group loses control of the entity.

The group performs a re-assessment of consolidation whenever there is a change in the facts and circumstances of determining the control of any entity.

Disclosures of interests in unconsolidated structured entities provide information on involvement in these entities which exposes the group to variability of returns from the performance of the other entity. Involvement is considered on a case by case basis, taking into account the nature of the entity's activity. This could include holding debt and equity instruments, or the provision of structured derivatives, but excludes involvement that exists only because of a typical customer supplier relationship, such as market making transactions to facilitate secondary trading or senior lending in the normal course of business.

Elimination of internal transactions

All transactions internal to the HSBC France group are eliminated on consolidation.

Share of the results and reserves of joint ventures and associates

The consolidated financial statements include the attributable share of the results and reserves of joint ventures and associates owed to HSBC France, based on financial statements updated not earlier than three months prior to 31 December.

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c *Presentation of information*

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

Management believes that HSBC France's critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans and advances, goodwill impairment, the valuation of financial instruments, the impairment of available-for-sale financial assets and deferred tax assets.

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

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d *Future accounting developments*

In addition to the projects to complete financial instrument accounting, discussed below, the IASB is continuing to work on projects on insurance, revenue recognition and lease accounting which will represent significant changes to accounting requirements in the future.

Amendments issued by the IASB and endorsed by the EU

In December 2011, the IASB issued amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 "Financial Instruments: Presentation". The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

Based on the assessment performed to date, HSBC France does not expect the amendments to IAS 32 to have a material effect on its financial statements.

1 Basis of preparation *(continued)*

Amendments issued by the IASB but not endorsed by the EU

During 2012 and 2013, the IASB issued various amendments to IFRS that are effective from 1 January 2014 and which are expected to have an insignificant effect on the consolidated financial statements of the group.

Standards applicable in 2015

In November 2009, the IASB issued IFRS 9 "Financial Instruments" which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9 classification and measurement requirements are to be applied retrospectively but prior periods need not be restated.

In November 2012, the IASB issued proposed amendments to IFRS 9 in respect of classification and measurement. Since the final requirements for classification and measurement are uncertain, it remains impracticable to quantify the effect of IFRS 9 as at the date of the publication of these financial statements.

The second phase in the IASB's project to replace IAS 39 will address the impairment of financial assets. It is proposed to replace the "incurred loss" approach to the impairment of financial assets carried at amortised cost in IAS 39, with an expected credit loss approach, and required that the expected credit loss approach be applied to other categories of financial instrument, including loan commitment and financial guarantees. The final requirements for impairment of financial assets are expected to be published in 2014.

The third phase of the project addresses general hedge accounting. Macro hedging is not included in the IFRS 9 project and will be considered separately. In November 2013, the IASB issued amendments to IFRS 9 in respect of the general hedge accounting requirements, transition and effective date. As a result of these amendments, it is confirmed that all phases of IFRS 9 (except for changes to the presentation of gains and losses for certain liabilities measured at fair value) must be applied from the same effective date. This effective date has not yet been set by the IASB, but is not expected to be earlier than 1 January 2017. The revised hedge accounting requirements are applied prospectively and HSBC France is currently assessing the impact they may have on the financial statements.

2 Summary of principal accounting policies

a *Interest income and expense*

Interest income and expense for all interest-bearing financial instruments except those classified as held-for-trading or designated at fair value (other than debt issued by HSBC France and related derivatives) are recognised in "Interest income" and "Interest expense" in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate at inception that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, HSBC France estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by HSBC France that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairment.

b *Non-interest income*

Fee income

HSBC France earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

– if the income is earned on the execution of a significant act, it is recognised when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement for the acquisition of shares or other securities);
– if the income is earned as services are provided, it is recognised as the services are provided (for example, asset management, portfolio and other management advisory and service fees);

2 Summary of principal accounting policies *(continued)*

- if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate (for example, loan commitment fees) and recorded in "Interest income and expense" (see Note 2 a).

Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for equity securities.

Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value comprises all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit and loss. Interest income and expense and dividend income arising on those financial instruments are also included, except for debt securities in issue by HSBC France and derivatives managed in conjunction with debt securities in issue. Interest on these instruments is shown in "Net interest income".

Trading income

Trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held-for-trading, together with related interest income, expense and dividends.

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c *Segment reporting*

HSBC France mainly operates in France and manages its business through the following customer groups: Retail Banking and Wealth Management (including Insurance and Asset Management), Commercial Banking, Global Banking and Markets and Private Banking.

HSBC France's operations include a number of support services and head office functions. The costs of these functions are allocated to business lines, where it is appropriate, on a systematic and consistent basis.

The reporting of financial information by segment required by IFRS 8 is disclosed in Note 10.

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d *Valuation of fair value*

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, *i.e*. the fair value of the consideration given or received.

In certain circumstances, however, the initial fair value may be based on current market transactions in the same instrument, or on valuation techniques including only data from observable markets, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates.

When such evidence exists, the group recognises a trading gain or loss on inception of the financial instrument, being the difference between the transaction price and the fair value. When unobservable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value indicated by the valuation model from the transaction price is not recognised immediately in the income statement but is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or the transaction matures or is closed out, or when the group enters into an offsetting transaction.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, in cases where the group manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the group measures the fair value of the group of financial instruments on a net basis, but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRS offsetting criteria, as described in Notes 30 and 31.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held or liabilities to be issued and offer prices for assets to be acquired or liabilities held at the time. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option-pricing models and other valuation techniques commonly used by market participants.

For certain derivatives, fair values may be determined, in whole or in part, using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

Consolidated financial statements (continued)

2 Summary of principal accounting policies *(continued)*

A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

If the fair value of a financial asset measured at fair value becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset, or it is extinguished.

e *Reclassification of financial assets*

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in particular circumstances:

- financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity;
- financial assets (except financial assets that would have met the definition of loans and receivables) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

f *Loans and advances to banks and customers*

Loans and advances to banks and customers include loans and advances originated by HSBC France, which are not intended to be sold in the short term and have not been classified either as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers and are derecognised when either borrowers repay their obligations, or the loans are sold or written off or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses. Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

For certain leveraged finance and syndicated lending activities, the group may commit to underwrite loans on fixed contractual terms for specified periods of time, where the drawdown of the loan is contingent upon certain future events outside the control of the group. Where the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a trading derivative and measured at fair value through profit and loss.
On drawdown, the loan is classified as held for trading and measured at fair value through profit and loss. Where it is not the group's intention to trade the loan, a provision on the loan commitment is only recorded where it is probable that the group will incur a loss. This may occur, for example, where a loss of principal is probable or the interest rate charged on the loan is lower than the cost of funding. On inception of the loan, the hold portion is recorded at its fair value and subsequently measured at amortised cost using the effective interest method. However, where the initial fair value is lower than the cash amount advanced, the write down is charged to the income statement. The write down will be recovered over the life of the loan, through the recognition of interest income using the effective interest rate method, unless the loan becomes impaired. The write down is recorded as a reduction to other operating income.

g *Loan impairment*

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on loans assessed collectively. Losses expected from future events, no matter how likely, are not recognised.

Individually assessed loans

Impairment losses on individually assessed accounts are determined by an evaluation of the exposures on a case-by-case basis. HSBC France assesses at each balance-sheet date whether there is any objective evidence that a loan is impaired.

In determining such impairment losses on individually assessed accounts, the following factors are considered:

- HSBC France's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service their debt obligations;
- the likely dividend available on liquidation or bankruptcy;

2 Summary of principal accounting policies *(continued)*

- the extent of other creditors' commitments ranking ahead of, or *pari passu* with, HSBC France and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the amount and timing of expected receipts and recoveries;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain and make payments in the relevant foreign currency if loans are not in local currency; and,
- where available, the secondary market price for the debt.

Impairment loss is calculated by comparing the present value of the expected future cash flows, discounted at the original effective interest rate of the loan, with its current carrying value, and the amount of any loss is charged in the income statement. The carrying amount of impaired loans is reduced through the use of an allowance account.

Collectively assessed loans

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit-risk characteristics for the purpose of calculating a collective impairment loss. This loss covers loans that are impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product, etc.);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and,
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each portfolio. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. As it is assessed empirically on a periodic basis, the estimated period between a loss occurring and its identification may vary over time as these factors change.

Loan write-offs

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from realising the security have been received.

Reversals of impairment

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date loans for measurement purposes once the minimum numbers of payments required under the new arrangements have been received. Renegotiated loans are considered when calculating collective impairment provisions, either through management's judgment or by segregation from other parts of the loan portfolio, to recognise that higher rates of losses are often encountered in this segment of the portfolio. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans taking into account the new contractual terms following renegotiation.

2 Summary of principal accounting policies *(continued)*

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

h *Trading assets and trading liabilities*

Treasury bills, debt securities, equity shares and short positions in securities, which have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, are classified as held for trading. Such financial assets or financial liabilities are recognised at trade date when HSBC France enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when either sold (assets) or extinguished (liabilities).

Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, their fair values are remeasured; all subsequent gains and losses from changes in the fair value of these assets and liabilities, together with related interest income and expense and dividends, are recognised in the income statement within "Trading income" as they arise.

i *Financial instruments designated at fair value*

A financial instrument, other than one held for trading, is classified in this category if it meets one or more criteria set out below, and is so designated by management. HSBC France may designate financial instruments at fair value where the designation:

– eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases. Under this criterion, the main classes of financial instruments designated by the group are:

  - **Long-term debt issues**

    The interest payable on certain fixed rate long-term debt securities issued has been matched with the interest on "receive fixed/pay variable" interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities issued were accounted for at amortised cost, because the related derivatives are measured at fair value with changes in the fair value recognised in the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will also be recognised in the income statement.

  - **Financial assets and financial liabilities under unit-linked insurance and unit-linked investment contracts**

    Liabilities to customers under linked contracts are determined based on the fair value of the assets held in the linked funds, with changes recognised in the income statement. If no designation was made for the assets relating to the customer liabilities, they would be classified as available-for-sale and the changes in fair value would be recorded directly in other comprehensive income. These financial instruments are managed on a fair value basis and information is provided to management on that basis. Designation at fair value of the financial assets and liabilities under investment contracts allows the changes in fair values to be recorded in the income statement and presented in the same line.

– applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis and where information about that group of financial instruments is provided internally on that basis to key management staff; or,

– relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

The fair value designation, once made, is irrevocable. Designated financial assets and financial liabilities are recognised at trade date when HSBC France enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured and, except for interest payable on debt securities in issue by HSBC France designated at fair value, gains and losses from changes therein are recognised in "Net income from financial instruments designated at fair value".

2 Summary of principal accounting policies *(continued)*

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are also included in "Net income from financial instruments designated at fair value". Interest on these derivatives is also included in this line, except for interest on derivatives managed with debt securities in issue by HSBC France designated at fair value, which is included in net interest income. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities and loans and receivables that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions.

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j *Financial investments available for sale*

Treasury bills, debt securities and equity shares intended to be held on a continuing basis are classified as available-for-sale securities unless designated at fair value (see Note 2 i) or classified as "held-to-maturity". Financial investments are recognised at trade date, when HSBC France enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the transactions are sold or the borrowers repay their obligations.

HSBC France did not hold any "held-to-maturity" investments in 2013 and 2012.

Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value. Changes in fair value are recognised in equity in the "Available-for-sale reserve" until the securities are either sold or impaired. On the sale of available-for-sale securities, gains or losses held within equity are recycled through the income statement and classified as "Gains less losses from financial investments".

Interest income is recognised on such securities using the effective interest method, calculated over the asset's expected life. Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are recognised as an adjustment to the effective interest rate. Dividends are recognised in the income statement when the right to receive payment has been established.

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Impairment losses for available-for-sale debt securities are recognised within "Loan impairment charges and other credit risk provision" in the income statement and impairment losses for available-for-sale equity securities are recognised within "Gains less losses from financial investments" in the income statement. The impairment methodologies for available-for-sale financial assets are set out in more detail below.

Available-for-sale debt securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

Available-for-sale equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

2 Summary of principal accounting policies *(continued)*

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned: for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in fair value of the financial asset is recognised in other comprehensive income. If the fair value of the debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value.

For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised directly in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement.

k *Sale and repurchase agreements (including stock lending and borrowing)*

When securities are sold subject to a commitment to repurchase them at a predetermined price ("repos") or are the subject of a stock lending agreement, they remain on the balance sheet and a liability is recorded in respect of the consideration received. Conversely, securities purchased under analogous commitments to resell ("reverse repos") are not recognised on the balance sheet and the consideration paid is recorded in "Loans and advances to banks" or "Loans and advances to customers" as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement using the effective interest method.

Securities lending and borrowing transactions are generally secured, with collateral taking the form of securities or cash advanced or received. The transfer of securities to counterparties is not normally reflected on the balance sheet. Cash collateral advanced or received is recorded as an asset or a liability respectively.

Securities borrowed are not recognised on the balance sheet, unless control of the contractual rights that comprise these securities is obtained and the securities are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in "Trading income", and the obligation to return them is recorded as a trading liability and measured at fair value.

l *Derivatives and hedge accounting*

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. In the normal course of business, the fair value of a derivative at initial recognition is considered to be the transaction price (*i.e.* the fair value of the consideration given or received). However, in certain circumstances the fair value of an instrument will be evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, including interest rate yield curves, option volatilities and currency rates. When such evidence exists, HSBC France recognises a trading profit or loss on inception of the derivative. If observable market data are not available, the initial increase in fair value indicated by the valuation model, but based on unobservable inputs, is not recognised immediately in the income statement but is recognised over the life of the transaction on an appropriate basis, or recognised in the income statement when the inputs become observable, or when the transaction matures or is closed out.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, when the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not designated at fair value. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Derivatives embedded in home purchase savings products (*Plan Epargne Logement/Compte Epargne Logement*) are some of the main embedded derivatives identified by HSBC France, and have therefore been valued using an HSBC France specific model (see Note 13).

All derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists, and the cash flows are to be settled on the same date and on a net basis.

2 Summary of principal accounting policies *(continued)*

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement. Where derivatives are designated as hedges, they are classified as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ("fair value hedge"); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedge"); or (iii) hedges of net investments in a foreign operation ("net investment hedge"). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

Hedge accounting

Following the HSBC Group policy, HSBC France does not use the "carve out" arrangements contained in the European regulation no. 2086/2004 in relation to the accounting for macro-hedging operations.

As required in IAS 39, HSBC France documents, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Therefore it is also required to measure, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective. Interest on designated qualifying hedges is included in "Net interest income".

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the asset or liability or group thereof that are attributable to the hedged risk.

If the hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the residual period to maturity. Where the adjustment relates to the carrying amount of a hedged equity security, this remains in retained earnings until the disposal of the equity security.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity in other comprehensive income within the "Cash flow hedging reserve". Any gain or loss relating to an ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed.

Hedge effectiveness testing

To qualify for hedge accounting, IAS 39 requires the hedge to be highly effective. At the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis and at least at each closing date.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method adopted for assessing hedge effectiveness will depend on its risk management strategy.

2 Summary of principal accounting policies *(continued)*

In assessing effectiveness, the changes in the fair value or the cash flows of the hedged item and the hedging instrument must be expected to, or must almost fully, offset each other. For prospective effectiveness, the changes in fair value or cash flows must be expected to offset each other in the range of 90 per cent to 110 per cent. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective. Hedge ineffectiveness is recognised in the income statement in "Net trading income".

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of any derivative that does not qualify for hedge accounting are recognised immediately in the income statement. These gains and losses are reported in "Trading income", except where derivatives are managed in conjunction with financial instruments designated at fair value, in which case gains and losses are reported in "Net income from financial instruments designated at fair value".

The interests on derivatives managed in conjunction with debt securities issued by the group, which are designated at fair value are recognized in "interest income". All other gains and losses on these derivatives are reported in "net income from financial instruments designated at fair value".

Derivatives that do not qualify for hedge accounting include non-qualifying hedges for which hedge accounting was not, or could not, be applied. The size and direction of changes in fair value of hedges can be volatile from year to year, but do not alter the cash flows expected. Non-qualifying hedges operate as economic hedges of the related assets and liabilities.

m *Derecognition of financial assets and liabilities*

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where HSBC France has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised when they are extinguished, *i.e.* when the obligation is discharged or cancelled or expired.

n *Offsetting financial assets and financial liabilities*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

o *Subsidiaries, associates and joint ventures*

The group classifies investments in entities which it controls as subsidiaries. Investments in which the group, together with one or more parties, has joint control of an arrangement set up to undertake an economic activity are classified as joint ventures. The group classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint ventures, as associates.

The bank's investments in subsidiaries are stated at cost less any impairment losses. An impairment loss recognised in the prior period shall be reversed through profit and loss if, and only if, there has been a change in the estimates used to determine the investment in subsidiary's recoverable amount since the last impairment loss was recognised.

Investments in associates and interests in joint ventures are recognised using the equity method. Under this method, such investments are initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in the group's share of net assets.

Profits on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in the respective associates or joint ventures. Losses are also eliminated to the extent of the group's interest in the associates or joint ventures unless the transaction provides evidence of an impairment of the asset transferred.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include investment funds, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 17.

The group would be considered to sponsor another entity if it has a key role in establishing that entity or in bringing together the relevant counterparties so that the transaction, which is the purpose of the entity, can occur. This may include instances where the group initially sets up an entity for a structured transaction, and acts as an underwriter or lead manager. The group would not be considered a sponsor once our initial involvement in setting up the structured entity had ceased even if we were subsequently involved with an entity to the extent of investments in associates and interests in joint ventures are initially stated at cost, including attributable goodwill, and adjusted thereafter for the post-acquisition change in HSBC France's share of net assets.

Unrealised gains on transactions between HSBC France and its associates and jointly controlled entities are eliminated to the extent of HSBC France's interest in the associate or joint venture. Unrealised losses are also eliminated to the extent of HSBC France's interest in the associate or joint venture unless the transaction provides evidence of an impairment of the asset transferred.

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p *Goodwill and intangible assets*

(i) Goodwill arises on business combinations, including the acquisition of subsidiaries, joint ventures or associates when the cost of acquisition exceeds the fair value of HSBC France's share of the identifiable net assets, liabilities and contingent liabilities acquired. By contrast, if HSBC France's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost to acquire, the excess is recognised immediately in the income statement.

Intangible assets are recognised separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed annually by comparing the present value of the expected future cash flows from a business with the carrying value of its net assets, including attributable goodwill. Goodwill is stated at cost less accumulated impairment losses, which are charged to the income statement.

Goodwill on acquisitions of joint ventures or associates is included in "Interests in associates and joint ventures".

At the date of disposal of a business, attributable goodwill is included in HSBC France's share of net assets in the calculation of the gain or loss on disposal.

(ii) Goodwill is included in case of disposal. The goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Intangible assets include the present value of in-force long-term insurance business, computer software, trade names, mortgage service rights, customer lists, core deposit relationships, credit card customer relationships and merchant or other loan relationships. Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

- Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. An intangible asset recognised during the current period is tested before the end of the current annual period.
- Intangible assets that have a finite useful life, except for the present value of in-force long-term insurance business, are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life. The amortisation of mortgage servicing rights is included within "Net fee income".

For the accounting policy governing the present value of in-force long-term insurance businesses, see Note 2 y.

2 Summary of principal accounting policies *(continued)*

q *Property, plant and equipment*

Land and buildings are stated at historical cost, or fair value at the date of transition to IFRS ("deemed cost"), less any impairment losses and depreciation calculated to write off the assets as follows:

– land is not depreciated;

– acquisition-related expenses on buildings are expensed in the year in which they occur, as are preliminary costs;

– depreciation of buildings is calculated on a straight-line basis over their estimated useful lives, which are generally between 25 and 75 years.

Equipment, fixtures and fittings (including equipment on operating leases where HSBC France is the lessor) are stated at cost less any impairment losses and depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between 5 and 10 years. HSBC France holds certain properties as investments to earn rentals or for capital appreciation, or both. Investment properties are included in the balance sheet at fair value with changes in fair value recognised in the income statement in the period of change. Fair values are determined by independent professional valuers who apply recognised valuation techniques.

Property, plant and equipment is subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

r *Finance and operating leases*

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Where HSBC France is a lessor under finance leases, the amounts due under the leases, after deduction of unearned charges, are included in "Loans and advances to banks" or "Loans and advances to customers" as appropriate. Finance income receivable is recognised over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Where HSBC France is a lessee under finance leases, the leased assets are capitalised and included in "Property, plant and equipment" and the corresponding liability to the lessor is included in "Other liabilities". The finance lease and corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised over the periods of the leases based on the interest rates implicit in the leases so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. Where HSBC France is the lessor, the assets subject to the operating leases are included in "Property, plant and equipment" and accounted for accordingly. Impairment losses are recognised to the extent that the carrying value of equipment is impaired through residual values not being fully recoverable. Where HSBC France is the lessee, the leased assets are not recognised on the balance sheet. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in "General and administrative expenses" and "Other operating income" respectively.

s *Income tax*

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantially enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when HSBC France intends to settle on a net basis and the legal right to set off exists.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group, relate to income taxes levied by the same taxation authority, and a legal right to set off exists in the entity.

2 Summary of principal accounting policies *(continued)*

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognised directly in equity. From 1 January 2005, deferred tax relating to fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

Since 2010, the French Tax "*taxe professionnelle*" was replaced by a new tax "*contribution économique territoriale*" (CET) composed of the "*cotisation foncière des entreprises*" (CFE) based on the rental value of taxable property, and the "*cotisation sur la valeur ajoutée des entreprises*" (CVAE) corresponding to 1.6 per cent of added-value of the year.

The HSBC France group has treated the CVAE as income tax, in application of IAS 12. Deferred CVAE contributions are accounted for on the basis of temporary differences between the book value of assets and liabilities and their tax value from a CVAE standpoint.

The CICE ("*Crédit d'Impôt Compétitivité Emploi*") is a new tax rebate becoming operative on 1 January 2013. Available for every French company, the CICE substantially reduces the tax paid. For 2013, the CICE corresponds to 4 per cent of staff costs excluding salaries over 2.5 times the minimum wage (SMIC). It will correspond to 6 per cent of staff costs as from 2014.

The CICE is equivalent to a reduction in staff costs and it is considered as a government grant. Thus, the HSBC France group, in application of IAS 20, has chosen to recognise the CICE as a reduction of business expenses.

t *Pension and other post-retirement benefits*

HSBC France operates a number of pension and other post-retirement benefit plans. These plans include both defined benefit and defined contribution plans and various other retirement benefits such as post-retirement health-care benefits.

The costs recognised for funding these defined benefit plans are determined using the Projected Unit Credit Method, with annual actuarial valuations performed on each plan. Following the HSBC Group policy, HSBC France uses the option offered by IAS 19 not to defer actuarial gains and losses on the balance sheet and to recognise them directly in reserves, without being recognised in income. Past service costs are recognised immediately to the extent the benefits are vested, and are otherwise recognised on a straight-line basis over the average period until the benefits are vested. The current service costs and any past service costs, together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities, are charged to operating expenses.

The net defined benefit liability recognised in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of plan assets. Any resulting asset from this is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan. All cumulative actuarial gains and losses on defined benefit plans have been recognised in equity at the date of transition to IFRS.

The cost of providing other post-retirement benefits such as health-care benefits are accounted for on the same basis as defined benefit plans.

Payments to defined contribution plans and state-managed retirement benefit plans, where HSBC France's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as they fall due.

u *Share-based payments*

Share-based payments are payments based on shares issued by HSBC Holdings plc. HSBC France employees benefit from the following advantages:

– until 2005, HSBC Holdings plc awarded share options on HSBC Holdings plc shares;
– from 2006, HSBC Holdings plc implemented share plans on HSBC Holdings plc shares;
– employees can subscribe to HSBC Holdings plc shares within the employee share ownership plan.

2 Summary of principal accounting policies *(continued)*

Share option plans

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Vesting conditions include service conditions and performance conditions. Market performance conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other conditions are satisfied.

The compensation expense (capital increase and related expense) to be spread on a straight-line basis over the vesting period is determined by reference to the fair value of the options at grant date, and the impact of any non-market vesting conditions such as option lapses. An option may lapse if, for example, an employee ceases to be employed by HSBC France before the end of the vesting period. Estimates of such future employee departures are taken into account when accruing the cost during the service period.

A cancellation that occurs during the vesting period is treated as an acceleration of vesting, and recognised immediately for the amount that would otherwise have been recognised for services over the vesting period.

Share plans

This expense is spread on a straight-line basis over the vesting period with a balancing entry in a reserve account. The expense value takes into account hypotheses regarding employee departures and performance conditions for the part of the shares subject to such conditions.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Vesting conditions include service conditions and performance conditions. Market performance conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other conditions are satisfied. A cancellation that occurs during the vesting period is treated as an acceleration of vesting, and recognised immediately for the amount that would otherwise have been recognised for services over the vesting period.

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

Where an award has been modified, as a minimum, the expense of the original award continues to be recognised as if it had not been modified. Where the effect of a modification is to increase the fair value of an award or increase the number of equity instruments, the incremental fair value of the award or incremental fair value of liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligation.

Employee share ownership plan

Employees can subscribe to HSBC Holdings plc shares with a discount and without any vesting period. This advantage is expensed immediately as employee compensation and benefits. The five-year lock-in period is not taken into account in the consideration of the expense.

As permitted by IFRS 1, HSBC France has undertaken full retrospective application of IFRS 2 “Share-based payment”.

2 Summary of principal accounting policies *(continued)*

v *Foreign currencies*

Items included in the financial statements of each of HSBC France's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements of HSBC France are presented in euros. Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised in the income statement if the gain or loss on the non-monetary item is recognised in the income statement.

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not euros, are translated into the group's presentational currency at the rate of exchange ruling at the balance sheet date.

The results of branches, subsidiaries, joint ventures and associates not reporting in euros are translated into euros at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments and the related cost of hedging and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period-end are accounted for in a separate foreign exchange reserve. Exchange differences on a monetary item that are part of a net investment in a foreign operation are recognised in the income statement of the separate subsidiary financial statements. In the consolidated financial statements, these exchange differences are recognised in the foreign exchange reserve in shareholders' equity. As permitted by IFRS 1, HSBC France set the cumulative translation differences for all foreign operations to zero at the date of transition to IFRS. On disposal of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the income statement.

w *Provisions*

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the group because of past events and when the amount of the obligation can be reliably measured.

x *Debt securities in issue and subordinated liabilities*

Debt securities in issue and subordinated liabilities are initially measured at fair value, which is the consideration received net of directly attributable transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest rate method to amortise the difference between proceeds net of directly attributable transaction costs and the redemption amount over the expected life of the debt, unless the securities are designated at fair value (see Note 2 i).

y *Insurance contracts*

Through its insurance subsidiary, the HSBC France group issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which the group accepts insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

While investment contracts with discretionary participation features are financial instruments, they continue to be treated as insurance contracts as permitted by IFRS 4.

2 Summary of principal accounting policies *(continued)*

Insurance contracts are accounted for as follows:

Insurance premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Insurance claims and reinsurance recoveries

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. Claims arising during the year include maturities, surrenders and death claims.

Maturity claims are recognised when due for payment. Surrenders are recognised when paid or at an earlier date on which, following notification, the policy ceases to be included within the calculation of the related insurance liabilities. Death claims are recognised when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Liabilities under insurance contracts

Liabilities under non-linked life insurance contracts are calculated by each life insurance operation based on local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, which is calculated by reference to the value of the relevant underlying funds or indices.

A liability adequacy test is carried out on insurance liabilities to ensure that the carrying amount of the liabilities is sufficient in the light of current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared with the carrying value of the liability. When a shortfall is identified it is charged immediately to the income statement.

Future profit participation on insurance contracts with discretionary participation features

Where contracts provide discretionary profit participation benefits to policyholders, liabilities for these contracts include provisions for the future discretionary benefits to policyholders. These provisions reflect actual performance of the investment portfolio to date and management expectation on the future performance in connection with the assets backing the contracts, as well as other experience factors such as mortality, lapses and operational efficiency, where appropriate. This benefit may arise from the contractual terms, regulation, or past distribution policy.

Investment contracts

Unit linked and non-unit linked

Customer liabilities under linked and certain non-linked investment contracts and the corresponding financial assets are designated at fair value. Movements in fair value are recognised in “Net income from financial instruments designated at fair value”. Premiums receivable and amounts withdrawn are accounted for as increases or decreases in the liability recorded in respect of investment contracts.

Liabilities under linked investment contracts are at least equivalent to the surrender or transfer value which is calculated by reference to the value of the relevant underlying funds or indices.

Investment management fees receivable are recognised in the income statement over the period of the provision of the investment management services, in “Net fee income”.

The incremental costs, directly related to the acquisition of new investment contracts or renewing existing investment contracts, are deferred and amortised over the period during which the investment management services are provided.

2 Summary of principal accounting policies *(continued)*

Investment contracts with discretionary participation features

While investment contracts with discretionary participation features are financial instruments, they continue to be treated as insurance contracts as permitted by IFRS 4. The premiums for those contracts are recognised as revenue and the resulting increase in the carrying amount of the liability is recognised as an expense.

In the case of net unrealised investment gains on these contracts, whose discretionary benefits principally reflect the actual performance of the investment portfolio, the corresponding increase in the liabilities is recognised in either the income statement or other comprehensive income, following the treatment of the unrealised gains on the relevant assets. In the case of net unrealised losses, a deferred participating asset is recognised only to the extent that its recoverability is highly probable. Movements in the liabilities arising from realised gains and losses on relevant assets are recognised in the income statement.

Present value of in-force long-term insurance business

The value placed on insurance contracts that are classified as long-term insurance business or long term investment contracts with discretionary participating features ("DPF") and are in force at the balance sheet date is recognised as an asset. The asset represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date.

The present value of in-force long-term insurance business and long term investment contracts with DPF, referred to as "PVIF", is determined by discounting the equity holders' interest in future profits expected to emerge from business currently in force using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees. The PVIF asset is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in "Other operating income" on a gross of tax basis.

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z *Share capital*

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

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aa *Cash and cash equivalents*

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash and balances at central banks, treasury bills and other eligible bills, loans and advances to banks, and certificates of deposit. HSBC France has taken into account the guidance issued by the "*Autorité des marchés financiers*" (AMF) in early 2006 in respect of "*OPCVM de trésorerie*" (cash unit trusts).

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ab *Non-current assets held for sale*

The group classifies a non-current asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The asset or disposal group must be available for immediate sale in its present condition and its sale must be highly probable.

A sale is highly probable if:

– the appropriate level of management is committed to a plan to sell the asset or disposal group;

– an active plan to locate a buyer and complete the plan has been initiated;

– the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value;

Consolidated financial statements (continued)

2 Summary of principal accounting policies *(continued)*

- the sale is expected to be completed within one year from the date of classification;
- it is unlikely that there will be significant changes to the plan or that the plan will be withdrawn.

When the group classifies an asset or disposal group as held for sale it is measured at the lower of its carrying amount and fair value less costs to sell.

3 Business combination and disposal of subsidiaries

On 13 December 2013, HBSC France acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc. The purchase was achieved through cash settlement of EUR 514 million, with no gain or loss realised by HSBC Bank plc.

Wealth activities within HSBC France are strongly interconnected as Retail Banking and Wealth Management distributes nearly 100 per cent of HSBC Assurances Vie (France) products and a vast majority of HSBC Assurances Vie (France) Assets under Managements are managed by HSBC Global Asset Management (France). The acquisition of HSBC Assurances Vie (France) by HSBC France allows aligning the corporate structure to the managerial perimeter and the business value, and also streamlining the legal structure of the HSBC Group in France.

For accounting purposes, HSBC Assurances Vie (France) is consolidated by full consolidation within HSBC France perimeter as at the end of 2013. For the profit and loss generated by the Insurance activity, full year profit is kept within HSBC Bank plc books.

HSBC opted for the application of the book value accounting on the basis that the investment has simply been moved within the same Group from HSBC Bank plc to HSBC France. The application of the book value accounting consisted in using, following IFRS 3 "Companies regroupment", for assets acquired and liabilities assumed, the book values in the financial statements of the Insurance activity. The difference between the consideration paid and the Net Asset Value (NAV) acquired is reflected in HSBC France shareholders' funds for an amount of EUR 275 million.

The entities entered in the perimeter of the consolidation following this acquisition are listed within Note 20 "Investments" and are all under Insurance activity.

At acquiring date, the assets and liabilities acquired from HSBC Assurances Vie (France) are as follows:

(in millions of euros)	**31.12.2013**
Assets	
Financial assets designated at fair value	**6,239**
Derivative financial instruments	**193**
Financial investments available for sale	**13,820**
Intangible assets	**493**
Other assets[1]	**820**
Total Assets	**21,565**
Liabilities	
Financial liabilities designated at fair value	**19**
Derivative financial instruments	**23**
Liabilities under insurance contracts	**19,354**
Subordinated debt[2]	**270**
Other liabilities[3]	**1,110**
Equity	**789**
Total Liabilities	**21,565**

1 *Main components related to other assets are presented in Note 18 and Note 21.*
2 *HSBC Assurances Vie (France) subordinated debt is fully subscribed by HSBC France.*
3 *Main components related to other liabilities are presented in Note 23 and Note 24.*

Beyond the acquisition of HSBC Assurances Vie (France), HSBC France carried on simplifying its structure through the mergers or liquidations of a number of entities detailed in Note 20.

4 Net operating income

Net operating income for the year ended 31 December 2013 amounts to EUR 2,125 million (2012: EUR 1,979 million) and includes income, expense, gains and losses as follows:

(in millions of euros)	**31.12.2013**	31.12.2012
Income		
Fees earned on financial assets not held for trading nor designated at fair value and not included in their effective interest rates	**641**	694
Fees earned on trust and other fiduciary activities where HSBC France holds or invests assets on behalf of its customers	**213**	208
Income from listed investments[1]	**820**	849
Income from unlisted investments[1]	**5**	55
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	**(355)**	(558)
Fees payable on financial assets or liabilities not held for trading nor designated at fair value and not included in their effective interest rates	**(212)**	(223)
Gains/(losses)		
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	**3**	5
Gains/(losses) on financial investments	**11**	58
− equity securities	**15**	24
− debt securities	**(3)**	35
− impairment of available-for-sale equity shares	**(1)**	(1)
Loan impairment charges and other credit risk provisions	**(97)**	(117)
− net impairment charge on loans and advances	**(95)**	(115)
− impairment of available-for-sale financial investments: debt securities	**−**	(1)
− other credit risk impairment	**(2)**	(1)

1 *Dividends and interest.*

5 Employee compensation and benefits

(in millions of euros)	**31.12.2013**	31.12.2012
Wages and salaries	**671**	722
Social security costs	**183**	199
Post-employment benefits	**67**	72
	921	993

The number of persons employed by the HSBC France group at the end of the year was as follows:

	31.12.2013	31.12.2012
Retail Banking and Wealth Management and Commercial Banking[1]	**5,168**	5,042
Global Banking and Markets	**1,079**	1,161
Asset Management	**486**	505
Private Banking	**121**	134
Support Functions and Others	**3,037**	3,009
Total	**9,891**	9,851

1 *In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France), owned by the French branch of HSBC Bank plc, which includes 292 persons.*

5 Employee compensation and benefits *(continued)*

a *Post-employment benefit plans*

Provisions for employee benefits cover commitments relating to end-of-career bonuses and long-service awards and commitments relating to supplementary pension schemes and retirement plans.

b *Post-employment defined benefit plans' principal actuarial assumptions*

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2013, and the 2014 periodic costs, were:

(in %)	*Discount rate*	*Expected rate of return on plan assets*	*Inflation assumption*	*Rate of increase for pensions in payment and deferred pensions*	*Rate of pay increase*	*Mortality rate*
At 31.12.2013						
France	**3**	**3**[1]	**2**	**2**	**3**	–[2]
At 31.12.2012						
France	2.75	3.50[1]	2	2	3	–[2]

1 *Expected Rate on Equities.*
2 *HSBC France uses "mortality tables" TV88-90 for retirement compensation and long-service awards and TGH/TGF05 for pension obligations.*

HSBC France determines discount rates, in consultation with its actuary based upon the current average yield of high quality (AA rated) debt instruments, with maturities consistent with that of the pension obligations.

c *Defined benefit pension plans*

Value recognised in the balance sheet

(in millions of euros)	**31.12.2013** ***HSBC France Pension Plan***	31.12.2012 *HSBC France Pension Plan*
Equities	**–**	–
Bonds	**12**	12
Property	**–**	–
Other	**–**	–
Fair value of plan assets	**12**	12
Present value of funded obligations	**–**	–
Present value of unfunded obligations	**(173)**	(168)
Defined benefit obligation	**(173)**	(168)
Unrecognised past service cost[1]	**–**	4
Net liability	**(161)**	(152)

1 *Complying with IAS 19 revised, the unrecognised past service cost was booked through the shareholders' funds in 2013 (EUR -4 million).*

5 Employee compensation and benefits *(continued)*

Changes in the present value of the defined benefit obligation

(in millions of euros)	**31.12.2013** ***HSBC France Pension Plan***	31.12.2012 *HSBC France Pension Plan*
At 1 January	**168**	135
Current service cost	**5**	6
Interest cost	**4**	6
Contributions by employees	**–**	–
Actuarial (gains)/losses[1]	**6**	31
Benefits paid	**(11)**	(8)
Past service cost – vested immediately	**–**	–
Past service cost – unvested benefits	**–**	(1)
Acquisitions	**–**	–
(Gains)/losses on curtailments	**–**	–
(Gains)/losses on settlements	**–**	(1)
Exchange and other movements[2]	**1**	–
At 31 December[3]	**173**	168

1 *In 2013, total net actuarial losses included in the statement of comprehensive income were EUR 3 million in respect of defined benefit pension plans (2012: EUR 23 million).*
2 *In 2013, acquisition of HSBC Assurances Vie (France) (2012: Nil).*
3 *Of which non post-employment benefit obligations for EUR 10 million (2012: EUR 9.7 million) and post-employment benefit obligations for EUR 163 million (2012: EUR 158.3 million).*

Changes in the fair value of plan assets

(in millions of euros)	**31.12.2013** ***HSBC France Pension Plan***	31.12.2012 *HSBC France Pension Plan*
At 1 January	**12**	13
Expected return	**1**	1
Contributions by the group	**–**	(2)
Contributions by employees	**–**	–
Actuarial gain	**–**	–
Benefits paid	**(1)**	–
Acquisitions	**–**	–
(Gains)/losses on settlements	**–**	–
Exchange and other movements	**–**	–
At 31 December	**12**	12

Total expense recognised in the income statement, in "Employee compensation and benefits"

(in millions of euros)	**31.12.2013** ***HSBC France Pension Plan***	31.12.2012 *HSBC France Pension Plan*
Current service cost	**5**	6
Interest cost	**4**	6
Expected return on plan assets	**–**	(1)
Past service cost	**–**	–
(Gains)/losses on curtailments	**–**	–
(Gains)/losses on settlements	**–**	(1)
Total net expense	**9**	10

6 Share-based payments

The HSBC France group has no specific share-based payment arrangement of its own and participates in HSBC Holdings plc share option plans consisting of share-option awards and share awards.

In 2005, the HSBC Group significantly revised its share option and share policy to its employees. The new rules of share option and share plans were approved by its Annual General Meeting held in May 2005. These rules include a French sub-plan (Schedule 3 of the general rule), which complies with the legal and tax regulations applicable in France. This regulation was revised in 2011 firstly to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the “Group Performance Share Plan”, for the HSBC Group’s Senior Executives. In this context, the French sub-plan (Schedule 5 of the new rules) has also been the subject of a review, to comply with local social and tax rules. Since 2006, the general policy of the HSBC Group is to award shares instead of share options (except in the case of specific legal and tax regulations).

Group Share Option Plan

The Group Share Options Plan was a long-term incentive plan available to certain group employees between 2000 and 2005. The aim of the plan was to align the interests of those higher performing employees to the creation of shareholder value. Options were granted at market value and are normally exercisable between the third and tenth anniversaries of the date when granted, subject to vesting conditions.

Group Share Options without performance conditions

Share options without performance conditions were granted between 2001 and 2005 to certain group employees. Options granted in 2002 and 2003 expired in 2012 and in 2013.

	31.12.2013		31.12.2012	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**24,178**		35,311	
Granted in the year	**–**		–	
Exercised in the year	**(5,968)**	**6.05**	(388)	6.02
Transferred in the year	**–**		–	
Expired in the year	**(2,378)**	**6.14**	(10,745)	7.28
Outstanding at 31 December	**15,832**		24,178	

Share Options with performance conditions

Share options with performance conditions were granted in 2003 and 2004 under the Rules of the HSBC Share Plan to Senior Executives in France and also to certain employees of the group.

