HSBC France

2005

Annual Report and Accounts

The world's local bank

HSBC

The HSBC Group

CCF joined the HSBC Group in July 2000 and changed its legal name to HSBC France on 1 November 2005.

Headquartered in London, the HSBC Group is one of the largest banking and financial services organisations in the world. HSBC's international network comprises around 9,500 offices in 76 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in the Group's parent company, HSBC Holdings plc, are held by around 200,000 shareholders in some 100 countries and territories..

HSBC provides a comprehensive range of financial services to more than 125 million customers: personal financial services (including consumer finance); commercial banking; corporate, investment banking and markets; and private banking.

In 2005, HSBC's profit before tax was USD 20,966 million and profit attributable was USD 15,081 million. Total assets were USD 1,502 billion at 31 December 2005.

Geographical breakdown of profit before tax:

Year ended 31 December 2005

	USDm	%
Europe	6,356	30.3
Hong Kong	4,517	21.5
Rest of Asia-Pacific	2,574	12.3
North America	6,872	32.8
South America	647	3.1
Profit before tax	20,966	100.0

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Annual Report and Accounts 2005

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According to the decision taken by the Extraordinary General Meeting of the Company's shareholders on 26 July 2005, CCF changed its legal name to HSBC France as of 1 November 2005.

In this *Annual Report*, both "CCF" and "HSBC France" are used depending on the date of the events concerned or to aid understanding.

Report of the Board of Directors to the Annual General Meeting of Shareholders

In January 2005, HSBC France presented its 2008 "Efficacité pour la croissance" (Managing for growth) strategic plan and the HSBC brand was rolled out across France in November.

HSBC France continued to strengthen its positions in many areas, including personal financial services, commercial banking, asset management and structured products. HSBC France's development is supported by the quality of its customer base and of its staff, along with the HSBC Group's contribution in terms of international presence, financial power and technological skills.

HSBC France's development, organisation and systems

Implementation of the strategic plan

Since the strategic plan was presented in January 2005, the whole company has taken part in a range of initiatives across the bank's various business segments and has therefore played an active role in implementing this plan, which will enable the HSBC Group to significantly improve its positions in target markets in France.

The roll-out of the HSBC brand in France is a core part of the strategic plan and a major phase in HSBC France's development. It will give a major boost to growth. By adopting the HSBC name in France, HSBC France is associating itself with the 29th most valuable brand in the world, as ranked by the consultancy Interbrand. In France, the aim is to attain new scale through determined long-term initiatives, and to ensure that HSBC sets the standard in France in terms of the breadth and quality of its service. In the spring of 2005, CCF started to raise awareness of the HSBC brand in France through a campaign in which each letter of the HSBC name was used to illustrate the bank's activities and products.

In parallel, a major advertising campaign at French airports was launched in the summer, with the HSBC brand appearing on the external walls of aircraft aerobridges and on many airport trolleys. Internal walkways also displayed 24 different HSBC visuals. The start of this three-year campaign marked a major phase in the bank's rebranding.

After informing and consulting staff representative bodies and following the May/June 2005 agreement with the Comité des Etablissements de Crédit et des Entreprises d'Investissement (France's bank licensing committee), CCF and certain banking subsidiaries – Banque Hervet, Banque de Baecque Beau, Banque de Picardie and UBP – changed their corporate name on 1 November 2005 and became HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC Picardie and HSBC UBP, adopting the HSBC brand.

The HSBC brand was officially launched in France on 8 November 2005. On that day, 380 branches that previously operated under the CCF, Banque Hervet, Banque de Baecque Beau, UBP and Banque de Picardie brands adopted the HSBC brand. On 8 November, the HSBC-branded network had 50 per cent more branches than the previous CCF-branded network, with more than half of its branches in the Paris region. The advertising campaign launched on 8 November highlighted HSBC's market position in France: *"It is crucial for banks to understand different points of view. For HSBC, this means having an open mind"*. To mark the rebranding, HSBC France launched an extensive media campaign lasting almost three months and covering radio, press, TV and cinema.

The adoption of the HSBC brand by the five retail networks was accompanied by a new commercial organisation, headed by a unified retail banking management team. The networks' operations were also integrated in order to unify the commercial offering, providing individuals and companies with an improved and simplified range of services. The new offering aims to meet customers' needs as closely as possible. This involves simplified day-to-day banking operations, a family-based and global approach, easy access for individual customers to the services offered by the Group's global network, pricing based on the closeness of the client's relationship with the bank, and improvements in the product range through the input of the HSBC Group.

Alongside the rebranding, and in accordance with the strategic plan presented in January 2005, consultations are taking place with staff representative bodies about plans to merge the five banks adopting the HSBC brand and to streamline the processing of their banking transactions. The aim is to implement these plans from 2006.

The employee relations aspect of the strategic plan led to the signing of an employment management agreement in March 2005, covering the entities involved in the reorganisation arising from the plan. Until 2008, this agreement will facilitate the skills development and reorganisation required under the plan. It sets out the principles to which the bank is committed:

- giving priority to internal mobility and ensuring that no compulsory redundancies take place;
- ensuring equal treatment for employees, regardless of which group company they work for, in order to gain the broadest support for changes.

The agreement also specifies the creation of a redeployment unit, which will manage staff transfers. In addition to this internal transfer programme, the employment management agreement will allow staff:

– to work part-time, with higher pro rata income;

– to take voluntary redundancy under financial terms set out in the agreement;

– to take early retirement.

As envisaged in the strategic plan, 700 salesmen have been recruited during 2005 in order to develop the commercial team and the synergies with the HSBC Group.

HSBC France continued to implement HUB – one of the HSBC Group's main IT platforms – in 2005, migrating HSBC UBP's systems and upgrading the version installed at HSBC Picardie. The roll-out will continue across each entity in turn. It will bring greater efficiency, due to shared IT services, along with faster deployment of HSBC Group technologies and products.

Organisational consequences of regulatory developments and the strategic plan

Continuing efforts to comply with regulations, particularly concerning the prevention of money laundering and terrorist financing, along with the International Financial Reporting Standards (IFRS) and Basel II projects, required further major investment and use of human resources in 2005. As a subsidiary of HSBC Holdings plc, which is subject to the US Sarbanes-Oxley Act, HSBC France continued to work on major projects to document its internal control systems.

In accordance with CRBF regulation 97-02 (as amended by the decree of 31 March 2005) concerning internal control within credit institutions and investment companies, the following officers were appointed by HSBC France for the group as a whole:

– a permanent control co-ordination officer;

– a periodic control officer, a role assumed by HSBC France's control and audit department for the whole Group in France;

– a compliance control officer.

In line with the organisation adopted by the HSBC France group, the permanent control co-ordination officer is supported by the permanent control officers of the nine risk functions defined within the HSBC France group. In addition, each HSBC France subsidiary affected by regulation 97-02 appointed local permanent, periodic and compliance control officers.

The rebranding of five HSBC France group networks was accompanied by the initial stages of operational integration. New delegated powers and credit units were set up in the Paris region. Each unit is organised geographically, and covers local branches from the various networks. Its purpose is to carry out commercial development in order to attain the objectives of the strategic plan in the region for which it is responsible. The credit skills of the HSBC banks in the Paris region have also been combined and organised into a single function, in order to harmonise credit processes and comply with regulations.

Further simplification of the HSBC France group's structure

In 2005, in line with the strategic plan, the HSBC France group sold or closed down subsidiaries whose activities were regarded as non-core in terms of developing the business:

– HSBC Dewaay, a wholly-owned private bank operating in Belgium and Luxembourg, was relatively small, making it incompatible in a consolidating market. It was sold to Kredit Bank Luxembourg in October 2005;

– Framlington Group Limited, a UK asset management company jointly owned by HSBC France (51 per cent) and Comerica (49 per cent), was sold to AXA Investment Managers SA in late October 2005;

– Netvalor, a wholly-owned subsidiary specialising in selling consumer credit over the Internet, was sold to LaSer Cofinoga in August 2005;

– wholly-owned subsidiary CCF Change was closed down on 30 September 2005. Some bureaux de change and premises were transferred to HSBC France, and the others were sold or closed in October 2005.

The HSBC France group also continued to streamline its structures and make acquisitions in core business areas:

– in July 2005, it acquired a further 34 per cent stake in its factoring subsidiary Elysées Factor from Eurofactor, with the aim of developing the factoring business in France, supported by the HSBC Group's expertise and technological resources.

It also carried out a major simplification of assets owned by its UK subsidiary Charterhouse Management Services Limited (CMSL) with:

– the sale of its private equity fund holdings to other parts of the HSBC Group;

– the distribution, in the form of a dividend, of 65 per cent of HSBC Private Bank France's capital to parent company HSBC France, taking its direct stake in HSBC Private Bank France to 95.1 per cent.

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

Following these various transactions, Charterhouse Management Services Limited no longer has any operational assets.

The programme to simplify group structures also continued, with the aim of liquidating units that no longer serve a purpose and of selling or merging intra-group structures in order to improve the organisation by business line.

These disposals and structural streamlining initiatives carried out in 2005, particularly outside France, will make HSBC France's consolidated legal structure more consistent with its French management perimeter.

Financial results of the HSBC France group

Within HSBC France's legal structure and under IFRS as endorsed by the European Union, the HSBC France group made a profit before tax of EUR 1,240 million and a net attributable profit of EUR 1,119 million in 2005. This amount was achieved due to sustained growth of the core business and to capital gains on disposals of non-strategic assets held outside France. The total operating income, before loan impairment charges, rose to EUR 2,901 million. Combined with stable costs and the improvement in certain credit risks giving net recoveries, the operating profit amounted to EUR 1,136 million. After appropriations, consolidated shareholders' equity totalled EUR 5.3 billion at end-2005. The BIS capital adequacy ratio of 10.1 per cent was well above the regulatory minimum, despite a 15 per cent growth in risk-weighted assets resulting from growth in customer loans, particularly in Retail Banking.

ROE within the legal structure was 14.7 per cent excluding disposal gains and 24.5 per cent if they are included.

The net result of HSBC France, the parent company, amounted to EUR 936 million in 2005.

Contribution of France to the HSBC Group's financial results [1]

The HSBC Group in France[1] reports an excellent financial performance for 2005. Profit before tax was EUR 760 million, up 26.4 per cent.

Total operating income before provisions for credit risks was EUR 2,354.7 million, up 10.4 per cent. This includes gains made on sales of shares (EUR 154 million). 2005 performance was:

– very good in Asset Management, with assets under management up 19 per cent;

– excellent in Capital Markets, due to the success of the derivatives platforms that France is developing for the HSBC Group in Europe;

– good in Investment Banking, with improving league table positions;

– encouraging in Retail Banking, with firm commercial impetus, although results suffered from interest rates that remain at historically low levels;

– a turnaround year in Private Banking, where the restructuring project was completed.

The net operating income includes releases of provisions (EUR 62 million), reflecting the quality of the bank's credit risks.

Administrative expenses totalled EUR 1,804 million, an increase of 5.7 per cent and included a series of exceptional expenditure, in particular:

– the rebranding campaign;

– the employment plan;

– migration to the HUB IT system.

The cost:income ratio of 72.5 per cent remains high, but should fall substantially by 2008 due to the major structural measures carried out under the strategic plan, particularly the merging of banks in the Paris region.

The operating profit totalled EUR 755 million, up 28.8 per cent.

Business segment results

Personal Financial Services

The 8 November rebranding was accompanied by a large-scale media campaign and marketing efforts, which resulted in significant increases in commercial activity. This led to an acceleration in business growth in the second half, despite the lower interest rates.

Mortgage loan production rose by 54 per cent relative to 2004, due to the *"H for Home Sweet Home"* campaign. Mortgage loans outstanding rose by 18 per cent, beating the market growth rate of 12.5 per cent.