	31.12.2013		31.12.2012	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**1,320**		1,343	
Granted in the year	**–**		–	
Exercised in the year	**–**		–	
Transferred in the year	**–**		–	
Expired in the year	–		(23)	
Outstanding at 31 December	**1,320**		1,320	

The amortisation of these plans was based on the fair value of the share-based payments transactions when contracted and runs over the three-year vesting period. These plans were completely amortised in 2008.

The HSBC Holdings plc shares held by the group to be delivered to the employees are reported in the available-for-sale portfolios and measured at fair value (quoted price).

6 Share-based payments *(continued)*

Group share plan

The aim of the Group share plan is to recognise individual performance and to retain the highest level performing employees.

The shares can be:

– "Group Performance Shares" subject to performance conditions;
– "Restricted Shares" without performance conditions.

"Group Performance Shares"

	31.12.2013	31.12.2012
	Number (000)	*Number (000)*
Outstanding at 1 January	**–**	8
Capital increase	**–**	–
Granted in the year	**–**	–
Vested in the year	**–**	–
Transferred in the year	**–**	–
Expired in the year	**–**	(8)
Outstanding at 31 December	**–**	–

This category of shares is available, beyond a vesting period of five years, at the retirement date.

"Restricted Shares"

These shares vest definitely after a two-year or three-year period and according to the rules of the Plan. Shares granted in 2010 will vest 50 per cent after two years and 50 per cent after three years. Shares granted in 2012 and in 2013 will vest 66 per cent after two years and 34 per cent after three years.

	31.12.2013	31.12.2012
	Number (000)	*Number (000)*
Outstanding at 1 January	**8,717**	11,062
Granted in the year	**1,431**	1,553
Vested in the year	**(6,145)**	(3,821)
Transferred in the year	**–**	–
Expired in the year	**(69)**	(77)
Shares issued	**–**	–
Outstanding at 31 December	**3,934**	8,717

This category of shares cannot be sold before the end of a further two-year tax lock-up period after their vesting.

In 2013, EUR 13 million was charged to the income statement in respect of amortisation of the existing plans.

Regulatory and best practice guidance has clarified the required structure and terms of the vesting period that should be recognised in the consolidated financial statements of the HSBC France group. As a result, the vesting period for deferred share awards expected to be granted in 2013, in respect of the 2012 performance year, was determined to have started on 1 January 2012. Prior to 2011, amortisation started at the date of grant of the shares.

Employee share offering

In 2013, the HSBC Group made an employee share offering open to current employees. Employees of the HSBC France group took up a total of 1,970,877 HSBC Holdings plc shares, representing a total capital amount of EUR 13.1 million.

The cost of the discount based on the share price at the opening of the offer period amounted to EUR 2.7 million for the group.

Consolidated financial statements (continued)

7 Tax expense

(in millions of euros)	**31.12.2013**	31.12.2012
Current tax	**161**	106
Deferred tax	**2**	(39)
Tax expense	**163**	67
Effective tax rate (per cent)	**29.6**	17.3

As mentioned in Note 2 s, pages 122 and 123, the CVAE contribution recorded in 2013 is included in "Income Tax". The impact of this accounting position was, in 2013, a classification of a charge of EUR 41 million (2012: EUR 16 million) on the "Tax Expenses" and the recognition of a deferred tax asset of EUR -1 million (2012: EUR 4 million).

Although deemed to be temporary up to 2012, the 2013 Finances Law ("*Loi de Finances*") increased the additional contribution from 5 per cent to 10 per cent for the 2013 and 2014 closing exercises.

As a consequence, in 2013 France's tax rate increased from 36.1 per cent to 38 per cent for companies which have a turnover over EUR 250 million.

Analysis of overall tax charges

	31.12.2013		31.12.2012	
(in millions of euros)	***Amount***	*%*	*Amount*	*%*
Taxation at French corporate tax rate	**208**	**37.76**	140	36.08
Impact of overseas profits in principal locations taxed at different rates	**1**	**0.09**	(2)	(0.52)
Operations taxed at reduced tax rate in France	**(3)**	**(0.57)**	(7)	(1.80)
Other items including result for tax Group integration	**(43)**	**(7.67)**	(64)	(16.49)
Overall tax charge	**163**	**29.61**	67	17.27

8 Dividends paid in 2013 and 2012

(in millions of euros)	**31.12.2013** *EUR per share*	***Amount***	31.12.2012 *EUR per share*	*Amount*
First interim dividend for current year	**1.78**	**120**	–	–
Dividend paid with respect to previous year	**3.56**	**240**	–	–
		360		–

Dividends related to 2013

On 19 November 2013, the Board of Directors approved an interim dividend of EUR 1.78 per share in respect of the 2013 results. This interim dividend was paid on 21 November 2013.

On 14 February 2014, the Board of Directors also proposed that at the Annual General Meeting, to be held on 9 May 2014, not to distribute any further dividend in respect of the 2013 results.

Dividends related to 2012

On 27 February 2013, the Board of Directors approved an interim dividend of EUR 3.56 per share in respect of the 2012 results. This interim dividend was paid on 1 March 2013.

The Board of Directors also proposed at the Annual General Meeting, held on 30 April 2013, not to distribute any further dividend in respect of the 2012 results.

9 Earnings and dividends per share

(in euros)	**31.12.2013**	31.12.2012
Basic earnings per share	**5.68**	4.75
Diluted earnings per share	**5.68**	4.75
Dividend per share	**1.78**	3.56

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 383 million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 67,437,827 (full year 2012: earnings of EUR 320 million and 67,437,827 weighted average number of shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 67,437,827 (full year 2012: 67,437,827 shares).

10 Segment analysis

The HSBC Group in France includes on the one hand the HSBC France group, and on the other hand the branch of HSBC Bank plc located in Paris, which is engaged in equity derivatives activities as well as HSBC Assurances Vie (France) until 13 December 2013 and HSBC Assurances IARD (France) until May 2013, to the exclusion of the costs of funding and the debt on acquisition recognised by HSBC Bank plc Paris Branch.

The HSBC Group in France provides a comprehensive range of banking and related financial services to its customers. Products and services offered to customers are organised along the following business lines:

– Retail Banking and Wealth Management (including the Insurance and Asset Management business lines) offers a wide range of products and services to meet the retail banking and wealth management requirements of individual clients and professionals. The products offered include current accounts and the related payment and financial services, savings products and solutions for wealth accumulation, as well as mortgages and other loans to individuals and professionals.

  In the HSBC Group, life insurance business is accounted for using the embedded value approach which, *inter alia*, provides a risk and valuation framework. The present value of in-force long-term insurance business ("PVIF") represents the present value of the shareholders' interest in the profits expected to emerge from the book of in-force policies at that date. The PVIF calculation projects expected cash flows, adjusted for a variety of assumptions to reflect local market conditions and management's judgement of future trends. The main assumptions relate to economic and non-economic assumptions and policyholder behaviour. Assumptions are subject to uncertainty and can contribute to volatility in the results of the Insurance business (see Note 18 on pages 152 to 153).

– Commercial Banking offers its clients financial services, payment and cash management services, international financing, insurance, treasury operations, as well as capital market and other investment banking services.

– Global Banking and Markets provides tailored financial solutions to large corporate and institutional clients, governments and public-sector agencies. The global businesses offer a full range of investment banking and financing services as well as capital markets services in the field of credit, interest rates, foreign exchange, equities, money markets and securities administration.

– The services offered by Private Banking are designed to meet the needs of high-net worth individual customers in the field of banking services, investment advisory and wealth management.

The "Other" segment mainly includes the fair value variation of HSBC France's own credit spread on issued debt under fair value option for EUR -3 million (2012: EUR -118 million).

HSBC France is supported by various central administrative and corporate functions whose costs are systematically and consistently allocated to the business lines.

Performance is assessed on the basis of the pre-tax profits of the business line, as set out in the internal management reports reviewed by the group's Executive Management.

No geographical information is given, as this information is not relevant for the HSBC France group which mainly operates in France.

10 Segment analysis *(continued)*

Profit/(loss) for the year on the managed perimeter

(in millions of euros)	31.12.2013 *Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter-segment*	*Total*
Interest income	1,026	455	529	30	76	(112)	2,004
Interest expense	(130)	(40)	(255)	(1)	(72)	77	(421)
Net interest income	**896**	**415**	**274**	**29**	**4**	**(35)**	**1,583**
Other operating income	**118**	**236**	**496**	**14**	**(26)**	**34**	**872**
Total operating income	**1,014**	**651**	**770**	**43**	**(22)**	**(1)**	**2,455**
Loan impairment charges and other credit risk provisions	**(24)**	**(73)**	–	–	–	–	**(97)**
Net operating income	**990**	**578**	**770**	**43**	**(22)**	**(1)**	**2,358**
Total operating expenses	**(776)**	**(386)**	**(501)**	**(27)**	**(11)**	**1**	**(1,700)**
Operating profit	**214**	**192**	**269**	**16**	**(33)**	–	**658**
Share of profit in associates and joint ventures	–	–	**(4)**	–	–	–	**(4)**
Profit before tax	**214**	**192**	**265**	**16**	**(33)**	–	**654**
Tax expense							**(202)**
Profit for the year – France							**452**
Perimeter differences[1]							**(69)**
Profit for the year – Legal							**383**

1 *Mainly Insurance.*

Consolidated financial statements (continued)

10 Segment analysis *(continued)*

(in millions of euros)	31.12.2012 *Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter-segment*	*Total*
Interest income	941	403	759	22	47	–	2,172
Interest expense	(86)	(8)	(486)	(4)	(51)	(39)	(674)
Net interest income	855	395	273	18	(4)	(39)	1,498
Other operating income	40	242	639	27	(94)	39	893
Total operating income	895	637	912	45	(98)	–	2,391
Loan impairment charges and other credit risk provisions	(23)	(78)	(17)	1	–	–	(117)
Net operating income	872	559	895	46	(98)	–	2,274
Total operating expenses	(767)	(401)	(485)	(55)	(7)	–	(1,715)
Operating profit	105	158	410	(9)	(105)	–	559
Share of profit in associates and joint ventures	–	–	–	–	–	–	–
Profit before tax	105	158	410	(9)	(105)	–	559
Tax expense							(127)
Profit for the year – France							432
Perimeter differences[1]							(111)
Profit for the year – Legal							321

1 *Mainly Insurance.*

10 Segment analysis *(continued)*

Other information about the profit/(loss) for the year on the managed perimeter (HSBC in France)

(in millions of euros)	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
31 December 2013							
Net operating income	**990**	**578**	**770**	**43**	**(22)**	**(1)**	**2,358**
– external	**1,024**	**521**	**714**	**23**	**(7)**	**29**	**2,304**
– inter-segment	**(34)**	**57**	**56**	**20**	**(15)**	**(30)**	**54**
Profit before tax includes the following significant non-cash items	**214**	**192**	**265**	**16**	**(33)**	**–**	**654**
– depreciation, amortisation and impairment	**(3)**	**–**	**–**	**–**	**(53)**	**–**	**(56)**
– loan impairment losses gross of recoveries and other credit risk provisions	**(24)**	**(73)**	**–**	**–**	**–**	**–**	**(97)**
– impairment of financial investments	**–**	**–**	**(1)**	**–**	**–**	**–**	**(1)**
31 December 2012							
Net operating income	872	559	895	46	(98)	–	2,274
– external	896	508	870	38	(104)	–	2,208
– inter-segment	(24)	51	25	8	6	–	66
Profit before tax includes the following significant non-cash items	105	158	410	(9)	(105)	–	559
– depreciation, amortisation and impairment	(3)	–	–	–	(53)	–	(56)
– loan impairment losses gross of recoveries and other credit risk provisions	(23)	(78)	(17)	1	–	–	(117)
– impairment of financial investments	–	–	–	–	(1)	–	(1)

Consolidated financial statements (continued)

10 Segment analysis *(continued)*

Balance sheet information

(in millions of euros)	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
31 December 2013							
Loans and advances to customers (net)	**15,870**	**9,427**	**19,158**	**706**	**–**	**–**	**45,161**
Investment in associates and joint ventures	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Total assets	**42,087**	**10,442**	**165,000**	**725**	**321**	**(9,682)**	**208,893**
Customer accounts	**13,191**	**10,103**	**24,144**	**472**	**–**	**–**	**47,910**
Total liabilities	**42,087**	**10,442**	**165,000**	**725**	**321**	**(9,682)**	**208,893**
Capital expenditure incurred[1]	**13**	**7**	**9**	**–**	**–**	**–**	**29**
31 December 2012							
Loans and advances to customers (net)	13,726	10,590	23,353	685	–	–	48,354
Investment in associates and joint ventures	1	–	5	–	–	–	6
Total assets	17,586	13,728	200,270	712	323	(7,411)	225,208
Customer accounts	13,051	9,877	18,880	556	–	–	42,364
Total liabilities	17,586	13,728	200,270	712	323	(7,411)	225,208
Capital expenditure incurred[1]	40	25	22	–	–	–	87

1 *Expenditure incurred on property, plant and equipment and other intangible assets. Excludes assets acquired as part of business combination and goodwill.*

11 Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies in Note 2 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities on the balance sheet by the class of financial instrument to which they are assigned, and therefore by the measurement basis.

11 Analysis of financial assets and liabilities by measurement basis *(continued)*

(in millions of euros)	31.12.2013 *Held for trading*	*Designated at fair value*	*Loans and receivables*	*Available-for-sale securities*	*Financial assets and liabilities at amortised cost*	*Derivatives designated as fair value hedging instruments*	*Derivatives designated as cash flow hedging instruments*	*Total*
Financial assets								
Cash and balances at central banks	–	–	–	–	**5,994**	–	–	**5,994**
Items in the course of collection from other banks	–	–	–	–	**607**	–	–	**607**
Trading assets	**41,601**	–	–	–	–	–	–	**41,601**
Financial assets designated at fair value	–	**6,239**	–	–	–	–	–	**6,239**
Derivatives	**59,137**	–	–	–	–	**15**	**354**	**59,506**
Loans and advances to banks	–	–	**23,086**	–	–	–	–	**23,086**
Loans and advances to customers	–	–	**45,161**	–	–	–	–	**45,161**
Financial investments available for sale	–	–	–	**23,690**	–	–	–	**23,690**
Other assets	–	–	–	–	**260**	–	–	**260**
Accrued income	–	–	–	–	**1,130**	–	–	**1,130**
Total financial assets	**100,738**	**6,239**	**68,247**	**23,690**	**7,991**	**15**	**354**	**207,274**
Assets classified as held for sale								–
Total non-financial assets	–	–	–	–	–	–	–	**1,619**
Total assets								**208,893**
Financial Liabilities								
Deposits by banks	–	–	–	–	**22,589**	–	–	**22,589**
Customer accounts	–	–	–	–	**47,910**	–	–	**47,910**
Items in the course of transmission to other banks	–	–	–	–	**585**	–	–	**585**
Trading liabilities	**37,031**	–	–	–	–	–	–	**37,031**
Financial liabilities designated at fair value	–	**8,129**	–	–	–	–	–	**8,129**
Derivatives	**55,614**	–	–	–	–	**460**	**517**	**56,591**
Debt securities in issue	–	–	–	–	**9,017**	–	–	**9,017**
Insurance liabilities	–	–	–	–	**19,354**	–	–	**19,354**
Other liabilities	–	–	–	–	**857**	–	–	**857**
Subordinated liabilities	–	–	–	–	**16**	–	–	**16**
Accruals	–	–	–	–	**897**	–	–	**897**
Total financial liabilities	**92,645**	**8,129**	–	–	**101,225**	**460**	**517**	**202,976**
Liabilities classified as held for sale								–
Total non-financial liabilities (shareholder's Funds)								**5,917**
Total liabilities								**208,893**

Consolidated financial statements (continued)

11 Analysis of financial assets and liabilities by measurement basis *(continued)*

(in millions of euros)	31.12.2012							
	Held for trading	*Designated at fair value*	*Loans and receivables*	*Available-for-sale securities*	*Financial assets and liabilities at amortised cost*	*Derivatives designated as fair value hedging instruments*	*Derivatives designated as cash flow hedging instruments*	*Total*
Financial assets								
Cash and balances at central banks	–	–	–	–	6,770	–	–	6,770
Items in the course of collection from other banks	–	–	–	–	815	–	–	815
Trading assets	40,577	–	–	–	–	–	–	40,577
Financial assets designated at fair value	–	5	–	–	–	–	–	5
Derivatives	89,420	–	–	–	–	10	828	90,258
Loans and advances to banks	–	–	28,132	–	–	–	–	28,132
Loans and advances to customers	–	–	48,354	–	–	–	–	48,354
Financial investments available for sale	–	–	–	8,258	–	–	–	8,258
Other assets	–	–	–	–	228	–	–	228
Accrued income	–	–	–	–	865	–	–	865
Total financial assets	129,997	5	76,486	8,258	8,678	10	828	224,262
Assets classified as held for sale								–
Total non-financial assets	–	–	–	–	–	–	–	946
Total assets								225,208
Financial Liabilities								
Deposits by banks	–	–	–	–	32,992	–	–	32,992
Customer accounts	–	–	–	–	42,364	–	–	42,364
Items in the course of transmission to other banks	–	–	–	–	771	–	–	771
Trading liabilities	36,271	–	–	–	–	–	–	36,271
Financial liabilities designated at fair value	–	5,654	–	–	–	–	–	5,654
Derivatives	87,979	–	–	–	–	407	728	89,114
Debt securities in issue	–	–	–	–	10,655	–	–	10,655
Other liabilities	–	–	–	–	539	–	–	539
Subordinated liabilities	–	–	–	–	166	–	–	166
Accruals	–	–	–	–	1,143	–	–	1,143
Total financial liabilities	124,250	5,654	–	–	88,630	407	728	219,669
Liabilities classified as held for sale								–
Total non-financial liabilities								5,539
Total liabilities								225,208

12 Trading assets

(in millions of euros)	31.12.2013	31.12.2012
Trading assets:		
− which may be repledged or resold by counterparties	**26,337**	21,250
− not subject to repledge or resale by counterparties	**15,264**	19,327
	41,601	40,577

(in millions of euros)	31.12.2013	31.12.2012
Treasury and other eligible bills	**2,375**	1,392
Debt securities	**30,274**	25,130
Loans and advances to banks	**6,474**	11,320
Loans and advances to customers	**2,478**	2,735
	41,601	40,577

Included within the above figures for the group are debt securities issued by banks and other financial institutions of EUR 5,851 million (2012: EUR 4,886 million), of which EUR 2,538 million (2012: 2,064 million) are guaranted by various governments.

13 Financial assets designated at fair value through profit or loss

(in millions of euros)	31.12.2013
Financial assets designated at fair value :	
− not subject to repledge or resale by counterparties	**6,239**
− which may be repledged or resold by counterparties	**–**
	6,239
Treasury and other eligible bills	**–**
Debt securities	**1,118**
Equity securities	**5,118**
	6,236
Securities designated at fair value	**–**
Loans and advances to banks	**3**
Loans and advances to customers	**–**
	3

The financial assets designated at fair value through profit or loss are fully owned by HSBC Assurances Vie (France).

In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc. The impact in the consolidated financial statements, related to the acquisition of HSBC Assurances Vie (France), are presented in Note 3 on page 128.

14 Derivatives

Fair values of third-party derivatives open positions by type of product contract:

	31.12.2013					
	Assets			***Liabilities***		
(in millions of euros)	***Trading***	***Hedging***	***Total***	***Trading***	***Hedging***	***Total***
Exchange rate	**3,637**	**4**	**3,641**	**(3,748)**	**–**	**(3,748)**
Interest rate[1]	**122,835**	**365**	**123,200**	**(119,270)**	**(977)**	**(120,247)**
Equities	**101**	**–**	**101**	**(29)**	**–**	**(29)**
Credit derivatives	**(3)**	**–**	**(3)**[1]	**–**	**–**	**–**
Commodity and other	**–**	**–**	**–**	**–**	**–**	**–**
Gross total fair values	**126,570**	**369**	**126,939**	**(123,047)**	**(977)**	**(124,024)**
Netting			**(67,433)**			**67,433**
Net total			**59,506**			**(56,591)**

1 *In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc.*

	31.12.2012					
	Assets			*Liabilities*		
(in millions of euros)	*Trading*	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*
Exchange rate	3,917	–	3,917	(4,179)	–	(4,179)
Interest rate	179,574	838	180,412	(177,870)	(1,135)	(179,005)
Equities	2	–	2	(2)	–	(2)
Credit derivatives	–	–	–	(1)	–	(1)
Commodity and other	–	–	–	–	–	–
Gross total fair values	183,493	838	184,331	(182,052)	(1,135)	(183,187)
Netting			(94,073)			94,073
Net total			90,258			(89,114)

a *Use of derivatives*

HSBC France transacts derivatives mainly to create risk management solutions for clients and to manage and hedge the HSBC France group's own risks. For accounting purposes, derivative instruments are classified as held either for trading or hedging. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. All other derivative instruments are classified as held-for-trading. The held-for-trading classification includes two types of derivative instruments: those used in sales and trading activities, and those instruments that are used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second held-for-trading category includes derivatives managed in conjunction with financial instruments designated at fair value. These activities are described in more detail below.

The HSBC France group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary. When entering into derivative transactions, the HSBC France group employs the same credit risk management procedures to assess and approve potential credit exposures as are used for traditional lending.

b *Trading derivatives*

Most of the HSBC France group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to group customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short-term fluctuations in price or margin. Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates, equity prices or other market parameters. Trading includes market-making, positioning and arbitrage activities. Market-making entails quoting bid and offer prices to other market

14 Derivatives *(continued)*

participants for the purpose of generating revenues based on spread and volume; positioning means managing market risk positions in the expectation of benefitting from favourable movements in prices, rates or indices; arbitrage involves identifying and profiting from price differentials between markets and products.

As mentioned above, other derivatives classified as held-for-trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting or have not been formally designated as hedging instruments. These include derivatives managed in conjunction with financial instruments designated at fair value.

Ineffective hedging derivatives were previously designated as hedges, but no longer meet the criteria for hedge accounting.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in “Trading income”, except for derivatives managed in conjunction with financial instruments designated at fair value, where gains and losses are reported in “Net income from financial instruments designated at fair value”, together with the gains and losses on the hedged items. Where the derivatives are managed with debt securities in issue, the contractual interest is shown in “Interest expense” together with the interest payable on the issued debt. Substantially all of the group’s derivatives entered into with the group’s undertakings are managed in conjunction with financial liabilities designated at fair value.

Notional contract amounts of derivatives held-for-trading purposes by product type

(in millions of euros)	**31.12.2013**	31.12.2012
Exchange rate	**139,967**	148,783
Interest rate	**5,640,972**	4,657,891
Equities[1]	**8,042**	41
Credit derivatives	**126**	135
Commodity and other	**–**	–
Total	**5,789,107**	4,806,850

1 *In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc.*

The notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The contract amount of credit derivatives of EUR 126 million (2012: EUR 135 million) listed above consists of protection bought for EUR 126 million (2012: EUR 135 million) HSBC France does not sale credit protection.

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

(in millions of euros)	**2013**	2012
Unamortised balance at 1 January	**4**	4
Deferral on new transactions	**–**	–
Recognised in the income statement during the period:		
– amortisation	**–**	–
– subsequent to observability	**–**	–
– maturity or termination	**–**	–
– FX movements and other	**–**	–
Unamortised balance at 31 December	**4**	4

c *Hedging instruments*

HSBC France uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the group to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

14 Derivatives *(continued)*

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, or cash flow hedges, or hedges in net investment of foreign operations. These are described under the relevant headings below.

At 31 December 2013 and 31 December 2012, HSBC France did not hold derivatives designated as “Net investment hedge”.

The table below shows the notional contract amount of derivatives held for hedging purposes by product type:

	31.12.2013		31.12.2012	
(in millions of euros)	***Cash flow hedge***	***Fair value hedge***	*Cash flow hedge*	*Fair value hedge*
Exchange rate contracts	**–**	**211**	–	85
Interest rate contracts	**60,470**	**9,246**	48,791	6,737
Equity contracts	**–**	**–**	–	–

The notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Fair value hedges

The HSBC France group’s fair value hedges principally consist of interest rate swaps that are used to protect against changes due to movements in market interest rates in the fair value of fixed-rate long-term financial instruments of Available for sale (AFS) portfolio and lease operations. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in income. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to income as a yield adjustment over the remainder of the hedging period.

The fair values of outstanding derivatives designated as fair value hedges at 31 December 2013, were assets of EUR 15 million and liabilities of EUR 460 million (31 December 2012: assets of EUR 10 million and liabilities of EUR 407 million).

Gains or losses arising from the change in fair value of fair value hedges:

(in millions of euros)	**31.12.2013**	31.12.2012
On hedging instruments	**(41)**	(190)
On hedged items attributable to the hedged risk	**35**	187

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was a loss of EUR 6 million for the year ended 31 December 2013 (a loss of EUR 3 million for the year ended 31 December 2012).

Cash flow hedges

The HSBC France group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be re-funded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions. These are initially recognised directly in equity as gains or losses not recognised in the income statement and are transferred to current period earnings when the forecast cash flows affect net profit or loss.

At 31 December 2013, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of EUR 354 million and liabilities of EUR 517 million (at 31 December 2012: assets of EUR 828 million and liabilities of EUR 728 million).

14 Derivatives *(continued)*

The schedule of forecast principal balances on which the expected interest cash flows arise as at 31 December is as follows:

	31.12.2013			
(in millions of euros)	***3 months or less***	***More than 3 months but less than 1 year***	***Less than 5 years but more than 1 year***	***More than 5 years***
Cash inflows from assets	**24,371**	**16,227**	**4,693**	**1,092**
Cash outflows from liabilities	**(16,254)**	**(7,250)**	**(7,133)**	**(5,376)**
Net cash inflows/(outflows)	**8,117**	**8,977**	**(2,440)**	**(4,284)**

	31.12.2012			
(in millions of euros)	*3 months or less*	*More than 3 months but less than 1 year*	*Less than 5 years but more than 1 year*	*More than 5 years*
Cash inflows from assets	18,757	9,524	9,339	3,604
Cash outflows from liabilities	(16,751)	(7,708)	(4,104)	(1,343)
Net cash inflows/(outflows)	2,006	1,816	5,235	2,261

Reconciliation of movements in the cash flow hedge reserve:

(in millions of euros)	**2013**	2012
At 1 January	**78**	63
Amounts recognised directly in equity during the year	**(111)**	80
Amounts removed from equity and included in the income statement for the year	**(93)**	(57)
Deferred taxation	**72**	(8)
At 31 December	**(54)**	78

At 31 December 2013, the amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was a loss of EUR 10.5 million (at 31 December 2012: a gain of EUR 11.6 million).

d *Embedded derivatives: home purchase savings*

Home purchase savings accounts (CEL) and plans (PEL) are specific financial instruments established by law 65-554 of 10 July 1965. Within these products, customers build up savings during a certain period and use them to obtain loans during a subsequent period. The latter phase depends on, and cannot be separated from, the build-up phase.

To recognise derivatives embedded in PEL/CEL home purchase savings products at fair value, HSBC France has developed a model with the following main characteristics:

(i) the main accounting reference is IAS 39, concerning the calculation of fair value with respect to derivative instruments;

(ii) the derivatives under consideration are borrowing and savings options embedded in contracts in force at the accounts-closing date:

- the model calculates the fair value of exceptional payment and deferred payment options granted to customers (for home purchase savings plans only),
- the model calculates the fair value of options to use acquired borrowing rights;

(iii) the calculation is dependent on customer behaviour, and is carried out separately for each issue of PELs and on a combined basis for CELs.

At 31 December 2013, derivatives embedded in home purchase savings products represented a liability of EUR 9.2 million (at 31 December 2012: a liability of EUR 12.1 million).

15 Financial investments available for sale

(in millions of euros)	**31.12.2013**	31.12.2012
Financial investments:		
– which may be pledged or resold by counterparties	**3,317**	3,705
– not subject to repledge or resale by counterparties	**20,373**	4,553
	23,690[1]	8,258

	31.12.2013		31.12.2012	
(in millions of euros)	***Book value***	***Fair value***	*Book value*	*Fair value*
Treasury and other eligible bills	–	–	273	273
– available-for-sale	–	–	273	273
– held-to-maturity	–	–	–	–
Debt securities[1]	**23,470**	**23,470**	7,745	7,745
– available-for-sale	**23,470**	**23,470**	7,745	7,745
– held-to-maturity	–	–	–	–
Equity securities	**220**	**220**	240	240
– available-for-sale	**220**	**220**	240	240
Total financial investments[1]	**23,690**	**23,690**	8,258	8,258

1 *In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc, which amounts to EUR 13,820 million. The impacts in the consolidated financial statements, related to the acquisition of HSBC Assurances Vie (France), are presented in Note 3 on page 128.*

16 Transfer of financial assets

The HSBC France group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of the financial assets concerned:

(i) full derecognition occurs when the HSBC France group transfers its contractual right to receive cash flows from the financial assets and substantially, all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks. In addition, full derecognition occurs where the contractual rights to receive the cash flows of the financial assets are retained but a contractual obligation to pay the cash flows to one or more recipients is assumed;

(ii) partial derecognition occurs when the HSBC France group sells, or otherwise transfers, financial assets in such a way that some, but not substantially all, of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of the HSBC France group's continuing involvement.

(iii) Derecognition does not occur when the group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, but:

- either, retains substantially all of the risks and rewards of ownership of the transferred asset;
- or neither retains nor transfers substantially all of the risks and rewards of ownership but has retained control. In this situation the financial assets are recognised on the balance sheet to the extent of the HSBC France group's continuing involvement.

The majority of transferred financial assets that do not qualify for derecognition are (i) debt securities held by counterparties as collateral under repurchase agreements or (ii) equity securities lent under securities lending agreements.

As the substance of these transactions is secured borrowings the asset collateral continues to be recognised in full and the related liability reflecting the HSBC France group's obligation to repurchase the transferred assets for a fixed price at a future date is recognised in deposits from banks or customers as appropriate. As a result of these transactions, the HSBC France group is unable to use, sell or pledge the transferred assets for the duration of the transaction. The HSBC France group remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

16 Transfer of financial assets *(continued)*

In a small number of securitisation transactions, the HSBC France group has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred assets, and has retained control of the transferred assets. Circumstances in which the group has continuing involvement in the transferred assets may include retention of servicing rights over the transferred assets, entering into a derivative transaction with the securitisation vehicle or retaining an interest in the securitisation vehicle. Where the HSBC France group has continuing involvement it continues to recognise the transferred assets to the extent of its continuing involvement and recognises an associated liability. The net carrying amount of the transferred assets and associated liabilities reflects the rights and obligations that the HSBC France group has retained.

The following table analyses the carrying amount of financial assets that did not qualify for derecognition during the year and their associated financial liabilities:

(in millions of euros)	**31.12.2013** *Carrying amount of assets*	**31.12.2013** *Carrying amount of associated liabilities*	31.12.2012 *Carrying amount of assets*	31.12.2012 *Carrying amount of associated liabilities*
Nature of transaction				
Repurchase agreements	**29,653**	**29,653**	24,955	24,955
Securities lending agreements	**–**	**–**	–	–
Total	**29,653**	**29,653**	24,955	24,955

17 Interests in associates and joint ventures

a *Principal associates*

At 31 December 2013, the HSBC France group only consolidated through equity accounting method a limited number of entities that had no significant impact on the consolidated financial statements.

b *Summarised aggregate financial information on joint ventures*

	31.12.2013 *Principal activity*	*Interest in equity*	*Capital*
HCM Holdings Ltd	**Holding**	**51%**	**–**

	31.12.2012 *Principal activity*	*Interest in equity*	*Capital*
HCM Holdings Ltd	Holding	51%	–

Although the HSBC France group owns more than 50 per cent of the equity capital of HCM Holdings Ltd, the agreement with the other shareholder includes restrictions on the rights of HSBC France as the majority shareholder and indicates joint control over HCM Holdings Ltd by the two shareholders.

Summarised aggregate financial information on joint ventures

(Figures from local financial statements: 100 per cent)

(in millions of euros)	**2013**	2012
Current assets	**2**	2
Non-current assets	**–**	–
Current liabilities	**–**	–
Non-current liabilities	**2**	2
Income	**–**	–
Expenses	**–**	–

18 Goodwill and intangible assets

"Goodwill and intangible assets" includes goodwill arising on business combinations and other intangible assets.

(in millions of euros)	**31.12.2013**	31.12.2012
Cost		
Goodwill – net book value (see Note 18 a)	**337**	337
Present value of in force long term assurance business (see Note 18 c)[1]	**493**	–
Other intangible assets – net book value (see Note 18 b)	**38**	40
	869	377

1 *In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc. The impacts in the consolidated financial statements, related to the acquisition of HSBC Assurances Vie (France), are presented in Note 3 on page 128.*

a *Goodwill*

(in millions of euros)	**2013**	2012
Cost		
At 1 January	**370**	370
Additions	**–**	–
Disposals	**–**	–
Exchange translation differences	**–**	–
Changes in scope of consolidation and other changes	**–**	–
At 31 December	**370**	370
Accumulated impairment losses		
At 1 January	**(33)**	(33)
Disposals	**–**	–
Impairment losses recognised in profit or loss	**–**	–
Changes in scope of consolidation and other changes	**–**	–
At 31 December	**(33)**	(33)
Net book value at 31 December	**337**	337

During 2013 and 2012, no goodwill impairment was recognised by the group. Impairment testing in respect of goodwill is performed annually by comparing the recoverable amount of Cash-Generating Units ("CGUs"), based on a value-in-use calculation. This calculation uses cash flow estimates based on management's cash flow projections, extrapolated in perpetuity using a nominal long-term growth rate based on current market assessments of GDP and inflation. Cash flows are extrapolated in perpetuity due to the long-term perspective within the group of the business units making up the CGUs. The discount rate used is based on the cost of capital the group allocates to investments within which the CGU operates.

The cost of capital assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of capital percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk-free rate and a premium or discount to reflect the inherent risk of the business being evaluated. These variables are established on the basis of management judgement and current market assessments of economic variables.

The review of goodwill impairment represents management's best estimates of the factors. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects. The process of identifying and evaluating goodwill impairment is inherently uncertain because it requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used.

18 Goodwill and intangible assets *(continued)*

The following CGUs, include in their carrying value goodwill that is a significant proportion of total goodwill reported by the group at 31 December 2013. These CGUs do not carry on their balance sheet any intangible assets with indefinite useful lives, other than goodwill.

	Goodwill at 31.12.2013	***Discount rate***	***Nominal growth rate beyond initial cash flow projections***	*Goodwill at 31.12.2012*	*Discount rate*	*Nominal growth rate beyond initial cash flow projections*
	In millions of euros	**%**	**%**	*In millions of euros*	%	%
Commercial Banking	**169**	**10**	**2.00**	169	11	3.44
Asset Management	**66**	**10**	**2.00**	66	11	3.44
Retail Banking	**64**	**9**	**2.00**	48	11	3.44
Private Bank	**63**	**8**	**2.00**	65	9	3.44
Total goodwill in the CGUs listed above[1]	**362**	**–**	**2.00**	348	–	3.44

1 *Includes customer/merchant relationships which amount to EUR 9 million for Asset Management and EUR 4 million for Retail Banking. Also includes rights to lease which amount to EUR 12 million for Retail Banking.*

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b *Other intangible assets*

The analysis of intangible assets movements at 31 December 2013 is as follows:

(in millions of euros)	***Internally generated software***	***Purchased software***	***Other***	***Total***
Cost				
At 1 January 2013	**142**	**66**	**33**	**241**
Additions	**–**	**7**	**1**	**8**
Disposals	**–**	**–**	**(1)**	**(1)**
Exchange translation differences	**–**	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**(124)**	**(3)**	**2**	**(125)**
At 31 December 2013	**18**	**70**	**35**	**123**
Accumulated impairment losses				
At 1 January 2013	**(142)**	**(52)**	**(8)**	**(202)**
Charges for the year[1]	**–**	**(8)**	**1**	**(7)**
Disposals	**–**	**–**	**–**	**–**
Impairment losses	**–**	**–**	**–**	**–**
Reversal of impairment losses	**–**	**–**	**–**	**–**
Exchange translation differences	**–**	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**124**	**3**	**(3)**	**124**
At 31 December 2013	**(18)**	**(57)**	**(10)**	**(85)**
Net book value at 31 December 2013	**–**	**13**	**25**	**38**

1 *The amortisation charge for the year is recognised within the income statement under "Amortisation of intangible assets and impairment of goodwill".*

18 Goodwill and intangible assets *(continued)*

(in millions of euros)	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost				
At 1 January 2012	142	59	34	235
Additions	–	8	–	8
Disposals	–	(3)	–	(3)
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes[1]	–	2	–	2
At 31 December 2012	142	66	34	242
Accumulated impairment losses				
At 1 January 2012	(142)	(44)	(8)	(194)
Charges for the year[2]	–	(8)	–	(8)
Disposals	–	1	–	1
Impairment losses	–	–	–	–
Reversal of impairment losses	–	–	–	–
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes	–	(1)	–	(1)
At 31 December 2012	(142)	(52)	(8)	(202)
Net book value at 31 December 2012	–	14	26	40

1 *In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc. The impacts in the consolidated financial statements, related to the acquisition of HSBC Assurances Vie (France), are presented in Note 3 on page 128.*
2 *The amortisation charge for the year is recognised within the income statement under "Amortisation of intangible assets and impairment of goodwill".*

c *Present value of in-force insurance business*

The HSBC France's life insurance business is accounted for using the embedded value approach which, *inter alia*, provides a comprehensive risk and valuation framework. The PVIF 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.

PVIF-specific assumptions

The following table shows the effect on the PVIF of reasonably possible changes in the main economic assumption, risk-free rates, across all insurance manufacturing subsidiaries.

18 Goodwill and intangible assets *(continued)*

The key assumptions used in the computation of PVIF for the group's main life insurance operations were:

	2013
Risk free rate	**2.38%**
Risk discount rate	**4.69%**
Expenses inflation	**2.00%**

The following table shows the effect on the PVIF of reasonably possible changes in the main economic assumption, risk-free rates, for HSBC Assurances Vie (France).

Sensitivity of PVIF to changes in economic assumptions

	PVIF at 31.12.2013
+ 100 basis points shift in risk-free rate	**(4)**
– 100 basis points shift in risk-free rate	**(53)**
+ 100 basis points shift in risk-discount rate	**(28)**
– 100 basis points shift in risk-discount rate	**32**

Due to certain characteristics of the contracts, the relationships may be non-linear and the results of the sensitivity-testing should not be extrapolated to higher levels of stress. In calculating the scenario, the shift in the risk-free rate results in changes to investment returns, risk discount rates and bonus rates which are incorporated. The sensitivities shown are before actions that could be taken by management to mitigate impacts and before resultant changes in policyholder behaviour.

Non-economic assumptions

Policyholder liabilities and PVIF for life manufacturers are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. The table below shows the sensitivity of total equity at 31 December 2013 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.

Sensitivity to changes in non-economic assumptions

	Effect on total equity at 31.12.2013
10% increase in mortality and/or morbidity rates	**(13)**
10% decrease in mortality and/or morbidity rates	**13**
50% increase in lapse rates	**(115)**
50% decrease in lapse rates	**191**
10% increase in expense rates	**(24)**
10% decrease in expense rates	**24**

19 Property, plant and equipment

a *Property, plant and equipment*

(in millions of euros)	***Freehold land and buildings***	***Equipment, fixtures and fittings***	***Total***
Cost or fair value			
At 1 January 2013	**104**	**422**	**526**
Additions at cost[1]	**2**	**27**	**29**
Fair value adjustments	**6**	**–**	**6**
Disposals	**–**	**(1)**	**(1)**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes[1]	**311**	**135**	**446**
At 31 December 2013	**423**	**583**	**1,006**
Accumulated depreciation			
At 1 January 2013	**(24)**	**(206)**	**(230)**
Depreciation charge for the year	**(1)**	**(46)**	**(47)**
Disposals	**–**	**1**	**1**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes[1]	**–**	**(136)**	**(136)**
At 31 December 2013	**(25)**	**(387)**	**(412)**
Net book value at 31 December 2013	**398**	**196**	**594**

1 *In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc. The impacts in the consolidated financial statements, related to the acquisition of HSBC Assurances Vie (France), are presented in Note 3 on page 128.*

(in millions of euros)	*Freehold land and buildings*	*Equipment, fixtures and fittings*	*Total*
Cost or fair value			
At 1 January 2012	93	363	456
Additions at cost[1]	5	74	79
Fair value adjustments	–	–	–
Disposals	(1)	(2)	(3)
Exchange translation differences	–	–	–
Changes in scope of consolidation and other changes[2]	6	(13)	(7)
At 31 December 2012	103	422	525
Accumulated depreciation			
At 1 January 2012	(14)	(177)	(191)
Depreciation charge for the year	(2)	(45)	(47)
Disposals	–	2	2
Exchange translation differences	–	–	–
Changes in scope of consolidation and other changes[2]	(8)	14	6
At 31 December 2012	(24)	(206)	(230)
Net book value at 31 December 2012	79	216	295

1 *Includes additions in equipment, fixtures and fittings for "Strategic Plan" (Renovation/creation of new branches with 96 branches renovated by the end of 2012).*
2 *Includes write-offs of equipment, fixtures and fittings discarded.*

19 Property, plant and equipment *(continued)*

b *Investment properties*

The investment property is owned by HSBC Assurances Vie (France).

c *Property, plant and equipment*

(in millions of euros)	**31.12.2013**	31.12.2012
Property, plant and equipment – net book value (see Note 19 a)	**283**	295
Investment properties – net book value (see Note 19 b)	**311**	–
	594	295

Consolidated financial statements (continued)

20 Investments

a *Subsidiaries of HSBC France*

Consolidated companies	*Country*	*Consolidation method**	*Main line of business*	HSBC France group interest % **2013**	% 2012
Retail and Commercial Banking					
COPARI	France	FC	Holding company	**100.0**	100.0
Financière d'Uzès	France	EM	Financial company	**34.0**	34.0
HSBC Factoring (France) (ex-Elysées Factor)	France	FC	Financial company	**100.0**	100.0
SAPC Ufipro Recouvrement	France	FC	Bank	**100.0**	100.0
SARL Neuilly Valeurs	France	FC	Investment company	**100.0**	100.0
SCI Hervet Mathurins	France	FC	Holding company	**100.0**	100.0
Union pour la Gestion et les Transactions (UGT)	France	FC	Service company	**100.0**	100.0
Global Banking and Markets					
Beau Soleil Limited Partnership	Hong Kong	FC	Financial company	**85.0**	85.0
CCF Charterhouse GmbH	Germany	FC	Service company	**100.0**	100.0
CCF Charterhouse GmbH & Co Asset Leasing KG	Germany	FC	Financial company	**100.0**	100.0
DEM 5	France	FC	Financial company	**100.0**	100.0
DEM 9	France	FC	Financial company	**100.0**	100.0
DEM 10	France	FC	Financial company	**100.0**	100.0
DEM 22	France	FC	Financial company	**100.0**	100.0
DEM 23	France	FC	Financial company	**100.0**	100.0
DEM 24	France	FC	Financial company	**100.0**	100.0
DEM 25	France	FC	Financial company	**100.0**	100.0
DEMPAR 1	France	FC	Financial company	**100.0**	100.0
DEMPAR 4	France	FC	Financial company	**100.0**	100.0
Elysées GmbH	Germany	FC	Financial company	**100.0**	100.0
FDM 1	France	FC	Financial company	**100.0**	100.0
FDM 2	France	FC	Financial company	**100.0**	100.0
FDM 3	France	FC	Financial company	**100.0**	100.0
FDM 4	France	FC	Financial company	**100.0**	100.0
FDM 5	France	FC	Financial company	**100.0**	100.0
FDM 6	France	FC	Financial company	**100.0**	100.0
FDM 7	France	FC	Financial company	**100.0**	100.0
FDM 8	France	FC	Financial company	**100.0**	100.0
FDM 9	France	FC	Financial company	**100.0**	100.0
FDM 10	France	FC	Financial company	**100.0**	100.0
Finanpar 2	France	FC	Financial company	**100.0**	100.0
Finanpar 5	France	FC	Financial company	**100.0**	100.0
Finanpar 7	France	FC	Financial company	**100.0**	100.0
Foncière Elysées	France	FC	Holding company	**100.0**	100.0
HSBC Leasing (Belgium)	Belgium	FC	Financial company	**100.0**	100.0
HSBC Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC Middle East Leasing Partnership	Dubai	FC	Financial company	**85.0**	85.0

* *FC: Full Consolidation – EM: Equity Method.*

20 Investments *(continued)*

Consolidated companies	*Country*	*Consolidation method**	*Main line of business*	HSBC France group interest % **2013**	% 2012
HSBC Real Estate Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC REIM (France)	France	FC	Service company	**100.0**	100.0
HSBC Services (France) (ex-HSBC Securities (France))	France	FC	Financial company	**100.0**	100.0
HSBC SFH (France) (ex-HSBC Covered Bonds (France)) (ex-Hervet Participations)	France	FC	Financial company	**100.0**	100.0
SAF Baiyun	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang ba	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang er	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang jiu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang liu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang qi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang san	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi'er	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shiyi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi liu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi wu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang wu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang yi	France	FC	Financial company	**100.0**	100.0
SAF Guangzhou	France	FC	Financial company	**100.0**	100.0
SAF Leasing Holding (France)	France	FC	Financial company	**100.0**	100.0
SAF Palissandre	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang ba	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang er	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang jiu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang liu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang qi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang san	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi ba (ex-DEM 20)	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi er	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi jiu (ex-DEM 21)	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi liu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi qi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi wu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shiyi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang wu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang yi	France	FC	Financial company	**100.0**	100.0
Société Financière et Mobilière (SFM)	France	FC	Financial company	**100.0**	100.0
Société Immobilière Malesherbes-Anjou	France	FC	Holding company	**100.0**	100.0
Sopingest	France	FC	Financial company	**100.0**	100.0
Thasosfin	France	FC	Financial company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*

Consolidated financial statements (continued)

20 Investments *(continued)*

Consolidated companies	*Country*	*Consolidation method**	*Main line of business*	HSBC France group interest % **2013**	% 2012
Asset Management					
CCF & Partners Asset Management Ltd	United Kingdom	FC	Financial company	**100.0**	100.0
HCM Holdings Ltd	United Kingdom	Joint control	Financial company	**51.0**	51.0
HSBC Epargne Entreprise (France)	France	FC	Financial company	**100.0**	100.0
Service Epargne Entreprise	France	EM	Service company	**18.1**	18.1
HSBC Global Asset Management (France) (ex-HSBC Investments (France))	France	FC	Asset management	**100.0**	100.0
HSBC Global Asset Management (Switzerland) AG	Switzerland	EM	Financial company	**50.0**	50.0
Sinopia TRS1	France	FC	Financial company	**100.0**	100.0
SNC les Oliviers d'Antibes	France	FC	Financial company	**60.0**	60.0
HSBC Trinkaus Gesellschaft für KMI oHG	Germany	FC	Financial company	**90.0**	90.0
Private Banking					
Eurofin Capital Partners (ECP)[1]	France	FC	Investment company	**100.0**	100.0
Octogone Immobilier[1]	France	FC	Holding company	**100.0**	100.0
Insurance					
HSBC Assurances Vie (France)	France	FC	Insurance company	**100.0**	–
SCI HSBC Assurances Immo	France	FC	Financial company	**100.0**	–
ERISA Actions grandes valeurs	France	FC	Financial company	**100.0**	–
OPCVM3 - HSBC Objectif 3-6-8 FCP3DEC	France	FC	Financial company	**72.8**	–
OPCVM6 - Elysées Ecrins FCP	France	FC	Financial company	**99.9**	–
OPCVM8 - Erisa Diversifié N2 FCP	France	FC	Financial company	**100.0**	–
OPCVM9 - Erisa Opportunités FCP	France	FC	Financial company	**100.0**	–
HSBC Destination 3-6-8 FCP3DEC	France	FC	Financial company	**85.1**	–
HSBC US Equity CL.H-USD C.3DEC	France	FC	Financial company	**54.7**	–
HSBC Horizon 2013-2015 FCP	France	FC	Financial company	**52.2**	–
HSBC Horizon 2016-2018 FCP	France	FC	Financial company	**56.8**	–
HSBC Horizon 2034-2036 A FCP3DEC	France	FC	Financial company	**92.4**	–
HSBC Multimanager DEF.FCP3DEC	France	FC	Financial company	**72.6**	–
HSBC Multimanager EXPA.FCP3DEC	France	FC	Financial company	**80.1**	–
HSBC Multimanager HARM.FCP3DEC	France	FC	Financial company	**72.5**	–
HSBC Multimanager OFF.FCP3DEC	France	FC	Financial company	**62.3**	–
HSBC Oblig. Monde C FCP	France	FC	Financial company	**51.9**	–
HSBC Japane.eq. CL.H EUR C.3DEC	France	FC	Financial company	**60.8**	–
HSBC Multialp. Japan eq.A C3DEC	France	FC	Financial company	**50.9**	–
HSBC PTF WLD Select.4 A C.3DEC	France	FC	Financial company	**52.0**	–
Others					
Charterhouse Management Services Limited (CMSL)	United Kingdom	FC	Investment company	**100.0**	100.0
Charterhouse Administrators Ltd	United Kingdom	FC	Investment company	**100.0**	100.0
Enership	France	FC	Investment company	**100.0**	100.0
Excofina[1]	France	FC	Investment company	**100.0**	100.0
FinanCités	France	EM	Capital risk company	**15.4**	15.4
Fund Nominees Limited[2]	United Kingdom	FC	Investment company	**–**	100.0
Keyser Ullman Ltd.	United Kingdom	FC	Investment company	**100.0**	100.0
Shield Properties & Investments Limited (Holdings)[2]	United Kingdom	FC	Service company	**–**	100.0
Société Française et Suisse (SFS)	France	FC	Investment company	**100.0**	100.0
Valeurs Mobilières Elysées (ex-Nobel)	France	FC	Investment company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Merger.*
2 *Liquidation.*

20 Investments *(continued)*

Acquisition

HSBC Assurances Vie (France).

Mergers:

Eurofin Capital Partners merged with Société Française et Suisse.

Octogone Immobilier merged with Société Française et Suisse.

Excofina merged with Société Française et Suisse.

Liquidation:

Fund Nominees Limited has been dissolved.

Shield Properties & Investments Limited (Holdings) has been dissolved.

b *Specific information on non-French subsidiaries of HSBC France*

	Country	*Main line of business*	*Number of employees*	*Net operating income (in millions of euros)*
HSBC Leasing (Belgium)	Belgium	Financial Company	–	–
HSBC Middle East Leasing Partnership	Dubai	Financial Company	–	2
Beau Soleil Limited Partnership	Hong Kong	Financial Company	–	1
HSBC Global Asset Management (Switzerland) AG	Switzerland	Financial Company	10	–
Charterhouse Management Services Limited (CMSL)	United Kingdom	Investment Company	–	–
Charterhouse Administrators Ltd	United Kingdom	Investment Company	–	–
Keyser Ullman Ltd	United Kingdom	Investment Company	–	–
CCF & Partners Asset Management Ltd	United Kingdom	Financial Company	–	–
HCM Holdings Ltd	United Kingdom	Financial Company	–	–
CCF Charterhouse GmbH	Germany	Service Company	–	–
CCF Charterhouse GmbH & Co Asset Leasing KG	Germany	Financial Company	–	–
Elysées GmbH	Germany	Financial Company	–	–
HSBC Trinkaus Gesellschaft für KMI oHG	Germany	Financial Company	–	3

Consolidated financial statements (continued)

21 Other assets

(in millions of euros)	**31.12.2013**	31.12.2012
Current taxation recoverable	**78**	58
Other accounts	**264**	238
	342	296

22 Financial liabilities designated at fair value

(in millions of euros)	**31.12.2013**	31.12.2012
Deposits by banks	**–**	–
Customer accounts	**227**	215
Debt securities in issue	**7,887**	5,423
Subordinated liabilities	**15**	16
	8,129	5,654

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2013 was EUR 164 million for the HSBC France group (at 31 December 2012: EUR 370 million).

At 31 December 2013, the accumulated amount of the change in fair value attributable to changes in credit risk for the HSBC France group was EUR 62 million (at 31 December 2012: EUR 59 million).

In 2013, the amount reported in the income statement in respect of HSBC France's own credit spread was a loss of EUR -3 million (2012: a loss of EUR -118 million).

23 Other liabilities

(in millions of euros)	**31.12.2013**	31.12.2012
Amounts due to investors in funds consolidated by the group[1]	**450**	–
Share-based payments	**28**	61
Other insurance liabilities[1]	**2**	–
Other liabilities	**516**	478
	996	539

1 *In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc.*

24 Deferred taxation

	31.12.2013			31.12.2012		
(in millions of euros)	***Deferred tax asset***	***Deferred tax liability***	***Total***	*Deferred tax asset*	*Deferred tax liability*	*Total*
Temporary differences:						
– retirement benefits	**39**	**–**	**(39)**	36	–	(36)
– assets leased	**89**	**2**	**(87)**	65	–	(65)
– revaluation of property	**(11)**	**–**	**11**	(11)	–	11
– other temporary differences	**(56)**	**–**	**56**	110	2	(108)
– deferred losses carried forward	**–**	**–**	**–**	–	–	–
	61	**2**	**(59)**	200	2	(198)

24 Deferred taxation *(continued)*

The main amounts of deferred tax related to items that are charged directly to equity are detailed as follows:

(in millions of euros)	**31.12.2013**	31.12.2012
Cash flow hedge	**(29)**	43
Available-for-sale reserve	**67**	28
Actuarial losses	**(10)**	(15)

25 Provisions for liabilities and charges

(in millions of euros)	***Provisions***
At 1 January 2013	**97**
Additional provisions/increase in provisions	**107**
Provisions utilised	**(22)**
Amounts reversed	**(21)**
Exchange, changes in scope of consolidation and other movements	**2**
At 31 December 2013	**163**

(in millions of euros)	*Provisions*
At 1 January 2012	97
Additional provisions/increase in provisions	51
Provisions utilised	(26)
Amounts reversed	(25)
Exchange, changes in scope of consolidation and other movements	–
At 31 December 2012	97

26 Sale and repurchase and settlement accounts

(in millions of euros)	**31.12.2013**	31.12.2012
Assets		
Loans and advances to customers include:		
– assets under sale and repurchase agreements	**10,663**	14,512
– settlement accounts	**341**	548
Loans and advances to banks include:		
– assets under sale and repurchase agreements	**17,483**	22,949
– settlement accounts	**2,504**	1,366

(in millions of euros)	**31.12.2013**	31.12.2012
Liabilities		
Customer accounts include:		
– liabilities under sale and repurchase agreements	**15,339**	12,339
– settlement accounts	**1,144**	1,057
Deposits by banks include:		
– liabilities under sale and repurchase agreements	**20,757**	23,836
– settlement accounts	**1,516**	1,073

27 Liabilities under insurance contracts

(in millions of euros)	*Gross*	*Reinsurer's share*	*Net*
2013			
Non-linked life insurance contracts	**115**	**(3)**	**112**
Investment contracts with discretionary participation features	**19,188**	**–**	**19,188**
Linked life insurance contracts	**51**	**–**	**51**
Total liabilities to policyholders	**19,354**	**(3)**	**19,351**

The key factors contributing to the movement in liabilities to policyholders include death claims, surrenders, lapses, liabilities to policyholders created at the initial inception of the policies, the declaration of bonuses and other amounts attributable to policyholders.

In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France), owned by the French branch of HSBC Bank plc. The impacts in the consolidated financial statements, related to the acquisition of HSBC Assurances Vie (France), are presented in Note 3 on page 128.

28 Subordinated liabilities

	Book value	
(in millions of euros)	**31.12.2013**	31.12.2012
Subordinated liabilities:		
– at amortised cost	**16**	166
– designated at fair value	**15**	16
	31	182

Subordinated borrowings issued by HSBC France:

		Book value	
(in millions of euros)		**31.12.2013**	31.12.2012
EUR150 million[1]	Floating rate notes maturing 2014	–	150
EUR15 million	Floating rate notes maturing 2015	**15**	16
EUR16 million	Undated subordinated variable rate notes	**16**	16
		31	182

1 *Debt issued to HSBC Bank plc was reimbursed by anticipation in December 2013.*

29 Trading liabilities

(in millions of euros)	**31.12.2013**	31.12.2012
Other liabilities – short positions	**21,125**	18,683
Deposits by banks	**9,192**	11,154
Customer accounts	**4,790**	4,923
Debt securities in issue	**1,924**	1,511
Total	**37,031**	36,271

In 2013, the amount reported in the income statement with respect to HSBC France's own credit spread in the debt securities in issue was a loss of EUR -8.3 million (2012: a loss of EUR -100 million).

30 Fair value of financial instruments carried at fair value

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, in cases where HSBC manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, HSBC measures the fair value of the group of financial instruments on a net basis, but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

The classification of financial instruments is determined in accordance with the accounting policies set out in Note 2. The use of assumption and estimation in valuing financial instruments is described in Note 1 c on page 111.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following table sets out the financial instrument carried at fair value.

	Valuation techniques					
(in millions of euros)	*Level 1 - quoted market price*	*Level 2 - using observable inputs*	*Level 3 - with significant non-observable inputs*	*Third Party Total*	*Amounts with HSBC entities*	*Total*
At 31 December 2013						
Assets						
Trading assets	**38,191**	**1,615**	**–**	**39,806**	**1,795**	**41,601**
Financial assets designated at fair value	**5,424**	**142**	**–**	**5,566**	**673**	**6,239**
Derivatives	**11**	**42,533**	**102**	**42,646**	**16,860**	**59,506**
Financial investments available-for-sale	**23,535**	**56**	**99**	**23,690**	**–**	**23,690**
Liabilities						
Trading liabilities	**29,935**	**5,852**	**–**	**35,787**	**1,244**	**37,031**
Financial liabilities designated at fair value	**208**	**7,921**	**–**	**8,129**	**–**	**8,129**
Derivatives	**12**	**39,550**	**38**	**39,599**	**16,992**	**56,591**

Consolidated financial statements (continued)

30 Fair value of financial instruments carried at fair value *(continued)*

(in millions of euros)	Valuation techniques: *Level 1 - quoted market price*	Valuation techniques: *Level 2 - using observable inputs*	Valuation techniques: *Level 3 - with significant non-observable inputs*	*Third Party Total*	*Amounts with HSBC entities*	*Total*
At 31 December 2012						
Assets						
Trading assets	35,152	505	–	35,657	4,920	40,577
Financial assets designated at fair value	–	–	–	–	5	5
Derivatives	8	65,641	47	65,696	24,562	90,258
Financial investments available-for-sale	7,767	224	97	8,088	170	8,258
Liabilities						
Trading liabilities	31,387	3,298	–	34,685	1,586	36,271
Financial liabilities designated at fair value	–	5,654	–	5,654	–	5,654
Derivatives	3	61,657	57	61,717	27,396	89,114

Control framework

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by a function independent of the risk taker. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is used. In less liquid markets, direct observation of a traded price may not be possible. In these circumstances, the group will source alternative market information to validate the financial instrument's fair value. Greater weight will be given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

– the extent to which prices may be expected to represent genuine traded or tradeable prices;
– the degree of similarity between financial instruments;
– the degree of consistency between different sources;
– the process followed by the pricing provider to derive the data;
– the elapsed time between the date to which the market data relates and the balance sheet date;
– the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of the logic within valuation models, the inputs to those models, any adjustments required outside the valuation models and, where possible, model outputs.

Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

30 Fair value of financial instruments carried at fair value *(continued)*

Determination of fair value of financial instruments carried at fair value

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, instruments designated at fair value through profit or loss, derivatives, and financial investments classified as available-for-sale (including treasury and other eligible bills, debt securities, and equity securities).

The reliability of the fair value measurement for financial instruments reported on the group's consolidated balance sheet at fair value is assessed according to how the fair values have been determined.

Fair values are determined according to the following hierarchy:

a *Level 1 – Quoted market price*: financial instruments with quoted prices for identical instruments in active markets.

b *Level 2 – Valuation technique using observable inputs*: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or financial instruments valued using models where all significant inputs are observable.

c *Level 3 – Valuation technique with significant non-observable inputs*: financial instruments valued using models where one or more significant inputs are not observable.

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When a financial instrument has a quoted price in an active market and it is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price and no block discounts are made. In the event that the market for a financial instrument is not active, a valuation technique is used.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices necessary to measure the fair value of the instrument, requires additional work during the valuation process.

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations, including interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. For collateralised counterparties and in significant major currencies, the group uses a discounting curve that reflects the overnight interest rate ("OIS discounting").

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. For these instruments, the fair value measurement derived is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ("day 1 gain or loss") or greater than 5 per cent of the instrument's carrying value is driven by unobservable inputs. "Not observable" in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would likely occur, but it generally does not mean that there is absolutely no market data available upon which to base a determination of fair value (consensus pricing data may, for example, be used).

In certain circumstances, primarily where debt is hedged with interest rate derivatives, the group uses fair value to measure the carrying value of its own debt in issue. Where available, the fair value will be based upon quoted prices in an active market for the specific instrument concerned. Where not available, the fair value will either be based upon quoted prices in an inactive market for the specific instrument concerned, or estimated by comparison with quoted prices in an active market for similar instruments. The fair value of these instruments therefore includes the effect of applying the credit spread which is appropriate to the group's liabilities. For all issued debt securities, discounted cash flow modelling is utilised to isolate that element of change in fair value that may be attributed to the group's credit spread movements rather than movements in other market factors, such as benchmark interest rates or foreign exchange rates. Then, using discounted cash flow, each security is valued using a Libor-based discount curve. The difference in the valuations is attributable to the group's own credit spread. This methodology is applied consistently across all securities.

Issued structured notes and certain other hybrid instrument liabilities are included within trading liabilities, and marked at fair value. The credit spread applied to these instruments is derived from the spreads at which the group issues structured notes. These market spreads are significantly tighter than credit spreads observed in vanilla debt or credit default swap markets.

Gains and losses arising from changes in the credit spread of liabilities issued by the group reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

30 Fair value of financial instruments carried at fair value *(continued)*

Valuation techniques methodology

All net positions in non-derivative financial instruments, and all derivative portfolios, are valued at bid or offer price as appropriate. Long positions are marked at bid price; short positions are marked at offer price.

The fair values of large holdings of non-derivative financial instruments are based on a multiple of the value of a single instrument, and do not include block adjustments for the size of the holding.

The valuation techniques used when quoted market prices are not available incorporate certain assumptions that HSBC believes would be made by a market participant to establish fair value. When HSBC considers that there are additional considerations not included within the valuation model, appropriate adjustments may be made. Examples of such adjustments are:

– credit risk adjustment: an adjustment to reflect the creditworthiness of OTC derivative counterparties.

  A separate "credit valuation adjustment" (CVA) is calculated for each legal entity of the group, and within each entity for each counterparty to which the entity has exposure. The total CVA and "debit valuation adjustment" (DVA) at 31 December 2013 was EUR 71 million.

  From 31 December 2012 the group calculates the CVA by applying the probability of default of the counterparty conditional on the non-default of HSBC, to the expected positive exposure of the group to the counterparty and multiplying by the loss expected in the event of default. Conversely, the group calculates the DVA by applying the probability of default of HSBC conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the group and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

  The calculation maximises the use of relevant, observable market data. The probability of default is derived from CDS spreads where these are available and reliable for a specific counterparty, including for HSBC with respect to the DVA, or relevant proxies where not. The derivation of a proxy has regard to the range of market practice, and considers relevant data in this context, including CDS index and rating transition data.

  With the exception of certain central clearing parties, the group includes all third party counterparties in the CVA and DVA calculations and does not net these calculations across group entities;

– market data/model uncertainty: an adjustment to reflect uncertainties in fair values based on unobservable market data inputs (for example, as a result of illiquidity), or in areas where the choice of valuation model is particularly subjective.

However, in certain cases, the fair value of an instrument is determined in comparison with other observable market transactions concerning the same instrument or using a valuation method based solely on observable market data, in particular interest rate curves, volatility ranges deduced from option prices and exchange rates. Where such data is available, HSBC France recognises a gain or loss on trading portfolio transactions on the date the instrument is implemented.

If no observable market data is available, the profit generated from the trading of certain complex financial instruments (day-1 profit corresponding to the difference between the trading price and the valuation obtained from the valuation model) is not recognised immediately as income but recognised over the life of the transaction on an appropriate basis, or recognised in the income statement when the parameters become observable, either on maturity or at the end of the transaction.

An analysis of the movement in the deferred day-1 gain or loss is provided on page 144.

Reported amounts as part of Level 3 category (unobservable parameters) are in line with the day-1 policy. The underlying and structured products targeted by HSBC France are covered by products given by Markit consensus: this coverage is monitored in valuation committees for derivatives on rates and equities. When required, an analysis of the collateral and of broker quotes completes the available market information, thus reducing products and parameters that could be considered as unobservable.

Trade origination costs such as brokerage, fee expense, and post-trade costs are included in operating expenses.

30 Fair value of financial instruments carried at fair value *(continued)*

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

	Assets				Liabilities		
(in millions of euros)	*Available for sale*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
Private equity investments	**99**	**–**	**–**	**–**	**–**	**–**	**–**
Asset-backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Leverage finance	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans held for securitisation	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivatives with monolines	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other derivatives	**–**	**–**	**–**	**102**	**–**	**–**	**38**
Other portfolio	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2013	**99**	**–**	**–**	**102**	**–**	**–**	**38**
Private equity investments	97	–	–	–	–	–	–
Asset-backed securities	–	–	–	–	–	–	–
Leverage finance	–	–	–	–	–	–	–
Loans held for securitisation	–	–	–	–	–	–	–
Structured notes	–	–	–	–	–	–	–
Derivatives with monolines	–	–	–	–	–	–	–
Other derivatives	–	–	–	47	–	–	57
Other portfolio	–	–	–	–	–	–	–
At 31 December 2012	97	–	–	47	–	–	57

Consolidated financial statements (continued)

30 Fair value of financial instruments carried at fair value *(continued)*

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

(in millions of euros)	**Assets**				**Liabilities**		
	Available for sale	***Held for trading***	***Designated at fair value through profit or loss***	***Derivatives***	***Held for trading***	***Designated at fair value through profit or loss***	***Derivatives***
At 1 January 2013	**97**	–	–	**47**	–	–	**57**
Total gains or losses recognised in profit or loss	**6**	–	–	**29**	–	–	**(43)**
Total gains or losses recognised in other comprehensive income	**1**	–	–	–	–	–	–
Purchases	**5**	–	–	–	–	–	–
Issues	–	–	–	–	–	–	–
Sales	–	–	–	–	–	–	–
Settlements	**(10)**	–	–	–	–	–	–
Transfer out	–	–	–	–	–	–	–
Transfer in	–	–	–	**26**	–	–	**24**
At 31 December 2013	**99**	–	–	**102**	–	–	**38**

(in millions of euros)	*Assets*				*Liabilities*		
	Available for sale	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
At 1 January 2012	122	–	–	46	–	–	102
Total gains or losses recognised in profit or loss	(12)	–	–	1	–	–	(45)
Total gains or losses recognised in other comprehensive income	(2)	–	–	–	–	–	–
Purchases	4	–	–	–	–	–	–
Issues	–	–	–	–	–	–	–
Sales	(11)	–	–	–	–	–	–
Settlements	(4)	–	–	–	–	–	–
Transfer out	–	–	–	–	–	–	–
Transfer in	–	–	–	–	–	–	–
At 31 December 2012	97	–	–	47	–	–	57

Private equity

The group's private equity positions are generally classified as available for sale and are not traded in an active market. In the absence of an active market for the investment, fair value is estimated based upon an analysis of the investee's financial position and results, risk profile, prospects and other factors as well as reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership. The exercise of judgement is required because of uncertainties inherent in estimating fair value for private equity investments.

Asset-backed securities (ABS)

Illiquidity and a lack of transparency in the ABS market have resulted in less observable data. While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required. For ABS, including residential mortgage backed securities, the valuation uses an industry standard model and the assumptions relating to prepayment speeds, default rates and loss severity based on collateral type, and performance, as appropriate. The valuations output is benchmarked for consistency against observable data for securities of a similar nature.

30 Fair value of financial instruments carried at fair value *(continued)*

Derivatives

Over-the-counter (*i.e.* non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon "no-arbitrage" principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some divergence in practice.

Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices *via* model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historic data or other sources.

Loans

Loans held at fair value are valued from broker quotes and/or market data consensus providers where available. Where unavailable, fair value will be determined based on an appropriate credit spread derived from other market instruments issued by the same or comparable entities.

Structured notes

For structured notes whose fair value is derived from a valuation technique, the fair value will be derived from the fair value of the underlying debt security as described above, and the fair value of the embedded derivative will be determined as described in the section above on derivatives.

For assets and liabilities classified as held for trading, realised and unrealised gains and losses are presented in the income statement under "Trading income excluding net interest income". Fair value changes on long-term debt designated at fair value and related derivatives are presented in the income statement under "Changes in fair value of long-term debt issued and related derivatives". The income statement line item "Net income/(expense) from other financial instruments designated at fair value" captures fair value movements on all other financial instruments designated at fair value and related derivatives.

Realised gains and losses from available-for-sale securities are presented under "Gains less losses of financial investments" in the income statement, while unrealised gains and losses are presented in "Fair value gains/(losses) taken to equity" within "Available-for-sale investments" in other comprehensive income.

31 Fair value of financial instruments not carried at fair value

Fair values are, however, provided for information and are calculated as described below.

	31.12.2013					**31.12.2012**	
(in millions of euros)	***Carrying value***	***Quoted market price Level 1***	***Using observable inputs Level 2***	***With significant unobservable inputs Level 3***	***Total***	*Carrying value*	*Fair value*
Assets							
Loans and advances to banks	**23,086**	−	**23,088**	−	**23,405**	28,132	28,134
Loans and advances to customers	**45,161**	−	**10,633**	**34,076**	**44,709**	48,354	47,543
Liabilities							
Deposits by banks	**22,589**	−	**22,589**	−	**22,589**	32,992	32,992
Customer accounts	**47,910**	−	**47,927**	−	**47,927**	42,364	42,412
Debt securities in issue	**9,017**	−	**9,058**	−	**9,058**	10,655	10,712
Subordinated liabilities	**16**	−	**16**	−	**16**	166	167

31 Fair value of financial instruments not carried at fair value *(continued)*

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or reprice to current market rates frequently:

Assets

- Cash and balances at central banks;
- Items in the course of collection from other banks;
- Endorsements and accepted bills;
- Short-term receivables within “Other assets”;
- Accrued income.

Liabilities

- Items in the course of transmission to other banks;
- Investment contracts with discretionary participation features within “Liabilities under insurance contracts”;
- Endorsements and accepted bills;
- Short-term payables within “Other liabilities”;
- Accruals.

Valuation

The fair value measurement is the group’s estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the group expects to flow from the instruments’ cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

The fair value of financial assets and liabilities is calculated using models maintained by HSBC France, and is based on discounting expected cash flows. The calculated fair value difference predominantly arises on loans secured on residential properties. In this product segment, the most significant fair value difference arises from early repayment options included in mortgage loans, representing the cost to the bank of the embedded option.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the group as a going concern.

32 Maturity analysis of financial assets and liabilities

The balance in the table below will not agree directly with those in the consolidated balance sheet as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and trading derivatives). In addition, loan and other credit-related commitments and financial guarantees and similar contracts are generally not recognised on the balance sheet.

Trading liabilities and trading derivatives have been included in the “On demand” time bucket and not by contractual maturity, because trading liabilities are typically held for short periods of time. The undiscounted cash flows on hedging derivative liabilities are classified according to their contractual maturity.

The undiscounted cash flows potentially payable under financial guarantees and similar contracts are classified on the basis of the earliest date they can be called.

Cash flows payable in respect of customer accounts are primarily contractually repayable on demand or at short notice. However, in practice, short-term deposit balances remain stable as inflows and outflows broadly match and a significant portion of loan commitments expire without being drawn upon. The group therefore manages its balance sheet on both contractual and behaviouralised bases. Each operating entity determines the behaviouralisation of its products within the guidelines set out in the group’s liquidity framework and as approved by its Asset and Liability Committee.

32 Maturity analysis of financial assets and liabilities *(continued)*

Financial liabilities

	31.12.2013					
(in millions of euros)	***On demand***	***Due within 3 months***	***Due between 3 and 12 months***	***Due between 1 and 5 years***	***Due after 5 years***	***Total***
Deposits by banks[1]	**578**	**18,964**	**2,408**	**764**	**168**	**22,882**
Customer accounts[1]	**23,822**	**13,506**	**10,506**	**211**	**134**	**48,179**
Trading liabilities	**37,031**	–	–	–	–	**37,031**
Financial liabilities designated at fair value	**1,868**	–	–	**3,346**	**4,131**	**9,345**
Derivatives	**55,616**	–	–	**975**	–	**56,591**
Debt securities in issue	**3,081**	**2,020**	**2,723**	**1,194**	**24**	**9,042**
Subordinated liabilities	**–**	**–**	**–**	**–**	**35**	**35**
Other financial liabilities	**350**	**642**	**509**	**143**	**635**	**2,279**
Loan commitments	–	**1,676**	**2,321**	**13,991**	**2,395**	**20,383**
Total at 31 December 2013	**122,346**	**36,808**	**18,467**	**20,624**	**7,522**	**205,767**

1 *Deposits by banks and customer accounts include netting of the repurchase agreements transactions, as contractual undiscounted cash flows should be disclosed on a net settlement basis. Netting of those items was excluded in previous disclosures.*

	31.12.2012					
(in millions of euros)	*On demand*	*Due within 3 months*	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Total*
Deposits by banks[1]	232	24,366	2,199	6,342	345	33,484
Customer accounts[1]	22,945	17,585	1,795	207	179	42,711
Trading liabilities	36,271	–	–	–	–	36,271
Financial liabilities designated at fair value	–	7	2,004	4,075	750	6,836
Derivatives	87,984	–	–	1,131	–	89,115
Debt securities in issue	–	5,854	2,143	3,478	65	11,540
Subordinated liabilities	–	–	–	153	35	188
Other financial liabilities	352	810	314	561	187	2,224
Loan commitments	22	2,662	1,268	12,387	1,746	18,085
Total at 31 December 2012	147,806	51,284	9,723	28,334	3,307	240,454

1 *Deposits by banks and customer accounts include netting of the repurchase agreements transactions, as contractual undiscounted cash flows should be disclosed on a net settlement basis. Netting of those items was excluded in previous disclosures.*

The following is an analysis of assets and liabilities by remaining contractual maturities at the balance sheet date for assets and liability line items.

Contractual maturity is considered to be a reasonable approximation of expected maturity for the assets and liabilities analysed below. However, for items such as demand deposits and overdrafts, the contractual maturities could differ from expected maturities.

Consolidated financial statements (continued)

32 Maturity analysis of financial assets and liabilities *(continued)*

Trading assets and liabilities are excluded because they are not held for collection or settlement over the period of contractual maturity.

	31.12.2013						
(in millions of euros)	*Due within 1 month*	*Due between 1 month and 1 year*	***Subtotal due within 1 year***	*Due between 1 and 5 years*	*Due after 5 years*	***Subtotal due after more than 1 year***	***Total***
Assets							
Financial assets designated at fair value	2	38	**40**	398	5,801	**6,199**	**6,239**
Loans and advances to banks	13,561	4,997	**18,558**	4,178	350	**4,528**	**23,086**
Loans and advances to customers	11,442	9,101	**20,543**	12,954	11,664	**24,618**	**45,161**
Financial investments available for sale	445	2,046	**2,491**	10,487	10,712	**21,199**	**23,690**
Other financial assets	14	233	**247**	1	12	**13**	**260**
	25,464	16,415	**41,879**	28,018	28,539	**56,557**	**98,436**
Liabilities							
Deposits by banks	16,793	5,066	**21,859**	614	116	**730**	**22,589**
Customer accounts	32,593	15,046	**47,639**	212	59	**271**	**47,910**
Financial liabilities designated at fair value	1,490	–	**1,490**	3,005	3,634	**6,639**	**8,129**
Debt securities in issue	3,118	4,697	**7,815**	1,179	23	**1,202**	**9,017**
Other financial liabilities	156	179	**335**	17	505	**522**	**857**
Subordinated liabilities	–	–	**–**	–	16	**16**	**16**
	54,150	24,988	**79,138**	5,027	4,353	**9,380**	**88,518**

	31.12.2012						
(in millions of euros)	*Due within 1 month*	*Due between 1 month and 1 year*	*Subtotal due within 1 year*	*Due between 1 and 5 years*	*Due after 5 years*	*Subtotal due after more than 1 year*	*Total*
Assets							
Financial assets designated at fair value	–	–	–	5	–	5	5
Loans and advances to banks	22,362	2,951	25,313	2,585	234	2,819	28,132
Loans and advances to customers	14,330	11,174	25,504	11,903	10,947	22,850	48,354
Financial investments available for sale	–	1,208	1,208	2,038	5,012	7,050	8,258
Other financial assets	229	–	229	–	–	–	229
	36,921	15,333	52,254	16,531	16,193	32,724	84,978
Liabilities							
Deposits by banks	22,955	3,783	26,738	6,022	232	6,254	32,992
Customer accounts	37,442	4,668	42,110	146	108	254	42,364
Financial liabilities designated at fair value	–	1,557	1,557	3,481	616	4,097	5,654
Debt securities in issue	2,275	5,562	7,837	2,756	62	2,818	10,655
Other financial liabilities	539	–	539	–	–	–	539
Subordinated liabilities	–	–	–	150	16	166	166
	63,211	15,570	78,781	12,555	1,034	13,589	92,370

Further information regarding the group's liquidity and funding management is available in the Risk management section pages 86 to 87.

33 Assets charged as security for liabilities and collateral accepted as security for assets

Financial assets pledged to secure liabilities are as follows:

(in millions of euros)	**31.12.2013**	31.12.2012
Treasury bills and other eligible securities	**1,597**	592
Loans and advances to banks	**4,027**	9,660
Loans and advances to customers	**19,249**	12,521
Debt securities	**29,588**	26,215
Equity shares	**–**	–
	54,461	48,988

The table above shows assets over which a legal charge has been granted to secure liabilities. The amount of such assets may be greater than the book value of assets utilised as collateral for funding purposes or to cover liabilities. This is the case for securitisations and covered bonds where the amount of liabilities issued, plus any mandatory over-collateralisation, is less than the book value of financial assets available for funding or collateral purposes in the relevant pool of assets. This is also the case where financial assets are placed with a custodian or settlement agent, which has a floating charge over all the financial assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions, including, where relevant, standard securities lending and repurchase agreements.

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default was EUR 55,676 million at 31 December 2013 (EUR 51,709 million at 31 December 2012).

The fair value of financial assets accepted as collateral that have been sold or repledged was EUR 52,081 million at 31 December 2013 (EUR 47,162 million at 31 December 2012). The group is required to return these assets.

34 Called up share capital

The share capital of HSBC France at 31 December 2013 was EUR 337 million divided into 67,437,827 ordinary shares of EUR 5 each.

	Number of HSBC France ordinary shares	*Amount (in millions of euros)*
At 1 January 2013	**67,437,827**	**337**
Shares issued	**–**	**–**
At 31 December 2013	**67,437,827**	**337**
At 1 January 2012	67,437,827	337
Shares issued	–	–
At 31 December 2012	67,437,827	337

35 Notes on the cash flow statement

Non-cash items included in income

(in millions of euros)	**31.12.2013**	31.12.2012
Depreciation and amortisation	**56**	55
Share-based payments	**(26)**	54
Revaluations on investment property	**6**	–
Loan impairment losses	**97**	117
Loans written off net of recoveries	**(125)**	(109)
Provisions raised	**86**	24
Provisions utilised	**(22)**	(25)
Impairment of financial investments	**5**	2
Accretion of discounts and amortisation of premiums	**(19)**	–
Other	**(94)**	(56)
	(36)	59

Change in operating assets

(in millions of euros)	**31.12.2013**	31.12.2012
Change in prepayments and accrued income	**276**	81
Change in net trading securities and net derivatives	**1,935**	(1,637)
Change in loans and advances to banks	**1,362**	(1,382)
Change in loans and advances to customers	**(3,206)**	4,928
Change in financial investments	**13,660**	–
Change in financial assets designated at fair value	**6,234**	592
Change in other assets	**515**	740
	20,776	3,322

Change in operating liabilities

(in millions of euros)	**31.12.2013**	31.12.2012
Change in accruals and deferred income	**246**	(73)
Change in deposits by banks	**10,403**	654
Change in customer accounts	**(5,546)**	(532)
Change in debt securities in issue	**1,638**	(1,950)
Change in financial liabilities designated at fair value	**(2,476)**	126
Change in other liabilities	**(20,230)**	(444)
	(15,965)	(2,219)

Breakdown of cash and cash equivalents

(in millions of euros)	**31.12.2013**	31.12.2012
Cash and balances at central banks	**5,995**	6,770
Items in the course of collection from other banks	**607**	815
Loans and advances to banks due in one month or less	**16,197**	22,605
Treasury bills, other bills and certificates of deposit due in less than three months	**293**	401
Less: cash accounts (liabilities)	**(585)**	(771)
	22,507	29,820

In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France), owned by the French branch of HSBC Bank plc.