New life insurance business also increased substantially, by 19 per cent over the full year representing five points over the market (14 per cent) with strong growth in certain types of policies. The Abondance policy saw new business rise by 52 per cent in the second half after the "S for Success" campaign celebrated its bronze medal in Le Revenu magazine's life policy awards (in the "diversified multi-investment product offering 11-40 funds"

1 *The comments on pages 4 to 7 concern the contribution of France to the HSBC Group's results, in UK GAAP.*
– *The French management perimeter includes the HSBC France group's French activities, and excludes results from entities that belong legally to HSBC France but are located outside France (mainly the Dewaay group in Belgium, CMSL and Framlington in the UK and HSBC France branch in Belgium) and the operating results of HSBC Paris Branch (branch of HSBC Bank plc).*
– *2005 financial figures are presented in accordance with the IFRSs applied by the HSBC Group. Changes from 2004 to 2005 are calculated on an IFRS basis except IAS 32, IAS 39 and IFRS 4 and goodwill amortisation.*

category). Early November brought the launch of HSBC Evolution Patrimoine Vie (HEPV), a flexible life insurance product that can be adjusted to the customer's wealth profile while retaining accrued tax benefits. HSBC Evolution Patrimoine Vie received, in March 2006, a special award in the Innovation category of 2006 life insurance products trophies awarded by Le Revenu.

The range of financial products was also enhanced with the launch of HSBC Plus, a dynamic money-market fund that can be included in HEPV, and HSBC BRIC Freestyle (international equity fund investing in Brazil, Russia, India and China) managed by HSBC Investments.

When the HSBC brand was introduced, the HSBC platform – i.e. the five banks trading under the HSBC brand – launched a new range of bank accounts focusing on specific customer segments, with new pricing schedules and fee-free cash withdrawals from HSBC's entire global ATM network. The new pricing schedule is more competitive, and gives HSBC an excellent position among target customer segments in France (Le Monde ranking, December 2005).

The direct marketing campaign targeting 400,000 *Premier* and Capital clients and 200,000 wealth-management and international leads during the *"C for Customer"* campaign led to significant development in the client base. The group expanded its client base in the target Premier, Capital and Youth markets. Growth in these segments accelerated during the third quarter, with a 53 per cent increase in new clients in the second half of 2005 compared to the same period in 2004.

Successful privatisations – including Sanef (6 per cent market share due to CIBM's position as lead manager), Gaz de France (3 per cent) and EDF (2.5 per cent) – boosted the rise in commercial activity.

The direct banking range was enhanced with the launch of the on-line brokerage service HSBC Invest, www.hsbcinvest.fr.

Commercial Banking

The *"B for Business"* campaign highlighted the HSBC Group's services for companies.

In 2005, the Top Commercial Banking initiative paid off, with the help of a dedicated sales force and appropriate client follow-up efforts. This resulted in substantial revenue growth in this customer group (up 32 per cent compared with 2004).

The 2005 campaign to increase lending to high-quality commercial banking clients led to a 5 per cent rise in lending, with equipment lending up 9 per cent and short-term lending rising after declining during the previous three quarters.

However, results in the SME market were less impressive, with flat client numbers and business levels, due to weak loan distribution (down 2 per cent on average) and an insufficiently segmented commercial approach. The model tested successfully with Top Commercial Banking clients will be applied to the SME segment from early 2006.

The international offering was strengthened by the development of cross-border operations, with the creation of two French Desks (UK and China). The franchise approach was developed in conjunction with the UK, with a separate organisation and offering, and the Global Links tool was introduced to manage these operations. A new packaged product for SMEs was also launched (Elys-Export, combining export credit and export credit insurance). Take-up of remote banking tools by Commercial Banking clients increased to 51 per cent within the HSBC platform in 2005.

However, revenues were impacted by historically low interest rates, the difficulties encountered by UBP in 2004 and the change of the allocation of customers with Corporate, Investment Banking and Markets.

Corporate, Investment Banking and Markets (CIBM)

Business volumes continued to grow strongly in 2005, despite the adverse interest-rate environment. This was due to the HSBC Group's financial and commercial strength and the dynamism of staff in France. Apart from the results reported in France, French clients and products from global platforms generated a further contribution to the revenues of the HSBC Group. This contribution can be estimated to be 50 per cent of the results reported in France.

The capital markets business had very ambitious targets for 2005, and it succeeded in achieving these in terms of both operating profit before provisions and coverage of large French corporates.

Revenue growth was very strong in 2005. Growth was driven by the various global platforms developed in Paris, products from which are sold across the entire HSBC Group:

– The structured interest-rate derivatives platform entered its industrial phase, offering a much broader range of models and products.

– The equity derivatives platform saw rapid growth, supported by the Group's existing centres in New York and Hong Kong.

– With the trading platform (European government bonds), HSBC France has "primary dealer" status with 10 European governments and continued to grow its market share, with its share in France rising from 7 per cent to 10 per cent according to a Greenwich report.

In addition, HSBC France offered its French customers products from other parts of the HSBC Group:

– fxtrading@hsbc in foreign exchange;

– structured forex options;

– credit derivatives.

Synergies with the Commercial Banking business continued, with strong growth in forex and interest-rate hedging products.

In Corporate Banking, HSBC confirmed its top 10 position in Mergers and Acquisitions and its top 5 position in bond issues:

– Mergers and acquisitions: HSBC no. 8 (versus no. 7 in 2004 – Thomson – reported transaction volumes). The main deals in 2005 included: the Sagem/Snecma and Electrabel/Suez mergers, the acquisition of Equant and Amena by France Télécom, the APRR privatisation and the disposal of Rexel by PPR (Pinault Printemps Redoute).

– Primary equity markets: HSBC no. 7 (versus no. 12 in 2004 – Bondware). The main deals in 2005 included: capital increases for France Télécom, Rhodia and Suez (lead manager or co-lead manager) and IPOs for EDF, Sanef and Ipsen.

– Debt capital markets: HSBC no. 3 (versus no. 5 in 2004 – all French issuers in euros and across all currencies – Bondware). The main deals in 2005 included: the French government's first 50-year bond issue and the first eurozone inflation-linked bond issue by Veolia.

– Syndicated loans: HSBC no. 5 (versus no. 7 in 2004 – Loanware), 35 lead arranger mandates and total lending volume of EUR 75 billion.

– Specialised finance (asset and structured finance, LBO, real estate, project finance): record year in terms of revenues and operating profit before provisions with unrivalled diversity of large and international transactions.

This increased commercial activity led to a rise in risk-weighted assets. HSBC France assesses the profitability of each client's overall relationship, in order to optimise our use of risk-weighted assets and to define our strategic position.

Asset management

Asset management had an excellent 2005. Earnings rose strongly, due to a 19 per cent rise in assets under management to EUR 66 billion. Net new money accounted for almost half the increase, rising to EUR 5.2 billion, while an improved asset mix and average margin also contributed to the increase.

– Sinopia's alternative funds, distributed throughout the HSBC Group, were a success.

– Equity funds generated high levels of new money, particularly HSBC Group funds (BRIC Freestyle with EUR 360 million, HSBC GIF India with EUR 2.3 billion, HSBC GIF Chinese Equity with EUR 950 million).

– Bond funds saw satisfactory new money inflows, although this was offset by outflows from money-market funds at the end of the year.

International expansion continued, particularly in Italy and Asia.

Groundwork for a major reorganisation was done of support in 2005. This reorganisation will be carried out in early 2006, with the pooling of sales forces and support functions and the outsourcing of employee savings account-keeping to a platform shared by four companies.

The quality and performance of HSBC France's asset management business was once again acknowledged:

– Sinopia Digit Très Long Terme: best fund over 5 years (Lipper Fund Awards – eurozone bond category);

– HSBC Investments, best major retail network for the 2005 performances (Victoires La Tribune – Standard & Poor's);

– Sinopia no. 3 and HSBC Investments no. 8 among 213 French asset management companies (Alpha League Table Europerformance – Edhec ranking), in terms of equity alpha;

– Sinopia Actiprimes Obligations: best fund over 10 years – Bond Global-Euro Hedged category (Reuters Lipper Fund Awards France 2006).

Private Banking

The restructuring of the private banking business was completed, and the new management team set clear objectives.

2005 was a year of consolidation. Client base expansion and sales approaches were refined, based on the reorganisation of financial manager and private banker teams. Central functions were developed in order to enhance service quality. In 2006, these efforts will be followed by the introduction of a new information system known as Group Private Banking European Platform, comprising Bimas and related applications used by the HSBC Group's Private Banking entities.

Following the introduction of new agreements in the first half of 2005, synergies with Personal Financial Services and Commercial Banking started to emerge with transferred assets and assets won from competitors. A Private Banking office was opened in Lyon in November 2005. This marks the start of the Private Banking network's expansion in the French regions, intended to intensify synergies with retail banking. Branches will be opened in Marseille and Bordeaux in 2006.

As in previous years, the strong investment performance of HSBC Private Bank France and its Louvre Gestion subsidiary were acknowledged, particularly over the long term:

- Corbeille "Mieux Vivre votre Argent": no. 3 in terms of the 5-year performance of the entire group product range;
- La Tribune and Standard & Poor's Victoires des Sicav 2006:
  - no. 3 out of 52 for three-year performance and no. 4 out of 46 for five-year performance (large institutions with at least 15 funds in 15 different categories);
  - Intégral Valor best fund over five years (balanced mixed international category) for the fourth consecutive year;
  - Louvre Multi Select European Equity Fund: best fund over three years (European equities category).

Proposed Resolutions

The Board of Directors will put the following resolutions to the vote at the Annual General Meeting of 17 May 2006.

Ordinary Business

The purpose of the first resolution is to seek approval of the Company's annual financial statements for the year ended 31 December 2005, after hearing the reports of the Directors and the Auditors, and the Chairman's report on corporate governance and internal control.

The second resolution concerns the allocation of the year's net profit. The Board is proposing a dividend of EUR 5.19 per share totalling EUR 390.5 million and to transfer into reserves the amount of the 2005 result, EUR 935.6 million. The dividend will be payable on 18 May 2006, after deduction of the interim dividend of EUR 3.74 per share voted by the Board of Directors at its meeting of 26 July 2005 and paid in respect of shares in issue as of that date.

The third resolution proposes to maintain the sum of EUR 422,041,360.61 registered in the long-term capital gains reserve account.

The fourth resolution seeks approval of the consolidated financial statements for the year ended 31 December 2005, as required under Article L. 225-100 of the Code de Commerce.

The fifth resolution seeks approval of agreements governed by Article L. 225-38 of the Code de Commerce, after hearing the Auditors' report on those agreements.

In the sixth and seventh resolutions, we are proposing the re-election of Messrs Martin Bouygues and Gilles Denoyel for a further term of four years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2009.

In the eighth, ninth, tenth and eleventh resolutions, we are proposing the re-election of KPMG SA and BDO Marque & Gendrot as Statutory Auditors and Messrs Gérard Gaultry and Patrick Giffaux as alternate auditors, for a further term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2011.

Special Business

We propose in the twelfth resolution to harmonise the Company's articles of association with the requirements of act 2005-842 of 26 July 2005, which is aimed at increasing confidence in and modernising the economy. This act has:

- introduced the possibility, unless prevented by the articles of association or internal rules, for members of the Board of Directors, in certain circumstances and under certain conditions, to take part and vote in Board meetings via telecommunication as well as videoconferencing. (French Commercial Code Article L. 225-37 paragraph 2);
- reduced the quorums required for the different types of shareholder meetings held by limited-liability corporations (French Commercial Code Article L. 225-96 paragraph 2, Article L. 225-98 paragraph 2 and Article L. 225-99 paragraph 2 as amended).

You will be able to view the changes to the Company's articles of association in the resolution that will be proposed for this purpose.

Powers (thirteenth resolution)

This resolution simply seeks empowerment to complete the requisite filing and legal formalities with respect to this Annual General Meeting.

We trust that the proposed resolutions will meet with your approval.

Senior Executives

Executive Management Committee

Charles-Henri Filippi *Chairman and Chief Executive Officer, Group Managing Director HSBC Holdings plc, a Director of HSBC Bank plc.*
Age 53. Joined HSBC France in 1987 having previously held senior appointments in the French Civil Service. Appointed Executive President of HSBC France in 1998, and appointed HSBC Group General Manager in 2001 as Global Head of Corporate and Institutional Banking. Chairman and Chief Executive Officer since 1 March 2004, Member of the Group Management Board for HSBC Holdings plc and responsible for co-ordinating HSBC Group's strategy in the eurozone.