36 Risk management

All the HSBC France group's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

The most important types of risk arising from financial instruments are credit risk, liquidity risk and market risk. Market risk includes foreign exchange, interest rate and equity price risk. In addition, risk also arises from transactions with special purpose entities, both on- and off-balance sheet, and other types of off-balance sheet arrangements, including financial guarantees, letters of credit and lending commitments.

The management of risks that are significant to the group is discussed in the Risk management section on pages 77 to 100.

Credit risk management

Initiatives undertaken and risks identified

The management of credit risk within the HSBC France group is discussed in the Risk management section on pages 77 to 82.

Impairment assessment

Management regularly evaluates the adequacy of the established allowances for impaired loans by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

Two types of impairment allowance are in place: individually assessed and collectively assessed, which are discussed in Note 2 g.

Impaired loans – identification of loss events

The criteria used by HSBC to determine that a loan is impaired include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days (the period is extended to more than six months for property loans or leases and more than nine months for loans to local government bodies);
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
- the deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

Exposure to countries in the eurozone

In 2013, the results of the Italian elections, followed by the crisis in Cyprus and tensions around Slovenia resulted in increased volatility over the first quarter. In this context, yields on core countries debt decreased.

Then following comments by the U.S. Federal Reserve that quantitative easing would likely come to an end by late 2013 or early 2014, the month of June 2013 saw increased volatility and a market sell-off.

But for the first time in several years, there was no crisis in Europe during the summer. Conditions in the financial markets had been gradually easing.

Mario Draghi's actions supported the government bond market. Markets also reacted positively to the creation of the new European Stability Mechanism (ESM) that entered into force on 8 October 2012 since it strengthens the incentives for prudent fiscal and economic policies in all euro area countries over the long term.

Moreover, the commitment of Germany to maintaining the common currency in Europe, and increasing observed signs that the European economy had reached a turning point, suggested that the worst was in the rear view mirror, and cautious optimism for a mild recovery was warranted.

HSBC France Global Markets acts as a market-maker and primary dealer on the sovereign debt of eurozone countries for the HSBC Group. HSBC France continued to closely manage its exposure in 2013 and regularly updated its assessment of higher risk countries and adjusted its risk appetite accordingly.

The table below summarises group exposures to selected eurozone countries, for governments and central banks of selected eurozone countries along with government agencies.

The countries presented were selected because, during the period considered, they exhibited levels of market volatility which exceeded other eurozone countries and demonstrated fiscal or political uncertainty during 2013. In addition, certain of these countries exhibit high sovereign debt to GDP ratios and short to medium-term maturity concentration of those liabilities.

Consolidated financial statements (continued)

36 Risk management *(continued)*

Exposures to selected eurozone countries – sovereigns and agencies

At 31 December 2013 (in millions of euros)	***Greece***	***Ireland***	***Italy***	***Portugal***	***Spain***	***Total***
Cash and balances at central banks	**–**	**–**	**–**	**–**	**–**	**–**
Assets held at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**
Financial investments available-for-sale	**–**	**66**	**177**	**66**	**106**	**415**
Net trading assets[1]	**–**	**(21)**	**447**	**72**	**201**	**699**
Derivatives[2]	**–**	**–**	**–**	**5**	**(10)**	**(5)**
Total	**–**	**45**	**624**	**143**	**297**	**1,109**
Off-balance sheet exposures	**–**	**–**	**–**	**–**	**–**	**–**

1 *Treasury bills and debt securities held for trading net of short positions.*
2 *Derivative assets net of collateral and derivative liabilities for which a legally enforceable right of offset exists.*

36 Risk management *(continued)*

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk with respect to financial instruments, before taking account of any collateral held or other credit enhancements, unless such credit enhancements meet offsetting requirements as set out in Note 2. For financial assets recognised in the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

With respect to certain financial assets, the group typically has legally enforceable rights to offset certain credit exposures against amounts owing to the same counterparty. In normal circumstances, there would be no intention of settling net, or of realising the financial assets and settling the financial liabilities simultaneously. Consequently, for reporting purposes, the financial assets are not offset against the respective financial liabilities. However, the exposure to credit risk relating to the respective financial assets is reduced as tabulated below.

	31.12.2013		
(in millions of euros)	*Maximum exposure*	*Offset*	*Net exposure to credit risk*
Cash and balances at central banks	**5,994**	–	**5,994**
Items in the course of collection from other banks	**607**	–	**607**
Trading assets	**41,601**	–	**41,601**
– treasury and other eligible bills	**2,375**	–	**2,375**
– debt securities	**30,274**	–	**30,274**
– loans and advances	**8,952**	–	**8,952**
Financial assets designated at fair value	**1,121**	–	**1,121**
– debt securities	**1,118**	–	**1,118**
– loans and advances	**3**	–	**3**
Derivatives	**59,506**	**(58,513)**	**993**
Loans and advances held at amortised cost	**68,247**	**(12,005)**	**56,242**
– loans and advances to banks	**23,086**	**(4,629)**	**18,457**
– loans and advances to customers	**45,161**	**(7,376)**	**37,785**
– personal	**11,871**	–	**11,871**
– corporate and commercial	**20,693**	–	**20,693**
– financial (non-bank financial institutions)	**12,597**	**(7,376)**	**5,221**
Financial investments	**23,470**	–	**23,470**
– treasury and other eligible bills	–	–	–
– debt securities	**23,470**	–	**23,470**
Other assets	**1,390**	–	**1,390**
Off-balance sheet	**24,643**	–	**24,643**
– financial guarantees and other credit-related guarantees	**4,260**	–	**4,260**
– loan commitments and other credit-related commitments	**20,383**	–	**20,383**
Total	**226,579**	**(70,518)**	**156,061**

Consolidated financial statements (continued)

36 Risk management *(continued)*

(in millions of euros)	31.12.2012 *Maximum exposure*	*Offset*	*Net exposure to credit risk*
Cash and balances at central banks	6,770	–	6,770
Items in the course of collection from other banks	815	–	815
Trading assets	40,577	–	40,577
– treasury and other eligible bills	1,392	–	1,392
– debt securities	25,130	–	25,130
– loans and advances	14,055	–	14,055
Financial assets designated at fair value	5	–	5
– debt securities	5	–	5
– loans and advances	–	–	–
Derivatives	90,258	(87,742)	2,516
Loans and advances held at amortised cost	76,486	(17,119)	59,367
– loans and advances to banks	28,132	(11,863)	16,269
– loans and advances to customers	48,354	(5,256)	43,098
– personal	10,201	–	10,201
– corporate and commercial	20,723	–	20,723
– financial (non-bank financial institutions)	17,430	(5,256)	12,174
Financial investments	8,018	–	8,018
– treasury and other eligible bills	273	–	273
– debt securities	7,745	–	7,745
Other assets	1,084	–	1,084
Off-balance sheet	22,594	–	22,594
– financial guarantees and other credit-related guarantees	4,509	–	4,509
– loan commitments and other credit-related commitments	18,085	–	18,085
Total	246,607	(104,861)	141,746

36 Risk management *(continued)*

Loans and advances to customers by industry sector

	31.12.2013		31.12.2012	
	Gross loans and advances to customers (in millions of euros)	***Gross loans by industry sector as a % of total gross loans (%)***	*Gross loans and advances to customers (in millions of euros)*	*Gross loans by industry sector as a % of total gross loans (%)*
Personal	**11,981**	**26.12**	10,315	21.00
– residential mortgages	**1,932**	**4.21**	2,004	4.08
– other personal[1]	**10,049**	**21.91**	8,311	16.92
Corporate and commercial	**21,233**	**46.29**	21,856	44.51
– commercial, industrial and international trade	**10,913**	**23.79**	11,099	22.60
– commercial real estate (including private real estate companies*)	**5,881**	**12.82**	6,195	12.62
– other property-related	**249**	**0.54**	254	0.52
– government	**207**	**0.45**	248	0.50
– other commercial	**3,983**	**8.69**	4,060	8.27
Financial	**12,652**	**27.59**	16,935	34.49
– non-bank financial institutions	**12,651**	**27.59**	16,934	34.48
– settlement accounts	**1**	**–**	1	0.01
Total gross loans and advances to customers	**45,866**	**100.00**	49,106	100.00

* *SCI familiales.*
1 *Which mainly includes mortgages guaranted (*Crédit Logement *and other guarantees).*

Loans and advances to customers by geographical area (excluding reverse repo transactions and settlement accounts)

As at 31 December 2013, 80 per cent of loans to customers (excluding reverse repo transactions and settlement accounts) were to French counterparties (87 per cent as at 31 December 2012).

Reverse repo transactions amounted to 28 per cent with French counterparties and 72 per cent with counterparties in other European countries (primarily in the United Kingdom).

Credit quality of financial instruments

The five classifications below describe the credit quality of the group's lending, debt securities portfolios and derivatives. These categories each encompass a range of more granular internal credit rating grades assigned to wholesale and retail lending business, as well as the external ratings attributed by external agencies to debt securities.

There is no direct correlation between the internal and external ratings at granular level, except insofar as both fall within one of the five classifications.

Quality Classification

	Wholesale lending and derivatives	*Retail lending*	*Debt securities/other*
Strong	CRR 1 and CRR 2	EL 1 and EL 2	A- and above
Good	CRR 3	EL 3	BBB+ to BBB-
Satisfactory	CRR 4 and CRR 5	EL 4 and EL 5	BB+ to B+ and unrated
Sub-standard	CRR 6 and CRR 8	EL 6 and EL 8	B and below
Impaired	CRR 9 and CRR 10	EL 9 and EL 10	Impaired

36 Risk management *(continued)*

Quality classification definitions

"Strong": exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Retail accounts operate within applicable product parameters and only exceptionally show any period of delinquency.

"Good": exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk. Retail accounts typically showing only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.

"Satisfactory": exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. Retail accounts typically showing only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.

"Sub-standard": exposures require varying degrees of special attention and default risk is of greater concern. Retail portfolio segments showing longer delinquency periods of generally up to 90 days; past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.

"Impaired": exposures have been assessed, individually or collectively, as impaired. The group observes the disclosure convention, reflected in the quality classification definitions above, that all retail accounts delinquent by 90 days or more (180 days for mortgage loans) are considered impaired.

Granular risk rating scales

The CRR (Customer Risk Rating) 10-grade scale maps to a more granular underlying 22-grade scale of obligor probability of default. The scales are used group-wide for all distinct customers, depending on the Basel II approach adopted for the exposure in question. The EL (Expected Loss) 10-grade scale for retail business summarises a more granular, group-wide, 29-grade scale combining obligor and facility/product risk factors in a composite measure. The composite EL measure enables the diverse risk profiles of retail portfolios across the HSBC Group to be assessed on a more comparable scale than through the direct utilisation of Probability of Default (PD) and Loss Given Default (LGD) measures. For consistency of disclosure and based on market practice for transactions in debt securities and certain other financial instruments, external ratings have been aligned as above, and in the table of "Distribution of financial instruments by credit quality" below, to the five quality classifications defined for internally-rated exposures, although it should be noted that there is no fixed correlation between internal and external ratings. The Standard and Poor's ratings are cited, along with those of other agencies being treated in an equivalent fashion. Debt securities with short-term ratings are reported below against the long-term rating of the issuer of the short-term debt securities. If major rating agencies have different ratings for the same debt securities, the securities are reported against the lower rating.

Impairment is not measured for assets held in trading portfolios or designated at fair value, as assets in such portfolios are managed according to movements in fair value, and the fair value movement is taken directly through the profit and loss statement. Consequently, all such balances are reported under "Neither past due nor impaired".

For details of impairment incurred on available-for-sale debt and equity securities, see "Summary of principal accounting policies" in Note 2 j page 117.

36 Risk management *(continued)*

Distribution of financial instruments by credit quality

(in millions of euros)	31.12.2013							
	Neither past due nor impaired							
	Strong	*Good*	*Satis-factory*	*Sub-standard*	*Past due not impaired*	*Impaired*	*Impair-ment allow-ances*	*Total*
Cash and balances at central banks	**5,994**	**–**	**–**	**–**	**–**	**–**	**–**	**5,994**
Items in the course of collection from other banks	**607**	**–**	**–**	**–**	**–**	**–**	**–**	**607**
Trading assets	**29,608**	**8,106**	**3,866**	**21**	**–**	**–**	**–**	**41,601**
Treasury and other eligible bills and debt securities	25,108	6,837	704	–	–	–	–	32,649
Loans and advances to banks	3,460	750	2,242	21	–	–	–	6,473
Loans and advances to customers	1,040	519	920	–	–	–	–	2,479
Financial assets designated at fair value	**1,034**	**78**	**9**	**–**	**–**	**–**	**–**	**1,121**
Treasury and other eligible bills and debt securities	1,034	78	6	–	–	–	–	1,118
Loans and advances to banks	–	–	3	–	–	–	–	3
Loans and advances to customers	–	–	–	–	–	–	–	–
Derivatives	**56,330**	**2,371**	**763**	**42**	**–**	**–**	**–**	**59,506**
Loans and advances held at amortised cost	**50,767**	**8,676**	**6,942**	**723**	**242**	**1,602**	**(705)**	**68,247**
Loans and advances to banks	22,028	512	540	6	–	–	–	23,086
Loans and advances to customers	28,739	8,164	6,402	717	242	1,602	(705)	45,161
– personal	11,009	559	7	–	82	322	(110)	11,869
– corporate and commercial	8,793	6,650	3,812	659	147	1,174	(540)	20,695
– financial (non-bank financial institutions)	8,937	955	2,583	58	13	106	(55)	12,597
Financial investments	**21,316**	**1,690**	**449**	**15**	**–**	**4**	**(4)**	**23,470**
Treasury and other similar bills and debt securities	21,316	1,690	449	15	–	4	(4)	23,470
Other assets	**–**	**–**	**1,389**	**–**	**–**	**–**	**–**	**1,389**
Endorsements and acceptances	–	–	–	–	–	–	–	–
Accrued income and other	–	–	1,389	–	–	–	–	1,389
Total	**165,656**	**20,921**	**13,418**	**801**	**242**	**1,606**	**(709)**	**201,935**

In December 2013, HSBC France acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc.

Consolidated financial statements (continued)

36 Risk management *(continued)*

(in millions of euros)	31.12.2012 Neither past due nor impaired Strong	Good	Satis-factory	Sub-standard	Past due not impaired	Impaired	Impair-ment allow-ances	Total
Cash and balances at central banks	6,770	–	–	–	–	–	–	6,770
Items in the course of collection from other banks	815	–	–	–	–	–	–	815
Trading assets	30,535	6,284	3,727	31	–	–	–	40,577
Treasury and other eligible bills and debt securities	20,690	4,952	880	–	–	–	–	26,522
Loans and advances to banks	8,088	1,038	2,163	31	–	–	–	11,320
Loans and advances to customers	1,757	294	684	–	–	–	–	2,735
Financial assets designated at fair value	5	–	–	–	–	–	–	5
Treasury and other eligible bills and debt securities	5	–	–	–	–	–	–	5
Loans and advances to banks	–	–	–	–	–	–	–	–
Loans and advances to customers	–	–	–	–	–	–	–	–
Derivatives	85,243	2,582	2,397	36	–	–	–	90,258
Loans and advances held at amortised cost	57,832	10,230	6,885	693	135	1,463	(752)	76,486
Loans and advances to banks	27,158	900	63	11	–	–	–	28,132
Loans and advances to customers	30,674	9,330	6,822	682	135	1,463	(752)	48,354
– personal	9,351	541	15	–	80	328	(114)	10,201
– corporate and commercial	7,258	8,101	4,918	545	45	1,046	(579)	48,354
– financial (non-bank financial institutions)	14,065	688	1,889	137	10	89	(59)	16,819
Financial investments	7,661	302	55	–	–	6	(5)	8,019
Treasury and other similar bills and debt securities	7,661	302	55	–	–	6	(5)	8,019
Other assets	30	–	1,053	–	–	–	–	1,083
Endorsements and acceptances	–	–	–	–	–	–	–	–
Accrued income and other	30	–	1,053	–	–	–	–	1,083
Total	188,889	19,398	14,117	760	135	1,469	(757)	224,011

36 Risk management *(continued)*

Ageing analysis of past due but not impaired gross financial instruments

The following table provides an analysis of gross loans and advances to customers held at amortised cost which are past due but not considered impaired. There are no other significant balance sheet items where past due balances are not considered impaired.

(in millions of euros)	*Up to 29 days*	*30-59 days*	*60-89 days*	*Total*
At 31 December 2013				
Loans and advances to customers held at amortised cost	**150**	**48**	**43**	**241**
– personal	**48**	**24**	**10**	**82**
– corporate and commercial	**94**	**20**	**33**	**147**
– financial (non-bank financial institutions)	**8**	**4**	**–**	**12**
At 31 December 2012				
Loans and advances to customers held at amortised cost	100	21	14	135
– personal	55	14	12	81
– corporate and commercial	35	7	2	44
– financial (non-bank financial institutions)	10	–	–	10

Movement in allowance accounts for total loans and advances

	Year ended 31.12.2013		
(in millions of euros)	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January	**(676)**	**(76)**	**(752)**
Amounts written off	**127**	–	**127**
Release of allowances no longer required	**85**	**5**	**90**
(Charge) to income statement	**(174)**	**(13)**	**(187)**
Exchange and other movements	**18**	**(1)**	**17**
At 31 December	**(620)**	**(85)**	**(705)**

	Year ended 31.12.2012		
(in millions of euros)	*Individually assessed*	*Collectively assessed*	*Total*
At 1 January	(684)	(71)	(755)
Amounts written off	114	–	114
Release of allowances no longer required	145	4	149
(Charge) to income statement	(259)	(10)	(269)
Exchange and other movements	7	1	8
At 31 December	(676)	(76)	(752)

Impairment allowances against loans and advances to customers

(in per cent)	**31.12.2013**	31.12.2012
Total impairment allowances in percentage to gross lending[1]		
– individually assessed impairment allowances	**1.76**	1.95
– collectively assessed impairment allowances	**0.24**	0.22
Total	**2.00**	2.17

1 *Net of repurchase agreement transactions and settlement accounts.*

Consolidated financial statements (continued)

36 Risk management *(continued)*

Loan impairment charges and other credit risk provisions

(in millions of euros)	31.12.2013	31.12.2012
Individually assessed impairment allowances		
New allowances and unprovided losses	**174**	258
Release of allowances no longer required	**(85)**	(145)
Recoveries of amounts previously written off	**(3)**	(4)
Amount written off	**127**	114
Utilisation of allowance	**(127)**	(114)
	86	109
Collectively assessed impairment allowances		
New allowances	**13**	10
Release of allowances no longer required	**(4)**	(4)
Recoveries of amounts previously written off	**–**	–
	9	6
Total charge for impairment losses	**95**	115
– banks	**–**	–
– customers	**95**	115
Other credit risk provisions	**2**	–
Impairment charges on debt security investments available-for-sale	**–**	2
Loan impairment charges and other credit risk provisions	**97**	117
Customer charge for impairment losses as a percentage of closing gross loans and advances to customers	**0.21%**	0.23%
Balances outstanding		
Non-performing loans	**1,603**	1,463
Individual impairment allowances	**620**	676
Gross loans and advances		
– banks	**23,086**	28,132
– customers	**45,866**	49,106
Total	**68,952**	77,238
Total allowances cover as a percentage of non-performing loans and advances	**38.68%**	46.21%

The material decrease in the provisioning rate is mainly due to the following factors: the inclusion in the impaired loans, of two large ECA-guaranted export finance transactions, where HSBC France's net risk is only 5 per cent and new forbearance cases that have been assigned a CRR9 in application of the Group definition of "distressed restructuring" but where not loss is expected to be incurred.

Collateral and other credit enhancements

Although collateral can be an important mitigant of credit risk, the HSBC Group's practice is to lend on the basis of the customer's ability to meet their obligations out of their resources rather than rely on the value of security. For some loans, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, HSBC France may use the collateral as a source of repayment.

Depending upon its nature, collateral can have a significant financial effect in mitigating exposure to credit risk of the HSBC France group. The value of this collateral is based on fixed charges the HSBC France group holds over a borrower's specific asset. As at 31 December 2013, the total collateral value accepted by HSBC France is EUR 42,415 million (EUR 44,635 million in 2012).

Moreover, note the HSBC France group may employ other types of collateral and credit risk enhancements, such as second charges, unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified.

36 Risk management *(continued)*

Market risk management

The objective of the Group's market risk monitoring is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with its status as a major provider of financial products and services.

Market risk assessment tools

- Value at Risk

One of the principal tools used by the Group to monitor and limit market risk exposure is VaR (Value at Risk). An internal model of HSBC France is used to calculate VaR.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for the Group, 99 per cent). HSBC France calculates VaR daily. The VaR model used by HSBC France, as for the Group, is based on historical simulation.

The historical simulation model derives plausible future scenarios from historical market rates time series, taking account of inter relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential variations in market prices are calculated with reference to market data from the last two years. The internal model of HSBC France was revalidated by the French regulator in 2007 for capital requirement calculations. Since January 2007, HSBC France has been calculating a one-day VaR.

Although a useful guide to risk, VaR should always be viewed in the context of its limitations. For example:

– the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

– the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

– the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and

– VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

HSBC France recognises these limitations by supplementing its VaR limits by sensitivity limit structures. Additionally, stress testing scenarios are applied, both on individual portfolios and on HSBC France's consolidated positions. Stress scenarios are defined by a group of specialists in Paris (market heads, controllers) in accordance with Group rules and practices.

VaR captures the traditional risk factors directly observable on a daily basis, such as exchange rates, interest rates, equity prices, etc., but does not take account of potential changes in more exotic factors such as correlations, basis risk, return to mean parameters, etc. Therefore, since 31 December 2007, HSBC France also calculates an additional VaR measure called "Add-On VaR" in respect of these exotic risk factors.

In addition, since 31 December 2011, HSBC France reports a stressed VaR number. Similarly to VaR, stressed VaR is computed using historical simulations and a 99 per cent confidence interval. However, unlike VaR, stressed VaR considers a 10-day holding period, and is based on stressed historical data. Stressed VaR can be rescaled to a one-day equivalent holding period by dividing it by the square root of 10.

Consolidated financial statements (continued)

36 Risk management *(continued)*

The one-day VaR on market exposures, taking into account both market trading and structural interest rate risk, amounted to:

(in millions of euros)	*One-day VaR without Add-On perimeter*	*Add-On VaR*
At 31 December 2013	**11.95**	**1.51**
At 31 December 2012	15.40	1.3

	One-day VaR without Add-On perimeter			*Add-On VaR*		
(in millions of euros)	*Average*	*Minimum*	*Maximum*	*Average*	*Minimum*	*Maximum*
2013	**13.25**	**9.96**	**16.46**	**1.72**	**1.35**	**2.65**
2012	15.89	10.16	23.77	3.9	1.3	6.1

It can be noted that VaR levels were reduced in 2013 compared to 2012. It results from the combination of two effects: observed market volatility was low in 2013 and scenarios observed during the 2011 eurozone sovereign debt crisis, which exhibited high volatility, progressively went out of the historical time series used in the historical simulation model. The impact of the 2011 scenarios exit on the VaR decrease is confirmed by the stability of stressed VaR numbers. Unlike VaR, stressed VaR is calculated on a fixed one-year period of significant financial stress.

The one-day equivalent stressed VaR amounted to:

(in millions of euros)	*One-day equivalent stressed VaR*
At 31 December 2013	**13.24**
At 31 December 2012	14.23

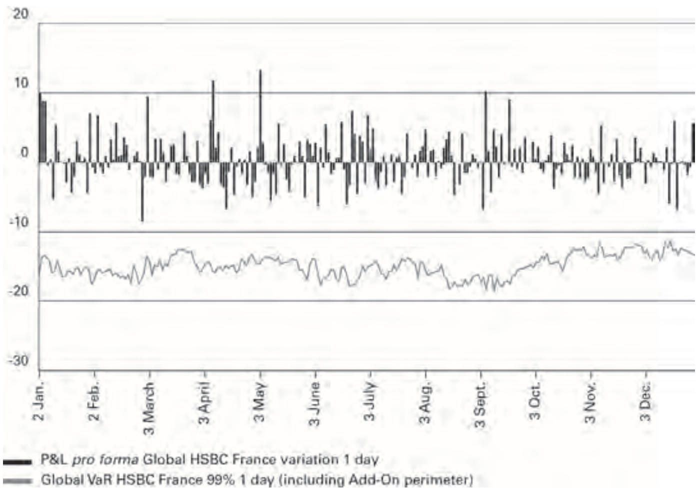
	One-day equivalent stressed VaR		
(in millions of euros)	*Average*	*Minimum*	*Maximum*
At 31 December 2013	**12.48**	**7.49**	**18.02**

- Backtesting

The model is back-tested by taking 99 per cent, one-day VaR figures and comparing them with daily *pro forma* results determined from changes in market prices assuming constant positions. Backtesting is carried out on a D+2 basis by business area and for all of the HSBC France group's market positions.

It allows the model to be validated, ensuring that the recorded result, in absolute terms, is lower than the calculated one-day VaR in 99 per cent of cases.

***Pro forma* backtesting January 2013 – December 2013**
(in millions of euros)



36 Risk management *(continued)*

The tightly managed low level of risky positions combined with low observed market volatility resulted in no backtesting exception in 2013 (compared to one in 2012).

Fair value and price verification control

Where certain financial instruments are carried on the Group's balance sheet at fair values, it is the Group policy that the valuation and the related price verification processes be subject to independent testing across the Group. Financial instruments which are accounted for on a fair value basis include assets held in the trading portfolio, financial instruments designated at fair value, obligations related to securities sold short, all derivative financial instruments and available-for-sale securities.

The determination of fair values is therefore a significant element in the reporting of the Group's Global Markets activities.

All significant valuation policies, and any changes thereto, must be approved by Senior Finance Management. The Group's governance of financial reporting requires that Financial Control Departments across the Group be independent of the risk-taking businesses, with the Finance functions having ultimate responsibility for the determination of fair values included in the financial statements, and for ensuring that the Group's policies and relevant accounting standards are adhered to.

Trading

Market risk in trading portfolios is monitored and controlled at both portfolio and position levels using a complementary set of techniques, such as VaR and present value of a basis point, together with stress and sensitivity testing and concentration limits. These techniques quantify the impact on capital of defined market movements.

Other controls include restricting individual operations to trading within a list of permissible instruments authorised by Wholesale and Market Risk, and enforcing rigorous new product approval procedures. In particular, trading in the more complex derivative products is concentrated with appropriate levels of product expertise and robust system controls.

HSBC France's policy on hedging is to manage economic risk in the most appropriate way without regard as to whether hedge accounting is available, within limits regarding the potential volatility of reported earnings. Trading VaR is further analysed below by risk types, by positions taken with trading intent and by positions taken without trading intent:

Total trading VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2013	**0.02**	**11.86**	**–**	**11.86**
At 31 December 2012	0.07	15.78	–	15.76
Average				
2013	**0.02**	**13.28**	**–**	**13.28**
2012	0.04	15.78	–	15.79
Minimum				
2013	**–**	**9.77**	**–**	**9.76**
2012	–	11.36	–	11.36
Maximum				
2013	**0.07**	**16.30**	**–**	**16.29**
2012	0.17	22.9	–	22.43

36 Risk management *(continued)*

Positions taken with trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2013	**0.02**	**11.86**	**–**	**11.86**
At 31 December 2012	0.07	15.52	–	15.51
Average				
2013	**0.02**	**13.25**	**–**	**13.25**
2012	0.04	15.8	–	15.73
Minimum				
2013	**–**	**9.75**	**–**	**9.75**
2012	–	11.27	–	11.26
Maximum				
2013	**0.07**	**16.29**	**–**	**16.28**
2012	0.17	22.87	–	22.43

Positions taken without trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2013	**–**	**0.09**	**–**	**0.09**
At 31 December 2012	–	2.37	–	2.37
Average				
2013	**–**	**0.14**	**–**	**0.14**
2012	–	0.95	–	0.95
Minimum				
2013	**–**	**0.08**	**–**	**0.08**
2012	–	0.24	–	0.24
Maximum				
2013	**–**	**0.28**	**–**	**0.08**
2012	–	2.43	–	2.43

Sensitivity analysis

As of 31 December 2013, HSBC France Global Markets was mainly exposed to interest rate curve and spread risks (*i.e.* relative difference) coming from the swap and reference bond curves, denominated in euros, whether these notes are from sovereign eurozone government, supranational issuers, government agencies or issuers of covered bonds. In line with the risk reduction policy conducted since 2011, exposures to euro sovereign issuers, and in particular euro peripherals, were reduced over the past year. Limits by HSBC France expressed in terms of interest rates sensitivities were downsized accordingly.

HSBC France Global Markets is also subject to sensitivities in terms of interest rate volatility and interest rate correlation, primarily in relation to EUR and USD.

All of these sensitivities are assessed and measured on a daily basis using standard conventional methods as used by the industry.

An aggregate representation is given by HSBC France Global Markets' one-day 99 per cent VaR, which amounted to EUR -11.95 million as at 31 December 2013.

In addition to its trading activities, HSBC France has developed since 2011 a non-trading accrual portfolio. Bonds held in this portfolio are hedged using swaps so as to reduce their exposure to interest rate moves. In addition, holdings are in high quality sovereign and quasi sovereign eurozone issuers.

36 Risk management *(continued)*

Capital adequacy reporting

The internal model allows for the daily calculation of Value at Risk for all positions. It has been approved by the French *Autorité de contrôle prudentiel* for regulatory capital adequacy calculations. It covers the quasi-totality of market risks within HSBC France. Key risks not covered by the internal model are measured using the standardised approach devised by the Bank of International Settlements and transposed into French law by CRBF regulation 95-02.

Capital requirements with respect to market risks break down as follows:

	31.12.2013		31.12.2012	
(in millions of euros)	***BIS***	***CAD***	*BIS*	*CAD*
Internal Model VaR[1]:	**145.17**	**145.17**	196.8	196.8
Foreign exchange risk	**0.14**	**0.14**	0.39	0.39
General interest rate risk	**145.16**	**145.16**	196.63	196.63
General equities risk	**–**	**–**	–	–
Netting effect	**(0.13)**	**(0.13)**	(0.21)	(0.21)
Internal Model Stress VaR[1]:	**135.66**	**135.66**	154.94	154.94
Foreign exchange risk	**0.31**	**0.31**	0.79	0.79
General interest rate risk	**135.68**	**135.68**	154.69	154.69
General equities risk	**–**	**–**	–	–
Netting effect	**(0.32)**	**(0.32)**	(0.54)	(0.54)
Standards methods:	**67.30**	**67.30**	56.72	56.72
Foreign exchange risk	**–**	**–**	–	–
General interest rate risk	**14.42**	**14.42**	15.4	15.4
Specific interest rate risk	**52.88**	**52.88**	41.28	41.28
General equities risk	**–**	**–**	–	–
Specific equities risk	**–**	**–**	–	–
Total	**348.13**	**348.13**	408.46	408.46

1 *Including the Add-On perimeter.*

It can be observed that following regulatory changes (Basel 2.5), HSBC France cost of capital includes a stressed VaR item since 31 December 2011. Stressed VaR is a market risk indicator calibrated to historical data from a period of significant financial stress. It is computed considering a 10-day holding period and a 99 per cent one-tailed confidence interval.

Consolidated financial statements (continued)

36 Risk management *(continued)*

Analysis of Asset-Backed Securities (ABS)

The table below shows the group's market risk exposure to Asset-Backed Securities.

(in millions of euros)	31.12.2013 Gross principal [2]	CDS gross protection [3]	Net Principal exposure [4]	Carrying amount [5]
– High grade[1]	**379**	**–**	**379**	**380**
– Rated C to A	**–**	**–**	**–**	**–**
– Not publicly rated	**20**	**–**	**20**	**9**
Total Asset-Backed Securities	**399**	**–**	**399**	**389**
Of which:				
– loans and advances to customers[6]	**345**	**–**	**345**	**345**
– available-for-sale portfolio	**54**	**–**	**54**	**44**

(in millions of euros)	31.12.2012 Gross principal [2]	CDS gross protection [3]	Net Principal exposure [4]	Carrying amount [5]
– High grade[1]	510	–	510	506
– Rated C to A	69	–	69	67
– Not publicly rated	15	–	15	13
Total Asset-Backed Securities	593	–	593	586
Of which:				
– loans and advances to customers[6]	445	–	445	445
– available-for-sale portfolio	149	–	149	141

1 *High grade assets rated AA or AAA.*
2 *The gross principal is the redemption amount on maturity or, in the case of an amortising instrument, the sum of the future redemption amounts through the residual life of the security.*
3 *A CDS is a credit default swap. CDS gross protection is the gross principal of the underlying instruments that is protected by CDSs.*
4 *Net principal exposure is the gross principal amount of assets that are not protected by CDSs. It includes assets that benefit from mono-line protection except where this protection is purchased with a CDS.*
5 *Carrying amount of the net principal exposure.*
6 *ABS held by HSBC Trinkhaus Gesellschaft für Kapitalmarketinvestments oHG. HSBC Trinkhaus Gesellschaft für Kapitalmarketinvestments oHG is a partnership created in 2010 and 90 per cent held by the HSBC France group, whose object is to invest in securitisation transactions structured by the HSBC Group and which holds mainly assets of German transferors.*

(in millions of euros)	**31.12.2013**			31.12.2012		
	Gross fair value movements other comprehensive income [2]	***Reclassified from equity on impairment, disposal or payment*** [3]	***AFS Impairment*** [4]	*Gross fair value movements other comprehensive income* [2]	*Reclassified from equity on impairment, disposal or payment* [3]	*AFS Impairment* [4]
– High grade[1]	**2**	**(2)**	**–**	2	(1)	–
– Rated C to A	**–**	**–**	**–**	2	2	–
– Not publicly rated	**–**	**(1)**	**–**	(2)	–	–
Total Asset Backed Securities	**2**	**(3)**	**–**	2	1	–

1 *High grade assets rated AA or AAA.*
2 *Fair value gains and losses on the net principal exposure recognised in equity at the end of the year as a result of the changes in fair value of available for sale assets.*
3 *Reclassification with respect to AFS assets, includes impairment losses recognised at the end of the year as a result of sale, disposal, accretion or payment.*
4 *Impairment losses recognised in the income statement with respect to the net principal amount (see footnote 4 above) of available-for-sale assets.*

36 Risk management *(continued)*

Risk cover and regulatory ratios

Large exposures

The HSBC France group complies with the French *Autorité de contrôle prudentiel et de résolution*'s rules, which require the following:

– exposure to a group of clients deemed to have the same beneficial owner is limited to 20 per cent of net capital if the beneficial owner is investment grade and 15 per cent if non-investment grade;
– the aggregate of individual exposures exceeding 10 per cent of net capital is limited to eight times net capital. 16 groups had individual exposures exceeding 10 per cent of net capital at 31 December 2013 and 23 groups at 31 December 2012.

Loan loss provisions

At 31 December 2013, loan impairment represented 38.7 per cent of the HSBC France group's total doubtful and non-performing exposure.

Liquidity ratio

The HSBC France group's regulatory ratios reflect its good liquidity risk cover. The regulatory liquidity ratio, which measures the potential one-month liquidity gap, averaged 123.2 per cent in 2013 on an individual basis.

Basel II international solvency ratio

The HSBC France group's Basel II international solvency ratio was 13.7 per cent at 31 December 2013, compared with a minimum requirement of 8 per cent. The group's Tier 1 capital ratio was 13.7 per cent, compared with a minimum requirement of 4 per cent.

Under the Basel II definitions, total HSBC France group capital amounted to EUR 4,427 million at 31 December 2013, of which EUR 4,427 million was Tier 1 capital.

The corresponding risk-weighted assets broke down as follows:

(in billions of euros)	**31.12.2013**	31.12.2012
Credit risks	**21.6**	21.8
Market risks	**4.3**	5.1
Operational risks	**3.6**	3.6
Additional requirement	**2.8**	2.2
Total	**32.3**	32.7

Commentaries related to the risk-weighted assets are disclosed in the Risk management section on page 90.

Special Purpose Entities

The group enters into certain transactions with customers in the ordinary course of business which involve the establishment of Special Purpose Entities (SPEs), some of which have been included in the group's consolidated balance sheet.

Transactions involving use of SPEs are authorised centrally upon establishment to ensure appropriate purpose and governance. The activities of SPEs administered by the group are closely monitored by Senior Management. The use of SPEs is not a significant part of the group's activities and the group is not reliant on the use of SPEs for any major part of its business operations or profitability.

Vehicles sponsored by the group

The group re-assesses the required consolidation accounting tests whenever there is a change in the substance of a relationship between the group and an SPE, for example, when there is a change in the group's involvement or in the governing rules, in the contractual arrangements or in the capital structure of the SPE.

Money market funds

The group has established and manages a number of money market funds which provide customers with tailored investment opportunities. These funds have narrow and well-defined objectives and typically the group does not aim to have any holdings in the SPEs large enough to represent the majority of the risks and rewards of ownership.

36 Risk management *(continued)*

Since July 2007, French dynamic money market funds have experienced high redemption requests caused by the investors' lack of confidence in funds which could contain exposure to subprime assets. From the third quarter of 2007, the group acquired underlying assets and shares in two of its dynamic money market funds, HSBC EOTOP and HSBC Duoblig; no additional shares were acquired by the group in 2010 and 2011. As a result of continued redemptions by unit holders, the group's holding in the two funds increased to a level where it obtained the majority of the risks and rewards of ownership during the first quarter of 2008. These two funds were consolidated by HSBC France on 31 December 2008, and have now been liquidated (HSBC Duoblig in 2012 and HSBC EOTOP in 2010). The market value of the assets transferred to HSBC France was EUR 38 million at the end of 2013.

Asset finance transactions

HSBC France's Asset and Structured Finance (ASF) business specialises in leasing and arranging finance for aircraft and other physical assets as well as financial assets, which is customary to ring-fence through the use of SPEs, and in structured loans and deposits where SPEs introduce cost efficiencies. HSBC France consolidates these SPEs where the substance of the relationship indicates that HSBC France controls the SPE.

Risk management of insurance operations in 2013

This section provides disclosures on the risks arising from insurance manufacturing operations including financial risks such as market risk, credit risk and liquidity risk, and insurance risk.

Risks in these operations are managed within the insurance entity using methodologies and processes appropriate to the insurance activities, but remain subject to oversight at HSBC Group level.

Financial risks of insurance operations

The HSBC Group's insurance businesses are exposed to a range of financial risks which can be categorised into:

– market risk: risks arising from changes in the fair values of financial assets or their future cash flows from fluctuations in variables such as interest rates, foreign exchange rates and equity prices;
– credit risk: risk of financial loss following the default of third parties to meet their obligations; and
– liquidity risk: risk of not being able to make payments to policyholders as they fall due as a result of insufficient assets that can be realised as cash.

Local regulatory requirements prescribe the type, quality and concentration of assets that the HSBC Group's insurance manufacturing companies must maintain to meet insurance liabilities. These requirements complement HSBC Group-wide policies.

The following table analyses the assets held in the HSBC France group's insurance manufacturing company by type of contract, and provides a view of the exposure to financial risk. For linked contracts, which pay benefits to policyholders which are determined by reference to the value of the investments supporting the policies, the HSBC France group (the group) typically designates assets at fair value; for non-linked contracts, the classification of the assets is driven by the nature of the underlying contract.

Financial assets held by HSBC Assurances Vie (France):

	31.12.2013			
(in millions of euros)	***Linked contracts***	***Non-linked contracts***	***Other assets***	***Total***
Financial assets designated at fair value	**–**	**–**	**–**	**–**
– interest rate contracts	**–**	**1,118**	**–**	**1,118**
– equity contracts	**70**	**4,603**	**445**	**5,118**
	70	**5,721**	**445**	**6,236**
Financial investments – available-for-sale	**–**	**–**	**–**	**–**
– debt securities	**–**	**12,840**	**980**	**13,820**
– equity contracts	**–**	**–**	**–**	**–**
	–	**12,840**	**980**	**13,820**
Derivatives	**–**	**156**	**36**	**192**
Other financial assets	**–**	**537**	**206**	**331**
	70	**19,254**	**1,667**	**20,579**

36 Risk management *(continued)*

Approximately 73 per cent of financial assets were invested in debt securities at 31 December 2013, with 25 per cent invested in equity securities.

In life linked insurance, premium income less charges levied is invested in a portfolio of assets. The group manages the financial risks of this product on behalf of the policyholders by holding appropriate assets in segregated funds or portfolios to which the liabilities are linked. These assets represented a non significant part of the total financial assets of HSBC Assurances Vie (France) at the end of 2013.

The remaining financial risks are managed either solely on behalf of the shareholder, or jointly on behalf of the shareholder and policyholders where discretionary participation features exist.

- Market risk of insurance operations

Market risk arises when mismatches occur between product liabilities and the investment assets which back them. For example, mismatches between asset and liability yields and maturities give rise to interest rate risk.