Patrick Careil *Director and Deputy Chief Executive Officer, Head of Retail Banking.*
Age 58. Having previously held senior appointments in the French Civil Service and as adviser to several Ministers, was appointed Chairman and CEO of Banque Hervet in 1989. Chairman of Société Marseillaise de Crédit (SMC) 1997-1998. Deputy Chief Executive Officer since 1 March 2004.

Gilles Denoyel *Director and Deputy Chief Executive Officer, in charge of central functions, asset management and insurance.*
Age 51. Joined HSBC France in 1996 as Finance Director, having held senior appointments in the French Ministry of Finances. In 1998, was appointed Senior Corporate Vice-President, Finances. On 1 March 2004, appointed Deputy Chief Executive Officer, in charge of finances and support services. Since January 2006, responsible for the asset management activities, insurance activities and central functions (Human Resources, credit, legal, compliance).

Charles-Henri Filippi

Patrick Careil

Gilles Denoyel

Philippe Pontet *Director and Vice-Chairman Corporate Finance Europe, HSBC France.*
Age 63. Joined HSBC France in January 2005 as Vice-Chairman Corporate Finance Europe. Appointed a member of the Board of Directors of HSBC France in February 2005. Conseiller Maître à la Cour des Comptes, has been Chairman of AREVA, Sogeade, CIC, and of AREVA NP, having previously held senior appointments in the French Civil Service.

Samir Assaf *Senior Corporate Vice-President, co-head of Corporate, Investment Banking and Markets (Global Markets).*
Age 45. Joined HSBC France in 1994. Having previously held several managerial positions in the Financial Department of Total Group. Held several posts as Head of Treasury and Forex, and Capital Markets. Senior Corporate Vice-President in charge of Global Markets since 2001.

Christophe de Backer *Senior Corporate Vice-President, Private Banking.*
Age 43. Joined HSBC France's brokerage company CCF Securities in 1991 and appointed Chairman and CEO in 1998. Appointed in January 2001, Senior Corporate Vice-President, in charge of Asset Management and Insurance. Appointed Chairman of the Management Board, HSBC Private Bank France in September 2005.

Jean Beunardeau *Senior Corporate Vice-President, co-head of Corporate, Investment Banking and Markets (Corporate and Investment Banking).*
Age 43. Joined HSBC France in 1997, Corporate Finance. Appointed Head of Corporate Banking in January 2004. Having previously held senior appointments in the French Civil Service. Senior Corporate Vice-President since January 2005.

Matthew Paul Smith *Chief Operating Officer, Responsible for Operations, Information Systems, Support Services, Finance and Global Transaction Banking.*
Age 46. Joined HSBC Group in 1984 as an International Manager and has since held international senior appointments in a broad range of activities: Operations, Asset Management, Retail Banking. Joined Group Human Resources in 1996. Appointed Chief Executive Officer, HSBC Bank Middle East Limited in Qatar in 2000. In 2004, appointed Regional Chief Operating Officer, HSBC Bank Middle East Limited. In December 2005, appointed Chief Operating Officer, HSBC France.

Michel Wohrer *Senior Corporate Vice-President, in charge of Strategy.*
Age 52. Joined HSBC France in 1988 having held positions in Mergers and Acquisitions, headed HSBC France's Brokerage Company before being named Head of Fixed Income and Capital Markets. General Secretary until 2001. Having previously held senior appointments in the French Ministry of Finance. Senior Corporate Vice-President since 2002.


Samir Assaf


Christophe de Backer


Jean Beunardeau


Matthew Paul Smith


Michel Wohrer

Senior Executives (continued)

Executive Vice-Presidents

Jean Baudoin	Head of Credit and Operational Risk Management
Jalil Berrada	Head of Information Technology
Jacques-Emmanuel Blanchet	Head of Operations
Alain Cadiou	Head of Group Audit France
Sylvie François	Head of Human Resources
Eric Groven	Chief Financial Officer
Pierre Jammes	Head of Commercial Banking
Chantal Nedjib	Head of Corporate Communications
Corinne Orémus	Head of Retail Banking, HSBC France
Catherine Vidal	Head of Personal Financial Services
Jean-Pierre Wiedmer	Head of Insurance

Corporate Governance

Composition of the Board of Directors of HSBC France

Charles-Henri Filippi *Born in 1952* [1]
Holds 1 HSBC France share. First elected: 1998. Last re-elected: 2004. Term ends: 2008.

Principal Position:
Chairman and CEO, HSBC France, and Group Managing Director, HSBC Holdings plc.

Other directorships in the HSBC Group:
Member of the Group Management Board, HSBC Holdings plc. Director, HSBC Bank plc. Director, Trinkaus & Burkhardt KGaA. Director, HSBC Asset Management Holding. Director, HSBC Private Banking Holdings (Suisse) SA. Member of the Supervisory Board, HSBC Private Bank France (since 22 September 2005). Directorship expired in 2005: Chairman of the Supervisory Board, HSBC Private Bank France.

Other directorships outside of the HSBC Group:
Director and member of the Executive Commission, Altadis. Directorships expired in 2005: Member of the Supervisory Board, Galeries Lafayette. Director, Seita (permanent representative of HSBC France).

Gilles Denoyel *Born in 1954* [1]
Holds 1 HSBC France share. First elected: 2004. Term ends: 2006 [2].

Principal position:
Deputy CEO, HSBC France.

Other directorships in the HSBC Group:
Chairman and CEO, HSBC Asset Management Holding (since 1 January 2006). Chairman, HSBC Investments (France) (since 1 January 2006). Chairman, Sinopia Asset Management (since 6 February 2006). Director, Erisa. Director, Erisa Iard (since 19 December 2005). Member of the Supervisory Board, HSBC Private Bank France. Directorships expired in 2005: Director, HSBC Hervet. Director, Société Marseillaise de Crédit.

Other directorships outside of the HSBC Group:
Director, DCN. Directorship expired in 2005: Director, Fondation de France.

Patrick Careil *Born in 1947* [1]
Holds 1 HSBC France share. First elected: 2004. Term ends: 2008.

Principal position:
Deputy CEO, HSBC France.

Other directorships in the HSBC Group:
Director, Société Marseillaise de Crédit (since 24 January 2006). Directorships expired in 2005: Director, Banque Hervet. Director, UBP. Chairman of the Supervisory Board: Banque de Savoie. Member of the Supervisory Board, Banque Dupuy, de Parseval. Chairman of the Supervisory Board, Banque Dupuy, de Parseval (from 10 February to 20 May 2005).

Other directorships outside of the HSBC Group:
Director, Electro Banque. Director, Institut des Vaisseaux et du Sang. Director and treasurer, Société des Amis du Musée des Arts Premiers.

Martin Bouygues *Born in 1952*
Holds 1 HSBC France share. First elected: 2002. Term ends: 2006 [2].
Independent Director.

Principal position:
Chairman and CEO, Bouygues.

Other directorships:
Director, TF1. Director, Société de Distribution d'Eau de la Côte d'Ivoire (SODECI). Director, Compagnie Ivoirienne d'Electricité (CIE). Chairman, SCDM. Chairman, Actiby (permanent representative of SCDM). Chairman, SCDM Participations (permanent representative of SCDM).

Résumé:
He joined the Bouygues Group in 1974 as works foreman. In 1978, he created Maison Bouygues and became Chairman and Chief Executive Officer in 1984. He has been Chairman and Chief Executive Officer of Bouygues since 1989.

1 *Résumé available on page 8.*
2 *Director re-elected by the Annual General Meeting held on 17 May 2006 for a further term of four years ending at the conclusion of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2009.*

Corporate Governance (continued)

Evelyn Cesari *Born in 1949*
Holds 1 HSBC France share. First elected: 2000. Last re-elected: 2004. Term ends: 2008.
Director elected by employees.

Principal Position:
Head of the Personal Financial Services customer group, Real Estate Department, HSBC France.

Résumé:
Joined HSBC France in 1967.

Paul Dubrule *Born in 1934*
Holds 1 HSBC France share. First elected: 1999. Last re-elected: 2005. Term ends: 2009.
Independent Director. Chairman of the HSBC France Nomination and Remuneration Committee.

Principal Position:
Founding Co-Chairman, Accor.

Other directorships [1]:
Chairman, Maison de la France (since March 2005). Director, Oberthur Card Systems. Manager, Société d'Exploitation et d'Investissements Hôteliers – SEIH. Directorship expired in 2005: Member of the Management Board, Accor.

Résumé:
Chairman and founder of Novotel (1963). Co-Chairman of Accor (1983-1997).

Maurice Ettori *Born in 1947*
Holds 1 HSBC France share. First elected: 2004. Term ends: 2008.
Director elected by employees.

Principal position:
Internal Controller in the HSBC Retail banking network – HSBC France.

Résumé:
Joined HSBC France in 1973.

Michael Geoghegan *Born in 1953*
Holds 1 HSBC France share. First elected: 2004. Term ends: 2008.

Principal Position:
Group Chief Executive, HSBC Holdings plc (since 26 May 2006).

Other directorships [1]:
Non-executive Director and Chairman, Young Enterprise.

Résumé:
British nationality. Joined HSBC in 1973. President of HSBC Bank Brasil S.A.–Banco Múltiplo from 1997 until 2003, and head of HSBC South American operations from 2000 to 2003. Chief Executive of HSBC Bank plc from January 2004 to March 2006. Executive Director of HSBC Holdings plc since 1 March 2004.

Stephen Green *Born in 1948*
Holds 1 HSBC France share. First elected: 2000. Last re-elected: 2003. Term ends: 2007.
Member of the HSBC France Nomination and Remuneration Committee.

Principal position:
Group Chairman, HSBC Holdings plc (since 26 May 2006).

Other directorships [1]:
Director, Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc. Director, The Institute of International Finance, Inc. Director, London Business School (since 23 February 2005). Director, British Museum (since 7 July 2005).

Résumé:
British nationality. HSBC Group Treasurer 1992-1998. Executive Director, Corporate Investment Banking and Markets, HSBC Holdings plc 1998-2003. HSBC Group Chief Executive May 2003–May 2006. Chairman, HSBC Bank plc since 1 January 2005.

1 *For the most part, appointments held in companies which do not belong to the group in which the Directors have their principal position.*

Philippe Houzé *Born in 1947*
Holds 1 HSBC France share. First elected: 1999. Last re-elected: 2004. Term ends: 2008.
Independent Director. Member of the HSBC France Nomination and Remuneration Committee.

Principal Position:
Chairman of the Management Board, Galeries Lafayette.

Other directorships[1]*:*
Chairman and CEO, Monoprix SA. Director, Casino Guichard-Perrachon. Director, Société d'Exploitation du Palais des Congrès. Member of the Executive Board, MEDEF (since February 2006). Directorships expired in 2005: Director, Telemarket. Director, Monoprix Exploitation. Chairman of the Board, LRMD.

Résumé:
Director of Galeries Lafayette since 1974. Chairman of Monoprix since 1994. Vice-President of the Conseil National du Commerce since 1991. Chairman of UCV and member of the Chambre de Commerce et d'Industrie de Paris since 2005.

Jean-Claude Jolain *Born in 1943*
Holds 1 HSBC France share. First elected: 1987. Last re-elected: 2003. Term ends: 2007.
Independent Director: Chairman of the HSBC France Audit Committee.

Principal position:
Chairman and CEO, Sagi.

Other directorships[1]*:*
Chairman and CEO, Ville Service Plus. Director, Unibail.

Résumé:
From 1968 to 1986, he held a number of ministerial positions, and at Paris municipality. From 1968 to 1998, he was Chairman of the insurance group La Mutuelle Générale Française, which after its privatisation in 1987 became the Mutuelle du Mans Group. In 1993, he was appointed Chairman and Chief Executive Officer of Sagi.

Igor Landau *Born in 1944*
Holds 1 HSBC France share. First elected: 2002. Last re-elected: 2004. Term ends: 2008.
Independent Director.

Other directorships[1]*:*
Director: Sanofi-Aventis. Director, Insead. Director, Essilor. Member of the Supervisory Board, IDI (Institut de Développement Industriel). Member of the Supervisory Board, Dresdner Bank AG. Member of the Supervisory Board, Adidas Salomon. Member of the Supervisory Board, Allianz (since 1 January 2005). Directorships expired in 2005: Director, Thomson. Member of Advisory Committee, Banque de France.

Résumé:
After a few years with McKinsey, he joined Rhône-Poulenc in 1975 as assistant to the General Manager of the Health Division. In 1987, he was appointed Member of Rhône-Poulenc Group's Executive Committee and General Manager of the Health Division and then in 1992, CEO of Rhône-Poulenc Group. After the merger with Hoechst, he was a member of the Management Board of Aventis from 1999 to 2002 and then Chairman of the Management Board until 30 August 2004. Since this date, he has been a Director of Sanofi-Aventis.

Jean-Charles Naouri *Born in 1949*
Holds 1 HSBC France share. First elected: 1999. Last re-elected: 2005. Term ends: 2009.
Independent Director.

Principal position:
Chairman and CEO, Casino Guichard-Perrachon.

Other directorships[1]*:*
Chairman and CEO, Rallye. Chairman, Euris. Chairman, Finatis. Chairman, Groupe Euris (SAS). Chairman, "Promotion des talents" Association. Chairman, Institut d'Expertise et de Prospective de l'Ecole Normale Supérieure. Vice-Chairman, Fondation Euris. Member of the Supervisory Board, Groupe Marc de Lacharrière (SCA). Associé Commanditaire, Rothschild et Compagnie Banque. Manager, SCI Penthièvre. Manager, SCI Penthièvre-Seine. Manager, SCI Penthièvre-Neuilly. Censor, Fimalac. Censor, Caisse Nationale des Caisses d'Épargne. Member of the Advisory Committee, Banque de France. Directorship expired in 2005: Director, Continuation Investment NV.

Résumé:
He began his career with the French Treasury Department and was appointed chief of staff at the Ministry of Social Affairs and National Solidarity in 1982, then at the Ministry of the Economy, Finance and Budget in 1984. In 1987, he founded the company Euris.

1 *For the most part, appointments held in companies which do not belong to the group in which the Directors have their principal position.*

Corporate Governance (continued)

Philippe Pontet *Born in 1942* [1]
Holds 1 HSBC France share. First elected: 2005. Term ends: 2007.

Principal position:
Vice-Chairman, Corporate Finance Europe, HSBC France.

Other directorships:
Chairman, Sogepa. Chairman, Sogeade Gérance. Directorship expired in 2005: Chairman, Placement Obligations (NSM Gestion fund).

Philippe Purdy *Born in 1958*
Holds 1 HSBC France share. First elected: 2004. Term ends: 2008.
Director elected by employees.

Principal position:
Receptionist – HSBC Mandelieu branch.

Résumé:
Joined HSBC France in 1982.

Marcel Roulet *Born in 1933*
Holds 1 HSBC France share. First elected: 1996. Last re-elected: 2005. Term ends: 2009.
Independent Director. Chairman of the HSBC France Audit Committee.

Other directorships:
Chairman of the Supervisory Board, Gimar Finances SCA. Member of the Supervisory Board, Eurazeo. Director, Thomson. Director, Thales (permanent representative of Thomson SA). Director, France Télécom. Censor, Pages Jaunes Group. Censor, Cap Gemini (since 12 May 2005).

Résumé:
Ingénieur général des Télécommunications. Honorary Chairman of France Télécom. Chairman of France Télécom from 1991 to 1995. Chairman and Chief Executive Officer of Thomson from 1996 to 1997 and Thomson CSF (now Thales) from 1996 to 1998.

Joyce Semelin *Born in 1974*
Holds 1 HSBC France share. First elected: 2004. Term ends: 2008.
Director elected by the employees.

Principal position:
International Business Officer – HSBC Premier International – HSBC France.

Résumé:
Joined HSBC France in 1999.

Peter Shawyer *Born in 1950*
Holds 1 HSBC France share. First elected: 2005. Term ends: 2009.
Member of the HSBC France Audit Committee since May 2005.

Other directorships:
Independent Director and member of the audit committee of HSBC Bank plc. Director, Ingenious Music VCT 2 plc (since 14 November 2005).

Résumé:
British nationality. He made all his career at 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.*

Business address of the Senior Executives and members of the Board of Directors

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.

Conflicts of interest

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

For information, Michael Geoghegan and Stephen Green are directors of HSBC France and corporate officers of HSBC Bank plc, which owns 99.99 per cent of the issuer, and of HSBC Holdings plc, which owns 100 per cent of HSBC Bank plc.

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 be present at the discussion.

Corporate Governance (continued)

Directorships held by the members of the Board of Directors

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

Director's name Principal position	First elected	Term end	2005	2004	2003	2002	2001
Charles-Henri Filippi Chairman & CEO, HSBC France	1998	2008	Directorships in the HSBC Group: Chairman and CEO: HSBC France. Group Managing Director: HSBC Holdings plc. Director: HSBC Bank plc, HSBC Trinkaus & Burkhardt KGaA, HSBC Private Banking Holdings (Suisse) SA, HSBC Asset Management Holding. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director and member of the Executive Commission: Altadis.	Directorships in the HSBC Group: Chairman and CEO: CCF. Group Managing Director: HSBC Holdings plc. Director: HSBC Bank plc, HSBC Trinkaus & Burkhardt KGaA, HSBC CCF Asset Management Holding. Chairman of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: Seita (permanent representative of CCF). Director and member of the Executive Commission: Altadis. Member of the Supervisory Board: Galeries Lafayette.	Directorships in the HSBC Group: Member of the Group Management Board: HSBC Holdings plc. Director: HSBC Bank plc. Directorships outside of the HSBC Group: Director: Seita (permanent representative of CCF). Director and member of the Executive Commission: Altadis.	Directorships in the HSBC Group: Group General Manager and Global Head of Corporate and Institutional Banking of the HSBC Group. Director: HSBC Bank plc. Directorships outside of the HSBC Group: Director: Seita (permanent representative of CCF). Director and member of the Executive Commission: Altadis.	Directorships in the HSBC Group: Group General Manager and Global Head of Corporate and Institutional Banking of the HSBC Group. Director: HSBC Bank plc. Directorships outside of the HSBC Group: Director: Seita (permanent representative of CCF), Electro-Banque. Director and member of the Executive Commission: Altadis.
Gilles Denoyel Deputy CEO, HSBC France	2004	2006[1]	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Director: Erisa, Erisa Iard, HSBC Asset Management Holding, HSBC Investments (France), Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCN.	Directorships in the HSBC Group: Director and Deputy CEO: CCF. Director: Banque Hervet, Erisa, HSBC CCF Asset Management Holding, Société Marseillaise de Crédit. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCN, Fondation de France.	–	–	–

1 *Director re-elected by the Annual General Meeting held on 17 May 2006 for a further term of four years ending at the conclusion of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2009.*

Director's name Principal position	First elected	Term end	**2005**	2004	2003	2002	2001
Patrick Careil Deputy CEO, HSBC France	2004	2006	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Directorships outside of the HSBC Group: Director: Electro Banque, Institut des Vaisseaux et du sang. Director and treasurer: Société des Amis du Musée des Arts Premiers.	Directorships in the HSBC Group: Director and Deputy CEO: CCF. Director: Banque Hervet, UBP. Chairman of the Supervisory Board: Banque de Savoie. Member of the Supervisory Board: Banque Dupuy, de Parseval. Directorships outside of the HSBC Group: Director: Electro Banque, Institut des Vaisseaux et du sang. Director and treasurer: Société des Amis du Musée des Arts Premiers.	–	–	–
Martin Bouygues Chairman & CEO, Bouygues	2002	2006[1]	Chairman & CEO: Bouygues. Director: TF1, Société de Distribution d'Eau de la Côte d'Ivoire (SODECI), Compagnie Ivoirienne d'Électricité (CIE). Chairman: SCDM, Actiby (permanent representative of SCDM), SCDM Participations (permanent representative of SCDM).	Chairman & CEO: Bouygues. Director: TF1, Société de Distribution d'Eau de la Côte d'Ivoire (SODECI), Compagnie Ivoirienne d'Electricité (CIE). Chairman of the Board: SCDM.	Chairman & CEO: Bouygues. Director: TF1, Société de Distribution d'Eau de la Côte d'Ivoire (SODECI), Compagnie Ivoirienne d'Électricité (CIE). Chairman of the Board: SCDM.	Chairman & CEO: Bouygues. Director: TF1, Actiby, Société de Distribution d'Eau de la Côte d'Ivoire (SODECI), Compagnie Ivoirienne d'Electricité (CIE). Chairman & CEO: SCDM.	–
Evelyn Cesari Director elected by employees	2000	2008	–	–	–	–	–
Paul Dubrule Founding Co-Chairman, Accor	1999	2009	Founding Co-Chairman: Accor. Chairman: Maison de la France. Director: Oberthur Card Systems. Manager: Société d'Exploitation et d'Investissements Hôteliers – SEIH.	Founding Co-Chairman, Accor.	Founding Co-Chairman, Member of the Management Board: Accor.	Member of the Management Board: Accor.	Member of the Management Board: Accor. Director: Publications du Nouvel Economiste, Sogebail.
Maurice Ettori Director elected by employees	2004	2008	–	–	–	–	–

1 *Director re-elected by the Annual General Meeting held on 17 May 2006 for a further term of four years ending at the conclusion of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2009.*

Corporate Governance (continued)

Director's name Principal position	First elected	Term end	**2005**	2004	2003	2002	2001
Michael Geoghegan Executive Director, HSBC Holdings plc	2004	2008	Executive Director: HSBC Holdings plc. Deputy Chairman: HSBC Bank plc. Non-executive Director and Chairman: Young Enterprise.	Executive Director: HSBC Holdings plc. Chief Executive Officer: HSBC Bank plc. Non-executive Director: Young Enterprise.	–	–	–
Stephen Green Group Chief Executive, HSBC Holdings plc	2000	2007	Executive Director and Group Chief Executive: HSBC Holdings plc. Chairman: HSBC Bank plc. Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., The Institute of International Finance, Inc., London Business School, British Museum.	Executive Director and Group Chief Executive: HSBC Holdings plc. Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., The Institute of International Finance, Inc.	Executive Director and Group Chief Executive: HSBC Holdings plc. Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., Grupo Financiero HSBC, S.A. de C.V.	Chairman: HSBC Investment Bank Holdings plc. Executive Director: HSBC Holdings plc. Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., Poplar Housing and Regeneration Community Association Ltd, St Paul's Cathedral Foundation.	Chairman: HSBC Investment Bank Holdings plc. Executive Director: HSBC Holdings plc. Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., Poplar Housing and Regeneration Community Association Ltd, St Paul's Cathedral Foundation.
Philippe Houzé Chairman of the Management Board, Galeries Lafayette	1999	2008	Chairman of the Management Board: Galeries Lafayette. Chairman & CEO: Monoprix SA. Director: Casino Guichard-Perrachon, Société d'Exploitation du Palais des Congrès. Member of the Executive Board: MEDEF.	Co-Chairman of the Management Board: Galeries Lafayette. Chairman & CEO: Monoprix SA. Director: Casino Guichard-Perrachon. Telemarket, Monoprix Exploitation, Société d'Exploitation du Palais des Congrès. Chairman of the Board: LRMD.	Co-Chairman of the Management Board: Galeries Lafayette. Chairman & CEO: Monoprix SA. Member of the Supervisory Board: Casino Guichard-Perrachon.	Chairman & CEO: Monoprix SA. Co-Chairman of the Management Board: Galeries Lafayette. Member of the Supervisory Board: Casino Guichard-Perrachon.	Chairman & CEO: Monoprix SA. Co-Chairman of the Management Board: Galeries Lafayette. Vice-Chairman: BHV. Member of the Supervisory Board: Casino.
Jean-Claude Jolain Chairman & CEO, Sagi	1987	2007	Chairman & CEO: Sagi, Ville Service Plus. Director: Unibail.	Chairman & CEO: Sagi, Ville Service Plus. Director: Unibail.	Chairman & CEO: Sagi, Ville Service Plus. Chairman: UESL. Director: Unibail.	Chairman & CEO: Sagi, Ville Service Plus. Chairman: UESL. Director: Unibail, Perexia.	Chairman & CEO: Sagi, Ville Service Plus. Chairman: UESL. Director: Unibail, CNAM, Semidep, Efidis, Perexia. Member of the Strategic and Supervisory Board: Crédit Municipal de Paris.
Igor Landau Company Director	2002	2008	Director: Sanofi-Aventis, Insead, Essilor. Member of the Supervisory Board: Dresdner Bank AG, Adidas-Salomon, Allianz, IDI (Institut de Développement Industriel).	Director: Sanofi-Aventis, Insead, Essilor, IDI (Institut de Développement Industriel), Thomson. Member of the Advisory Board: Banque de France. Member of the Supervisory Board: Dresdner Bank AG, Adidas-Salomon.	Chairman of the Management Board: Aventis. Director: Fisons Limited, Insead, Essilor, IDI (Institut de Développement Industriel), Thomson. Member of the Advisory Board: Banque de France. Member of the Supervisory Board: Dresdner Bank AG.	Chairman of the Management Board: Aventis. Chairman of the Supervisory Board: Aventis Pharma AG. Director: Rhône-Poulenc Rorer Inc., Hoechst AG, Fisons Limited, Cedep, Essilor, IDI (Institut de Développement Industriel), Thomson.	–