The main features of products manufactured by the group's insurance manufacturing company which generate market risk, and the market risk to which these features expose the company, are discussed below.

Long-term insurance or investment products may incorporate benefits that are guaranteed. Interest rate risk arises to the extent that yields on the assets supporting guaranteed investment returns are lower than the investment returns implied by the guarantees payable to policyholders.

The proceeds from insurance and investment products with DPF are primarily invested in bonds with a proportion allocated to other asset classes in order to provide customers with the potential for enhanced returns. Subsidiaries with portfolios of such products are exposed to the risk of falls in the market prices when they cannot be fully reflected in the discretionary bonuses. An increase in market volatility could also result in an increase in the value of the guarantee to the policyholder.

Long-term insurance and investment products typically permit the policyholder to surrender the policy or let it lapse at any time. When the surrender value is not linked to the value realised from the sale of the associated supporting assets, the subsidiary is exposed to market risk. In particular, when customers seek to surrender their policies when asset values are falling, assets may have to be sold at a loss to fund redemptions.

For unit-linked contracts, market risk is substantially borne by the policyholder, but market risk exposure typically remains as fees earned for management are related to the market value of the linked assets.

Each insurance manufacturing subsidiary manages market risk by using some or all of the following techniques:

– for products with DPF, adjusting bonus rates to manage the liabilities to policyholders. The effect is that a significant portion of the market risk is borne by the policyholder;
– structuring asset portfolios to support liability cash flows;
– using derivatives, to a limited extent, to protect against adverse market movements or better match liability cash flows;
– for new products with investment guarantees, considering the cost when determining the level of premiums or the price structure;
– periodically reviewing products identified as higher risk, which contain investment guarantees and embedded optionality features linked to savings and investment products;
– including features designed to mitigate market risk in new products;
– exiting, to the extent possible, investment portfolios whose risk is considered unacceptable; and
– repricing of premiums charged to policyholders.

The group's insurance manufacturing company monitors exposures against mandated limits regularly and reports these quarterly to Group Insurance. Exposures are aggregated and reported on a quarterly basis to senior risk management forums in Group Insurance.

Standard measures for quantifying market risks are as follows:

– for interest rate risk, the sensitivities of the net present values of asset and expected liability cash flows, in total and by currency, to a one basis point parallel upward shift in the discount curves used to calculate the net present values;
– for equity price risk, the total market value of equity holdings and the market value of equity holdings by region and country; and
– for foreign exchange risk, the total net short foreign exchange position and the net foreign exchange positions by currency.

36 Risk management *(continued)*

The standard measures are relatively straightforward to calculate and aggregate, but they have limitations. The most significant one is that a parallel shift in yield curves of one basis point does not capture the non-linear relationships between the values of certain assets and liabilities and interest rates. Non-linearity arises, for example, from investment guarantees and product features which enable policyholders to surrender their policies. The group bears the shortfall if the yields on investments held to support contracts with guaranteed benefits are less than the investment returns implied by the guaranteed benefits.

The group recognises these limitations and augments its standard measures with stress tests which examine the effect of a range of market rate scenarios on the aggregate annual profits and total equity of the insurance manufacturing companies after taking into consideration tax and accounting treatments where material and relevant. The results of these stress tests are reported to the Group Insurance and risk committees every quarter.

The following table illustrates the effect of selected interest rates, equity price and credit spread scenarios on the profits for the year and total equity of insurance manufacturing subsidiaries. Where appropriate, the impact of the stress on the present value of the in-force long-term insurance business asset ("PVIF") is included in the results of the sensitivity tests. The relationship between the profit and total equity and the risk factors is non-linear and, therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. The sensitivities are stated before allowance for the effect of management actions which may mitigate the effect of changes in market rates, and for any factors such as policyholder behaviour that may change in response to changes in market risk.

(in millions of euros)	**31.12.2013** ***Effect on total equity***
+ 100 basis points parallel shift in yield curves	**(13)**
– 100 basis points parallel shift in yield curves	**(23)**
10 per cent increase in equity prices	**8**
10 per cent decrease in equity prices	**(9)**
50 basis points increase in credit spread	**11**
50 basis points decrease in credit spread	**(22)**

- Credit risk of insurance operations

Credit risk can give rise to losses through default and can lead to volatility in income statement and balance sheet figures through movements in credit spreads, principally on the EUR 12.8 billion non-linked bond portfolio.

The sensitivity is calculated using simplified assumptions based on a one-day movement in credit spreads over a two-year period. A confidence level of 99 per cent, consistent with the Group's VAR, has been applied.

Management of the group's insurance manufacturing company is responsible for the credit risk, quality and performance of their investment portfolios. The assessment of creditworthiness of issuers and counterparties is based primarily upon internationally recognised credit ratings and other publicly available information.

Investment credit exposures are monitored against limits by the local insurance manufacturing subsidiaries, and are aggregated and reported to Group Insurance Credit Risk and Group Credit Risk. Stress testing is performed by the Group Insurance on the investment credit exposures using credit spread sensitivities and default probabilities. A number of tools are used to manage and monitor credit risk. These include a Credit Watch Report which contains a watch list of investments with current credit concerns and is circulated fortnightly to Senior Management in the Group Insurance and to the individual Country Chief Risk Officers to identity investments which may be at greater risk of future impairment.

- Credit quality

The following table presents an analysis of treasury bills, other eligible bills and debt securities within the group's insurance business by measures of credit quality. The five credit quality classifications are defined on page 179.

Only assets supporting liabilities under non-linked insurance, investment contracts and shareholders' funds are included in the table, as financial risk on assets supporting linked liabilities is predominantly borne by the policyholder. 86 per cent of the assets included in the table are invested in investments rated as "Strong".

36 Risk management *(continued)*

Treasury bills, other eligible bills and debt securities in the group's insurance manufacturing company

	31.12.2013		
	Strong	*Good / Satisfactory*	*Total* [2]
Financial assets designated at fair value[1]	**1,034**	**84**	**1,118**
– treasury and other eligible bills	**–**	**–**	**–**
– debt securities	**1,034**	**84**	**1,118**
Financial investments available for sale	**11,844**	**1,976**	**13,820**
– treasury and other eligible bills	**–**	**–**	**–**
– debt securities	**11,844**	**1,976**	**13,820**
	12,878	**2,060**	**14,938**

1 *Impairment is not measured for debt securities designated at fair value, as assets in such portfolios are managed according to movements in fair value, and the fair value movement is taken directly through the income statement.*
2 *The total is the maximum exposure to credit risk on the treasury bills, other eligible bills and debt securities in the group's insurance companies.*

- Liquidity risk of insurance operations

It is an inherent characteristic of almost all insurance contracts that there is uncertainty over the amount of claims liabilities that may arise, and the timing of their settlement, and this creates liquidity risk.

There are three aspects to liquidity risk. The first arises in normal market conditions and is referred to as funding liquidity risk; specifically, the capacity to raise sufficient cash when needed to meet payment obligations. Secondly, market liquidity risk arises when the size of a particular holding may be so large that a sale cannot be completed at the market price. Finally, standby liquidity risk refers to the capacity to meet payment terms in abnormal conditions.

The group's insurance manufacturing company primarily funds cash outflows arising from claim liabilities from the following sources of cash inflows:

– premiums from new business, policy renewals and recurring premium products;
– interest and dividends on investments and principal repayments of maturing debt investments;
– cash resources; and
– the sale of investments.

It manages liquidity risk by utilising some or all of the following techniques:

– matching cash inflows with expected cash outflows using specific cash flow projections or more general asset and liability matching techniques such as duration matching;
– maintaining sufficient cash resources;
– investing in good credit-quality investments with deep and liquid markets to the degree to which they exist;
– monitoring investment concentrations and restricting them where appropriate, for example, by debt issues or issuers; and establishing committed contingency borrowing facilities.

Each of these techniques contributes to mitigating the three types of liquidity risk described above.

Consolidated financial statements (continued)

36 Risk management *(continued)*

Every quarter, the group's insurance manufacturing company is required to complete and submit liquidity risk reports to the Group Insurance for collation and review. Liquidity risk is assessed in these reports by measuring changes in expected cumulative net cash flows under a series of stress scenarios designed to determine the effect of reducing expected available liquidity and accelerating cash outflows. This is achieved, for example, by assuming new business or renewals are lower, and surrenders or lapses are greater, than expected.

The following tables show the expected undiscounted cash flows for insurance contract liabilities and the remaining contractual maturity of investment contract liabilities. A significant proportion of the group's non-life insurance business is viewed as short term, with the settlement of liabilities expected to occur within one year of the period of risk. There is a greater spread of expected maturities for the life business where, in a large proportion of cases, the liquidity risk is borne in conjunction with policyholders (wholly owned by the policyholders in the case of unit-linked business).

Expected maturity of insurance contract liabilities

	Expected cash flows (undiscounted)				
(in millions of euros)	***Within 1 year***	***1-5 years***	***5-15 years***	***Over 15 years***	***Total***
Non-linked insurance[1]	**–**	**57**	**–**	**58**	**115**
Linked life insurance[1]	**–**	**51**	**–**	**–**	**51**
Total	**–**	**108**	**–**	**58**	**166**

1 *Non-linked insurance includes remaining non-life business.*

Remaining contractual maturity of investment contract liabilities

	Liabilities under investment contracts by insurance underwriting subsidiaries					
(in millions of euros)	***Within 1 year***	***1-5 years***	***5-15 years***	***Over 10 years***	***Undated***	***Total***
Non-linked insurance[1]	–	–	–	–	–	–
Linked life insurance[1]	–	–	–	–	–	–
Total	–	–	–	–	–	–

1 *In most cases, policeholders have the option to terminate their contracts at any time and receive the surrender values of their policies. These may be significantly lower than the amounts shown above.*

Insurance risk

Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the issuer (the group).

A principal risk faced by the group is that, over time, the cost of acquiring and administering a contract, claims and benefits may exceed the aggregate amount of premiums received and investment income. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates and, if the policy has a savings element, the performance of the assets held to support the liabilities.

Insurance risks are controlled by high level policies and procedures set both centrally and locally, taking into account, where appropriate, local market conditions and regulatory requirements. Formal underwriting, reinsurance and claims-handling procedures designed to ensure compliance with regulations are applied, and supplemented with stress testing.

As well as exercising underwriting controls, reinsurance is also used as a means of mitigating exposure to insurance risk. Where the group manages exposure to insurance risk through the use of third-party reinsurers, the associated revenue and manufacturing profit is ceded to the reinsurers. Although reinsurance provides a means of managing insurance risk, such contracts expose the group to credit risk, the risk of default by the reinsurer.

36 Risk management *(continued)*

A principal tool used by the group to manage its exposure to insurance risk, in particular for life insurance contracts, is asset and liability matching. In certain markets in which the group operates it is neither possible nor appropriate to follow a perfect asset and liability matching strategy. For long dated non-linked contracts in particular this results in a duration mismatch between assets and liabilities. The HSBC France group therefore structures portfolios to support projected liabilities from non-linked contracts. In the absence of insurable events occurring, unit linked contracts match assets more directly with liabilities. This results in the policyholder bearing the majority of the financial risk exposure.

The following tables analyse the group's insurance risk exposures by type of business.

Analysis of life insurance risk – liabilities to policyholders

(in millions of euros)	**31.12.2013**
Insurance contracts with DPF[1]	**–**
Credit life	**55**
Annuities	**56**
Term assurance and other long-term contracts	**4**
Non-life insurance[2]	**–**
Total non-linked insurance	**115**
Life (linked)	**51**
Investment contracts with DPF[1,3]	**19,188**
Liabilities under insurance contracts	**19,354**

1 *Insurance contracts and investment contracts with discretionary participation features ("DPF") give policyholders the contractual right to receive, as a supplement to their guaranteed benefits, additional benefits that are likely to be a significant portion of the total contractual benefits, but whose amount or timing is contractually at the discretion of the group. These additional benefits are contractually based on the performance of a specified pool of contracts or assets, or the profit of the company issuing the contracts.*

2 *Non-linked insurance includes remaining non-life business.*

3 *Although investment contracts with DPF are financial investments, the group continues to account for them as insurance contracts as permitted by IFRS 4.*

Insurance risk arising from life insurance depends on the type of business and varies considerably. The principal drivers of insurance risks are mortality, morbidity, lapse, surrender and expense levels. The liabilities for long-term contracts are set by reference to a range of assumptions around these drivers, typically reflecting each entity's own experience. Economic assumptions, such as investment returns and interest rates, are usually based on observable market data. Changes in underlying assumptions affect the liabilities.

Present value of in-force long-term insurance business

The group's life insurance business is accounted for using the embedded value approach which, *inter alia*, provides a risk and valuation framework. The sensitivity of the present value of the in-force ("PVIF") long-term asset to changes in economic and non-economic assumptions is described in Note 22.

Consolidated financial statements (continued)

37 Offsetting of financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

(in million of euros)	*Gross amounts of recognised financial assets*	*Gross amounts offset in the balance sheet*	*Amounts presented in the balance sheet*	*Amounts not offset in the balance sheet* – *Financial instruments*	*Cash collateral received*	*Net amount*
At 31 December 2013						
Derivatives	**126,939**	**(67,433)**	**59,506**	**49,694**	**8,819**	**993**
Reverse repurchase, securities borrowing and similar agreements	**53,244**	**(25,128)**	**28,116**	**28,077**	**39**	–
Classified as:						
– trading assets	**105**	–	**105**	**105**	–	–
– loans and advances to banks at amortised cost	**28,242**	**(10,864)**	**17,378**	**17,352**	**26**	–
– loans and advances to customers at amortised cost	**24,897**	**(14,264)**	**10,633**	**10,620**	**13**	–
Loans and advances excluding reverse repos						
– to banks	–	–	–	–	–	–
– to customers	**1,041**	**(157)**	**884**	–	–	**884**
	181,224	**(92,718)**	**88,506**	**77,771**	**8,858**	**1,877**
At 31 December 2012						
Derivatives	184,331	(94,073)	90,258	75,553	12,189	2,516
Reverse repurchase, securities borrowing and similar agreements	51,705	(14,244)	37,461	37,242	163	–
Classified as:						
– trading assets	392	–	392	392	–	–
– loans and advances to banks at amortised cost	27,645	(5,088)	22,557	22,428	129	–
– loans and advances to customers at amortised cost	23,668	(9,156)	14,512	14,422	34	–
Loans and advances excluding reverse repos						
– to banks	–	–	–	–	–	–
– to customers	2,400	(1,322)	1,078	–	–	1,078
	238,436	(109,639)	128,797	112,795	12,352	3,594

37 Offsetting of financial assets and financial liabilities *(continued)*

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(in million of euros)	*Gross amounts of recognised financial liabilities*	*Gross amounts offset in the balance sheet*	*Amounts presented in the balance sheet*	*Amounts not offset in the balance sheet*		*Net amount*
				Financial instruments	*Cash collateral pledged*	
At 31 December 2013						
Derivatives	**124,024**	**(67,433)**	**56,591**	**49,694**	**5,250**	**1,647**
Repurchase, securities lending and similar agreements	**61,224**	**(25,128)**	**36,096**	**35,948**	**148**	**–**
Classified as:						
– trading liabilities	**2,571**	**–**	**2,571**	**2,571**	**–**	**–**
– deposits by banks	**29,362**	**(10,864)**	**18,498**	**18,358**	**140**	**–**
– customer accounts	**29,291**	**(14,264)**	**15,027**	**15,019**	**8**	**–**
Deposits by banks excluding repos	**–**	**–**	**–**	**–**	**–**	**–**
Customer accounts excluding repos	**157**	**(157)**	**–**	**–**	**–**	**–**
	185,405	**(92,718)**	**92,687**	**85,642**	**5,398**	**1,647**
At 31 December 2012						
Derivatives	183,187	(94,073)	89,114	75,599	11,526	1,989
Repurchase, securities lending and similar agreements	50,418	(14,244)	36,174	36,096	78	–
Classified as:						
– trading liabilities	1,758	–	1,758	1,758	–	–
– deposits by banks	27,165	(5,088)	22,077	22,000	77	–
– customer accounts	21,495	(9,156)	12,339	12,338	1	–
Deposits by banks excluding repos	–	–	–	–	–	–
Customer accounts excluding repos	1,322	(1,322)	–	–	–	–
	234,927	(109,639)	125,288	111,695	11,604	1,989

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ("the offset criteria").

Derivatives and reverse repurchase/repurchase agreements included in amounts not set off in the balance sheet relate to transactions where:

– the counterparty has an offsetting exposure with HSBC and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and

– cash and non-cash collateral received/pledged in respect of the transactions described above.

The HSBC Group and HSBC France offset certain loans and advances to customers and customer accounts when the offset criteria are met and the amounts presented above represent this subset of the total amounts recognised in the balance sheet. Of this subset, the loans and advances to customers and customer accounts included in amounts not set off in the balance sheet primarily relate to transactions where the counterparty has an offsetting exposure with HSBC and an agreement is in place with the right of offset but the offset criteria are otherwise not satisfied.

38 Contingent liabilities, contractual commitments and guarantees

a *Contingent liabilities and commitments*

(in millions of euros)	**31.12.2013**	31.12.2012
Contract amounts		
Guarantees and other contingent liabilities		
Guarantees	**4,260**	4,509
Other contingent liabilities	**–**	–
	4,260	4,509
Commitments		
Documentary credits and short-term trade-related transactions	**631**	843
Undrawn formal standby facilities, credit lines and other commitments to lend		
– 1 year and under	**3,366**	3,109
– over 1 year	**16,386**	14,133
	20,383	18,085

The above table discloses the nominal principal amounts of third-party off-balance sheet transactions. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default.

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

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the group's annual credit review process.

The total of the nominal principal amounts is not representative of future liquidity requirements.

b *Guarantees*

The group provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the group. These guarantees are generally provided in the normal course of the group's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which the group could be required to make at 31 December were as follows:

(in millions of euros)	**31.12.2013**	31.12.2012
Guarantee type		
Financial guarantees[1]	**610**	645
Credit-related substitutes[2]	**1,834**	1,954
Other guarantees[3]	**1,816**	1,910
Total	**4,260**	4,509

1 *Financial guarantees include undertakings to fulfil the obligations of customers or group entities, should the obligated party fail to do so. The inter-company financial guarantees include a specific guarantee related to debt issued by the group for the benefit of other entities of the group and with respect to regulatory requirements. Financial guarantees also include stand-by letters of credit, which are financial guarantees given irrevocable obligations on the part of HSBC France to pay a third party when a customer fails to meet a commitment.*

2 *Credit-related substitutes include performance bonds and stand-by letters of credit related to particular transactions which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.*

3 *Other guarantees include bid bonds and other transaction-related guarantees which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.*

38 Contingent liabilities, contractual commitments and guarantees *(continued)*

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures.

The majority of the above guarantees have a term of more than one year. Those guarantees are subject to the group's annual credit review process.

When the group gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

Provisions with respect to the group's obligations under outstanding guarantees

(in millions of euros)	**31.12.2013**	31.12.2012
Acceptances and endorsements	**–**	–
Other items	**4**	2

39 Lease commitments

Finance and operating lease commitments

As at 31 December 2013, HSBC France has no finance or operating lease commitments.

There were no future minimum sublease payments expected to be received under non-cancellable subleases.

Finance lease receivables

HSBC leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft), property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Lessees may participate in any sales proceeds achieved. Lease rentals arising during the lease terms will either be fixed in quantum or be varied to reflect changes in, for example, tax or interest rates. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	31.12.2013			31.12.2012		
(in millions of euros)	***Total future minimum payments***	***Interest charges***	***Present value***	*Total future minimum payments*	*Interest charges*	*Present value*
Lease receivables:						
– no later than one year	**497**	**(51)**	**446**	525	(58)	467
– later than one year and no later than five years	**1,386**	**(179)**	**1,207**	1,655	(224)	1,431
– later than five years	**976**	**(177)**	**799**	967	(219)	748
Total	**2,859**	**(407)**	**2,452**	3,147	(501)	2,646

At 31 December 2013, unguaranteed residual values of EUR 149 million (2012: EUR 130 million) had been accrued, and there was no accumulated allowance for uncollectible minimum lease payments receivable.

40 Legal proceedings and regulatory matters

HSBC entities, including HSBC France, are party to various legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and on pages 92 and 93, HSBC France considers that none of these matters is significant, either individually or in the aggregate. HSBC France recognizes a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2013.

Anti-money laundering and sanctions-related

In December 2012, HSBC Holdings plc ("HSBC Holdings" or "HSBC"), the bank's ultimate parent company, HSBC North America Holdings ("HNAH") and HSBC Bank USA, N.A. ("HBUS") entered into agreements with US and UK government agencies regarding past inadequate compliance with the US Bank Secrecy Act ("BSA"), Anti-Money Laundering ("AML") and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year Deferred Prosecution Agreement with the US Department of Justice ("DoJ"), the US Attorney's Office for the Eastern District of New York, and the US Attorney's Office for the Northern District of West Virginia (the "US DPA"). HSBC Holdings entered into a two-year deferred prosecution agreement with the New York County District Attorney ("DANY") (the "DANY DPA"). HSBC Holdings consented to a cease and desist order and HSBC Holdings and HNAH consented to a monetary penalty order with the Federal Reserve Board ("FRB").

In addition, HSBC Bank USA entered into a monetary penalty consent order with FinCEN and a separate monetary penalty order with the Office of the Comptroller of the Currency ("OCC"). HSBC Bank USA also entered into a separate consent order with the OCC requiring it to correct the circumstances and conditions as noted in the OCC's then most recent report of examination and imposing certain restrictions on HSBC Bank USA directly or indirectly acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, unless it receives prior approval from the OCC. HSBC Bank USA also entered into a separate consent order with the OCC requiring it to adopt an enterprise wide compliance program.

HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ("OFAC") regarding historical transactions involving parties subject to OFAC sanctions and an undertaking with the UK Financial Services Authority, now a Financial Conduct Authority ("FCA") Direction, to comply with certain forward-looking AML- and sanctions-related obligations.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling USD 1.921 billion to US authorities. Under these agreements, HSBC Holdings has also certain obligations to ensure that entities in the HSBC Group, including HSBC Bank plc and its subsidiaries (including HSBC France), comply with certain requirements. Steps continue to be taken to implement ongoing obligations under the US DPA, FCA direction, and other settlement agreements.

On 1 July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of the same. Under the agreements with the DoJ, FCA, and the FRB, an independent monitor (who is, for FCA purposes, a "skilled person" under Section 166 of the Financial Services and Markets Act) is evaluating HSBC's progress in fully implementing its obligations under the agreements and will produce regular assessments of the effectiveness of HSBC's Compliance function. Michael Cherkasky began work as the independent monitor on 22 July 2013.

If HSBC Holdings and HSBC Bank USA fulfil all of the requirements imposed by the US DPA, the DoJ's charges against those entities will be dismissed at the end of the five-year period of that agreement. Similarly, if HSBC Holdings fulfils all of the requirements imposed by the DANY DPA, DANY's charges against it will be dismissed at the end of the two-year period of that agreement. The DoJ may prosecute HSBC Holdings or HSBC Bank USA in relation to the matters which are the subject of the US DPA if HSBC Holdings or HSBC Bank USA breaches the terms of the US DPA, and DANY may prosecute HSBC Holdings in relation to the matters which are subject of the DANY DPA if HSBC Holdings violates the terms of the DANY DPA.

The settlement with US and UK authorities does not preclude private litigation relating to, among other things, HSBC's compliance with applicable AML, BSA and sanctions laws or other regulatory or law enforcement actions for AML/BSA or sanctions matters not covered by the various agreements.

40 Legal proceedings and regulatory matters *(continued)*

Investigations and reviews into the setting of London interbank offered rates, European interbank offered rates and other benchmark interest and foreign exchange rates

Various regulators and competition and enforcement authorities around the world including in the United Kingdom (UK), the United States of America (US), Canada, the European Union, Switzerland, and Asia are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of London interbank offered rates ("Libor"), European interbank offered rates ("Euribor") and other benchmark interest and foreign exchange rates. As certain HSBC entities are members of such panels, HSBC and/or its subsidiaries (including HSBC France whose involvement is limited to the extent that it is a member of the Euribor panel) have been the subject of regulatory demands for information and are cooperating with those investigations and reviews. On 4 December 2013, the European Commission ("Commission") announced that it had imposed fines on eight financial institutions under its cartel settlement procedure for their participation in illegal activity related to Euro interest rate derivatives and/or Yen interest rate derivatives. Although HSBC was not one of the financial institutions fined, the Commission announced that it had opened proceedings against HSBC in connection with its Euribor-related investigation of Euro interest rate derivatives only. This investigation will continue under the standard Commission cartel procedure.

As for ongoing regulatory investigations, reviews and proceedings based on the facts currently known in respect of each of these investigations, there is a high degree of uncertainty as to the terms on which the ongoing investigations, reviews and proceedings will be resolved and the timing of such resolutions, including the amounts of fines and/or penalties. As matters progress, it is possible that fines and/or penalties could be significant.

In November 2013, HSBC and other panel banks were also named as defendants in a putative class action filed in the US on behalf of persons who transacted in futures contracts and other financial instruments related to Euribor. The complaint alleges, amongst other things, misconduct related to Euribor in violation of US antitrust laws, the US CEA, and state law. HSBC has not yet responded to the complaint and an amended complaint is expected in the first quarter of 2014. HSBC expects to file a motion to dismiss thereafter.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of such private lawsuits, including the timing and potential impact on HSBC.

Credit default swap regulatory investigation and litigation

In July 2013, various HSBC entities, including HSBC France, received a Statement of Objections from the European Commission relating to its ongoing investigation of alleged anti-competitive activity by a number of market participants in the credit derivatives market between 2006 and 2009. The Statement of Objections sets out the European Commission's preliminary views and does not prejudge the final outcome of its investigation. HSBC submitted a response to the European Commission in October 2013 and with reference to HSBC France, the point made was that there was no real nexus between the Commission's alleged case and HSBC France's activities.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of the European Commission's investigation, including the timing or impact on HSBC.

41 Related party transactions

The ultimate parent company of the group is HSBC Holdings plc, which is incorporated in the UK.

All transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

a *Transactions, arrangements and agreements involving Key Management Personnel*

The table below sets out transactions which fall under IAS 24 "Related Party Disclosures" between HSBC France and the Key Management Personnel of HSBC France and on one hand, their respective spouses and children living in the family home, and on the other hand, controlled companies.

	31.12.2013			31.12.2012		
(in thousands of euros)	***Number of persons***	***Highest balance during the year***[1]	***Balance at 31 December***[1]	*Number of persons*	*Highest balance during the year*	*Balance at 31 December*[1]
Loans	**3**	**1,383**	**898**	3	1,112	979
Credit cards	**3**	**27**	**21**	3	41	9
Guarantees	**3**	**–**	**–**	3	–	–

1 *The highest balance during the year and the balance at 31 December are considered to be the most significant information to show the transactions during the year.*

Compensation to the Key Management Personnel of the group under IAS 24 is disclosed as follows:

(in thousands of euros)	**31.12.2013**	31.12.2012
Short-term employee benefits	**134**	135
Post-employment benefits	**147**	148
Long-term benefits	**–**	–
Termination fees	**140**	140
Share-based payment	**1,618**	1,755
	2,039	2,178

Directors and other Key Management Personnel shareholdings and options:

	31.12.2013[1]	31.12.2012[1]
Number of share options from equity participation plans held by Directors and other Key Management Personnel (and connected persons)	**286,882**	441,799
Number of shares held by Directors and other Key Management Personnel (and connected persons)	**1,360,370**[2]	1,054,028[2]

1 *The number of Directors was three persons at 31 December 2013 and three persons at 31 December 2012.*
2 *The HSBC shares held through the mutual fund invested in HSBC shares and forming part of the group employee share ownership plan are not included.*

The Registration Document also includes a detailed description of Directors' remuneration (see pages 27 to 30).

41 Related party transactions *(continued)*

b *Transactions with other related parties*

Transactions with other related parties of the Group

There is no significant amount due to joint ventures and associates.

Transactions detailed below include amounts due to/from HSBC France and fellow subsidiaries of the HSBC Group.

(in millions of euros)	**31.12.2013**	31.12.2012
Assets		
Trading assets	**1,795**	4,920
Derivatives	**16,860**	24,562
Loans and advances to banks	**4,379**	11,414
Loans and advances to customers	**198**	87
Financial investments	**297**	170
Other assets[1]	**252**	175
Prepayments and accrued income	**73**	99
Financial assets designated at fair value	**673**	5
Liabilities		
Deposits by banks	**15,170**	16,233
Customer accounts	**100**	220
Trading liabilities	**1,244**	1,586
Derivatives	**16,992**	27,396
Other liabilities[1]	**192**	134
Accruals and deferred income	**98**	72
Subordinated liabilities	–	150
Guarantees		
Financial guarantees	**6**	12
Credit-related substitutes	**44**	40
Other guarantees	**255**	301
	305	353
Income Statement		
Interest income[1]	**98**	106
Interest expense[1]	**28**	22
Fee income	**59**	145
Fee expense	**84**	82
Gains less losses from financial investments	**–**	–
Other operating income	**–**	–
Dividend income	**–**	–
General and administrative expenses	**52**	60

1 *Including interests on trading assets and trading liabilities for EUR 1 million in 2013 (2012: EUR 10 million).*

Consolidated financial statements (continued)

42 Audit fees

Auditors' fees paid in 2013 and 2012 within the HSBC France group

(in thousands of euros excluding VAT)	KPMG				BDO France – Léger & Associés				Others			
	Amount		*%*		*Amount*		*%*		*Amount*		*%*	
	2013	*2012*	***2013***	*2012*	***2013***	*2012*	***2013***	*2012*	***2013***	*2012*	***2013***	*2012*
Audit												
Statutory audit, certification, examination of parent company and consolidated accounts	**1,273**	1,322	**62%**	68%	**544**	393	**98%**	95%	**63**	148	**100%**	100%
– issuer	**897**	948	**–**	–	**388**	338	**–**	–	**–**	–	**–**	–
– fully-consolidated subsidiaries	**376**	374	**–**	–	**156**	55	**–**	–	**63**	148	**–**	–
Related assignments	**788**	624	**38%**	32%	**11**	21	**2%**	5%	**–**	–	**–**	–
– issuer	**635**	507	**–**	–	**6**	15	**–**	–	**–**	–	**–**	–
– fully-consolidated subsidiaries	**153**	117	**–**	–	**5**	6	**–**	–	**–**	–	**–**	–
Sub-total	**2,061**	1,946	**100%**	100%	**555**	414	**100%**	100%	**63**	148	**100%**	100%
Other services												
Legal, tax, social	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other (if > 10 per cent of audit fees)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Sub-total	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**2,061**	1,946	**100%**	100%	**555**	414	**100%**	100%	**63**	148	**100%**	100%

43 Events after the balance sheet date

There have been no material events after the balance sheet date which would require disclosure or adjustment to the 31 December 2013 financial statements.

Statutory Auditors’ report on the consolidated financial statements

This is a free translation into English of the Statutory Auditors’ report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users. The Statutory Auditors’ report includes information specifically required by French law in such reports. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors’ assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures. This report also includes information relating to the specific verification of information given in the Group’s management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2013

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2013, on:

– the audit of the accompanying annual consolidated financial statements of HSBC France;
– the justification of our assessments;
– the specific verifications and information required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I - Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2013 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying the conclusion expressed above, we draw your attention to the matter discussed in Note 1 to the consolidated financial statements relating to new accounting standards and interpretations that HSBC France has applied starting January 1, 2013.

II - Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

– your company accounts for impairment to cover the credit and counterparty risks inherent to its activities (Note 2 g to the consolidated financial statements). We have reviewed the control procedures relating to credit and counterparty risk monitoring, the assessment of risks of non-recoverability and the calculation of the corresponding individual and collective impairment;
– your company holds positions in securities and financial instruments (Notes 1 a, 2 d, 2 i, 2 j, 30 and 31 to the consolidated financial statements). We have examined the control procedures for the accounting classification of these positions and for determining the parameters used to value them. We have verified the appropriateness of the accounting policies selected by your company and have satisfied ourselves that they are applied correctly;
– your company assessed the impact of changes in its own credit risk with respect to the valuation of issuances measured at fair value through profit and loss (Note 30 to the consolidated financial statements). We have assessed the appropriateness of the parameters used for this purpose;
– your company recognizes provisions to cover risks and litigation related to its activity (Notes 2 w and 40 to the consolidated financial statements). We have examined the methodology used to measure these provisions, as well as the main assumptions applied.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III - Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris-La Défense and Paris, on 3 March 2014

KPMG Audit FS II	BDO France – Léger & Associés
Pascal Brouard	Fabrice Chaffois
Partner	*Partner*

Parent company financial statements

Balance sheets 2013-2012

ASSETS

(in thousands of euros)	*Notes*	**31.12.2013**	31.12.2012
Cash and amounts due from central banks and post office banks		**484,330**	960,421
Treasury bills and money-market instruments	*4*	**33,261,445**	27,239,637
Loans and advances to banks	*2*	**41,905,501**	41,924,803
Loans and advances to customers	*3*	**55,092,317**	52,806,571
Bonds and other fixed income securities	*4*	**9,003,203**	7,494,934
Equities and other variable income securities	*4*	**4,636**	5,527
Investments in subsidiaries and equity securities held for long-term	*5*	**95,137**	341,387
Interests in affiliated parties	*5*	**1,709,289**	1,142,123
Finance leases	*7*	**237,550**	77,383
Intangible fixed assets	*6*	**244,487**	245,016
Tangible fixed assets	*7*	**224,234**	243,583
Other assets	*9*	**22,447,878**	28,551,437
Prepayments and accrued income	*10*	**119,097,320**	171,867,881
TOTAL ASSETS		**283,807,327**	332,900,703
Off-balance sheet items			
Financing commitments given	*21*	**21,619,446**	18,763,982
Guarantees and endorsements given	*21*	**4,371,652**	4,585,883
Securities commitments (other commitments given)		**33,022,031**	30,572,301

LIABILITIES

		31.12.2013		31.12.2012
(in thousands of euros)	*Notes*	Before appropriation	After appropriation[1]	After appropriation
Due to credit institutions	*11*	**38,932,997**	**38,932,997**	41,161,835
Customer accounts	*12*	**63,183,023**	**63,183,023**	52,238,221
Debt securities in issue	*13*	**14,441,756**	**14,441,756**	15,290,578
Other liabilities	*15*	**45,691,238**	**45,691,238**	46,089,164
Accruals and deferred income	*16*	**116,361,411**	**116,361,411**	172,803,315
Provisions for liabilities and charges	*14*	**391,188**	**391,188**	322,405
Subordinated liabilities	*17*	**31,375**	**31,375**	181,362
Share capital	*18*	**337,189**	**337,189**	337,189
Additional paid-in capital		**16,139**	**16,139**	16,139
Reserves		**1,042,970**	**1,042,970**	1,047,616
Special tax-allowable reserves		**20,128**	**20,128**	26,221
Retained earnings		**3,146,578**	**3,357,913**	3,386,658
Net profit of the year		**331,374**	**–**	–
Interim dividend		**(120,039)**	**–**	–
TOTAL LIABILITIES		**283,807,327**	**283,807,327**	332,900,703
Off-balance sheet items				
Financing commitments received	*21*	**5,426,299**	**5,426,299**	360,066
Guarantees and endorsements received	*21*	**10,064,213**	**10,064,213**	7,818,611
Securities commitments (other commitments received)		**26,481,821**	**26,481,821**	26,449,398

1 *Proposed appropriation.*

The euro conversion value of foreign currency denominated balance sheet amounted to EUR 22.5 billion at 31 December 2013 and to EUR 35.4 billion at 31 December 2012.

Parent company financial statements (continued)

Profit and loss accounts 2013-2012

(in thousands of euros)	Notes	31.12.2013	31.12.2012
Income/(Expenses)			
Interest and similar income	23	**1, 831,335**	1,474,200
Interest and similar expenses	23	**(841,056)**	(740,187)
Finance leases income		**40,470**	4,520
Finance leases expenses		**(37,256)**	(4,669)
Income from equities and other variable instruments	24	**45,265**	142,899
Commissions received	25	**776,203**	794,743
Commissions paid	25	**(187,093)**	(197,364)
Dealing profits	26	**346,672**	539,620
Gains or losses on available-for-sale securities	27	**10,915**	299,222
Other banking operating income		**12,054**	13,116
Other banking operating expenses		**(327)**	(11,574)
Net banking operating income		**1,997,182**	2,314,526
General operating expenses	28	**(1,422,305)**	(1,424,504)
Depreciation, amortisation and impairment of fixed assets		**(53,773)**	(51,518)
Gross operating income		**521,104**	838,503
Cost of risk	8	**(86,898)**	(51,545)
Net operating income		**434,206**	786,958
Gains or losses on disposals of long term investments	29	**9,951**	15,092
Profit before tax		**444,157**	802,050
Exceptional items		**(5)**	(94)
Income tax	30	**(118,872)**	(207,670)
Gains and losses from regulated provisions		**6,094**	6,904
Net income		**331,374**	601,190

Statement of reported net profit and movements in shareholders' funds

(Recommendation of the Stock Exchange Commission – Bulletin no. 79 of February 1976)

(in thousands of euros)	31.12.2013	31.12.2012
Net profit for the year		
– total	**331,373.9**	601,190.0
– per share (*in euros*)[1,2]	**4.91**	8.91
Movements in shareholders' funds (excluding the net profit of 2013) (after appropriation of 2012 net profit)		
– change in revaluation difference	**(141.5)**	(227.3)
– transfer to reserves and change in retained earnings	**361,111.3**	(91,511.6)
– allocation of net profit of previous year	**601,190.0**	26,504.4
– appropriation of net profit	**(240,078.7)**	(118,016.0)
– change in revaluation reserve and special tax-allowable reserves	**(6,092.9)**	(6,902.6)
Change in shareholders' funds	**354,876.9**	(98,641.5)
– per share *(in euros)*[1,2]	**5.26**	(1.46)
Proposed dividend		
– total	**120,039.3**	240,078.7
– per share *(in euros)*[1,2]	**1.78**	3.56

1 *Number of shares outstanding at year end: 67,437,827 in 2013 and 2012.*
2 *Based on the weighted average number of shares outstanding, dividend per share amounted to EUR 1.78 in 2013 (67,437,827 shares) and EUR 3.56 in 2012 (67,437,827 shares).*

Appropriation of net profit

(in thousands of euros)	**31.12.2013**	31.12.2012
Results available for distribution		
– retained earnings	**3,146,578**	2,785,467
– net profit for the year	**331,374**	601,190
TOTAL (A)	**3,477,952**	3,386,657
Appropriation of income		
– dividends	**120,039**	240,079
– legal reserve	**–**	–
– free reserve	**–**	–
TOTAL (B)	**120,039**	240,079
Retained earnings (A - B)	**3,357,913**	3,146,578

Information on supplier payable amounts schedule

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

At 31 December 2013, amounts payable to suppliers of HSBC France were EUR 65.5 million, of which 21 per cent with a due date less than 30 days.

At 31 December 2012, amounts payable to suppliers of HSBC France were EUR 104.4 million, of which 49.5 per cent with a due date less than 30 days.

Except for specific agreements with suppliers, payments are made within 45 days of invoice date.