Director's name Principal position	First elected	Term end	**2005**	2004	2003	2002	2001
Jean-Charles Naouri Chairman & CEO, Casino Guichard-Perrachon	1999	2009	Chairman & CEO: Casino Guichard-Perrachon, Rallye. Chairman of the Board: Euris, Finatis. Chairman: Groupe Euris (SAS), association "Promotion des talents", Institut d'Expertise et de Prospective de l'Ecole Normale Supérieure. Vice-Chairman: Fondation Euris. Member of the Supervisory Board: Groupe Marc de Lacharrière (SCA). Associé Commanditaire: Rothschild et Compagnie Banque. Manager: SCI Penthièvre, SCI Penthièvre-Seine, SCI Penthièvre-Neuilly. Censor: Fimalac, Caisse Nationale des Caisses d'Epargne. Member of the Advisory Board: Banque de France.	Chairman & CEO: Rallye. Chairman of the Board: Casino Guichard-Perrachon, Euris, Finatis. Chairman: Groupe Euris (SAS), association "Promotion des talents", Institut d'Expertise et de Prospective de l'Ecole Normale Supérieure. Vice-Chairman: Fondation Euris. Member of the Supervisory Board: Groupe Marc de Lacharrière (SCA). Managing Partner: Rothschild et Compagnie Banque. Director: Continuation Investment NV. Manager: SCI Penthièvre. Censor: Fimalac, Caisse Nationale des Caisses d'Epargne.	Chairman: Groupe Euris. Chairman & CEO: Rallye. Chairman of the Board: Casino Guichard-Perrachon, Finatis. Member of the Supervisory Board: Groupe Marc de Lacharrière (SCA). Managing Partner: Rothschild et Compagnie Banque. Manager: SCI Penthièvre. Censor: Fimalac.	Chairman: Groupe Euris, Rallye, Finatis. Director: Continuation Investments NV. Member of the Supervisory Board: Casino, Groupe Marc de Lacharrière (SCA). Managing Partner: Rothschild et Compagnie Banque.	Chairman & CEO: Euris, Finatis. Chairman: Rallye. Director: Continuation Investments NV, Fimalac. Member of the Supervisory Board: Casino, Groupe Marc de Lacharrière (SCA). Managing Partner: Rothschild et Compagnie Banque.
Philippe Pontet Vice-Chairman Corporate Finance Europe, HSBC France	2005	2007	Chairman: SOGEPA, SOGEADE Gérance.	–	–	–	–
Philippe Purdy Director elected by employees	2004	2008	_	_	–	–	–
Marcel Roulet Company Director	1996	2009	Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: Thomson, Thales (permanent representative of Thomson SA), France Télécom. Censor: Pages Jaunes Groupe and Cap Gemini.	Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: Thomson, Thales (permanent representative of Thomson SA), France Télécom.	Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: Thomson, Thales (permanent representative of Thomson), France Télécom.	Chairman of the Supervisory Board: Gimar Finances SCA. Director: Thomson, Thales (permanent representative of Thomson), Eurazeo.	Chairman of the Supervisory Board: Pages Jaunes, Gimar Finance et Cie. Director: Thomson Multimedia, Thales (permanent representative of Thomson), Eurazeo.
Joyce Semelin Director elected by employees	2004	2008	_	_	–	–	–
Peter Shawyer Company Director	2005	2009	Director: HSBC Bank plc, Ingenious Music VCT 2 plc.	–	–	–	–

Corporate Governance (continued)

Remuneration of Directors and Senior Management

Remuneration of Directors

Executive Directors' remuneration policy

The remuneration of Executive Directors is agreed each year by the Board of Directors at the recommendation of the Nomination and Remuneration Committee, after the agreement of the Remuneration Committee of HSBC Holdings plc. It includes a fixed component and a variable component. The fixed component is determined by reference to market data supported by the advice of specialist consultants. The variable component is equal to a percentage of the fixed component. This percentage is comprised between 0 per cent and 250 per cent and is agreed by the Board of Directors each year once the financial statements have been approved. The percentage agreed is based on performance in terms of operating profit before provisions, earnings per share and return on equity, taking account of the economic climate and a comparison against the budget and prior-year results.

Furthermore, HSBC Holdings plc share options subject to performance conditions have been awarded in 2005 to the Executive Directors. From 2006, two types of HSBC Holding plc shares are granted to them. The details are shown in the Share options and shares plans section.

The Executive Directors and Senior Corporate Vice-Presidents of HSBC France have a defined benefits supplementary pension scheme. This plan guarantees members a pre-determined absolute pension income based on their length of service, provided they are working for the Group when they take retirement (i.e. on the date they draw their pension rights under the French State and compulsory arrangements). In the event 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 French State pensions. At 1 January 2006, C-H Filippi had accrued pension rights at HSBC France representing 19 per cent of his fixed 2005 salary and 7 per cent of his total 2005 remuneration. At the same date, G Denoyel had accrued pension rights at HSBC France representing 9 per cent of his fixed 2005 salary and 5 per cent of his total 2005 remuneration. P Careil had accrued pension rights at HSBC France representing 5 per cent of his fixed 2005 salary and 3 per cent of his total 2005 remuneration. The present value of these supplementary pension commitments was EUR 3.5 million at 31 December 2005. This amount has been duly provisioned. C-H Filippi has been employed since 29 February 2004 by HSBC Asia Holdings, Group Managing Director of HSBC Holdings, seconded to HSBC France as Chairman and CEO. As a Group employee, C-H Filippi benefits from a retirement guarantee at the age of 60. At 31 December 2005, the global amount of the guaranteed pension income was EUR 424,000[1], including the legal and supplementary pension schemes and the one described above payable by HSBC France.

At last, the Executive Directors also have a company car.

2005 cash remuneration

The amount of direct and indirect cash remuneration received in 2005 by the Chairman and CEO, the Deputy CEOs and the Senior Corporate Vice-Presidents (8 persons), amounted to EUR 2,593,098 for the fixed component and EUR 3,465,000 for the variable component.

1 *Indexed on inflation rate from 1 March 2004.*

Cash emoluments, including all benefits in kind, paid to each Executive Director in respect of 2005 by HSBC France, the companies it controls and the companies which control it (the HSBC Group):

(in euros)	*Fixed component*	*Variable component*[1]	*Benefits in kind*	*Directors' fees*	*2005 Total*	*2004 Total*
Charles-Henri Filippi[2]	600,000	840,000	8,724	50,750	1,499,474	1,437,879[3]
Gilles Denoyel	350,000	300,000	–	22,000	672,000	585,387[4]
Patrick Careil	350,000	280,000	2,132	22,000	654,132	585,387[4]

1 *Variable component calculated in respect of 2005 and paid in 2006.*
2 *A part of this remuneration was paid by other HSBC Group companies in respect of his functions within the Group.*
3 *This amount excludes the part of this variable remuneration in respect of 2005 which has been paid into the UK pension scheme in exchange for the prior waiver of bonus, i.e. EUR 300,000 in respect of 2005 (EUR 366,667 in respect of 2004).*
4 *From 1 March 2004 to 31 December 2004.*

Directors' fees

At the Annual General Meeting of 17 May 2005, the maximum amount of Directors' fees payable each year was fixed at EUR 480,000 against EUR 426,850 since 1999. At its meeting of the same date, the Board of Directors decided to increase the individual fees as follows:

- each Director receives an annual flat fee of EUR 22,000 at the conclusion of the Annual General Meeting;
- those Directors who sit as Chairman or member on the Board Committees also receive an annual flat fee as follows:
  - EUR 10,000 for the members of the Nomination and Remuneration Committee,
  - EUR 15,000 for the members of the Audit Committee,
  - EUR 25,000 for the Chairman of the Audit Committee.

Within the HSBC Group, it is customary for Directors representing HSBC on the Board of several different Group companies to receive Directors' fees from only one of these. Following the Board's decision of 20 February 2001, this rule applies to three HSBC France Directors, Messrs Filippi, Geoghegan and Green, who will not receive Directors' fees in respect of their directorship of HSBC France with effect from the date of their appointment onto the Board of another HSBC Group company.

Total Directors' fees paid in May 2006 in respect of 2005 amounted to EUR 0.382 million against EUR 0.295 million paid in 2005 in respect of 2004.

Cash remuneration paid to each Director in 2005 by HSBC France, the companies it controls and the companies which control it (the HSBC Group):

	Directors' fees	*Salary and other fixed remuneration*	*Variable remuneration*	*Benefits in kind*	*Total*
Executive Directors of HSBC Group companies					
Charles-Henri Filippi [1]	EUR51,450	EUR600,000	EUR733,333 [2]	EUR8,724	EUR1,393,507
Gilles Denoyel	EUR13,720	EUR350,000	EUR280,000	–	EUR643,720
Patrick Careil	EUR13,720	EUR350,000	EUR280,000	EUR2,132	EUR645,852
Stephen K. Green [3]	GBP55,000	GBP778,000	GBP1000,000	GBP1,000	GBP1,779,000
Michael F. Geoghegan [3]	GBP46,000	GBP658,000	– [4]	GBP13,000	GBP671,000
Philippe Pontet	– [5]	EUR350,000	–	–	EUR350,000
Directors elected by the employees					
Evelyn Césari	EUR18,294.00				EUR18,294.00
Maurice Ettori	EUR4,573.50				EUR4,573.50
Philippe Purdy	EUR4,573.50 [6]				EUR4,573.50
Joyce Semelin	EUR4,573.50 [6]				EUR4,573.50
Independent Directors					
Martin Bouygues	EUR18,294	–	–	–	EUR18,294
Paul Dubrule	EUR27,441	–	–	–	EUR27,441
Philippe Houzé	EUR27,441	–	–	–	EUR27,441
Jean-Claude Jolain	EUR27,441	–	–	–	EUR27,441
Igor Landau	EUR18,294	–	–	–	EUR18,294
Jean-Charles Naouri	EUR18,294	–	–	–	EUR18,294
Marcel Roulet	EUR27,441	–	–	–	EUR27,441
Peter Shawyer	– [7]	–	–	–	–
Rémi Vermeiren	EUR13,720 [8]	–	–	–	EUR13,720

1 *A part of this remuneration was paid by other HSBC Group companies in respect of his functions within the Group.*
2 *This amount excludes the contribution paid into the UK pension scheme in exchange for the prior waiver of bonus, i.e. EUR 366,667.*
3 *Emoluments shown are those paid by other HSBC Group companies in respect of their executive functions within the Group.*
4 *In return for the prior waiver of bonus, an employer contribution has been made into a pension arrangement for M F Geoghegan equal to the amount of GBP1,200,000 which would otherwise have been paid.*
5 *Co-opted by the Board of Directors held on 22 February 2005.*
6 *Directors' fees paid to a trade union organisation.*
7 *Appointed as a Director on 17 May 2005.*
8 *Amount excluding withholding tax. His appointment ended on 17 May 2005.*

Corporate Governance (continued)

Auditors' fees paid in 2005 within the HSBC France group

(in thousands of euros)	*Audit assignments*	*Other assignments*	*Total*	*%*
KPMG	2,593	1,144	3,737 [1]	81.1%
BDO Marque & Gendrot	344		344	7.5%
Deloitte	124		124	2.7%
Cabinet Vizzavona	57		57	1.2%
Cabinet Pommier	35		35	0.8%
Cabinet Fleury Sofinaudit	129		129	2.8%
Others	182		182	3.9%
Sub-total non-KPMG	871		871	18.9%
Total inclusive of recoverable VAT	3,464	1,144 [2]	4,608 [3]	100.0%

1 *A total of EUR 3,737,000 inclusive of non-recoverable VAT, or EUR 3,300,000 excluding VAT, was paid to KPMG.*
2 *Among the other assignments representing a total of EUR 1,144,000, fees for IFRS related work was EUR 570,000, fees relating to Sarbanes-Oxley compliance requirements was EUR 88,000 and interim review fees to 30 June 2005 was EUR 273,000 (for regulatory reasons specific to the HSBC Group, the latter category is included in other assignments or non-audit fees).*
3 *The corresponding amounts excluding VAT are EUR 3,093,000 for audit assignments, EUR 995,000 for other assignments and EUR 4,088,000 overall.*

Chairman's report on corporate governance and internal control procedures

Under the August 2003 law on financial security, the Chairman of the Board of Directors of a French "société anonyme" *is now required to report to shareholders annually on the company's corporate governance, internal control procedures and any restrictions on the powers of the Chief Executive Officer.*

I am pleased to present my report in this respect for the year ended 31 December 2005. Management is responsible for defining and implementing adequate and effective internal controls, with oversight by the Board of Directors. In this report, the Chairman is required to report on how the Board of Directors prepares and organises its work and on the internal control procedures implemented by the company.

This report has been drawn up in close collaboration with the main divisions concerned. A working group comprising the Company Secretary and the internal audit department held a series of preparatory meetings with the assistance of the external auditors to define the framework and broad outlines, including the information required of HSBC France subsidiaries.

The report has been drawn up on the basis of guidance issued by AFEP/MEDEF, together with comments appearing in the 2005 report published by the Autorité des Marchés Financiers (AMF) on corporate governance and internal control procedures.

The internal control regulations and procedures described herein apply to HSBC France and to all its consolidated subsidiaries. Chairmen of all HSBC France subsidiaries that are "sociétés anonymes" *and make public offerings of securities are also required to draw up their own report.*

CHAIRMAN'S REPORT ON CORPORATE GOVERNANCE

HSBC France has for many years applied the standards of corporate governance as recommended by the Viénot and Bouton reports and by the amalgamated report on corporate governance published by AFEP and MEDEF. HSBC France has also applied the provisions of the new French law on Financial Security since 2004.

HSBC France's integration into the HSBC Group has not resulted in any changes to its corporate governance practices as this area has always been a key priority within the Group. However, some tasks of the Nomination and Remuneration Committee have been amended to reflect the fact that HSBC France is no longer an independently quoted company. The Board of Directors of HSBC France is no longer responsible for devising share option plans, as employees of the HSBC France group are now awarded HSBC options (on listed shares).

The composition of HSBC France's Board still complies with the recommendations of the Bouton report in terms of independent Directors. Lastly, the Board's method of operation has since 1996 been governed by a set of internal rules, which were amended in 2001, 2003 and 2005 following various new recommendations on corporate governance and the Board's assessment in late 2004.

Board of Directors

At 31 December 2005, the Board of Directors had 18 members, including:

– the Chairman and Chief Executive Officer;

– two Deputy Chief Executive Officers;

– one Vice-Chairman Corporate Finance Europe;

– two Directors representing a company, which owns 99.9 per cent of HSBC France;

– eight Directors having no special relationship with the company and who may be deemed independent with respect to the Bouton report. One Director, J-C Jolain, has been in office for more than 12 years. However, the Nomination and Remuneration Committee does not believe this affects his freedom of judgement with respect to the company;

– four Directors elected or re-elected by the employees in 2004 for a term of four years, in accordance with the provisions of the French order of 21 October 1986.

Three Directors are non-French nationals. The average age of the Directors in office is 56.3.

During 2005, the following changes were made to the composition of the Board:

– R Vermeiren's term of office expired at the AGM held on 17 May 2005;

– P Pontet was appointed at the Board meeting held on 22 February 2005; this appointment was ratified by the AGM on 17 May 2005;

– the AGM of 17 May 2005 re-appointed P Dubrule, J-C Naouri and M Roulet;

– the same AGM appointed P Shawyer to replace R Vermeiren.

In accordance with the recommendations of the AFEP-MEDEF report, the Nomination and Remuneration Committee has examined the position of Directors whose terms of office expired at the AGM on 17 May 2005, and proposed that the Board vote to re-appoint them, taking into account their skills and their active contribution to the work done by

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

the Board and its Committees. The Committee also examined the position of P Pontet and P Shawyer, in the light of their previous experience, with a view to proposing to the Board and the AGM that they be appointed. In particular, it was deemed that P Shawyer, who has spent his entire career at Deloitte & Touche, and who is an independent Director of HSBC Bank plc, should become a member of HSBC France's Audit Committee.

Since the AGM held on 12 April 2000, the Directors' term of office has been four years.

The Board's work in 2005

Before each Board meeting, 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. On the other hand, Directors are regularly advised of significant events affecting the company and receive the relevant documents.

The Board of Directors met five times during 2005, with an average attendance rate of 80 per cent compared with 82 per cent in 2004:

– 12 January 2005,

– 22 February 2005,

– 17 May 2005,

– 26 July 2005,

– 29 November 2005.

In 2005, the Board of Directors reviewed the group's quarterly, half-yearly and annual financial statements and approved the half-yearly and annual accounts. It also approved the budget for 2005 in its meeting held on 22 February 2005.

The Board held a special meeting on 12 January 2005 to consider the strategic plan *"Efficacité pour la Croissance"* ("Managing for Growth") and its targets. The meeting was attended by all members of the Executive Management Committee, who commented on the work that needed to be prioritised to execute the plan. In subsequent meetings, the Board was regularly informed about progress in the plan's initial stages, particularly regarding rebranding and all employee-relations aspects. The Board reviewed the group strategy for all capital markets activities (17 May 2005) and the strategy for personal customers as part of the rebranding (29 November 2005).

The Board considered various disposals of subsidiaries that were considered non-core in terms of the company's development, such as Framlington, HSBC Dewaay and Netvalor. It also approved various streamlining operations, particularly the simplification of HSBC France's UK interests through the restructuring of Charterhouse Management Services (CMSL).

The Board regularly reviewed HSBC France group's credit, market, litigation and operational risk situation. It examined the CRBF 97-02 annual report sent to the French Banking Commission on internal control, and examined follow-up letters and responses to the French Banking Commission following its audits.

Finally, it was informed of a major reorganisation in the company's Executive Management, which took place in the autumn of 2005.

The Board reviewed the detailed reports submitted by the Chairmen of its special committees. As part of this work, the Board was kept informed of work relating to the implementation of IAS/IFRS and work complying with Basel II prudential regulations. It was also made aware of procedures necessary to comply with the Sarbanes-Oxley Act.

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

Special committees

Nomination and Remuneration Committee

Composition:

Chairman:

– Paul Dubrule (independent)	Appointed 1999 and 2002 as Chairman

Members:

– Philippe Houzé (independent)	Appointed 1999
– Stephen K Green	Appointed 2000
– Jean-Claude Jolain (independent)	Appointed 2005

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;

– 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 the distribution of Directors' fees;
- issuing opinions on the executive remuneration policy and particularly on the remuneration structure;
- making preparations for the Board's examination of corporate governance issues.

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

The Committee's work in 2005

The Committee met twice in 2005, with an attendance rate of 83.5 per cent. Its main work was as follows:

- it made proposals to the Board of Directors on the appointment of new Directors (P Pontet and P Shawyer), and on changes to the Board's committees. J-C Jolain, Chairman of the Audit Committee since its creation in 1992, wished to end his term of office to comply with the independence criteria as defined in the Bouton report and the Sarbanes-Oxley Act. The Committee made a proposal to the Board to replace J-C Jolain with M Roulet. It also made a proposal to the Board to appoint P Shawyer as a member of the Audit Committee. It made a proposal to the Board to appoint a third member to the Audit Committee, i.e. M King, who is the HSBC's Head of Group Internal Audit, but who will not sit on HSBC France's Board of Directors. It made a proposal to the Board to appoint J-C Jolain as a member of the Nomination and Remuneration Committee;
- it worked on the appointment of certain executives, and particularly a new CFO;
- it studied a review of Directors' fees and their distribution between Directors, with a view to making a proposal to the Board of Directors;
- it examined the HSBC Group's general policy on the granting of options and shares, and the implementation of this policy with respect to HSBC France's Executive Directors;
- it made proposals, in agreement with HSBC Holdings, on the fixed and performance-related components of the remuneration of C-H Filippi, G Denoyel and P Careil, and on the options granted to them (see Executive Directors' remuneration);
- it revised the internal rules, in order to implement the recommendations resulting from the Board's assessment work in late 2004.

The Chairman of the Committee reported to the Board on its work at the Board meetings of 22 February and 17 May 2005.

Audit Committee

Composition:

Chairman:

– Jean-Claude Jolain (independent)	Appointed 1992, term ended May 2005
– Marcel Roulet (independent)	Appointed May 2005

Members:

– Peter Shawyer (independent)	Appointed May 2005
– Matthew King	Appointed May 2005

The Audit Committee's main duties are defined in the Board's internal rules. These duties underwent a far-reaching review in 2005 to ensure compliance with the Sarbanes-Oxley Act. They are:

- to examine the integrity of the quarterly, half-yearly and annual financial statements submitted to the Board of Directors in order to ensure that the data and information provided give a true and fair picture of the Company's operations and position;
- to discuss with the external auditors the financial statements, the scope of audits, restatements made, compliance with accounting principles, market rules and legal requirements, and the impact of any changes in accounting principles and practices;
- to review the Company's financial and accounting policies and practices, and to review financial internal control systems;
- to make recommendations to the Board of Directors regarding the appointment of external auditors, their fees and any other issues concerning their duties;
- to assess the independence and objectivity of external auditors, and the effectiveness of the audit process;
- to apply the code of conduct concerning the provision of non-audit services by the external auditors;

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

- to review the external auditors' management letter together with management's response to it, and to monitor the implementation of recommendations made in the letter;
- to carry out a general review of the internal control system and to examine the internal control programme and resources;
- to examine management reports on the internal control system;
- to examine the system used by the Company and its subsidiaries to ensure compliance with directives issued by the supervisory authorities and with regulations applicable to them;
- to examine regular reports on the management of material risks and litigation related to the Company's activity, and to ensure the effectiveness of the system for controlling these risks.

The Committee must meet the external auditors and the internal audit officers alone at least once per year to ensure that no particular problems remain unresolved.

As required under HSBC Group rules, once the Audit Committee has verified the accounting procedures used to prepare the financial statements, the Chairman of the Committee sends a letter of confirmation to the Chairman of the Audit Committee of HSBC Bank plc, HSBC France's direct shareholder.

The Committee's work in 2005

The Audit Committee met four times in 2005, and the attendance rate was 100 per cent, as in 2004:

- 17 February 2005;
- 11 May 2005;
- 22 July 2005;
- 18 November 2005.

Meetings were also attended by external auditors and HSBC France officers responsible for the subjects under discussion. All meetings were also attended by the head of HSBC Group Internal Audit who became a member of the Audit Committee in May 2005. At least one of HSBC France's Executive Directors attended each meeting to answer questions.

The Committee reviewed the parent company and consolidated financial statements and analysed the impact of changes in scope of consolidation on group earnings. The 2004 financial statements were presented according to French and UK GAAP, with a distinction drawn between the legal and French managerial scope of consolidation. 2005 interim financial statements were presented according to French GAAP and IFRS. The Committee discussed the choices made by the company in drawing up its financial statements, particularly concerning the first-time adoption of IFRS, with the assistance of the external auditors. The external auditors commented on their management letter in the meeting concerning the closing of the 2004 accounts, and presented their audit on the financial statements for the first half of 2005. A key point of concern was to verify the adequacy of provisions for identified risks as part of the first-time adoption of IFRS. The Committee verified the quarterly reconciliation certificates produced at the request of the HSBC Group, and was informed of unresolved issues raised in external auditors' management letters.