Parent company financial statements (continued)

Five-year highlights

(Articles R. 225-81 and R. 225-102 of the French Commercial Code)

(in thousands of euros)	**2013**	2012	2011	2010	2009
Share capital at year end					
Called up share capital	**337,189**	337,189	337,189	337,189	337,189
Number of issued shares	**67,437,827**	67,437,827	67,437,827	67,347,820	67,437,820
Nominal value of shares in euros	**5**	5	5	5	5
Results of operations for the year					
Sales	**3,062,914**	3,263,800	3,316,395	3,402,924	4,304,312
Profit before tax, depreciation and provisions	**643,612**	799,099	146,388	873,707	949,898
Profit after tax, depreciation and provisions	**331,374**	601,190	26,504	819,731	550,167
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**7.9**	8.6	4.4	12.2	11.9
Profit after tax, depreciation and provisions	**4.9**	8.9	0.4	9.2	8.2
Dividend paid per ordinary share, eligible as of 1 January	**1.78**	3.56	1.75	10.67	9.94
Employees (France)					
Number of employees[1]	**9,198**	9,424	9,860	9,694	9,731
Average number of employees (excluding employees available)[2]	**9,207**	9,645	9,748	9,615	9,872
Salaries and wages	**553,982**	559,888	577,016	535,533	564,619
Employee benefits	**266,903**	289,322	244,808	247,908	252,768
Payroll and other taxes	**59,794**	62,784	72,650	96,763	63,502
Incentive schemes and/or employee profit-sharing scheme[3]	**37,520**	–	29,560	39,500	17,695

1 *Banking status employees, registered as at 31 December of each year.*
2 *Of which 6,202 executives and 3,005 non-executives in 2013; of which 6,402 executives and 3,243 non-executives in 2012; of which 6,322 executives and 3,426 non-executives in 2011; of which 6,116 executives and 3,499 non-executives in 2010; of which 6,067 executives and 3,805 non-executives in 2009.*
3 *Based on previous year's profits.*

List of equity shares and debt securities held at 31 December 2013 (excluding trading securities)

Held-on maturity, available-for-sale and portfolio activity securities

(in thousands of euros)

A – Held-to-maturity securities	**271,654**
Debt securities	**271,654**
Treasury bills and other eligible bills	–
Other public sector securities	–
Money market instruments	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Bonds and similar assets	271,314
Accrued interest	340
B – Available-for-sale and portfolio activity securities	**9,280,265**
Debt securities	**9,275,628**
Treasury bills and other eligible bills	1,112,450
Other public sector securities	5,510,299
Money market instruments	–
Commercial paper	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Asset-backed securities	–
Bonds and similar	2,568,024
Negotiable medium-term notes issued by banks	–
Accrued interest	84,855
Equity shares	**4,637**
Equity shares and similar	4,637
Mutual fund units	–
TOTAL HELD-TO-MATURITY, AVAILABLE-FOR-SALE AND PORTFOLIO ACTIVITY SECURITIES	**9,551,919**

Interests in related parties, other participating interests and long-term securities

(in thousands of euros)

A – Other participating interest and long-term securities	**95,137**
Securities listed on a recognized French exchange	711
Unlisted French securities	78,683
Foreign securities listed on a recognised French exchange	–
Foreign securities listed elsewhere	–
Unlisted foreign securities	15,743
Accrued income	–
B – Interests in related parties	**1,709,289**
Listed French securities	–
Unlisted French securities	1,692,214
Listed foreign securities	–
Unlisted foreign securities	17,075
Accrued income	–
TOTAL INTERESTS IN RELATED PARTIES, OTHER PARTICIPATING INTERESTS AND LONG-TERM SECURITIES	**1,804,426**

Parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2013

In accordance with the CNC opinion (*Avis no. 2009-11*) for the application of article L. 511-45 of the French Monetary and Financial Code, HSBC France does not hold direct or indirect investments in non cooperative countries or territories.

(in thousands of currency units)	Legal status	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
A – Information on companies whose book value at cost exceeds 1% of HSBC France's share capital					
1 – Subsidiaries (over 50%)					
HSBC SFH (France) (ex-HSBC Covered Bonds) . . . 15 rue Vernet – 75008 Paris (France))	Limited company (SA)	Financial company	EUR113,250	EUR546	100.00
HSBC Factoring (France) . . . . 103 avenue des Champs-Elysées 75008 Paris (France)	Limited company (SA)	Factoring	EUR9,240	EUR16,164	100.00
COPARI Société de Constructions et de Participations Immobilières. . . . . 184 avenue Frédéric & Irène Joliot-Curie 92000 Nanterre (France)	Simplified join-stock company (SAS)	Real estate	EUR50	EUR1,136	99.96
Société Française et Suisse . . . . 64 rue Galilée – 75008 Paris (France)	Limited company (SA)	Investment company	EUR599	EUR9,885	100.00
FDM 6 . . . . 39 rue Bassano – 75008 Paris (France)	Simplified join-stock company (SAS)	Portfolio company	EUR139,053	EUR5,402	100.00
SAPC UFIPRO Recouvrement . . . . 39 rue Bassano – 75008 Paris (France)	Limited liability company (SARL)	Debt collecting company	EUR7,619	EUR1,545	99.98
HSBC Epargne Entreprise (France) . . . . 15 rue Vernet – 75008 Paris (France)	Limited company (SA)	Employee savings	EUR16,000	EUR20,563	100.00
HSBC Global Asset Management (France) . . . . . . 4 place de la Pyramide – La Défense 9 92800 Puteaux (France)	Limited company (SA)	Asset management	EUR8,050	EUR69,104	93.67
HSBC Services (France) (ex-HSBC Securities) . . . 103 avenue des Champs-Elysées 75008 Paris (France)	Limited company (SA)	Commercial company	EUR12,626	EUR13,610	100.00
Valeurs Mobilières Elysées (ex-Nobel) . . . . 109 avenue des Champs-Elysées 75008 Paris (France)	Limited company (SA)	Investment company	EUR104,000	EUR47,805	100.00
SAF Palissandre . . . . 64 rue Galilée – 75008 Paris (France)	Simplified join-stock company (SAS)	Financial company	EUR42,033	EUR869	100.00

1 *Loans, advances and guarantees granted outside the framework of normal banking business.*
2 *Net operating income in the case of banks.*

Book value of securities held: Cost	Book value of securities held: Net	Loans and advances granted by HSBC France[1]	Guarantees given by HSBCFrance[1]	Last year's sales[2]	Last year's net profit or loss	Dividends received by HSBC France in the last financial year	Comments
EUR113,239	EUR113,239	–	–	EUR86,193	EUR518		–
EUR39,236	EUR39,236	EUR485,000	–	EUR33,140	EUR8,426	–	–
EUR36,370	EUR1,179	–	–	EUR4	EUR(6)	–	–
EUR60,384	EUR10,470	–	–	EUR3	EUR(22)	–	–
EUR128,916	EUR128,916	–	–	EUR8,137	EUR261	–	–
EUR16,260	EUR9,180	–	–	EUR26	EUR16	–	–
EUR15,148	EUR15,148	–	–	EUR10, 835	EUR(3,876)	–	–
EUR134, 546	EUR134, 546	–	–	EUR184,706	EUR15,187	EUR28,279	–
EUR55,988	EUR25,859	–	–	EUR52	EUR(405)	–	–
EUR168,099	EUR168,099	–	–	EUR7,742	EUR9,380	EUR2,990	–
EUR41,617	EUR41,617	–	–	–	EUR69	EUR1,599	–

Parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2013 (continued)

((in thousands of currency units)	Legal status	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
A – Information on companies whose book value at cost exceeds 1% of HSBC France's share capital					
1 – Subsidiaries (over 50%) (continued)					
HSBC Leasing (France) 39 rue Bassano – 75008 Paris (France)	Simplified join-stock company (SAS)	Leasing	EUR281,760	EUR(92,694)	100.00
Société Financière et Mobilière 103 avenue des Champs-Elysées 75008 Paris (France)	Limited company (SA)	Holding company	EUR40,000	EUR53,797	100.00
Foncière Elysées. 103 avenue des Champs-Elysées 75008 Paris (France)	Simplified join-stock company (SAS)	Real estate	EUR14,043	EUR22,076	100.00
Société Immobilière Malesherbes Anjou 103 avenue des Champs-Elysées 75008 Paris (France)	Limited company (SA)	Real estate	EUR13,412	EUR38,088	100.00
Charterhouse Management Services Ltd 8 Canada Square London E14 5HQ (United Kingdom)	Limited company under English law	Investment company	GBP10,000	GBP12,217	100.00
HSBC Real Estate Leasing (France) 15 rue Vernet – 75008 Paris (France)	Limited company (SA)	Financial company	EUR38,255	EUR34,817	80.98
CCF & Partners Asset Management Ltd 8 Canada Square London E14 5HQ (United Kingdom)	Limited company under English law	Investment holding	GBP5,997	GBP494	100.00
HSBC Assurances Vie (France) 15 rue Vernet – 75008 Paris (France)	Limited company (SA)	Insurance company	EUR115,000	EUR223,102	100.00
2 – Associated companies (10-50%)					
B – Aggregate data concerning companies whose book value at cost does not exceed 1% of HSBC France's share capital					
1 – Subsidiaries not included in paragraph 1					
a) French subsidiaries (aggregated)	–		–	–	–
b) Foreign subsidiaries (aggregated)	–		–	–	–
2 – Related party companies not included in paragraph 2					
a) French companies (aggregated)	–		–	–	–
b) Foreign companies (aggregated)	–		–	–	–

1 *Loans, advances and guarantees granted outside the framework of normal banking business.*
2 *Net operating income in the case of banks.*

Book value of securities held: Cost	Book value of securities held: Net	Loans and advances granted by HSBC France[1]	Guarantees given by HSBC France[1]	Last year's sales[2]	Last year's net profit or loss	Dividends received by HSBC France in the last financial year	Comments
EUR281,756	EUR281,756	–	–	EUR993	EUR(20,479)	–	–
EUR84,053	EUR84,053	–	–	EUR198	EUR85	EUR9,000	–
EUR44,478	EUR36,469	–	–	EUR213,609	EUR(386,307)	–	–
EUR49,385	EUR49,385	–	–	EUR11,790	EUR1,768	–	–
EUR11,995	EUR11,995	–	–	GBP34	GBP5	–	–
EUR37,190	EUR37,190	–	–	EUR153,584	EUR7,929	–	–
EUR5,080	EUR5,080	–	–	N/A	–	–	–
EUR513,985	EUR513,985	EUR270,000	–	EUR1,869,634	EUR47,118	–	
EUR50	EUR50	–	–	–	–	EUR337	–
EUR1,819	EUR1,285	–	–	–	–	–	–
–	–	–	–	–	–	–	–
EUR4	EUR4	–	–	–	–	–	–
–	–	–	–	–	–	–	–

Parent company financial statements (continued)

Transactions with subsidiaries and other related parties

(in millions of euros)	31.12.2013 Subsidiaries	Other related parties
ASSETS		
Loans and advances to banks	**2,968.3**	**5,822.5**
Loans and advances to customers	**91.5**	**237.4**
Bonds and other fixed income securities	**298.9**	**–**
LIABILITIES		
Due to credit institutions	**4,543.8**	**16,388.4**
Customer accounts	**596.5**	**125.4**
Debt securities	**–**	**–**
Subordinated liabilities	**–**	**–**
OFF-BALANCE SHEET ITEMS		
Financing commitments given	**1,313.2**	**1,648.0**
Guarantees and endorsements given	**128.5**	**299.6**
Securities commitments (other commitments given)	**0.9**	**6,635.3**

Notes to the parent company financial statements

Parent company financial statements (continued)

2013 Highlights

Business review
In France and in Europe, 2013 has met a weak economic growth with a notable drop in corporate investments in the economy.

HSBC France reported a profit before tax of EUR 444 million in 2013, compared with EUR 802 million the previous year.

At EUR 1,997 million, the net operating income was 14 per cent lower than in 2012. This change is mainly explained by a fall in both trading and available-for-sale portfolios as 2012 was more favourable to fixed income businesses. Besides, we note an overall good performance with more balanced revenues over the operational businesses than in 2012.

Operating expenses were well managed, stable at EUR 1,476 million, despite a rise in tax.

The cost of credit risk rose from EUR 52 million last year to EUR 87 million. In 2012, an important reversal had occurred in respect of country risk. Except for this exceptional item, the cost of risk dropped by 24 per cent despite a difficult situation, in particular for corporates.

Profit attributable to shareholders amounts to EUR 331 million. In respect of financial year 2013, an interim dividend of EUR 120 million was decided by the board of Directors on 19 November 2013 and no further dividend is going to be distributed.

On 13 December 2013, with the dual aim of aligning its capital structure with the structure of its business portfolio and optimising its capital allocation, HSBC France acquired the whole of HSBC Assurances Vie (France) from their common parent company HSBC Bank plc Paris Branch.

Single Supervisory Mechanism implementation
During the year 2013, with the aim of implementing the Single Supervisory Mechanism as of fall 2014, the European Central Bank decided to launch a “comprehensive assessment” exercise in respect of the balance sheet of the main banks of the eurozone. Within this framework, an Asset Quality Review will be undertaken during the first half of 2014 for HSBC France as of 31 December 2013 by the European Commercial Bank according to its own methodologies and regulatory objectives.

In this context, HSBC France maintained the application of its accounting rules and principles which remain unchanged compared to the previous year and are described in pages 220 to 229.

1 Principal accounting policies

The principles adopted are those set out in the regulations of the *Comité de la Réglementation Bancaire et Financière* (CRBF), those of the *Comité de la Réglementation Comptable* (CRC), the *Conseil National de la Comptabilité* (CNC) opinions and French *Autorité de contrôle prudentiel et de résolution* (ACPR) rulings. Transactions on which these various bodies have not given opinions are treated in accordance with generally accepted accounting principles in France.

The presentation of the HSBC France financial statements complies with the provisions of CRC regulation 2000-03, as amended relating to the individual financial reports of companies that are regulated by the *Comité de la Réglementation Bancaire et Financière*.

a *Recognition and depreciation/amortisation of fixed assets*

Since 1 January 2005, HSBC France applies CRC regulation 2002-10 of 12 December 2002 on the depreciation, amortisation and impairment of assets, as modified by CRC regulation 2003-07 of 12 December 2003.

This regulation makes the component approach mandatory in recognising, depreciating and amortising fixed assets. The details of the method are given in the French Urgent Issues Committee CNC opinion 2003-E of 9 July 2003.

Regarding recognition of the impact of first time adoption of the regulation, HSBC France opted for the prospective method of reallocating carrying amounts at 1 January 2005.

This method involves first breaking down the carrying amounts of fixed assets at 1 January 2005, among the new components that were identified, and then depreciating the carrying amounts thus calculated, less their residual values, over their remaining useful lives.

1 Principal accounting policies *(continued)*

Operating and investment fixed assets

For operating and investment fixed assets, HSBC France adopted the components approach as a minimum floor using the following components, methods and useful lives:

Components	Periods and depreciation and amortisation methods
Infrastructure	
Building	25 and 50 years on a straight-line basis
Civil engineering works	25 years on a straight-line basis
Technical installations	
Air conditioning Ventilation Heating	10 years on a straight-line basis
Electrical installations	10 years on a straight-line basis
Telephone and electrical fittings	10 years on a straight-line basis
Security fittings	10 years on a straight-line basis
Fittings	
Improvements and internal fittings	10 years on a straight-line basis

Fixed assets acquired on realising collateral on impaired lending facilities

The accounting treatment of repossessed fixed assets that came into HSBC France's ownership on default by debtors depends on whether the company plans to continue to hold them or not.

Properties that the bank intends to resell quickly are treated as inventories. As a result, they are not amortised, but impairment is recognised if necessary. They are recorded in the "Other Assets" account, with corresponding impairment appearing in miscellaneous impairment.

Fixed assets that are expected to be held long-term, and that the bank has leased, constitute non-operating fixed assets and are depreciated over the same periods as for operating fixed assets with similar characteristics. In compliance with instructions from the supervisory bodies, impairment is recognised when the market value of the non-operating properties falls below their carrying amount.

Goodwill

Purchased goodwill, if not made up of separately identifiable assets, is not amortised. Instead, impairment is recognised if necessary on the basis of objective indicators.

Other fixed assets

For other fixed assets, depreciation periods are determined according to the remaining useful lives of the assets concerned, which usually fall into the following brackets:

– office equipment: 5 years;

– furniture: 5 to 10 years;

– IT hardware: 3 to 5 years;

– software: 3 to 5 years.

Assets held under finance lease

The assets leased under the activity of leasing have a gross value of EUR 278.2 million, which corresponds to the input value of the goods plus expenses necessary for the implementation status of use of such property.

Depreciation is calculated using the straight-line method over the estimated useful life of the assets.

In accordance with French Urgent Issues Committee CNC Opinion n° 2006.C of 4 October 2006, CRC regulations 2002-10 and 2004-06 have not been applied to the assets leased.

The depreciation periods are as follows:

– furniture and office equipment: 5 years;

– computer equipment: 3 years;

– tools and equipment: 5 to 7 years.

Depreciation and amortisation of fixed assets leased under operating leases are recognised as an expense on finance lease or operating lease.

1 Principal accounting policies *(continued)*

In financial accounting, the financial contracts outstanding is substituted to net fixed assets leased. The difference between the outstanding amounts of financial assets and the net book value of fixed assets is represented by the unearned finance income. At 31 December 2013, the financial outstanding amounts to EUR 223.4 million (EUR 73.4 million in 2012) and the unearned finance income before deferred tax to EUR 13.8 million (EUR 4.0 million in 2012).

b *Securities portfolio*

In accordance with the provisions of CRC 90-01 as amended, securities are categorised as follows:

– trading account securities;

– available-for-sale securities;

– held-to-maturity securities;

– portfolio activity securities;

– other long-term securities;

– interests in subsidiaries and associates.

Trading account securities

Trading securities are securities that are tradable on a liquid market and which are originally acquired or sold with the intention that they should be resold or bought back within a short timescale.

Trading securities are stated at cost (including accrued interest for fixed-income securities). At the balance sheet date, the securities are valued at market price, and changes in value are recognised through profit or loss.

Trading securities are measured mainly on the basis of quoted prices in an active market. However, if a market becomes inactive, the bank uses measurement techniques based on observable market inputs. In this case, an element of judgement is involved in determining fair value.

Available-for-sale securities

Securities acquired for purposes of income but intended in principle to be resold within a relatively short timescale are recorded under the heading “Available-for-sale securities”.

On the date of acquisition, they are recorded at cost price (excluding accrued income for fixed-income securities).

At the closing of the period, available-for-sale securities are valued individually at the lowest of their cost price or market value. The market value of equity and similar securities is represented by quoted prices at 31 December for listed securities and by probable trading prices for unlisted securities. The market value of fixed-income securities is the quoted price on the last working day of the period.

Realised or unrealised gains or losses on hedging instruments are taken into account by instrument for the calculation of any impairment. Unrealised gains are not recognised. Unrealised losses give rise to the recognition of an impairment of the securities portfolio. Gains or losses on hedging instruments are taken into account for calculating the amount of the impairment.

Held-to-maturity securities

Fixed-income securities that were acquired for holding long-term, and in principle to maturity, are categorised as held-to-maturity securities.

Held-to-maturity securities are valued at historical cost, with the premium or discount amortised over their residual life. Impairment may, however, be charged in the event of counterparty risk.

Securities acquired for income or held for regulatory reasons in certain foreign subsidiaries are categorised as held-to-maturity securities.

Portfolio activity securities

This category regroups investments made under normal arrangements with the sole objective of making medium-term capital gains with no intention of investing long-term in the business of the issuing entity, nor of taking an active part in the management of its operations. This is particularly the case for securities held in venture capital businesses.

Portfolio activity securities are recognised individually at the lower of their historical cost or value-in-use, determined with regard to the issuer’s general prospects and the anticipated holding period.

The methods for assessing value-in-use are set out below.

1 Principal accounting policies *(continued)*

Other long-term securities

"Other long-term securities" are equity shares and similar securities that HSBC France intends to hold long-term to derive a satisfactory return within an undefined period of time, without however taking any part in managing the businesses in which the shares are held, but with the intention of fostering long-term business relationships by creating a special link with the issuing companies. These securities are recorded individually at the lowest of their acquisition value or their value-in-use.

The methods for assessing value-in-use are set out below.

Interests in subsidiaries and associates

The heading "Interests in subsidiaries and associates" regroups securities held long-term (equity interests) and holdings in subsidiaries (shares in group companies).

Interests in subsidiaries and associates are valued individually at the lowest of their cost and their value-in-use, as determined below.

The assessment of the value-in-use of portfolio activity securities, other long-term securities and interests in subsidiaries and associates is carried out using a comprehensive approach based on the combination of a number of criteria:

– economic and financial assessment of the company based mainly on the value of its revalued net assets;
– market appraisal based on research by financial analysts;
– movements in market prices for listed companies, and for interests in subsidiaries and associates consideration of the specific relationships that may exist between HSBC France and each of the companies involved.

Recognition of gains and losses

Gains or losses on trading securities are recorded under the heading "Dealing profits".

Gains or losses on sale and changes in impairment of available-for-sale securities are recorded under the heading "Gains or losses on available-for-sale securities".

Concerning the other securities, gains or losses on sale and impairment charges are recognised under the heading "Gains or losses on disposals of long-term investments" in the income statement, except for capital gains realised as part of restructuring operations, which are recognised as exceptional items.

Presentation of the portfolio in the published statements

The European Directive 86/635 as amended, aiming at harmonising the presentation and content of the annual accounts of all financial institutions within the European Union, did not recognise the concept of intention as a criterion for categorising portfolios. This breakdown is shown in Notes 4 and 5.

In the balance sheet, the portfolio is broken down according to the legal nature of instruments:

– treasury bills and other eligible bills: tradable securities issued by governments irrespective of type (treasury bills, bonds, etc.);
– bonds and other fixed-income securities: securities issued by the private sector or by public bodies, where these are not admitted to the central bank refinancing facilities of the country of issue;
– equities and similar securities, including portfolio activity securities;
– interests in subsidiaries and associates and other long-term securities;
– shares in group companies.

Sale and repurchase agreements

Stock lending or temporary acquisition, governed for legal purposes by law no. 93-1444 of 31 December 1993, amended by law no. 2003-1311 of 30 December 2003, referred to as stock repurchase agreements, have no effect on the composition and valuation of the securities portfolio. For accounting purposes, in accordance with article 5 of regulation 89-07, amended by regulation 94-05 of the CRBF, they are treated as financing transactions, with the counter-entries to cash movements being receivables or payables, depending on whether they involve stock lending or borrowing. Income and expenses received or borne by the transferee or transferor are recognised as interest.

Securities received or given under repurchase agreements

Repurchase transactions that do not fall within the scope of law no. 93-1444 are categorised under this heading in the balance sheet. Their treatment for accounting purposes is similar to that described above for securities under sale and repurchase agreements.

Similar treatment is applied to "Buy and sell back" transactions.

1 Principal accounting policies *(continued)*

Stock borrowed/lent against cash collateral

Stock borrowing/lending against cash collateral is similar, for accounting purposes, to repurchase agreements.

Off-balance sheet repos and reverse repos

In accordance with article 15 of CRB 90-01 regulation, repo transactions recorded in off-balance sheet between the trade date and the settlement/delivery date are now shown under “Securities Commitments”.

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c *Loans and advances*

Loans assessed individually

Non-performing and impaired loans

Non-performing loans include all types of receivables, even receivables with collateral, with a probable or certain risk of non-recovery, in full or in part.

Loans and receivables are classified according to HSBC France’s internal loan rating system. Performing loans have a rating of between 1 and 8, non-performing loans have a rating of 9 and impaired loans, including unrecoverable loans not yet written off, have a rating of 10. External ratings do not have a direct influence on loan classification, except that a loan whose external rating reflects a position of default will be classified as “non-performing” other than in exceptional circumstances.

The following are therefore categorised as non-performing loans:

– receivables overdue for more than three months for all types of loans and equipment leases, with this period rising to more than six months for property loans or leases and more than nine months for loans to local government bodies;
– receivables with known risk criteria;
– receivables which, before expiry of these time limits, appear to be at risk (insolvent administration, liquidation or personal bankruptcy, etc.);
– receivables deriving from debt restructuring for which the debtor is again in default.

HSBC France applies the provisions of CNC ruling 2007-06 on identifying overdrafts at risk of default. For overdrafts, the overdue period starts when:

– the debtor exceeds an authorised limit that has been notified to him by HSBC France;
– or the debtor is notified that the amount outstanding exceeds a limit set by HSBC France under its internal control system;
– or the debtor withdraws amounts without overdraft authorisation.

For lending granted to real estate industry borrowers, any categorisation to non-performing loans is decided upon, development by development, on the basis of criteria reflecting: project potential completion, the ability of shareholders/partners to provide the necessary equity, and also their financial standing.

The downgrade to non-performing loans immediately applies to all amounts outstanding and commitments for that debtor that are in the same category, on the contagion principle and, if applicable, the downgrade of counterparties belonging to the same group to non-performing debtors, on a case-by-case assessment.

In application of CRC regulation 2005-03 amending CRC 2002-03 on the accounting treatment of credit risk in entities covered by the French Banking and Financial Regulation Committee, HSBC France has introduced a specific system for dealing with restructured debt and impaired loans.

Impaired loans are those for which the prospect of recovery is very remote and for which a write-off is being considered. These include receivables which are long overdue or for which the contract has been terminated in case of leasing, and also receivables that have been categorised as non-performing for more than one year, unless final write off is not being considered because of information on the prospects for recovery available at that stage. Interests on impaired loans are not recognised through profit or loss until the date of actual payment.

Reclassification into performing loans

A loan that has been classified as non-performing may be reclassified as performing when the original scheduled payments have been resumed without further incident and, in the case of restructured loans, the counterparty risk has been eliminated.

1 Principal accounting policies *(continued)*

Risk mitigation instruments

The bank uses the customary risk mitigation instruments including guarantees and collateral (which is re-measured at least annually depending on its nature) and, to a minor extent, the purchase of credit default swaps (CDS). In this latter case, the risk mitigation impact is only recognised if the CDS meets the relevant regulatory conditions for recognition (term, currency, etc.).

Recognition of gains and losses

Charges for impairment against non-performing and impaired loans, included in the calculation of the banking result, are determined annually on the basis of the risk of non-recovery assessed by analysing each loan individually. Since 1 January 2005, impairment of non-performing and impaired loans has been calculated on the basis of the difference between the net present value of expected future recoveries and the carrying amount of the loan. Impairment may not be less than the amount of unpaid, recognised interest on the loan.

Expected future cash flows are determined on the basis of an individual review of the customer's position, including the existence or probability of a collective procedure against the customer, as well as the value and liquidity of any guarantees or collateral. The discount rate used is the original effective interest rate for fixed-rate loans and the last known contractual rate for variable-rate loans.

In the income statement, charges and releases of provisions, losses on irrecoverable receivables and recoveries on receivables that had been written off are recognised in the "Cost of risk" line.

Loans assessed on a portfolio basis

Non-performing loans are not measured on a portfolio basis and are individually assessed for impairment.

Discount on restructured debt

In application of CRC regulation 2002-03 as amended on the accounting treatment of credit risk in entities covered by the French Banking and Financial Regulation Committee, HSBC France applies a specific system for dealing with restructured debt, when they have a significant impact.

On restructuring, any waived principal and interest, accrued or due, is written off.

Moreover, at the time of restructuring, a discount is provided for on the restructured debt for the difference between the present value of initially anticipated contractual cash flows and the present value of future flows of capital and interest arising from the restructuring plan. The discount rate used is the original effective interest rate for fixed interest loans, or the most recent effective rate before the restructuring calculated in accordance with contractual terms for floating-rate loans.

This discount is recognised in the net cost of risk on restructuring and is then written back through net interest income over the remainder of the period that the debt has to run.

Application of the effective interest rate

HSBC France has applied the CRC ruling 2009-03 of 3 December 2009. HSBC France has recognised lending fees and costs on a time-apportioned basis, with effect to 1 January 2010.

d *Debt due to credit institutions and customer accounts*

All liabilities towards banks and customers are recognised at amortised cost. These headings include repurchase transactions. Accrued interest on these liabilities is recorded in the balance sheet in an accrued interest account.

e *Debt securities in issue*

Debt securities are classified according to their nature: certificates of deposit, interbank market securities, tradable debt securities, bonds and similar securities. This category does not include any subordinated securities, which are recorded under subordinated debt.

Accrued unpaid interest on these securities is recorded in the balance sheet in an accrued interest account with a corresponding amount recognised in profit or loss.

Issue or redemption premiums on bonds are amortised on an actuarial basis over the life of the bond. Issue expenses are deferred over the life of the bond on a straight-line basis.

Parent company financial statements (continued)

1 Principal accounting policies *(continued)*

f *Provisions*

In accordance with CRC 2000-06, provisions are registered where it is probable that an outflow of resources, without an at least equivalent inflow being expected from the beneficiary (whether known or not), will be required to extinguish a legal or implicit obligation arising from past events and where the amount of the obligation can be reliably estimated.

Provisions for country risk

Provisions for country risk are calculated on the basis of an internal impairment grid per country and per maturity of the asset, in line with IFRS requirements.

Retirement and other benefit liabilities

As of 1 January 2004, HSBC France has opted to adopt CNC recommendation 2003-R01 on the rules for recognising and measuring obligations for retirement and similar benefits.

HSBC France provides some of its employees with long term and post-employment benefits such as pension plans, termination payments and long-service medal.

The costs recognised for funding these defined-benefit plans are determined using the projected unit credit method, with annual actuarial valuations being performed on each plan.

Actuarial gains or losses are recognised through profit or loss.

The current service costs and any past service costs, together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities, are charged to operating expenses.

The net defined-benefit liability recognised in the balance sheet represents the present value of the defined-benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of the scheme's assets. Any resulting asset from this is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined-contribution plans and state-managed retirement benefit plans, where HSBC France's obligations under the plans are equivalent to a defined-contribution plan, are charged as an expense as they fall due.

Provisions for French PEL and CEL home ownership plans and accounts

CEL home ownership accounts and PEL home ownership plans are special financial instruments introduced by law no. 65-554 of 10 July 1965. They combine a savings phase and a lending phase which are inextricably linked, the lending phase being contingent to the savings phase.

In accordance with CNC regulation 2007-01 on the accounting treatment of CEL and PEL home ownership plans and accounts with banks and institutions authorised to receive home ownership funds and to grant home ownership loans, HSBC France has provided against the adverse consequences of PEL/CEL commitments in its individual company accounts.

PEL commitments are measured by series, without any offset between series. CEL commitments are considered as one single series, distinct from the PEL series.

Provisions for the adverse consequences of these commitments are calculated using a model which takes into account:

– an estimate of future customer savings and credit behaviour, based on historical data;
– the value of various market parameters, particularly interest rates and volatility, determined from data available at the date of assessment.

Provision for share-based payments

HSBC Group share plan

The HSBC Group share plan is a performance reward plan for retaining high-achieving employees.

HSBC France has not entered into any specific arrangements for share-based payments. It benefits from HSBC Holdings plc stock option plans (hereafter referred to as "HSBC share plans"), which set up awards of options and shares.

In 2005, the HSBC Group conducted an in-depth review of its policy for awarding options and shares to its employees. The new arrangements for free option and share plans were submitted to its Annual General Meeting in May 2005. These arrangements introduced a French sub-plan (Schedule 3 of the general rule), which respected the legal and tax regulations applicable in France. This regulation was revised in 2011 firstly, to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the "Group Performance Share Plan", for Senior Executives. In this context, the French sub-plan (Schedule 5 of the new rules) has also been subject to a review to comply with local social and tax rules.

1 Principal accounting policies *(continued)*

Since 2006, the HSBC Group set up free share award plans for certain employees, under which a fixed number of HSBC Holdings plc shares are awarded. The shares vest in the employees' ownership two or three years after they are awarded, conditional on continued employment within the HSBC Group.

No cover arrangements were put in place for the plans granted in 2009 and onwards by HSBC France. Delivery of the shares is therefore made by purchasing the shares on the market, at the plan expiry date at the latest.

In accordance with CRC regulation 2008-15:

– the expense is recognised on a straight-line basis over the vesting period with the counter-entry going to a provision account which is cleared on final employee vesting. The measurement of the expense is based on assumptions on the number of beneficiaries leaving and on performance conditions;

– the provision recognised is based on the closing quoted price of the HSBC Holdings plc stock.

HSBC Group share option plans

The HSBC Group Share Option Plan was a long-term incentive plan available to certain Group employees between 2000 and 2005. The aim of the plan was to raise awareness of the best-performing employees about value-creation objectives for shareholders. The options were awarded at market value and could normally be exercised from the third year and up to the tenth anniversary of being awarded, subject to vesting conditions.

HSBC Group share options without performance conditions were granted between 2001 and 2005 to certain HSBC Group employees.

Finally, share options with performance conditions were granted in 2005 under the HSBC Group Share Plan to Senior Executives in France. The award of these options is combined with a bonus to be paid at the exercise date of the options for an amount equal to the exercise price of the options awarded. These share options are subject to a double Corporate Performance Condition, which consists of an absolute Earnings Per Share measure and a Total Shareholder Return measure, based on the HSBC Group's ranking against a comparative group of 28 major banks. The options vest on expiry of a period of three years and can be exercised up to the fourth anniversary of the date of grant, after which they become void.

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g *Reserve for general banking risks*

No reserve for general banking risks is held in the accounts of HSBC France.

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h *Foreign exchange position*

With the exception of structural foreign exchange positions valued at historical cost, the asset and liability foreign exchange positions are restated at the exchange rates applicable at the period end. The resulting gains or losses are included in operating banking income or expenses.

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i *Forward foreign exchange contracts*

Forward exchange contracts that are open at the closing of the period and hedged with spot transactions are valued at the spot rate at the period end. Differences between spot and forward rates calculated on close out are recorded on a time-apportioned basis in the income statement. Outright forward exchange contracts and those hedged by forward instruments are restated at the rate for the remaining period.

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j *Financial derivatives*

The HSBC France group operates on all financial instruments markets, whether on behalf of its customers or for the purposes of hedging balance sheet items or for arbitration purposes.

The accounting principles applied vary according to the instruments and the intentions of the operators at the outset, either hedging or market operations. However, some general rules apply to all market positions. Other general rules are specific to certain instrument categories.

Interest-rate and currency options

Options are contracts entered into between two parties by which one, the buyer, is granted the right to buy or to sell an actual asset or another financial instrument called an "underlying asset" at the expiry of a certain time period, at a price agreed at the time the contract was concluded.

1 Principal accounting policies *(continued)*

Option contracts result in a premium being paid by the buyer to the seller.

HSBC France has interest rate and currency options.

The basic accounting treatment principles for these various products are identical.

On closing out the contract, the notional amount of the "underlying asset", which is the subject of the option, is recorded as an off-balance-sheet item.

For income and expenses, a distinction is made between contracts for hedging, contracts entered into for market operations or for arbitration purposes:

– the income and expenditure on hedging operations is reported symmetrically to the income and expenditure of the item being hedged;
– for market transactions, the positions are revalued at each period end. For transactions quoted on an organised market or similar within the meaning of CRBF regulation 88-02 as amended, changes in the value of positions are recognised through profit or loss, either by means of margin calls, or directly by means of a mathematical calculation where the options are not quoted.

Options on indexes or on equities

Transactions involving index and equity contracts are entered into for purposes of market operations: changes in the value of contracts that have not been closed out at the balance sheet date are recognised directly through profit or loss.

Interest-rate futures (tradable futures)

The accounting treatment is identical to that set out above for options, in compliance with ruling 94-04 as amended by ruling 2003-03 of the French Banking Commission.

Currency swaps and/or interest terms (swaps, FRAs)

In application of CRBF regulation 90-15 as amended, and the Ministry of the Economy, Finances and Industry decree of 20 February 2007, the contracts are recorded separately depending whether their purpose is to:

– hold stand-alone open positions to take advantage of any beneficial changes in interest rates;
– hedge, demonstrably from the outset, in accordance with the above-mentioned article 4 of CRBF regulation 88-02 as amended, interest-rate risk affecting an item or a group of similar items or credit risk in the case of Credit Default Swaps (CDS);
– hedge and manage the entity's overall interest rate risk on assets, liabilities and off-balance-sheet items;
– to provide for specialist investment management of trading portfolios (trading business).

On the accounting side, methodology varies depending on whether the transactions are for hedging or trading business purposes.

The gains or losses on asset or liability hedges are recognised in the appropriate accounting period, unless the items hedged are themselves stated at market value in the balance sheet. This is particularly the case for swaps entered into for purposes of asset-liability management of overall interest rate risk.

Gains or losses on positions managed as part of a trading swaps portfolio are valued at current value after allowing for a discount to reflect counterparty risk and future portfolio management expenses.

In market activities, the contracts negotiated by HSBC France are revalued at market conditions after the date of the trade; the corresponding commitments are shown as off-balance-sheet items between the trade date and the value date. As a general rule, that second date is the date the cash flows are swapped and then recognised in the ordinary way in the balance sheet.

The notionals are recorded as off-balance-sheet items, whether they are actually to be swapped or are simply to serve a benchmark.

Forward foreign exchange contracts that are not hedged through treasury operations are valued at market value, at the rate for the period remaining to run.

Counterparty risk on derivatives

Counterparty risk on derivatives is measured using the market price method in accordance with the decree of 20 February 2007 on capital requirements applicable to credit institutions and investment firms (see Title VI - Treatment of Counterparty Risk, Section 3 - Netting or Novation Mechanism, Chapter II - Market price valuation method, article 267).

1 Principal accounting policies *(continued)*

k *Recognition of income and expenses*

All income and expenses are time-apportioned to the appropriate accounting period, except for most commissions and dividends which are recognised when the right to receive them arises.

HSBC France chose the accounting option to align to the IFRS using for the determination of the market value of trading instruments, Bid prices for long positions and Ask prices for short positions. Some very specific derivatives, generally produced by combining several simple products, are measured by modelling using market data. However, their value always reflects the lower liquidity of these positions which, because of their specific features, could probably not be closed out at mid-spread prices.

The calculation of accrued interest recognised through profit or loss complies with the statutory rules for each instrument. Fixed-income securities, for example, are marked to market based on the coupon at the deal date through to that at the sale date. Interest is recognised for so long as the entity holds the instruments, that is from the purchase delivery date through to the sales delivery date. On the Paris market, for paper of this type, there is an interval of three days between the deal date and the delivery date.

l *Exceptional items*

Items which are generated by or derive from exceptional circumstances, and not from ordinary operations, are recognised as exceptional items.

Gains or losses on disposals of holdings in subsidiaries and associates are categorised through pre-tax profit on ordinary operations.

m *Deferred taxation*

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

n *Segment reporting*

This information is not available on the parent company accounts but details are given in the Notes to the consolidated financial statements.

o *Combating tax evasion and avoidance*

In compliance with CNC recommendation 2009-11 and the decree of 6 October 2009 on the application of article L. 511-45 of the French Financial and Monetary Code, HSBC France does not have a direct or indirect presence in any of the specified states or territories.

Parent company financial statements (continued)

2 Loans and advances to banks

(in millions of euros)	**31.12.2013**	31.12.2012
On demand deposits[1]	**21,505.9**	23,974.6
Term deposits	**20,383.9**	17,935.7
≤ 3 months	**13,914.5**	10,622.7
> 3 months and ≤ 1 year	**1,565.5**	2,708.7
> 1 year and ≤ 5 years	**4,436.2**	3,494.4
> 5 years	**467.7**	1,109.9
Accrued interest	**15.7**	14.5
Total	**41,905.5**	41,924.8
Of which securities received under repurchase agreements	***28,343.4***	*28,031.5*
Of which subordinated loans	***61.9***	*725.8*
Of which eligible loans for European Central Bank or Banque de France *refinancing*	–	–

1 *Including overnight stock lending.*

3 Customer loans

Outstanding at 31 December

Breakdown of outstanding loans by type

(in millions of euros)	**31.12.2013**	31.12.2012
Commercial loans	**166.4**	151.1
Ordinary accounts – debit balances	**1,423.9**	1,681.8
Other customer facilities[1]	**53,502.0**	50,973.7
Total	**55,092.3**	52,806.6
Of which eligible loans for European Central Bank or Banque de France *refinancing*	***15,475.0***	*10,015.4*
1 *Including unspecified term lending.*	***12.0***	*20.3*

Breakdown of outstanding loans by quality

	31.12.2013				31.12.2012
(in millions of euros)	***Performing loans***	***Non-performing loans***	***Impairment on non-performing loans***	***Total***	*Total*
Retail loans	**11,125.0**	**276.6**	**(86.7)**	**11,314.9**	9,606.7
Financial customer loans	**597.7**	**22.2**	**(4.1)**	**615.8**	358.2
Non-financial customer loans	**17,453.9**	**1 253.3**	**(521.2)**	**18,186.0**	19,091.7
Securities received under repurchase agreements	**24,896.7**	–	–	**24,896.7**	23,668.3
Accrued interest	**78.9**	–	–	**78.9**	81.7
Total	**54,152.2**	**1,552.1**	**(612.0)**	**55,092.3**	52,806.6
Of which subordinated loans				***8.6***	*55.0*
Of which gross non-performing loans				***778.4***	*649.1*
Of which gross impaired loans				***773.7***	*790.4*
Of which impairment on gross non-performing loans				***(124.7)***	*(148.1)*
Of which impairment on gross impaired loans				***(487.3)***	*(519.8)*
Of which restructured loans				***473.9***	*192.5*

3 Customer loans *(continued)*

Breakdown of outstanding loans by remaining contractual maturity

(in millions of euros)	**31.12.2013**	31.12.2012
Repayable on demand[1]	**9,223.7**	6,899.5
Term deposits	**45,789.7**	45,825.4
≤ 3 months	**18,566.1**	20,631.8
> 3 months and ≤ 1 year	**5,625.9**	5,515.1
> 1 year and ≤ 5 years	**11,112.9**	9,975.6
> 5 years	**10,484.8**	9,702.9
Accrued interest	**78.9**	81.7
Total	**55,092.3**	52,806.6

1 *Including overnight stock lending*

Breakdown by business sector

(in millions of euros)	**31.12.2013**	31.12.2012
Retail	**11,895.4**	10,231.8
Industrial	**1,519.5**	1,443.4
Commercial and Services	**8,063.2**	8,211.7
Real estate	**6,018.1**	6,332.8
Finance	**26,188.4**	25,109.6
Others	**1,407.7**	1,477.3
Total	**55,092.3**	52,806.6

Parent company financial statements (continued)

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities

(in millions of euros)	31.12.2013 *Carrying amount*	31.12.2012 *Carrying amount*
Treasury bills and other eligible bills	**33,261.4**	27,239.6
Trading account securities	**26,579.8**	21,848.3
Available-for-sale securities	**6,622.8**	5,347.7
Held-to-maturity securities	–	–
Accrued interest	**58.8**	43.6
Debt securities	**9,003.2**	7,494.9
Trading account securities	**6,136.9**	5,199.8
– bonds and other quoted securities	**6,136.9**	5,199.8
– unquoted bonds, interbank market securities and tradable debt securities	–	–
Available-for-sale securities	**2,568.6**	2,087.4
– quoted bonds	**2,568.6**	2,073.4
– unquoted bonds, interbank market securities and tradable debt securities	–	14.0
Held-to-maturity securities	**271.3**	184.2
– quoted bonds	**271.3**	184.2
– unquoted bonds, interbank market securities and tradable debt securities	–	–
Accrued interest	**26.4**	23.5
Of which subordinated debt	***304.2***	*208.2*
Equity shares and similar & portfolio equities	**4.6**	5.5
Trading account securities	–	–
– quoted shares	–	–
– unquoted shares and similar	–	–
Available-for-sale securities	–	0.6
– quoted shares	–	–
– unquoted shares and similar	–	0.6
Portfolio activity securities	**4.6**	4.9
– quoted portfolio activity shares	–	–
– unquoted portfolio activity shares	**4.6**	4.9
Total	**42,269.2**	34,740.0

Breakdown by remaining contractual maturity of treasury bills and government bonds

(in millions of euros)	31.12.2013	31.12.2012
Treasury bills and other eligible bills		
≤ 3 months	**1,716.5**	836.1
> 3 months and ≤ 1 year	**3,363.0**	4,111.4
> 1 year and ≤ 5 years	**11,137.5**	10,344.2
> 5 years	**16,985.6**	11,904.3
Accrued interest	**58.8**	43.6
Total	**33,261.4**	27,239.6
Debt securities		
≤ 3 months	**238.0**	142.2
> 3 months and ≤ 1 year	**809.3**	560.0
> 1 year and ≤ 5 years	**5,302.6**	4,573.6
> 5 years	**2,626.9**	2,195.6
Accrued interest	**26.4**	23.5
Total	**9,003.2**	7,494.9

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities *(continued)*

Estimated value of the portfolio of available-for-sale and portfolio business securities

(in millions of euros)	**31.12.2013** *Net carrying amount*	**31.12.2013** *Estimated value*	31.12.2012 *Net carrying amount*	31.12.2012 *Estimated value*
Treasury bills and other eligible bills	**6,622.8**	**7,010.6**	5,347.7	5,655.1
Debt securities	**2,568.6**	**2,633.4**	2,087.4	2,200.2
Equity shares and similar and other portfolio equities	**4.6**	**5.0**	5.5	5.8
Total available-for-sale and portfolio activity securities (excluding related receivables)	**9,196.0**	**9,649.0**	7,440.6	7,861.1

The available-for-sale securities portfolio is made up mainly of fixed income securities for which the interest-rate risk is usually hedged. The portfolio valuation rules are given in Note 1 b on pages 222 to 224.