At each meeting, the Committee reviewed the bank's significant risks, assisted by the person responsible for internal control in each case:

- credit risk, with an individual review of major exposures and the provisioning policy for all credit risks;
- market risk, including trends in market risk compared with limits and the fixing of limits;
- compliance, legal and litigation risk;
- other risks, including operational and information systems risk.

The Committee regularly reviewed the company's internal audit work and discussed the "Group Internal Audit Charter", which it approved. It was regularly informed about audit recommendations and progress in implementing them, and about work on the new "risk-based audit" technique and the continuous audit technique used for networks. It reviewed the Chairman's report on internal control as required by the law on Financial Security, and the "Review of Internal Control Framework", which meets UK and US requirements on corporate governance. In its meeting of 11 May 2005, it conducted a detailed review of the annual internal control report required under the CRBF's regulation no. 97-02 (amended by CRBF 2001-01 and 2004-02) and received a presentation of the internal control system as defined in the 31 March 2005 amendment of CRBF 97-02 which requires in particular a clear distinction between the permanent and periodic control organisations.

As part of its compliance work, the Committee reviewed quarterly compliance certificates, which state the main procedural violations. It discussed the action plan for 2005 and 2006, prioritising efforts to strengthen anti-money laundering actions and controls concerning the duty of best advice.

It examined the AMF annual report on the organisation and operation of the investment services control system, along with the annual report on cheque controls (CRBF 2002-01). It was informed of the conclusion of various audits carried out by the French Banking Commission.

The Committee discussed the audit programme and budget for external auditors' fees for 2005. The Committee was closely involved in selecting a new external auditor with a view to making a recommendation to the Board of Directors.

In its 18 November 2005 meeting, the Committee reviewed the operational risk management system, examining major risks and measuring the related potential for operational losses. It received a progress report on the implementation of Basel II regulations and Sarbanes-Oxley Act requirements.

The Chairman of the Audit Committee reported on the key points of the Committee's work at the Board meetings held on 22 February, 17 May, 26 July and 29 November 2005.

Board of Directors' internal rules

The Board of Directors first established its internal rules in 1996. These rules specify the Board's main duties:

– to discuss all issues relating to its legal and regulatory obligations and obligations 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:

– 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 owner and to the market through the financial statements and the annual report;

– to protect the reputation of the HSBC Group in France.

They also set out the procedures for conducting Board meetings and providing information to the Board. The Board's internal rules also define, in accordance with the HSBC Group rules, the duties, powers and responsibilities of the Audit Committee and the Nomination and Remuneration Committee (see above). They incorporate a code of conduct to be followed by the Directors of HSBC France, setting out their rights and duties. Lastly, they define rules concerning HSBC France directors' dealings in HSBC Group listed securities.

Self-assessment

In 2004, the Board implemented the AFEP/MEDEF recommendations on self-assessment for the first time, under the responsibility of the Chairman of the Nomination and Remuneration Committee. Recommendations were implemented in 2005, and so the Board of Directors did not repeat the exercise in 2005. On the other hand, the Audit Committee's new members made various proposals to improve the way the Committee works and to set up a system for monitoring the various action plans it adopts.

Restrictions on the CEO's powers

At its meeting of 24 February 2004, the Board appointed C-H Filippi as Chairman with effect from 1 March 2004, at the same time confirming its decision of 8 April 2002 not to split the offices of Chairman and Chief Executive. Consequently, C-H Filippi also became Chief Executive Officer. In his capacity as Chairman and Chief Executive Officer, C-H Filippi 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 make bond issues to C-H Filippi (Chairman and Chief Executive Officer), P Careil and G Denoyel (Deputy Chief Executive Officers) and the heads of the fixed-income and forex markets. At present, there are no specific restrictions on the Chairman and Chief Executive Officer's powers, but in practice decisions involving the orientation of company's activities are submitted to the Board of Directors for approval.

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

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

These powers concern:

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

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

There are specific delegated powers concerning credit and market risk, for which the Chairman and CEO delegates his powers (see "Authorisation limits and approval procedures").

CHAIRMAN'S REPORT ON INTERNAL CONTROL PROCEDURES

Significant events and regulatory developments in 2005

As announced in 2004, the progress towards the implementation of the Basel II regulatory framework and the introduction of a single financial datawarehouse caused major changes to the internal control environment at the HSBC France group.

The organisation of internal control was also heavily impacted in 2005, and will continue to be so in 2006, by two other major projects: Sarbanes-Oxley compliance and the introduction of the system resulting from the new French Banking Commission regulation 97-02. It is the same regarding the projects aiming at group systems convergence, in particular HUB whose implementation in HSBC France is planned in 2007. These subjects will be covered in greater detail in the relevant sections.

General internal control environment

Organisation

CRBF regulation 97-02 relating to the internal control of credit institutions and investment companies was significantly amended by the order of 31 March 2005. The new text:

- establishes the obligation to ensure the consistency and effectiveness of control over risks of non-compliance;
- specifies the organisation of internal control between permanent control, periodic control and compliance control;
- sets regulations concerning the outsourcing of essential activities.

The HSBC Group's organisation has for several years been broadly similar to that recommended by the French Banking Commission, and so HSBC France had already started to adopt this kind of organisation. In particular, HSBC France had for several years a compliance department, and audit was a totally autonomous periodic control body.

The new text came into force on 1 January 2006. Permanent, periodic and compliance control officers have been designated and are respectively G Denoyel, HSBC France Deputy CEO, A Cadiou, HSBC France Head of Group Audit France, and C Bussery HSBC France Head of Compliance. The HSBC France group has also organised risk-monitoring into nine functions, headed by a permanent control officer. In addition, each credit institution or investment company that is an HSBC France subsidiary and explicitly subject to this regulation has designated local permanent, periodic and compliance control officers. The French Banking Commission was informed of all of these appointments in a letter dated 21 December 2005.

Each function's permanent control efforts will support control work done by:

- staff carrying out operational activities in business units and functions;
- risk control and monitoring entities (both central and local);
- internal control departments reporting to operational entities and in charge of carrying out control work.

Against this background, each function is finalising risk-assessment work aimed at compiling, harmonising and enhancing, where necessary, existing procedures and controls. This work should be completed in the first half of 2006. A circular relating to the outsourcing of certain "essential" services was sent out on 27 December 2005.

Reference manuals

HSBC Group Manuals

The GSM (HSBC Group Standards Manual) sets out the policies and standards that govern the HSBC Group's business operations. All Group units, without exception, are required to comply with the GSM, regardless of their geographical location, and no dispensation is granted without the specific approval of the Group Chairman or Group CEO.

All business activities and types of transaction must be fully documented in manuals or written procedures. For example, the HSBC Group Functional Instruction Manuals contain detailed policies and procedures relating to specific functions, products or practices which are to be complied with throughout the Group. In addition, HSBC France and its subsidiaries are required to document operating procedures and practices in Business Instruction Manuals. Business unit heads are responsible for updating them regularly and for reviewing their adequacy and effectiveness at least once a year. They are also required to report annually on compliance with the manuals, to confirm that their business activity is properly covered by them, that they are comprehensive or there is an action plan in place and that existing procedures have been reviewed in the last year.

Code of Conduct and Handbook

The Handbook includes all ethical instructions applicable to all staff, as regards the principles of confidentiality, legal and regulatory compliance and professional integrity. In addition to these instructions, each of the bank's business units and lines has a code of conduct, which sets out operational procedures in the areas of employee ethics and legal and regulatory compliance. In 2005, procedures for the prevention of insider trading, the reporting of sensitive information and conflicts of interest, and instructions relating to gifts, invitations and other benefits received or given, were updated and circulated to the staff concerned. In addition, staff whose activities are "sensitive" are required to confirm in writing their compliance with the applicable code of conduct. Specific instructions are applicable to proprietary transactions (i.e. prior authorisation and trading account reporting). The compliance officer regularly checks the compliance status of these transactions.

In 2005, in order to comply fully with the new requirements introduced by the European Directive on market abuse, staff holding sensitive information on the HSBC Group were informed of their "insider" status and the specific instructions that now apply to them.

Accounting controls manual

HSBC France group Finance (DCGC) has developed an Accounting Controls Manual to improve the effectiveness and quality of internal controls over the preparation of accounting and financial information throughout the HSBC France group. The manual provides a methodological framework and sets out the key periodic (daily, monthly, etc.) and specific controls to be performed by each business unit's accounts department. The manual complies with French accounting standards.

As part of the reorganisation of networks under the HSBC brand and the implementation of new systems, accounting control responsibilities are being redefined.

In addition to specific accounting and financial publications, internal circulars are sent regularly to accounting staff throughout the HSBC France group in order to harmonise the level of knowledge and understanding of new accounting standards.

Internal circulars

The key vehicle for communicating policies to management and staff is internal circulars, which are categorised by nature, type and distribution list. They are available on HSBC France's intranet.

Persons responsible for control activities and their role

Until 31 December 2005, internal control was co-ordinated by the Executive Management Committee, with the support of various committees and the audit function provided by Group Audit France (GAF).

a Audit Committee

The Audit Committee is key to the HSBC France group's internal control system. Its duties and composition are set out in the section of this report dealing with corporate governance.

b Risk committees

HSBC France has a centralised risk control system. Each type of risk, with its related limits and rules, is monitored by a specific committee headed by the Chairman of the Board of Directors or by the deputy CEO in charge of permanent control. Committee members are those senior executives responsible for the businesses or central functions concerned by each type of risk.

– The Audit, Internal Control and Compliance Committee (CACIC) meets five times a year to review all internal audit reports on material risks or risks over which control is inadequate, together with compliance matters, particularly issues relating to money laundering controls. The committee is regularly advised of any developments in internal control systems and of any fraud or attempted fraud. It reviews all potential risks which are not already the responsibility of another committee, with the exception of operational risks which, although they have their own committee, are also examined by CACIC.

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

- The ALCO Credit meets twice a month to examine all credit-related risks. It is advised of all material credit decisions and is responsible for the Group's overall lending strategy, and particularly its policy with regard to exposure to certain types of counterparty or financing.
- The Legal and Tax Committee reviews positions of principle on legal and fiscal issues liable to affect the drafting and management of contracts.
- The Balance Sheet and Markets ALCO monitors structural risks relating to interest rates, ALM, risk-weighted assets and market risks.
- The Complex and Structured Transactions Committee reviews all legal, accounting, tax and finance risks connected with complex structured transactions.
- The Non-Performing Assets Committee reviews the need for provisions against non-performing assets (loans, securities books) on a consolidated basis.
- The Operational Risks Committee, created at the end of 2003 as part of the Basel II requirements, comprises representatives of senior management, the key business units and support functions concerned. The committee reviews risks reported by the business units, action plans to mitigate these risks, and any losses incurred as a result of operational risks.
- Each business unit has an Anti-Money Laundering Committee, which meets as often as required. A committee for the Retail & Commercial Banking and Private Banking business units was set up in 2004, and a committee for the CIBM and Asset Management units in early 2005. The purpose of these committees is to review all matters relating to the money laundering prevention systems of all HSBC France group entities.
- The Product Review Committee (formerly the New Products Committee) was set up in the first half of 2005. Each head of a customer group (Retail & Commercial Banking, Corporate Investment Banking & Markets and Private Banking) must submit all new products or significant changes to existing products to this committee. Exceptions are asset management products that show no genuine innovation, products developed by Global Markets entities (for specific types of clients) and products or services relating to structured finance, which are reviewed by the Complex and Structured Transactions Committee. The committee also examines all existing products when this is justified by the related level of risk assumed.

From 2006, following the amendment to CRBF 97-02, this organisation has been strengthened by the designation of HSBC France's permanent, periodic and compliance control officers and of similar officers of subsidiaries subject to this regulation, and by an increased formalisation of the controls, organised by risk lines.

c Group Audit France (GAF)

GAF carries out audit functions for HSBC France and is the group's periodic control body. It reports directly and hierarchically to the Chairman of HSBC France and covers all business operations, including those of subsidiaries. GAF has 70 staff and carried out 119 audits in 2005. Following the integration of the six regional banks' audit functions in late 2004, and due to the significant number of branches in the south of France, a team of auditors has been established in Marseille. This 12-strong team carried out 35 audits in 2005.