Unrealised gains and losses in available-for-sale and portfolio business securities

(in millions of euros)	**31.12.2013** *Before provisions*	**31.12.2013** *Provisions*	**31.12.2013** *Net amount*
Unrealised gains in available-for-sale and portfolio business securities[1]	**453.9**	**3.4**	**457.3**
− treasury bills and other eligible bills	**389.4**	**1.1**	**390.5**
− bonds and other fixed-income securities	**64.1**	**2.3**	**66.4**
− equity shares and similar & portfolio equities	**0.4**	−	**0.4**
Unrealised losses in available-for-sale and portfolio business securities[1]	**9.1**	**5.6**	**3.5**
− treasury bills and other eligible bills	**2.8**	**0.3**	**2.5**
− bonds and other fixed-income securities	**2.7**	**1.7**	**1.0**
− equity shares and similar & portfolio equities	**3.6**	**3.6**	−

1 *Available derivatives of partners cover: EUR -396 million.*

Additional information on the securities given in compliance with Banking Regulation Committee regulation 90-01 of 23 February 1990

Total of held-to-maturity securities sold during the period

This information is not material.

Unamortised difference between the acquisition price and the redemption price of securities

The net premium of available-for-sale and held-to-maturity securities amounted to EUR 90.0 million in 2013 and to EUR 64.6 million in 2012.

Total of securities assigned to another portfolio

No security was transferred to another portfolio in 2013.

5 Investments in subsidiaries and equity securities held for long-term

(in millions of euros)	**31.12.2013** ***Net carrying amount***	31.12.2012 *Net carrying amount*
Interests in subsidiaries and associates	**84.6**	330.8
Listed securities	**0.7**	1.8
− banks	**–**	–
− others	**0.7**	1.8
Non-listed securities	**83.9**	329.0
− banks	**49.6**	49.7
− others	**34.3**	279.3
Other long-term securities	**10.5**	10.6
Listed securities	**–**	–
− banks	**–**	–
− others	**–**	–
Non-listed securities	**10.5**	10.6
− banks	**–**	–
− others	**10.5**	10.6
Interests in group companies	**1,709.3**	1,142.1
Listed securities	**–**	–
− banks	**–**	–
− others	**–**	–
Non-listed securities	**1,709.3**	1,142.1
− banks	**570.7**	512.1
− others	**1,138.6**	630.0
Accrued interests	**–**	–
Total (including the 1976 statutory revaluation)	**1,804.4**	1,483.5

(in millions of euros)	**31.12.2013**
Gross amounts at 1 January (excluding advances and accrued interests)	**1,629.5**
Changes in the year:	
− acquisitions of securities/share issues[1]	**572.5**
− disposals/capital reductions[2]	**(247.6)**
− effect of foreign exchange differences	**–**
− other movements/merger[3]	**(5.4)**
Gross amounts at 31 December (excluding advances and accrued interests)	**1,949.0**
Impairments at 1 January	**(145.9)**
Changes in the year:	
− new allowances	**–**
− release of allowances no longer required[4]	**1.8**
− other movements	**–**
− effect of foreign exchange differences	**(0.5)**
Impairment at 31 December	**(144.6)**
Accrued interests	**–**
Net book value including accrued interests	**1,804.4**

1 *Relate mainly to share capital increase for HSBC SFH (France) for EUR 58.5 million, as well as repurchase of HSBC Assurances Vie (France) for EUR 514.0 million.*
2 *Relate mainly to Lafarge Finance Ltd sale for EUR 245.1 million (GBP 200 million), shares sale of Robertet S.A. for EUR 1.1 million, liquidation of BMS Development for EUR 1.1 million and Irdi sale for EUR 0.3 million.*
3 *Relate mainly to the universal transfer of assets of Octogone Immobilier S.A. and Eurofin Capital Partners for EUR 5.4 million.*
4 *Relate mainly to the reversal of provision on BMS Development sale for EUR 1.1 million and the reversal of provision on Foncière Elysées for EUR 0.4 million.*

6 Intangible fixed assets

(in millions of euros)	31.12.2013	31.12.2012
Gross amounts at 1 January	**490.9**	485.4
Changes in the year:		
− transfers and other movements	**–**	–
− fixed asset acquisitions	**6.1**	7.4
− fixed asset disposals and other changes	**–**	(1.9)
Gross amounts value at 31 December	**497.0**	490.9
Amortisation at 1 January	**245.9**	240.1
Changes in the year:		
− charges for the period for amortisation and impairment	**7.0**	5.9
− transfers and other movements	**–**	–
− fixed asset sales, disposals and other changes	**(0.4)**	(0.1)
Amortisation at 31 December	**252.5**	245.9
Net book value of fixed assets at 31 December	**244.5**	245.0

According to 2004-01 CRC regulation, a goodwill, corresponding to the difference between the net current value shares of the merged company and the net asset value transferred, was recognised on the merger of HSBC Hervet with HSBC France in 2008 and on the merger of HSBC Private Bank France with HSBC France in 2011.

Goodwill on merger is written back through profit or loss as the assets to which it was attributed are realised.

Goodwill on merger is considered to be impaired when the current value of one or more underlying assets, to which a portion of it was attributed, falls below the carrying amount of the asset(s) plus the attributed goodwill. The current value is the higher of the market value and the value-in-use (see article 322–1 of CRC regulation 99-03 as amended by regulation 02-10).

Concerning HSBC Hervet

The goodwill on merger, amounting initially to EUR 139.5 million, was attributed proportionately to the unrealised gains (net of tax), without being reflected in the accounting records, to the following items:

(in millions of euros)	
The unrealised gain on the Baecque Beau HSBC securities	**47.7**
Unrealised gains in fixed assets	**9.6**
Unrealised gains in securities	**0.2**
Purchased goodwill (no attribution)	**82.0**
Total	**139.5**

At the end of 2013, following the realisation of part of the assets (mainly the merger of HSBC de Baecque Beau with HSBC France in 2008), and in the absence of depreciation, the goodwill on merger stood at EUR 89.5 million.

Concerning HSBC Private Bank France

At the end of 2013, the goodwill on merger, amounting to EUR 72.0 million, is fully attributed to purchased goodwill.

7 Tangible fixed assets

(in millions of euros)	31.12.2013	31.12.2012
Gross amounts at 1 January	**755.9**	707.0
Changes in the year:		
− transfers and other movements	**(0.1)**	–
− fixed asset acquisitions	**27.8**	77.6
− fixed asset disposals and other changes	**(1.3)**	(28.7)
Carrying amount at 31 December	**782.3**	755.9
Depreciation at 1 January	**512.3**	492.8
Changes in the year:		
− charges for the period for depreciation and impairment	**46.8**	44.9
− transfers and other movements	**–**	(6.5)
− fixed asset disposals and other changes	**(1.0)**	(18.9)
Depreciation at 31 December	**558.1**	512.3
Carrying amount at 31 December	**224.2**	243.6

Breakdown of tangible fixed assets by type

(in millions of euros)	31.12.2013	31.12.2012
Operating land and buildings	**12.5**	13.5
Non-operating land and buildings	**0.8**	0.7
Other tangible assets	**210.9**	229.4
Carrying amount at 31 December	**224.2**	243.6

Leasing and renting with buy option[1]

(in millions of euros)	31.12.2013	31.12.2012
Assets under construction	**0.3**	0.7
Gross values[2]	**278.2**	81.3
Amortisation	**(40.9)**	(4.7)
Related loans	**–**	–
Total	**237.6**	77.3

1 *In 2012 launch of the leasing activity for Commercial Banking customers.*
2 *Main financed assets in 2013: road assets for EUR 126.9 million, public buildings and construction for EUR 33.3 million, machine tools EUR for 20.7 million.*

8 Loan impairment

(in millions of euros)	*Balance at 31.12.2012*	*Charges*	*Utilised releases*	*Available releases*	*Other changes*	***Balance at 31.12.2013***
Impairment on interbank and customer non-performing loans (excluding doubtful interest)	667.6	141.2	(106.1)	(81.9)	(8.5)[1]	**612.3**
Impairment on securities	4.3	9.4	–	–	–	**13.7**
Provisions for commitments by signature	19.9	3.2	(0.5)	(0.6)	(18.0)[2]	**4.0**
Total of impairment and provisions recognised in cost of risk	691.8	153.8	(106.6)	(82.5)	(26.5)	**630.0**

1 *Of which discounting effect on impaired loans recognised in net operating income* .... *(8.4)*
Of which effect on exchange rate variation .... *(0.1)*
2 *Since 1 January 2013, provisions for litigation are recognised as general operating expenses in profit and loss accounts.*

8 Loan impairment *(continued)*

Loan impairment

(in millions of euros)	**31.12.2013**	31.12.2012
Net impairment charge for the period:		
− interbank and customer non-performing and impaired receivables (excluding doubtful interest)[1]	**(77.9)**	(111.3)
− counterparty risk on securities	**(9.4)**	−
− commitments by issuer[2]	**(2.1)**	(16.2)
− recoveries of amounts previously written off	**2.4**	13.6
Total cost of risk excluding country risk	**(87.0)**	(113.9)
Country risk	**0.1**	62.4
Total cost of risk[3]	**(86.9)**	(51.5)

1 *Of which unprovided losses on non-performing and impaired receivables.*	***(18.8)***	*(23.1)*
2 *Of which unprovided losses*	***(0.1)***	*(5.0)*
3 *Of which losses hedged by provisions*	***(106.6)***	*(93.9)*

9 Other assets

(in millions of euros)	**31.12.2013**	31.12.2012
Securities transactions settlement accounts	**99**	226
Sundry debtors and other receivables	**22,349**	28,325
Total	**22,448**	28,551

10 Prepayments and accrued income

(in millions of euros)	**31.12.2013**	31.12.2012
Items in course of collection from other banks	**602**	809
Other prepayments and accrued assets[1]	**118,495**	171,059
Total	**119,097**	171,868

1 *Including mark-to-market on derivatives instruments for EUR 114,176 million in 2013 and EUR 164,758 million in 2012.*

11 Treasury and interbank transactions

Deposits by banks

(in millions of euros)	**31.12.2013**	31.12.2012
On demand deposits	**8,994.4**	9,411.4
Term deposits	**29,869.8**	31,645.9
≤ 3 months	**22,194.6**	20,584.0
> 3 months and ≤ 1 year	**3,339.8**	3,544.9
> 1 year and ≤ 5 years	**1,892.5**	7,155.7
> 5 years	**2,442.9**	361.3
Accrued interest	**68.8**	104.5
Total	**38,933.0**	41,161.8
Of which securities given under repurchase agreements	***30,999.5***	*28,923.3*

Parent company financial statements (continued)

12 Customer accounts

Outstanding at 31 December

Breakdown of customer credit balances by type of deposit

(in millions of euros)	**31.12.2013**	31.12.2012
On demand deposits	**17,873.7**	16,756.3
Special demand accounts	**7,338.4**	7,327.8
Special term accounts	**667.9**	713.4
Term accounts	**7,679.0**	5,806.2
Total customer deposits (excluding repurchase agreements)	**33,559.0**	30,603.7
Securities given under repurchase agreements	**29,602.5**	21,495.4
Accrued interest	**21.5**	139.1
Total customer credit balance accounts	**63,183.0**	52,238.2

Breakdown of customer credit balances by remaining contractual maturities

(in millions of euros)	**31.12.2013**	31.12.2012
On demand deposits	**32,737.2**	35,540.0
Term deposits	**30,424.3**	16,559.1
≤ 3 months	**17,822.8**	14,527.7
> 3 months and ≤ 1 year	**12,330.6**	1,777.6
> 1 year and ≤ 5 years	**212.8**	202.3
> 5 years	**58.1**	51.5
Accrued interest	**21.5**	139.1
Total	**63,183.0**	52,238.2

13 Bonds and other fixed income securities

(in millions of euros)	**31.12.2013**	31.12.2012
Certificates of deposit (including accrued interest)	**–**	–
Interbank market securities and tradable debt securities	**7,481**	6,385
Bonds	**6,868**	8,784
Accrued interest	**93**	122
Total	**14,442**	15,291

Breakdown of debt securities by maturity

(in millions of euros)	**31.12.2013**	31.12.2012
Debt securities	**14,349**	15,169
≤ 3 months	**6,631**	5,752
> 3 months and ≤ 1 year	**2,894**	3,651
> 1 year and ≤ 5 years	**2,682**	4,571
> 5 years	**2,142**	1,195
Accrued interest	**93**	122
Total	**14,442**	15,291

Issuances yet to be paid off stood at EUR 11.7 million at 31 December 2013, and EUR 3.1 million at 31 December 2012.

14 Provisions

(in millions of euros)	*Balance at 31.12.2012*	***Charges***	***Release for write off***	***Available releases***	***Other movements***	***Balance at 31.12.2013***
Provisions for commitments by signature and disputes	19.9	**76.3**	**(2.5)**	**(1.1)**	**(0.1)**	**92.5**
Other provisions[1]	302.5	**89.7**	**(66.1)**	**(33.0)**	**5.6**	**298.7**
Total	322.4	**166.0**	**(68.6)**	**(34.1)**	**5.5**	**391.2**

1 *Including employee benefits provision (see Note 20 "Pensions and post-employment benefits") and share-based payment provision.*

Provision on PEL/CEL home ownership products

	31.12.2013				
	PEL				**CEL**
(in millions of euros)	***≤ 4 years***	***> 4 years and ≤ 10 years***	***> 10 years***	***Total***	
Amounts collected	**51.3**	**141.2**	**463.0**	**655.5**	**114.2**
Outstandings collected	**0.3**	**1.4**	**1.7**	**3.4**	**10.0**
Provisions	**(0.6)**	**(1.3)**	**(6.3)**	**(8.2)**	**(0.9)**
Allocation to provisions/reversal	**(0.6)**	**3.1**	**1.1**	**3.6**	**(0.5)**

15 Other liabilities

(in millions of euros)	**31.12.2013**	31.12.2012
Securities transactions settlement accounts	**7**	33
Sundry creditors[1]	**8,897**	12,541
Short position and securities received under repurchase agreements confirmed resold	**36,787**	33,515
Total	**45,691**	46,089

1 *Of which deposits on derivatives received in 2013: EUR 8,686 million and in 2012 EUR 12,351 million.*

16 Accruals and deferred income

(in millions of euros)	**31.12.2013**	31.12.2012
Items in course of collection from other banks	**522**	702
Accruals and deferred income[1]	**115,839**	172,101
Total	**116,361**	172,803

1 *Including mark-to-market on derivatives instruments for EUR 111,782 million in 2013 and EUR 165,276 million in 2012.*

Parent company financial statements (continued)

17 Subordinated debt

(in millions of euros)	**31.12.2013**	31.12.2012
Subordinated notes	**15.0**[1]	165.0
Undated subordinated notes	**16.2**	16.2
Accrued interest	**0.2**	0.2
Total	**31.4**	181.4

1 *Early redemption (see details below).*

Securities issued by HSBC France

Subordinated securities issued by HSBC France, in euros and other currencies, are liabilities which, in the event of liquidation, will only be repaid after the interests of other creditors have been extinguished but before repayment of the holders of participating securities or equity.

Redeemable subordinated securities

(in millions of euros)	Date of issue	Date of maturity	Interest type	Currency of issue	**31.12.2013**	31.12.2012
Redeemable subordinated securities	25.03.2004	25.03.2014	Floating rate	EUR	**–**	150.0
Redeemable subordinated securities	15.12.2000	15.12.2015	Floating rate	EUR	**15.0**	15.0
Accrued interest					**–**	0.2
Total for securities issued by HSBC France (including accrued interest)					**15.0**	165.2

Participating securities: undated subordinated securities and debt

(in millions of euros)	Date of issue	Nominal rate	Issue currency	**31.12.2013**	31.12.2012
Undated subordinated securities	22.07.1985	Effective monthly rate – 0.25	FRF	**16.2**	16.2
Accrued interest				**0.2**	–
Total (including accrued interest)				**16.4**	16.2

18 Share capital

(shares of 5 euros)	**31.12.2013** Number of shares	**31.12.2013** Total (in thousands of euros)	31.12.2012 Number of shares	31.12.2012 Total (in thousands of euros)
At 1 January	**67,437,827**	**337,189**	67,437,827	337,189
– subscription options exercised	**–**	**–**	–	–
– new capital issued – merger	**–**	**–**	–	–
– reduction of capital	**–**	**–**	–	–
At 31 December	**67,437,827**	**337,189**	67,437,827	337,189

Voting rights

At 31 December 2013, the total of voting rights stood at 67,437,827; shares with double voting rights disappeared with the tender offer and the minority buyout launched by HSBC Holdings plc in 2000.

19 Equity

(in millions of euros)	**31.12.2013** *Before appropriation of profit*	**31.12.2013** *After appropriation of profit*	31.12.2012 *Before appropriation of profit*	31.12.2012 *After appropriation of profit*
Called-up share capital	**337.2**	**337.2**	337.2	337.2
Share premium account	**16.1**	**16.1**	16.1	16.1
Reserves	**1,043.0**	**1,043.0**	1,047.6	1,047.6
− legal reserve	**38.1**	**38.1**	38.1	38.1
− long-term gains reserve	**405.5**	**405.5**	405.5	405.5
− revaluation reserve	**5.0**	**5.0**	5.2	5.2
− extraordinary and other reserve	**304.8**	**304.8**	304.7	304.7
− free reserve	**294.1**	**294.1**	294.1	294.1
− revaluation reserve on past service costs	**(4.5)**	**(4.5)**	–	–
Retained earnings	**3,146.6**	**3,358.0**	2,785.5	3,146.6
Interim dividend	**(120.0)**	**–**	(240.1)	–
Special tax-allowable reserves	**20.1**	**20.1**	26.2	26.2
Net profit for the year	**331.4**	**–**	601.2	–
Equity	**4,774.4**	**4,774.4**	4,573.7	4,573.7

Changes in equity in 2013

(in millions of euros)	**2013**
Balance at 1 January	**4,573.7**
Net Profit for the year	**331.4**
New shares issued upon exercise of stock options	**–**
Reduction of capital	**–**
Interim dividend	**(120.0)**
Others[1]	**(10.7)**
Balance at 31 December	**4,774.4**

1 *Changes connected with regulated provisions and retained earnings of past service costs' stock noting for EUR -4.5 million.*

Legal reserve

This reserve is built up by appropriating at least one-twentieth of the year's profit. This appropriation ceases to be mandatory once this reserve reaches one-tenth of share capital. It is not distributable.

Net long-term gains reserve

Distributing this reserve would lead to an additional tax charge equal to the difference between standard tax rate and reduced tax rate.

Revaluation reserve (1976 revaluation)

This reserve could be incorporated into capital, but it cannot be distributed or used to offset losses.

Other reserves

Amounts put into reserves over five years ago would be subject to a levy if they were to be distributed.

For distributions paid on or after 1 January 2000, HSBC France can charge the dividends against profits liable to corporate income tax for accounting periods ended at most five years ago, starting with the oldest, in application of the decree of 21 December 1999.

20 Pensions, post-employment benefits

(in millions of euros)	**31.12.2013**	31.12.2012
Provision for employee-related commitments[1]	**156.9**	149.5

1 *Including defined benefits pension plans for Executive Directors for EUR 5.3 million in 2013 and for EUR 4.8 million in 2012.*

Principal actuarial assumptions of the post-employment defined benefit plans

The main actuarial assumptions used for measuring pension plan commitments and post-employment healthcare benefits, which serve as the basis for calculating the expense for the relevant accounting periods, are as follows:

(in %)	*Discount rate*	*Expected rate of return on plan assets*	*Inflation assumption*	*Rate of increase for pensions in payment and deferred pensions*	*Rate of pay increase*	*Mortality rate*
At 31 December 2013	**3.00**	**3.00**[1]	**2.00**	**2.00**	**3.00**	–[2]
At 31 December 2012	2.75	3.50[1]	2.00	2.00	3.00	–[2]

1 *Expected rate of return on bonds.*
2 *HSBC France uses "mortality tables TV88-90" for retirement compensation and long-service awards and TGH/TGF05 for pension obligations.*

HSBC France determines discount rates in consultation with its actuaries based on the current average yield of high quality (AA-rated) debt instruments, with maturities consistent with that of the pension obligation. The expected rate of return on plan assets is determined in consultation with HSBC's actuaries, based on historical market returns, adjusted for additional factors such as the current rate of inflation and interest rates.

Provision recognised

(in millions of euros)	**31.12.2013**	31.12.2012
Present value of benefit obligations	**168.6**	161.4
Fair value of plan assets	**(11.7)**	(11.9)
Net liability recognised	**156.9**	149.5

21 Off-balance-sheet items

(in millions of euros)	**31.12.2013**	31.12.2012
A − Loan commitments		
Commitments given	**21,619**	18,764
Refinancing agreements and other financing commitments in favour of banks	**2,323**	2,094
In favour of customers	**19,296**	16,670
− confirmed credit facilities	**19,249**	16,611
− acceptances payable and similar instruments	**47**	59
Commitments received	**5,426**	360
Refinancing agreements and other financing commitments in favour of banks	**5,426**	360
B − Guarantee commitments		
Commitments given	**4,372**	4,586
Guarantees, acceptances and other security to banks	**1,093**	1,159
Guarantees, acceptances and other securities to customers	**3,279**	3,427
Commitments received	**10,064**	7,819
Guarantees, acceptances and other security from banks	**10,064**	7,819

Loans pledged for Covered Bonds issues

(in millions of euros)	**31.12.2013**
Covered bonds	**5,895**
Loans pledged on guarantee 3G and TRICP	**4,103**
Loans pledged on guarantee CCBM	**5,477**
Securities pledged on guarantee	**2,561**
Total	**18,036**

Parent company financial statements (continued)

22 Derivatives

Exchanges rate contracts

(in billions of euros)	**31.12.2013**				31.12.2012			
	Fair value 31.12.2013	***Hedging contracts***[1]	***Trading contracts***[1]	***Total***[1]	*Fair value 31.12.2012*	*Hedging contracts*[1]	*Trading contracts*[1]	*Total*[1]
Unconditional transactions	**(7.4)**	**5.9**	**5,417.0**	**5,422.9**	(5.5)	5.5	4,436.5	4,442.0
Exchange traded	**–**	**–**	**132.6**	**132.6**	–	–	93.0	93.0
– interest rate	–	–	**132.6**	**132.6**	–	–	93.0	93.0
– exchange rate	–	–	–	–	–	–	–	–
– equity	–	–	–	–	–	–	–	–
Non-exchange traded	**(7.4)**	**5.9**	**5,284.4**	**5,290.3**	(5.5)	5.5	4,343.5	4,349.0
– futures	–	–	**338.6**	**338.6**	–	–	403.2	403.2
– interest rate	**(2.6)**	**0.3**	**4,775.0**	**4,775.3**	0.3	0.6	3,758.5	3,759.1
– exchange rate	**(5.1)**	**0.2**	**50.2**	**50.4**	(6.1)	0.1	53.7	53.8
– other contracts	**0.3**	**5.4**	**120.6**	**126.0**	0.3	4.8	128.1	132.9
Conditional transactions	**(1.6)**	**0.6**	**486.4**	**487.0**	(3.7)	0.4	492.8	493.2
Exchange traded	**–**	**–**	**35.0**	**35.0**	–	–	40.1	40.1
Interest rate	–	–	**4.3**	**4.3**	–	–	3.8	3.8
Exchange rate	–	–	**30.7**	**30.7**	–	–	36.3	36.3
Other contracts	–	–	–	–	–	–	–	–
Non-exchange traded	**(1.6)**	**0.6**	**451.4**	**452.0**	(3.7)	0.4	452.7	453.1
Caps and floors	**–**	**0.1**	**140.5**	**140.6**	–	0.3	166.2	166.5
Swaptions and options	**(1.6)**				(3.7)			
– bought		**0.5**	**70.6**	**71.1**		0.1	137.6	137.7
– sold		–	**240.3**	**240.3**		–	148.9	148.9
Total derivatives		**6.5**	**5,903.4**	**5,909.9**		5.9	4,929.3	4,935.2

1 *Notional contract amounts.*

22 Derivatives *(continued)*

Other information on derivatives

(in billions of euros)	**31.12.2013**	31.12.2012
Microhedge contract	**0.3**	0.6
Macrohedge contract	**–**	–
Trading	**4,775.0**	3,758.5
Other	**–**	–

Derivatives: maturity analysis

	31.12.2013			
(in billions of euros)	*≤ 1 year*	*> 1 year and ≤ 5 years*	*> 5 years*	*Total*
Derivatives:				
Exchange contracts	**10.1**	**32.1**	**13.2**	**55.4**
Interest rate contracts	**1,562.4**	**2,360.3**	**1,806.5**	**5,729.2**
Others	**124.7**	**0.6**	–	**125.3**
Total	**1,697.2**	**2,393.0**	**1,819.7**	**5,909.9**

Risk-weighted assets – Amount of Exposure At Default (EAD) for derivatives contracts

(in millions of euros)	**31.12.2013**	31.12.2012
A – Contracts concluded under Master agreement with close-out netting	**5,383.0**	4,841.6
1. Transactions with banks from OECD countries	**5,335.2**	4,841.1
2. Transactions with customers and banks localised outside OECD countries	**47.8**	0.5
B – Other contracts	**448.1**	475.4
1. Transactions with banks from OECD countries	**409.9**	474.8
− interest rate contracts	**350.7**	416.8
− exchange contracts	**59.2**	58.0
− equity derivatives contracts	**–**	–
− commodities contracts	**–**	–
2. Transactions with customers and banks localised outside OECD countries	**38.2**	0.6
− interest rate contracts	**32.3**	–
− exchange contracts	**5.9**	0.6
− equity derivatives contracts	**–**	–
Total Exposure At Default	**5,831.1**	5,317.0
Corresponding risk-weighted assets (RWA)	***1,639.0***	*1,063.7*

Clearing effect on Exposure At Default

(in millions of euros)	**31.12.2013**
Original exposure before credit risk mitigation (including close-out-netting)	**69,364.6**
Exposure mitigation due to the close-out-netting	**(55,663.2)**
Exposure mitigation due to credit mitigation	**(7,870.3)**
Exposure value after credit risk mitigation (including close-out-netting)	**5,831.1**

Parent company financial statements (continued)

23 Net interest income

(in millions of euros)	31.12.2013	31.12.2012
Interest and similar income		
Banks and financial institutions	**231.5**	250.6
Customers	**970.5**	1,087.5
Bonds and other fixed-income securities	**629.3**	136.1
Total	**1,831.3**	1,474.2
Interest and similar expenses		
Banks and financial institutions	**299.8**	207.2
Customers	**170.8**	344.9
Subordinated liabilities	**1.9**	3.1
Other bonds and fixed-income securities	**368.6**	185.0
Total	**841.1**	740.2

24 Fixed-income securities

(in millions of euros)	31.12.2013	31.12.2012
Income		
Available-for-sale and similar & portfolio activity securities	**–**	–
Interests in subsidiaries and associates and other long-term securities	**–**	0.1
Interests in group companies	**45.3**	142.8
Total	**45.3**	142.9

25 Breakdown of fees

(in millions of euros)	31.12.2013	31.12.2012
Fees		
Income	**776.2**	794.7
On transactions with banks	**4.4**	3.8
On transactions with customers	**109.8**	109.7
On foreign exchange transactions	**2.5**	2.8
On primary securities market activities	**42.6**	37.9
On provision of services for third parties	**451.1**	470.4
On commitments	**114.9**	124.4
Other commission	**50.9**	45.7
Expenses	**(187.1)**	(197.4)
On transactions with banks	**(9.2)**	(6.6)
On corporate actions	**(23.7)**	(21.2)
On forward financial instrument activities	**(12.3)**	(9.8)
On provision of services for third parties	**(129.3)**	(142.1)
On commitments	**(5.5)**	(12.7)
Other commission	**(7.1)**	(5.0)
Total fees	**589.1**	597.3

26 Gains and losses on portfolio business transactions

(in millions of euros)	**31.12.2013**	31.12.2012
Gains or losses		
Trading securities	**(251.1)**	427.8
Foreign exchange transactions	**71.4**	82.1
Forward financial instruments	**526.4**	29.7
Total	**346.7**	539.6

27 Gains or losses on available-for-sale securities

(in millions of euros)	**31.12.2013**	31.12.2012
Results for available-for-sale securities		
Gains or losses	**5.9**	190.6
Impairment	**4.7**	104.7
– charges	**(3.0)**	(4.5)
– releases	**7.7**	109.2
Results for portfolio activity securities		
Gains or losses	**(0.6)**	4.9
Impairment	**0.9**	(1.0)
– charges	**(0.5)**	(1.1)
– releases	**1.4**	0.1
Total	**10.9**	299.2

28 General operating expenses

(in millions of euros)	**31.12.2013**	31.12.2012
Employee compensation and benefits		
Salaries and wages, social security, taxes and levies on compensation[1]	**(784.8)**	(813.7)
Pension expenses	**(95.9)**	(98.3)
Profit sharing	**(9.9)**	(7.3)
Incentive plan	**(20.0)**	(26.3)
Compensation expenses subtotal	**(910.6)**	(945.6)
Other administrative expenses	**(511.7)**	(478.9)
Total operating expenses	**(1,422.3)**	(1,424.5)

1 *Including EUR 14.8 million for Executive Committee compensation and EUR 0.3 million in Directors' fees paid to Directors for 2013 and EUR 15.7 million for Executive Committee compensation and EUR 0.4 million in Directors' fees paid to Directors for 2012.*

Share award plans

Allowance was 50 per cent released for the 2010 plan, 66 per cent released for the 2011 plan and 33 per cent released for the 2012 English sub-plan against shares attribution for EUR 42.8 million.

Regarding the ongoing plans, the final charge for HSBC France is not yet known as the attributed shares were not bought by the Trust.

The allowance defined is hence accounted on a linear basis on the employees' grant acquisition period based on the quoted price as at 31 December 2013.

At 31 December 2013, allowance stood at EUR 8.0 million for the 2011 plan, at EUR 8.1 million for the 2012 plan and at EUR 5.8 million for the 2013 plan.

28 General operating expenses *(continued)*

2014 share award plan

The allowance defined is hence accounted on a linear basis on the employees' grant acquisition period based on awarding hypothesis.

At 31 December 2013, allowance stood at EUR 3.8 million.

29 Gains or losses on disposals of fixed assets

(in millions of euros)	**31.12.2013**	31.12.2012
Gains or losses on held-to-maturity securities	**–**	–
Gains or losses on tangible and intangible fixed assets[1]	**2.6**	9.4
Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies[2]	**7.4**	5.7
Total	**10.0**	15.1

1 *In 2013, gains on disposal of Jussieu branch for EUR 1.4 million and Saint Raphaël branch for EUR 1.0 million. In 2012, gains on disposal of 95 rue Réaumur, 75002 Paris for EUR 9.1 million. Gains on intangible fixed assets stood at EUR 2.6 million in 2013 and EUR 9.4 million in 2012.*

2 *In 2013, gains on disposal of Robertet S.A. shares for EUR 2.7 million, gains on disposal of Lafarge Finance Ltd shares for EUR 1.0 million, gains on disposal of Eurofin Capital Partners shares for EUR 0.9 million, remainder of sale's price of Louvre Gestion International shares in 2011 for EUR 1.5 million, reversal of provisions on investments in subsidiaries and associates for EUR 0.6 million and various gains on disposal of shares for EUR 0.6 million. In 2012, mainly a provision complement for HSBC Services (France) for EUR 1.7 million.*

30 Corporate income tax

(in millions of euros)	**31.12.2013**	31.12.2012
Current tax		
At standard rate	**(112.8)**	(116.6)
At reduced rate	**–**	–
Deferred taxation	**(6.1)**	(91.1)
Total	**(118.9)**	(207.7)

Deferred tax is calculated according to the principles set out in Note 1 m on page 229.

The rates used for calculating taxes are:

(in %)	**Payable 2014**	Payable 2013	Payable 2012
Standard rate	**33.33**	33.33	33.33
Reduced rate (PVLT gains rate)	**4.00**	4.00	3.33
Reduced rate (gains on disposal of property to SIIC)	**19.00**	19.00	19.00
Reduced rate (common funds on risk placement)	**15.00**	15.00	15.00
Tax contribution			
CSB	**3.3**	3.3	3.3
Exceptional contribution	**10.7**	5.0	5.0
Deferred taxation			
Standard rate on DT	**33.33**	33.33	33.33
Reduced rate on DT	**4.00**	4.00	3.33
Tax contributions to apply in the periods in which the assets will be realised or the liabilities settled			

30 Corporate income tax *(continued)*

Tax group

Since 2001, the parent company of the tax group has been HSBC Bank plc Paris Branch.

In 2013, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 61.9 million. The proportion of benefits passed on to HSBC France was EUR 40.3 million.

In 2012, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 62.2 million. The proportion of benefits passed on to HSBC France was EUR 8.9 million.

These benefits are recognised in their entirety under the heading "Taxes".

Deferred tax in the balance sheet

The net deferred tax receivable recognised in the balance sheet at 31 December 2013 was EUR 108.8 million compared with EUR 114.9 million at 31 December 2012.

At 31 December 2013 this receivable is made up of deferred tax assets of EUR 136.1 million against EUR 139.1 million at 31 December 2012 and a deferred tax liability of EUR 27.3 million compared with EUR 24.2 million at 31 December 2012.

31 Legal proceedings and regulatory matters

HSBC entities, including HSBC France, are party to various legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and on pages 92 and 93, HSBC France considers that none of these matters is significant, either individually or in the aggregate. HSBC France recognizes a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2013.

Anti-money laundering and sanctions-related

In December 2012, HSBC Holdings plc ("HSBC Holdings" or "HSBC"), the bank's ultimate parent company, HSBC North America Holdings ("HNAH") and HSBC Bank USA, N.A. ("HBUS") entered into agreements with US and UK government agencies regarding past inadequate compliance with the US Bank Secrecy Act ("BSA"), Anti-Money Laundering ("AML") and sanctions laws. Among those agreements, HSBC Holdings and HBUS entered into a five-year Deferred Prosecution Agreement with the US Department of Justice ("DoJ"), the US Attorney's Office for the Eastern District of New York, and the US Attorney's Office for the Northern District of West Virginia (the "US DPA"). HSBC Holdings entered into a two-year deferred prosecution agreement with the New York County District Attorney ("DANY") (the "DANY DPA"). HSBC Holdings consented to a cease and desist order and HSBC Holdings and HNAH consented to a monetary penalty order with the Federal Reserve Board ("FRB").

In addition, HSBC Bank USA entered into a monetary penalty consent order with FinCEN and a separate monetary penalty order with the Office of the Comptroller of the Currency ("OCC"). HSBC Bank USA also entered into a separate consent order with the OCC requiring it to correct the circumstances and conditions as noted in the OCC's then most recent report of examination and imposing certain restrictions on HSBC Bank USA directly or indirectly acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, unless it receives prior approval from the OCC. HSBC Bank USA also entered into a separate consent order with the OCC requiring it to adopt an enterprise wide compliance program.

HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ("OFAC") regarding historical transactions involving parties subject to OFAC sanctions and an undertaking with the UK Financial Services Authority, now a Financial Conduct Authority ("FCA") Direction, to comply with certain forward-looking AML- and sanctions-related obligations.

Under these agreements, HSBC Holdings and HBUS made payments totalling USD1.921 billion to US authorities. Under these agreements, HSBC Holdings has also certain obligations to ensure that entities in the HSBC Group, including HSBC Bank plc and its subsidiaries (including HSBC France), comply with certain requirements. Steps continue to be taken to implement ongoing obligations under the US DPA, FCA direction, and other settlement agreements.

On 1 July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of the same. Under the agreements with the DoJ, FCA, and the FRB, an independent monitor (who is, for FCA purposes, a 'skilled person' under Section 166 of the Financial Services and Markets Act) is evaluating

31 Legal proceedings and regulatory matters *(continued)*

HSBC's progress in fully implementing its obligations under the agreements and will produce regular assessments of the effectiveness of HSBC's Compliance function. Michael Cherkasky began work as the independent monitor on 22 July 2013.

If HSBC Holdings and HBUS fulfil all of the requirements imposed by the US DPA, the DoJ's charges against those entities will be dismissed at the end of the five-year period of that agreement. Similarly, if HSBC Holdings fulfils all of the requirements imposed by the DANY DPA, DANY's charges against it will be dismissed at the end of the two-year period of that agreement. The DoJ may prosecute HSBC Holdings or HBUS in relation to the matters which are the subject of the US DPA if HSBC Holdings or HBUS breaches the terms of the US DPA, and DANY may prosecute HSBC Holdings in relation to the matters which are subject of the DANY DPA if HSBC Holdings violates the terms of the DANY DPA.

The settlement with US and UK authorities does not preclude private litigation relating to, among other things, HSBC's compliance with applicable AML, BSA and sanctions laws or other regulatory or law enforcement actions for AML/BSA or sanctions matters not covered by the various agreements.

Investigations and reviews into the setting of London interbank offered rates, European interbank offered rates and other benchmark interest and foreign exchange rates

Various regulators and competition and enforcement authorities around the world including in the United Kingdom (UK), the United States of America (US), Canada, the European Union, Switzerland, and Asia are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of London interbank offered rates ("Libor"), European interbank offered rates ("Euribor') and other benchmark interest and foreign exchange rates. As certain HSBC entities are members of such panels, HSBC and/or its subsidiaries (including HSBC France whose involvement is limited to the extent that it is a member of the Euribor panel) have been the subject of regulatory demands for information and are cooperating with those investigations and reviews. On 4 December 2013, the European Commission ("Commission") announced that it had imposed fines on eight financial institutions under its cartel settlement procedure for their participation in illegal activity related to Euro interest rate derivatives and/or Yen interest rate derivatives. Although HSBC was not one of the financial institutions fined, the Commission announced that it had opened proceedings against HSBC in connection with its Euribor-related investigation of Euro interest rate derivatives only. This investigation will continue under the standard Commission cartel procedure.

As for ongoing regulatory investigations, reviews and proceedings based on the facts currently known in respect of each of these investigations, there is a high degree of uncertainty as to the terms on which the ongoing investigations, reviews and proceedings will be resolved and the timing of such resolutions, including the amounts of fines and/or penalties. As matters progress, it is possible that fines and/or penalties could be significant.

In November 2013, HSBC and other panel banks were also named as defendants in a putative class action filed in the US on behalf of persons who transacted in futures contracts and other financial instruments related to Euribor. The complaint alleges, amongst other things, misconduct related to Euribor in violation of US antitrust laws, the US CEA, and state law. HSBC has not yet responded to the complaint and an amended complaint is expected in the first quarter of 2014. HSBC expects to file a motion to dismiss thereafter.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of such private lawsuits, including the timing and potential impact on HSBC.

Credit Default Swap Regulatory investigation and litigation

In July 2013, various HSBC entities, including HSBC France, received a Statement of Objections from the European Commission relating to its ongoing investigation of alleged anti-competitive activity by a number of market participants in the credit derivatives market between 2006 and 2009. The Statement of Objections sets out the European Commission's preliminary views and does not prejudge the final outcome of its investigation. HSBC submitted a response to the European Commission on October 2013 and with reference to HSBC France, the point made was that there was no real nexus between the Commission's alleged case and HSBC France's activities.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of the European Commission's investigation, including the timing or impact on HSBC.

Statutory Auditors' report on the annual financial statements

This is a free translation into English of the Statutory Auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures. This report also includes information relating to the specific verification of information given in the management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2013

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2013, on:

– the audit of the accompanying annual financial statements of HSBC France;
– the justification of our assessments;
– the specific verifications and information required by law.

These annual financial statements have been approved by the Board of Directors. Our role is to express an opinion on these annual financial statements based on our audit.

I - Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the annual financial statements give a true and fair view of the assets and liabilities and of the financial position of the company as at 31 December 2013 and of the results of its operations for the year then ended in accordance with French accounting principles.

II - Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (*Code de Commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

– your company accounts for impairment losses to cover the credit and counterparty risks inherent to its activities (Note 1 c to the company financial statements). We have reviewed the control procedures relating to credit and counterparty risk monitoring, the assessment of risks of non-recoverability and the calculation of the individual impairment;
– your company holds positions in securities and financial instruments (Notes 1 b, 1 j and 1 k to the company financial statements). We have examined the control procedures for the accounting classification of these positions and for determining the parameters used to value them. We have verified the appropriateness of the accounting policies selected by your company and have satisfied ourselves that they are applied correctly;
– your company recognizes provisions to cover risks and litigation related to its activity (Notes 1 f and 31 to the company financial statements). We have examined the methodology used to measure these provisions, as well as the main assumptions applied.

These assessments were made as part of our audit of the annual financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III - Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the annual financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to shareholders with respect to the financial position and the annual financial statements.

Concerning the information given in accordance with the requirements of article L. 225-102-1 of the French Commercial Code (“*Code de commerce*”) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the annual financial statements or with the underlying information used to prepare these annual financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments has been properly disclosed in the management report.

Paris-La Défense and Paris, on 3 March 2014

KPMG Audit FS II	BDO France – Léger & Associés
Pascal Brouard	Fabrice Chaffois
Partner	*Partner*

HSBC France's principal subsidiaries and investment policy

HSBC France group's principal subsidiaries at 31 December 2013

Commercial Banking

Distribution	HSBC Factoring (France) (100%)

Global Banking and Markets

Real estate	Foncière Elysées (100%) HSBC Real Estate Leasing (France) (100%)
Structures financing and Global Banking	HSBC SFH (France) (100%) Société Financière et Mobilière (100%) HSBC Leasing (France) (100%) HSBC Leasing (Belgium) (100%) CCF Charterhouse GmbH (100%)
Markets	Financière d'Uzès (34%)

Asset Management

France	HSBC Global Asset Management (France) (100%) HSBC Epargne Entreprise (France) (100%) HSBC REIM (France) (100%)
Outside France	HSBC Global Asset Management (Switzerland) (50%)

Insurance

France	HSBC Assurances Vie (France) (100%)

Subsidiaries and equity investments

France	Valeurs Mobilières Elysées (100%) Société Française et Suisse (100%) Société Immobilière Malesherbes Anjou (100%)
Outside France	Charterhouse Management Services Ltd (100%)

– *Stated percentages indicate the group's percentage of control.*
– *The subsidiaries are classified in the area where they principally operate.*

HSBC France's principal subsidiaries and investment policy (continued)

Summary business activities of HSBC France group's principal subsidiaries at 31 December 2013

Commercial Banking
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
HSBC Factoring (France)	**1,900,483**	1,658,809	**72,094**	62,512	**9,582**	8,426	**100.0**	100.0

HSBC Factoring (France) saw growth of 37 per cent in 2013, with gross turnover of EUR 10.6 billion at the end of December 2013, corresponding to the amount of factored receivables. Net operating income before provisions rose by 4 per cent to EUR 28.5 million, the risk-weighted assets amounted to EUR 653 million at the end of September 2013, costs were reduced by 8 per cent between December 2012 and December 2013, the cost of risk was below the standards of the profession to 0.014 per cent and the pre-tax contribution to group profit came to EUR 15.2 million.
At 31 December 2013, the cost efficiency ratio amounted to 44 per cent compared with 50 per cent in 2012.

Global Banking and Markets
(in thousands of euros)

	Total assets 2013	Total assets 2012	Shareholders' funds* 2013	Shareholders' funds* 2012	Net profit 2013	Net profit 2012	Holding 2013	Holding 2012
HSBC SFH (France)	**4,440,204**	2,137,616	**114,314**	55,296	**518**	150	**100.0**	100.0

HSBC SFH (France) is a company dedicated to refinancing HSBC France by issuing covered bonds secured by home loans (cover pool). HSBC SFH (France) launched its first issue on 20 January 2010 for an amount of EUR 1.5 billion, followed by three issues of CHF 200 million each, in the same year. During 2013, the company completed two bond issues: in April for an amount of EUR 1.25 billion and in October for an amount of EUR 1 billion.

At 31 December 2013, issues totalled EUR 4,2 billion against a cover pool of EUR 5.9 billion.

	Total assets 2013	Total assets 2012	Shareholders' funds* 2013	Shareholders' funds* 2012	Net profit 2013	Net profit 2012	Holding 2013	Holding 2012
HSBC Leasing (France)	**1,915,688**	1,911,015	**168,587**	189,066	**(20,479)**	(11,339)	**100.0**	100.0

HSBC Leasing (France) specialises in lease finance for major corporates. The company holds subsidiaries intended for leasing activities with a call option. It operates more particularly in the aeronautics sector by financing assets on behalf of airlines.
The equity interests in 2013 totalling EUR 1.79 billion, on a par with 2012.

	Total assets 2013	Total assets 2012	Shareholders' funds* 2013	Shareholders' funds* 2012	Net profit 2013	Net profit 2012	Holding 2013	Holding 2012
HSBC Real Estate Leasing (France)	**1,137,605**	1,182,360	**81,002**	73,073	**7,930**	7,214	**100,0**	100,0

The control of cost of risk and the operating expenses reduction, allow a significant increase in net profit of this real estate leasing specialist subsidiary.

Asset Management
(in thousands of euros)

	Total assets 2013	Total assets 2012	Shareholders' funds* 2013	Shareholders' funds* 2012	Net profit 2013	Net profit 2012	Holding 2013	Holding 2012
HSBC Global Asset Management (France)	**153,987**	164,399	**79,835**	90,259	**19,625**	15,048	**100.0**	100.0

Profit before tax was up, reflecting the impact of inflows on long-term products and rising markets. Assets managed and distributed amounted to EUR 67.0 billion compared with EUR 67.6 billion at end 2012, a decrease of 0.9 per cent. The decrease was due to net outflows of EUR 3.1 billion in money market products which was partially offset by net inflows of EUR 2.8 billion in fixed-income products, as well as net outflows of EUR 1.2 billion in equity-based products which was offset by a positive value effect of EUR 4.4 billion.
The retail customer segment and Wealth Management, through the Retail Banking and Wealth Management network, made a positive contribution to growth, whilst the external distribution networks proved more restrained in terms of equity-based products but enjoyed some major inflows in European fixed-income products. The institutional customer segment also made a positive contribution to growth, especially in fixed-income products.
In 2013, HSBC Global Asset Management (France) continued to invest in making its systems and processes more robust and mutualised, as well as improving its risk control.

* *Before net profit appropriation.*

Asset Management (continued)
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
HSBC Epargne Entreprise (France)	**59,314**	59,464	**36,563**	38,005	**(3,876)**	(1,442)	**100.0**	100.0
	HSBC Epargne Entreprise (France), a credit institution specialising for the HSBC Group in France in holding employee savings accounts and a wholly-owned subsidiary of HSBC France, has a clientele of 8,700 companies and manages 290,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totalling EUR 3.7 billion at 31 December 2013, making the Group the sixth-largest employee savings company. Its products are distributed either directly or *via* the HSBC Group distribution network in France and partner networks, covering the needs of companies of all sizes.							
HSBC REIM (France)	**15,147**	16,436	**9,713**	10,066	**4,397**	4,972	**100.0**	100.0
	HSBC REIM (France) is the Asset Management subsidiary specialising in real estate management for third parties. At 31 December 2013, the market value of assets under management was EUR 1.7 billion. The main fund managed, Elysées Pierre, with 125 properties, is a SCPI real estate investment trust invested primarily in offices in the Paris region. The fund has a yield-based strategy, which over the last five years has resulted in a growing or steady annual dividend. Gross inflows amounted to EUR 126 million in 2013. Net profit of HSBC REIM (France) was down 12 per cent compared with 2012, due to lower inflows than in 2012. 74 per cent of its net operating income of EUR 12.8 million came from recurring commission income for property management services and 26 per cent from commission income within the framework of the capital increases of its non-trading property company (SCPI) Elysées Pierre.							

Insurance
(in thousands of euros)

HSBC Assurances Vie (France)	**20,699,840**	19,608,962	**516,283**	615,358	**47,118**	46,643	**100.0**	100.0[1]
	HSBC Assurances Vie (France)'s gross reinsurance premiums amounted to EUR 1.9 billion, down 14 per cent compared with 2012. The gross technical reserves in euros rose 3.4 per cent (EUR 15.5 billion), and those in unit-linked products increased by 11.7 per cent (EUR 3 billion). Estimated net profit totalled EUR 47.1 million at 31 December 2013 (up 1.02 per cent compared to 2012). The decrease in equity, results from the distribution of reserves amounting to EUR 150 million.							

Own investments
(in thousands of euros)

Société Française et Suisse (SFS)	**10,471**	10,492	**10,461**	10,484	**(22)**	39	**100.0**	100.0
	In 2013, Société Française et Suisse realised a loss of EUR -22,381 compared to a small profit in 2012 (largely due to the investment of cash). The 2013 result is mainly due to the negative impact of: – the redemption then the universal transfer of assets of Octogone Immobilier SA and Eurofin Capital Partners (which were subsidiaries of HSBC France); – the universal transfer of assets of its 100 per cent subsidiary, Excofina.							
Valeurs Mobilières Elysées (Formerly Nobel)	**172,986**	172,153	**161,185**	154,780	**9,380**	9,795	**100.0**	100.0
	Valeurs Mobilières Elysées is a subsidiary in which are registered investments for own account of the HSBC Group in France. These investments include listed midcaps and private equity funds. The HSBC Group having decided in 2009 not to take new operations, Valeurs Mobilières Elysées manages a portfolio gradually declining. The total assets of the Private Equity and listed securities totalised EUR 125 million in January 2013 and account for only EUR 116 million at the end of December 2013. Capital gains realised amount to EUR 5.3 million on the funds and EUR 1.01 million on the listed values.							

* *Before net profit appropriation.*
1 *100 per cent held by HSBC Bank plc Paris Branch.*

HSBC France's principal subsidiaries and investment policy (continued)

Investment policy

2009

- Subscription by HSBC France to capital increase made by HSBC Financial Products (France).
  Cost: EUR 75 million.
- Disposal by HSBC France of its participation in Visa.
  Proceeds: EUR 2.8 million.
- Disposal of Swiss Life shares by SFS.
  Proceeds: EUR 13.6 million.

2010

- Disposal by HSBC France of its fund depositary and custodial activities and its subsidiary HSBC Securities Services (France).
  Proceeds: EUR 8 million.
- Disposal by HSBC France of its participation in Servair.
  Proceeds: EUR 3.3 million.
- Capital decrease of Nobel.
  Proceeds: EUR 46.9 million.

2011

- Acquisition by HSBC France of 5.26 per cent of Citizen Capital.
  Cost: EUR 1 million.
- Disposal by Sinopia Asset Management, a wholly-owned subsidiary of HSBC France, of 100 per cent of Sinopia Asset Management (Asia Pacific) Limited to HSBC Global Asset Management (Hong Kong) Limited.
  Proceeds: EUR 17.5 million.
- Disposal by Sinopia Asset Management, a wholly-owned subsidiary of HSBC France, of 100 per cent of Sinopia Asset Management (UK) Limited to HSBC Global Asset Management (UK) Limited.
  Proceeds: EUR 9.7 million.
- Subscription by HSBC France to capital increase made by HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG.
  Cost: EUR 145 million.
- Subscription by HSBC France to two capital increases made by HSBC Trinkaus Gesellschaft für Bankbeteiligungen oHG.
  Cost: EUR 135 million and EUR 35 million.
- Subscription by HSBC France to capital increase made by HSBC SFH (France).
  Cost: EUR 20 million.
- Capital decrease of Charterhouse Management Services Limited.
  Proceeds: GBP 15 million.

2012

- Subscription by HSBC France to capital increase made by HSBC Factoring (France).
  Cost: EUR 34 million.
- Subscription by HSBC France to capital increase made by HSBC SFH (France).
  Cost: EUR 6.7 million.
- Capital decrease of SAF Palissandre.
  Proceeds: EUR 458.4 million.
- Increase by HSBC France of its participation in Oséo SA capital.
  Cost: EUR 1.3 million.

2013

- Subscription by HSBC France to capital increase made by HSBC SFH (France).
  Cost: EUR 58.5 million.
- Acquisition by HSBC France of 100 per cent of HSBC Assurances Vie (France) from HSBC Bank plc Paris Branch
  Cost: EUR 514 million.

Other legal documents relating to the Annual General Meeting to be held on 9 May 2014

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

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

Agreements entered into in 2013

No agreement subject to the provisions of article L. 225-38 of the French Commercial Code was entered into in 2013.

Agreements entered into in prior years and still in force and effect during 2013

Three agreements entered into in 2001 by HSBC France and its direct 99.99 per cent shareholder, HSBC Bank plc Paris Branch, remained in full force and effect during 2013. These were a pooling of resources agreement designed to provide the parties with various services relating to their activities at cost, an agreement for the provision of services covering various activities and a group tax relief agreement.

The agreement entered into in 2003 with HSBC Bank plc, regarding the invoicing of services covering market activities of the HSBC France group, remained in full force and effect during 2013.

The agreement entered into in 2005 with HSBC Holdings plc and HSBC Bank plc, regarding services provided by their central departments, also remained in full force and effect during 2013.

The “Group Software” agreement entered into in 2006 with HSBC Holdings plc, HSBC France and other companies of the HSBC Group, remained in full force and effect during 2013 regarding the share of the IT development expenses engaged by the HSBC Group.

The agreement renewed in 2007 between HSBC Holdings plc and HSBC France, giving HSBC France and its subsidiaries free use of the HSBC brand, remained in full force and effect during 2013.

The agreement entered into in 2009, and confirming decisions previously adopted by the Board of Directors, concerning the supplementary defined benefit pension scheme for Senior Executives of HSBC France, remained in full force and effect during 2013.

The agreement entered into in 2009 with HSBC Global Asset Management (France), regarding the delegation of financial management of asset management mandates allocated by clients of the HSBC France network to HSBC Global Asset Management (France), came into effect on 1 January 2010 and remained in full force and effect during 2013.

The agreement entered into in 2012 with Mr Christophe de Backer, setting out the terms and conditions regarding the resignation of Mr de Backer from his position as Chief Executive Officer of HSBC France, remained in full force and effect during 2013, regarding the retention of the benefit of unvested shares and stock-options not yet exercised at his resignation date.

Statutory Auditors'report on regulated agreements and commitments

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

Year ended 31 December 2013

To the shareholders,

In our capacity as Statutory Auditors of your company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with article R. 225-31 of the French Commercial Code ("*Code de commerce*"), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with article R. 225-31 of the French Commercial Code ("*Code de commerce*") concerning the implementation of the agreements and commitments already approved by the General Meeting of the Shareholders.

We performed those procedures which we considered necessary to comply with professional guidance issued by the National Auditing body ("*Compagnie nationale des commissaires aux comptes*") relating to this type of engagement. Those procedures consisted in verifying the consistency of the information we were provided with the underlying documents.

I - Agreements and commitments submitted for approval by the General Meeting of Shareholders

Agreements and commitments allowed during the fiscal year

We hereby inform you that we have been advised of no agreement and commitment authorised during the last fiscal year to be approved by the General Meeting of the Shareholders, in accordance with the article L. 225-38 of the French Commercial Code ("*Code de commerce*").

II - Agreements and commitments already approved by the General Meeting of Shareholders

Continuing agreements and commitments which were entered into the prior years

In accordance with article R. 225-30 of the French Commercial Code ("*Code de commerce*"), we were informed that the following agreements, which were entered into in prior years, have continued during the year.

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

The agreement, adopted in 2009, confirmed the decisions previously adopted by the Board of Directors concerning the updating of the rules governing the supplementary defined benefit pension scheme for four Senior Executives of CCF, subsequently HSBC France, as well as the payment of these supplementary pensions to Messrs Filippi and Denoyel.

With respect to this agreement, an additional provision for pension commitments was recorded in HSBC France accounts at 31 December 2013 for EUR 0.5 million.

With Mr Christophe de Backer

The agreement, adopted 10 January 2012, establishes the terms and conditions of Mr de Backer's resignation as Chief Executive Officer of HSBC France. It states, in particular, that in accordance with the Group's policies, Mr de Backer will not receive any bonuses for the year 2011 and will lose the supplementary defined benefit pension scheme for Senior Executive of HSBC France.

Furthermore, this agreement states that Mr de Backer preserves his shares and stock options not vested at the time of his resignation, as long as he does not, for one year from the date of his resignation, solicit any HSBC France Private Banking customers, as well as any individual occupying a critical position within HSBC France.

With HSBC Holdings plc

- Head-office costs agreement: services provided by central departments of HSBC Holdings plc are invoiced to HSBC France with respect to the agreement settled in 2005. With respect to this agreement, the invoices represented a charge of GBP 8.7 million in 2013.
- “Group Software” agreement: HSBC Holdings plc invoices the expenses engaged by the Group regarding IT developments, in accordance with the agreement entered into in 2006. With respect to this agreement, a charge of USD 18 million was recorded in 2013.
- Agreement renewed in 2007 and giving HSBC France and its subsidiaries the free use of the HSBC brand.

With HSBC Bank plc

- Head-office costs agreement: services provided by central departments of HSBC Bank plc are invoiced to HSBC France with respect to the agreement settled in 2005. This agreement had no financial impact in 2013.

  Service level agreement for all market activities of HSBC France group: HSBC Bank plc invoices to HSBC France services covering all the market activities in accordance with the agreement settled in 2003. This agreement had no financial impact in 2013.

With HSBC Bank plc Paris Branch

Three agreements were entered into during 2001 by HSBC France and HSBC Bank plc Paris Branch and remained in full force and effect during 2013:

- a group wide service agreement for the purpose of rendering services to its members at cost concerning diverse activities of the two entities;
- a service level agreement issued by HSBC France to HSBC Bank plc Paris Branch concerning various activities.

  With respect to these two agreements, the income recorded for 2013 amounted to EUR 16.4 million;
- a tax integration agreement between HSBC Bank plc Paris Branch and HSBC France.

  With respect to this agreement, a tax income of EUR 40.3 million was recorded in 2013.

With HSBC Global Asset Management (France)

Agreement approved in 2009 and effective from 1 January 2010 regarding the delegation to HSBC Global Asset Management (France) of financial management of asset management mandates allocated by clients of the HSBC France network. With respect to this agreement, a charge of EUR 3.6 million was recorded in 2013.

Paris-La Défense and Paris, on 3 March 2014

KPMG Audit FS II	BDO France – Léger & Associés
Pascal Brouard	Fabrice Chaffois
Partner	*Partner*

Other legal documents relating to the Annual General Meeting to be held on 9 May 2014 (continued)

Proposed resolutions to the Ordinary General Meeting

First resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the Statutory Auditors' report on the financial statements for the year ended 31 December 2013, and the Chairman's and the Statutory Auditors' reports on corporate governance, internal control and risk management procedures, the shareholders hereby approve the company's financial statements for that year as presented, together with the business operations reflected therein and summarised in the reports.

Second resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby approve the following proposed distribution of net profit for the year:

Net profit for the year	EUR331,373,925.23
Plus retained profits	EUR3,146,578,771.09
Total sum available for distribution	EUR3,477,952,696.32

To be distributed as follows:

Dividend of EUR1.78 per share to be paid	EUR120,039,332.06
Retained earnings	EUR3,357,913,364.26

According to the decision of the Board of Directors on 19 November 2013, an interim dividend amounting to EUR 1.78 per share has already been paid to the 67,437,827 shares issued at that date, for a total amount of EUR 120,039,332.06. As this interim dividend is equal to the total amount of the dividend, no final payment will be made.

Dividend paid is eligible for the tax deduction referred to in article 158 paragraph 3.2 of the General Tax Code.

The shareholders duly note that dividends paid in respect of the three previous financial years were as follows:

Year	Net dividend per share
2010	EUR10.67
2011	EUR1.75
2012	EUR3.56

Dividends paid in respect of the three previous years are eligible for the tax deduction referred to in article 158 paragraph 3.2 of the General Tax Code.

Third resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors and the report of the Statutory Auditors regarding the consolidated statements for the year ended 31 December 2013, the shareholders hereby approve the consolidated financial statements for that year as presented.

Fourth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the Statutory Auditors' report on regulated agreements governed by article L. 225-38 of the French Commercial Code, the shareholders hereby approve successively the agreements described therein under the conditions referred to in article L. 225-40 of said Code.

Fifth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Jean Beunardeau, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2016.

Sixth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Gilles Denoyel, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2016.

Seventh resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the shareholders hereby issue a favourable opinion on the components of compensation due or awarded to Mr Jean Beunardeau, Chief Executive Officer, in respect of the year ended 31 December 2013, as described in the Registration Document 2013 pages 27 to 30.

Eighth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the shareholders hereby issue a favourable opinion on the components of compensation due or awarded to Mr Gilles Denoyel, Deputy Chief Executive Officer, in respect of the year ended 31 December 2013, as described in the Registration Document 2013 pages 27 to 30.

Ninth resolution

Voting under the quorum and majority conditions to transact ordinary business, in accordance with article L. 511-41-1 B of the French Monetary and Financial Code, the shareholders hereby approve the aggregate amount of compensation of all kinds paid in 2013 to executive members and professionals having a significant impact on risks, which amounts to EUR 30,522,736.

Tenth resolution

Voting under the quorum and majority conditions to transact ordinary and special business, the shareholders hereby confer full powers on the bearer of an original, copy or abstract of the minutes of this meeting for the purpose of completing any formalities required by law.

Information on HSBC France and its share capital

Information on the company

Name
HSBC France.
New name of CCF since 1 November 2005.

Commercial name
HSBC since 1 November 2005 and, for the Private Banking business, HSBC Private Bank since 31 October 2011.

Date of incorporation
1894.

Registered office
103 avenue des Champs-Elysées – 75008 Paris – France.

Legal Form
Société Anonyme incorporated under the laws of France, governed notably by the French Commercial Code.
The company is a credit institution and authorised bank, and as such is also governed by the French Monetary and Financial Code.

Term
The company's term ends on 30 June 2043, unless previously wound up or extended.

Corporate purpose (article 3 of the Articles of Association of HSBC France)
The company's corporate purpose is the transaction in all countries of any and all banking, finance, lending, guarantee, trading, brokerage or fee-earning business together with the provision of any and all investment services and related services within the meaning of articles L. 321-1 and L. 321-2 of the Monetary and Financial Code, and more generally, to conduct within the limits permitted by law any and all commercial, industrial or agricultural, securities or real estate, financial or other operations as well as to provide any and all services directly or indirectly connected with or which may facilitate the achievement of the foregoing object.

Trade and companies Register and APE code
775 670 284 RCS Paris – APE 6419Z.

Legal and regulatory framework
Subject to the laws and regulations relating to credit institutions, including articles in the French Monetary and Financial Code applicable to them, the company is governed by commercial law, including articles L. 210-1 and following of the French Commercial Code and its Articles of Association.

HSBC France is a credit institution licensed as a bank. As such, the company may conduct all banking operations. It is, moreover, authorised to perform any services or related investment mentioned in articles L. 321-1 and L. 321-2 of the French Monetary and Financial Code, with the exception of operating a multilateral trading facility. In its capacity as provider of investment services, it is subject to the regulations applicable to them under the supervision of the *Autorité des marchés financiers*. It is particularly subject to compliance with a number of prudential rules and controls by prudential authorities. Its Senior Management and all the people it employs are bound by professional secrecy, violation of which is punishable by law. It is also an insurance broker.

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

HSBC France – 103 avenue des Champs-Elysées, 75419 Paris Cedex 08, France.

Financial year
From 1 January to 31 December.

Distribution of profits
A minimum of 5 per cent of the net profit for the year, less any prior year losses, is transferred to the legal reserve until such time as it has reached one tenth of the company's share capital and at any time after that should it fall back below the minimum requirement.

The balance, plus any retained earnings, less any sums which the shareholders deem expedient to transfer to new or existing reserves or to retained earnings, comprises the profit available for distribution among the shareholders.

However, except in the event of a reduction of the company's share capital, no distribution may be made if total shareholders'funds are, or would as a result, become lower than the amount of the company's share capital plus any non-distributable reserves.

By way of derogation to the provisions of this article, sums may be transferred to a special employee profit-sharing reserve, as provided for by law.

Form of shares
Shares have to be registered. They result in registration on an individual account pursuant to the conditions and according to the methods stipulated by the legal and regulatory provisions in force.

Voting rights
Each fully paid up share entitles the holder to one vote.

Transfer of shares
The transfer of shares takes place by way of a transfer from one account to another.

There are no restrictions on disposals of shares or negotiable securities giving access to the share capital in cases of inheritance or liquidation of matrimonial property, or on disposals to a spouse, descendant or ascendant.

Similarly, there are no restrictions on disposals of shares to natural or legal persons appointed as Directors, subject to the number of shares provided by article 11 of these Articles of Association.

Information on HSBC France and its share capital (continued)

Any other disposals or transfers of shares or negotiable securities giving access to the capital, including between shareholders, whether free of charge or for valuable consideration, whether the said disposals or transfers take place by way of donation, exchange, disposal, capital contribution, merger, demerger, partial asset transfer, distribution following the liquidation of a shareholding company, universal asset transfer from a company, realisation of a security, or by way of compulsory or voluntary public tender, and whether they relate only to legal or beneficial ownership, shall be subject to the approval of the Board of Directors according to the conditions described below.

The transferor's request for approval, which must be served on the company, shall state the name, forenames, profession and address of the transferee, or the company name and registered office in the case of a company, the number of shares or negotiable securities giving access to the capital of which the disposal or transfer is envisaged, the price offered or an estimate of the value of the shares or negotiable securities giving access to the capital. This request for approval must be countersigned by the transferee.

Approval will be given in the form of a notice, or will be deemed to have been given, in the absence of a reply within three months of the date of the request for approval.

The approval decision will be made by the Board of Directors, by a majority of the Directors present or represented. The transferor shall be entitled to vote, if he is a Director. The decision will not be justified, and in the event of a refusal, shall never give rise to any claim.

If the proposed transferee is approved, the transfer will be completed in favour of the transferee upon presentation of the supporting documents, which must be supplied within one month of service of the decision of the Board of Directors, failing which a fresh approval will be required.

If the company does not approve the proposed transferee, the transferor will have a period of eight days from the date of service of the refusal to notify the Board whether or not he abandons his proposal.

If the transferor does not expressly abandon his proposal under the conditions set out above, the Board of Directors shall be obliged within a period of three months from the date of service of the refusal, to arrange for the purchase of the shares or negotiable securities giving access to the capital, by a shareholder, a third party, or, with the transferor's consent, by the company, with a view to a reduction of the capital.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by shareholders or third parties, the Board of Directors shall inform the transferor of the names, forenames, profession and address of the purchasers, or of the company name and registered office in the case of a company. The sale price shall be fixed by agreement between the purchasers and the transferor.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by the company, the Board of Directors must first ask for the transferor's consent. The transferor must give his answer within eight days of receiving this request.

In the absence of agreement between the parties, the price of the shares and negotiable securities giving access to the capital shall be determined by an expert valuation, under the conditions provided by article 1843-4 of the Civil Code.

If, upon the expiry of a period of three months, the purchase has not been completed, approval shall be deemed to have been given. However, this period may be extended by the courts on an application by the company.

The transferor may, at any time, and at the latest within a period of eight days of determination of the price by the expert, abandon the disposal of his shares or negotiable securities giving access to the capital.

Disposals to the purchaser or purchasers nominated by the Board of Directors shall be completed by means of a transfer order signed by the Chairman of the Board of Directors, who shall serve it to the transferor within eight days of its date, with an invitation to attend the registered office to receive the sale price, which shall not bear interest.

All notices, requests, answers, opinions, waivers, information and consents provided for by this article shall be validly given if sent by extrajudicial instrument or by registered letter with proof of receipt requested.

When an expert is used to determine the price of the shares or negotiable securities giving access to the share capital under the conditions provided by article 1843-4 of the Civil Code, the expert's fees shall be paid in equal shares by the assignor and assignee.

This approval clause, which is the purpose of this article, also applies to disposals of allocation rights in the event of capital increases by way of incorporation of reserves, profits or issue premiums, and disposals of subscription rights in respect of capital increases in cash or individual waivers of subscription rights in favour of named individuals.

In these cases, the rules governing approval and the buyback conditions shall apply to the securities subscribed, and the time given to the Board of Directors to notify the third party subscriber whether it accepts him as a shareholder shall be three months from the date of final completion of the capital increase.

In the event of a buyback, the price shall be equal to the value of the new shares or negotiable securities giving access to the capital determined under the conditions provided by article 1843-4 of the Civil Code.

Custodian and financial service
HSBC France.

History of the company

1894: The Banque Suisse et Française (BSF) is founded. It will become the Crédit Commercial de France.

1965: First CCF advertising campaign.

CCF keeps growing, particularly on an international level. Its presence outside of France is strengthened with the opening of branches, subsidiaries and representative offices abroad.

From 1982 to 1987, CCF creates a European investment bank and the acquisition of interests in Union de Banque à Paris, Européenne de Banque and Banque Chaix is the basis of the future CCF group.

1987: CCF privatisation. Apart from its national network, CCF has progressively created a group of regional banks operating under their own brand.

1990: Crédit Commercial du Sud-Ouest is created with the CCF branches located in Gironde *département*.

1992: CCF acquires Banque Marze in Ardèche *département*.

1993: CCF acquires Banque de Savoie.

1994: Centenary of CCF.

CCF develops its activities in Investment Banking, International Private Banking, Asset Management, and French retail banking with the acquisition of other regional banks.

During the 90's, Asset Management activity becomes the third main activity in CCF group.

1995: CCF acquires Banque Dupuy, de Parseval.

1998: Société Marseillaise de Crédit joins CCF group.

1999: CCF acquires 100 per cent of Banque de Picardie.

April 2000: CCF joins the HSBC Group and becomes the European platform of the HSBC Group.

August 2000: CCF acquires Banque Pelletier.

2001: CCF acquires Banque Hervet.

June 2002: Crédit Commercial de France changes its legal name to CCF.

November 2005: CCF becomes HSBC France and certain of its subsidiaries change their legal name and adopt the HSBC brand. HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie constitute the new HSBC network.

July 2008: Disposal by HSBC France of its regional banking subsidiaries (Société Marseillaise de Crédit, Banque de Savoie, Banque Chaix, Banque Marze, Banque Dupuy, de Parseval, Banque Pelletier and Crédit Commercial du Sud-Ouest).

July 2008: Merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France.

October 2011: Merger of HSBC Private Bank France with HSBC France.

December 2013: HSBC France acquires HSBC Assurances Vie (France).

Material contracts

HSBC France currently has no material contracts, other than those concluded as part of the normal course of its business, that gives any member of the Group a right or obligation having a material impact on the issuer's ability to fulfil its obligations to holders of issued securities.

Information on the share capital

At 31 December 2013, the share capital amounted to EUR 337,189,135 divided into 67,437,827 fully paid up shares, each with a nominal value of EUR 5.

Authorities to increase the share capital

	With pre-emptive rights
Issue of shares for cash or by capitalising reserves	
Date of authority	30 April 2013
Expiry date	30 June 2015
Maximum nominal amount	EUR100 million
Used amount	EUR0

Information on HSBC France and its share capital (continued)

Movements in share capital

	2013			2012		
	Number of shares	**Share capital in euros**	**Share premium in euros**	Number of shares	Share capital in euros	Share premium in euros
At 1 January	**67,437,827**	**337,189,135**	**–**	67,437,827	337,189,135	–
Exercise of share options	**–**	**–**	**–**	–	–	–
Reduction of share capital by cancellation of own shares held	**–**	**–**	**–**	–	–	–
Capital increase	**–**	**–**	**–**	–	–	–
At 31 December	**67,437,827**	**337,189,135**	**–**	67,437,827	337,189,135	–

1 *Capital increase due to the approval by the Combined General Meeting held on 31 October 2011 of the merger of HSBC Private Bank France with HSBC France.*

2011			2010			2009		
Number of shares	Share capital in euros	Share premium in euros	Number of shares	Share capital in euros	Share premium in euros	Number of shares	Share capital in euros	Share premium in euros
67,437,820	337,189,100	–	67,437,820	337,189,100	–	67,437,820	337,189,100	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
7[1]	35[1]	–	–	–	–	–	–	–
67,437,827	337,189,135	–	67,437,820	337,189,100	–	67,437,820	337,189,100	–

Information on HSBC France and its share capital (continued)

Ownership of share capital and voting rights at 31 December 2013

HSBC Bank plc has owned 99.99 per cent of the share capital and voting rights since 31 October 2000. This percentage has not varied since then. HSBC Bank plc is a wholly-owned subsidiary of HSBC Holdings plc, a company quoted in London, Hong Kong, New York, Paris and Bermuda.

Dividend and payout policy

	2013	2012	2011	2010	2009
Number of shares at 31 December	**67,437,827**	67,437,827	67,437,827	67,437,820	67,437,820
Average number of shares outstanding during the year	**67,437,827**	67,437,827	67,437,822	67,437,820	67,437,820
EPS[1]	**EUR5.68**	EUR4.75	EUR1.83	EUR6.73	EUR5.15
Net dividend	**EUR1.78**	EUR3.56	EUR1.75	EUR10.67	EUR9.94
Exceptional dividend	**–**	–	–	–	–
Dividend + tax credit	**–**	–	–	–	–
Payout [2]	**31.3%**	75%	95.6%	158.5%	193%

1 *Calculated on the weighted average number of shares outstanding after deducting own shares held.*
2 *Dividend paid as a percentage of reported earnings.*

At the Annual General Meeting to be held on 9 May 2014, the Board will propose a net dividend of EUR 1.78 per EUR 5 nominal share. As the proposed amount equals the interim dividend decided by the Board of Directors on 19 November 2013, there would be no new payment.

Dividends which are not claimed within five years of the payment date lapse and become the property of the French Treasury.

Recent developments and outlook

Post-balance sheet events

New products and services are frequently offered to the customers of the HSBC Group in France. Information is available on the group's websites, and particularly in the press releases that can be viewed on the www.hsbc.fr website.

There has been no significant change affecting the issuer's or its subsidiaries' financial or sales situation since 31 December 2013, the date of the last audited and published financial statements.

Main post-balance sheet events

In accordance with Group's streamlining strategy HSBC Services (France), a wholly-owned subsidiary of HSBC France, sold its 34 per cent shares in Financière d'Uzès to the Goirand SA company, in February 2014.

Outlook

There has been no significant deterioration affecting the issuer's or its subsidiaries' outlook since 31 December 2013, the date of the last audited and published financial statements.

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

– driving up business and increasing dividends through robust international growth and leveraging connectivity within the HSBC Group;

– investing strategically while minimising risks, with the implementation of Global Standards;

– simplifying processes and procedures by optimising the distribution model within Retail Banking while improving the quality of customer service.

HSBC France's growth model aims to develop connectivity among the HSBC Group's entities and to preserve the strength of its balance sheet.

Persons responsible for the Registration Document and for auditing the financial statements

Person responsible for the Registration Document

Mr Jean Beunardeau, Chief Executive Officer.

Statement by the person responsible for the Registration Document

I declare, after taking all reasonable measures for this purpose and to the best of my knowledge, that the information contained in this Registration Document is in accordance with the facts and that it makes no omission likely to affect its meaning.

I declare, to the best of my knowledge, that the accounts have been prepared in accordance with applicable accounting standards and are a fair reflection of the assets, liabilities, financial position and profit or loss of the company and all the undertakings included in the consolidation scope, and that the Management Report on pages 2 to 7 and on page 220 presents a fair view of the company's business, results and financial position and that of all the undertakings included in the consolidation scope, as well as a description of the main risks and uncertainties to which they are exposed.

I have received a completion letter from the Auditors stating that they have audited the information contained in this Document about the financial position and accounts and that they have read this Document in its entirety.

The historical financial data presented in this Document has been discussed in the Statutory Auditors' reports on the parent company financial statements and on the consolidated financial statements found on pages 251 to 252 and on pages 207 to 208, and respectively on pages 226 to 227 and 184 to 185 of the Registration Document 2012 filed with the AMF under the reference number D13-0428. The Statutory Auditors' report on the 2013 consolidated financial statements, on pages 207 and 208 of this Registration Document, contains a remark.

Paris, 3 March 2014

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

	Date first appointed	Date re-appointed	Date term ends
Incumbents			
KPMG Audit FS II[1] Represented by Pascal Brouard[3] 3 cours du Triangle 92939 Paris-La Défense Cedex	2012[2]	–	2018
BDO France – Léger & Associés[4] Represented by Fabrice Chaffois[5] 113 rue de l'Université 75007 Paris	2007	2012	2018
Alternates			
KPMG Audit FS I[1] Represented by Jean-Luc Decornoy 3 cours du Triangle 92939 Paris-La Défense Cedex	2012	–	2018
François Allain[1] 2 rue Hélène Boucher 78286 Guyancourt Cedex	2007	2012	2018

1 *Member of the* Compagnie Régionale des Commissaires aux comptes *of Versailles.*
2 *First appointment of KPMG: 2001.*
3 *KPMG represented by Pascal Brouard as of financial year 2009.*
4 *Member of the* Compagnie Régionale des Commissaires aux comptes *of Paris.*
5 *BDO represented by Fabrice Chaffois as of financial year 2013.*

Statutory Auditors'fees paid in 2013 within the HSBC France group are available in Note 42 to the consolidated financial statements on page 206.

Cross-reference table

This cross-reference table refers to the main headings required by the European Regulation 809/2004 (Annex XI) implementing the directive known as “Prospectus”.

According to article 28 of the European Regulation 809/2004, are included by reference in this Registration Document:

- the consolidated financial statements for the year ended 31 December 2012 and the Statutory Auditors' report on the financial consolidated statements, presented on pages 100 to 183 and 184 to 185 of the Registration Document 2012 filed with the AMF on 25 April 2013 under reference number D13-0428; and
- the parent company financial statements for the year ended 31 December 2012 and the Statutory Auditors' report on the parent company financial statements, presented on pages 186 to 225 and 226 to 227 of the Registration Document 2012 filed with the AMF on 25 April 2012 under reference number D13-0428.

This Registration Document includes the annual financial report:

These documents are available on the website www.hsbc.fr and on the AMF's website www.amf-france.org.

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ASSET MANAGEMENT

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HSBC REIM (France)
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HSBC INTERNATIONAL NETWORK

HSBC is one of the world’s largest banking and financial services organisations. Through its four global businesses, HSBC serves 54 million customers across 6,300 offices in 75 countries and territories.

Group website: www.hsbc.com

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