GAF also reports to the HSBC Group's Internal Audit Department. Its role is to oversee the quality of internal control systems and to ensure that procedures are implemented and respected within the HSBC Group. Audits of internal control systems are performed regularly to assess the level of control over risk in the audited units. Recommendations are made to remedy any shortcomings and are validated by the audited unit. Audit work is done in accordance with the HSBC Group's audit standards, described in the Group Audit Standards Manual (GASM). GAF is itself regularly audited by its peers.

Until late 2005, audit work was undertaken on a cyclical basis with a frequency determined by the level of risk assessed after the completion of the audit.

This approach will be replaced during 2006 by a risk-based audit system. For banking networks, this new approach is based on a continuous audit method, involving indicators that measure each branch's risk potential and a model that classifies branches relative to each other. The aim is to detect the branches that show the highest potential risk and to audit them first. The approach was applied across HSBC France as of 1 January 2006. It is scheduled to be rolled out across all of the group's banking subsidiaries by the end of 2006.

For other entities (central functions, finance and IT), this new approach depends on an assessment of all risk components in each auditable entity. HSBC France has carried out these assessments within a framework determined by the HSBC Group. In 2005, GAF deployed a specific IT application developed by the HSBC Group, and based its 2006 audit schedule on the results.

In 2005, HSBC France adopted the HSBC Group's audit information system (AIS) to automate management of the audit process.

HSBC Group Financial Services Audit (GFA), based in London, covers all the HSBC Group's market activities, along with its insurance, asset management, accounting, business banking and private banking activities. A branch of GFA specialising in auditing the aforementioned activities was set up within GAF in early 2004.

Audited units are given an overall rating based on the inherent risk and the quality of internal control. Audit reports are sent to the next level of management superior to the management of the entity who is responsible for implementing recommendations made by GAF, by the external auditors or by the supervisory authorities. Audit's recommendations are monitored rigorously: quarterly progress reports must be sent by each audited entity until recommendations have been fully implemented. Quarterly progress reports are also completed for the Audit Committees and the Executive Management Committee. The aim is to ensure proper implementation of recommendations not yet implemented, and to focus on high risk or repeated recommendations. To give greater authority, the Chairman has been sending detailed letters to all entities where two consecutive audits have graded "below standard" or "unsatisfactory" results since the end of first quarter 2005. As a result, implementation of recommendations improved substantially in 2005. In 2006, audited entities will be able to report progress directly on the implementation of audit points. GAF monitors recommendations issued by supervisory authorities. Group Finance is responsible for the quarterly monitoring of the external auditors' recommendations.

d Group Compliance Department (DGCD)

The Group Compliance Department consists of a team specialising in the prevention of money-laundering, control over investment services and financial ethics. It has permanent responsibility for compliance across all of HSBC France's activities using a consolidated approach. It has four Business Compliance Officers, each responsible for one of the group's core businesses: Retail & Commercial Banking, Corporate, Investment Banking & Markets, Asset Management and Private Banking. They are supported by Local Compliance Officers (LCOs) and Money Laundering Compliance Officers (MLCOs) in each business unit. In accordance with the order of 31 March 2005 concerning CRBF regulation 97-02, all compliance staff will report to DGCD with effect from the beginning of 2006. The aim is to fully guarantee the independence of the compliance function with respect to operating activities.

In association with the Training Department, the HR Department and other departments such as Legal and Tax Affairs, DGCD organises training and information seminars for the LCOs on current regulations and developments, together with workshops on specific regulatory issues. It also contributes to the many training sessions organised by the LCOs for customer-facing staff or support staff dealing with money laundering prevention or compliance with the Autorité des Marchés Financiers regulations, particularly on the duty of best advice.

e Group Finance Department (DCGC)

HSBC France group Finance 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 under the responsibility of the accounting departments of the group's business units, and more particularly accounting and reconciliation procedures designed to verify the existence and validity of general ledger accounts. These procedures and controls are communicated via internal circulars.

All business units have a finance department which reports monthly to group Finance. These departments are responsible for drawing up budgets and action plans in line with guidance given by senior management.

During 2005, given the wealth of developments in the accounting field, group Finance organised a series of technical seminars. Topics included IFRS, the budgeting process, Sarbanes-Oxley and CRBF regulation 97-02.

f Operational Risk Business Co-ordinators (ORBCs)

Each business unit has its own Operational Risk Business Co-ordinator (ORBC), who is responsible for identifying operational risks liable to affect his/her business and for meeting the new Basel II requirements.

They analyse and quantify the risks of loss in terms of frequency, severity and exposure (exposure also takes account of the impact of existing procedures on risk). The ORBCs are required to document risk exposure at known control points.

Action plans are drawn up to mitigate risks classified as material in light of these three criteria. The ORBCs are responsible for monitoring the action plans (rollout, planning, budget control, etc.) and more generally for measuring their business's risk exposure and risk exposure trends, particularly through exposure indicators. They report regularly to their business unit head on trends in exposure, including an analysis of historical loss or gain experience. Presentations concerning action plans and operating losses reported by business units are made periodically to a specific operational risk committee.

A summary of this committee's work and conclusions is handed to the Group Audit Committee.

g Supervisory authorities and external auditors

The supervisory authorities and external auditors may make recommendations on HSBC France's internal control procedures. In this case, the divisions concerned promptly draw up action plans for their implementation. As already explained in section c, GAF monitors all of these recommendations on an annual basis and DCGC monitors the recommendations made by the external auditors on a quarterly basis. The results of this monitoring work are also reported centrally to HSBC in London.

Internal control procedures

In 2005, internal control was affected substantially by new requirements arising mainly from the Basel II capital accord, the Sarbanes-Oxley Act and the work related to implementation of amendments to regulation 97-02.

Sarbanes-Oxley has introduced new rules for companies listed in the USA. More particularly, section 404 concerns the Executive Management Committee's assessment of the effectiveness of internal controls on financial reporting procedures. As a member of the HSBC Group, which is listed in the USA, HSBC France is subject to the Sarbanes-Oxley Act and is required by the Group to report on occasions to the Financial Services Authority (FSA) in London. For example, HSBC France, like all HSBC Group business units, is required to review its internal control systems on an annual basis, by completing the Review of Internal Control Framework (RICF) questionnaire, which replaces the old Cadbury questionnaire. It is more detailed and meets the requirements of UK and US (Sarbanes-Oxley) regulations on corporate governance. Information provided must be justified by reference to existing documents and must include a proposed assessment. This questionnaire was introduced in 2004 and has been updated for 2005. All HSBC business units will be required to comply with the Sarbanes-Oxley regulations by 31 December 2006.

As regards Basel II, and in accordance with the decisions of the HSBC Group stated in the "Basel II Programme Update" of 10 May 2005, HSBC France will adopt the Foundation IRB approach as of 1 January 2008 and then the Advanced IRB approach as of 1 January 2009 and has adopted the standard approach as regards operational risk.

Within the HSBC Group, adopting the new Basel accord forms part of a plan to develop a new strategic credit risk management platform, based on a new generation of information systems. Part of the Basel II system is therefore being developed for Group subsidiaries and for certain types of major asset classes. The Group has also defined a method and developed a tool for handling operational risks. As a result, HSBC France's Basel II project consists of integrating work done by the Group and developing local tools and rating models, depending on the type of asset concerned.

The deployment of the Basel II system within HSBC France began in 2004 through the gradual dissemination of the rating culture. Tools and procedures were deployed within HSBC France throughout 2004. To prepare for approval by national regulators, HSBC France, with the agreement of the French Banking Commission, started an internal audit in the fourth quarter of 2005 to assess the project's progress with respect to the regulatory timetable, and to assess the rating system. The project status was deemed satisfactory at the end of this audit. The assessment naturally took account of the quality of work carried out and the fact that most targets had been hit, along with the good progress made in the Basel II programme although the Credit Risk Rating system (CRR) is not yet fully in place.

Procedures for controlling compliance with laws and regulations

As indicated above, HSBC France group Compliance takes a global view of compliance with laws, regulations and professional and ethical standards applicable in France. Certain more specialised regulations remain the responsibility of other departments: HR for employment law, Legal and Tax Affairs for tax law, etc.

A chart of risks of non-compliance by type of business, based on the HSBC Group's recommendations, has been established and distributed to assist LCOs in performing their advisory and control tasks. LCOs have a hierarchical reporting line to the head of their entity, a functional reporting line to the Business Compliance Officer responsible for their business unit and a final reporting line to the Head of Group Compliance.

The LCOs submit a quarterly report on compliance with laws and regulations to their Business Compliance Officer. The business head concerned is required to co-sign these reports on a half-yearly basis. The report must also describe the work carried out (procedures, training, etc.) along with any remedial work carried out to address any deficiencies.

In addition, a quarterly consolidated report for the HSBC France group is prepared, based on the information contained in the LCOs' quarterly reports and the comments of the Business Compliance Officers. The report is co-signed half-yearly by the Head of group Compliance and the Chairman of the HSBC France group.

The Head of HSBC France group Compliance reports quarterly to the Audit Committee on any issues which rose in these reports and on the twice-yearly reports drawn up for the Autorité des Marchés Financiers (general report in April and special report in September).

With regard to the prevention of money laundering, the HSBC France group has established a dedicated intranet site accessible to all employees. In 2005, it set up intranet sites specifically for the Private Banking and Corporate, Investment Banking & Markets business units. Staff training is the responsibility of the LCOs or the Training Department as regards the HSBC network in France. As part of the Basel II operational risk assessment project, HSBC France has mapped money-laundering risks in each group business unit. Risk mapping involves analysing and classifying risks specific to each business activity by transaction and customer type, and carrying out a critical analysis of the control system in place for those risks. The results are used by business unit heads to draw up continuous progress plans for their anti-money laundering systems. It also gives Group Internal Audit a means of identifying areas at risk. It will therefore become an essential tool for measuring money laundering risk and drawing up targeted action plans.

In respect of money laundering monitoring and control, the HSBC network has a tool that enables relationship managers to monitor and to provide centralised reporting for sensitive client accounts. This tool is being gradually introduced across the HSBC France group's banking subsidiaries. In 2005, it was implemented at HSBC Picardie, CCSO and HSBC Hervet. The system for ex-post control over payments has been upgraded to improve detection of suspicious transactions.

As part of the HSBC France group's drive to combat terrorism financing, DGCD has supervised a project to implement an automated filtering and blocking system for international payments in all HSBC France units. Developments were also carried out in 2005 allowing daily checks on customer databases with respect to lists of terrorists established by the European Union and OFAC.

Control procedures to limit risk of financial loss and fraud

HSBC France has established comprehensive procedures for limiting the risk of financial loss and fraud. The main underlying principle is the strict segregation of key duties in departments responsible for processing and initiating payments. Strict rules are in place for the protection, receipt, storage and archiving of contractual and legal documents, and for the storage of cash, assets, safe keys and so forth.

Authorisation limits and approval procedures

Tiered structures of approval and expenditure limits are in place in all group businesses. Detailed control procedures are contained in the procedures manuals.

Credit risk

The Chairman and Chief Executive Officer has delegated his lending authority to the head of group Credit. Credit proposals exceeding these limits are referred to the HSBC Group's Credit Department.

All business units receive delegated lending authority from the head of HSBC France group Credit. Subsidiaries receive delegated limits from their respective Boards within general guidelines laid down by the head of HSBC France group Credit. Within this framework, each account manager receives a personal lending limit which varies according to experience, expertise and business needs.

Limits are advised in writing and allocated to individuals by name and not by position. Limits granted to HSBC France branch managers and to the chairmen of subsidiaries now depend on the counterparty's Basel II rating.

All excesses over authorised limits must be referred upwards to the relevant level of authority. All credit facilities are subject to periodic review on at least an annual basis, in accordance with French regulations and HSBC Group standards.

Market risk

The system for monitoring market risks is described in a circular that sets out mechanisms for risk limits, authorisations and control methods.

Risk limits are set for all business activities by ALCO Balance Sheet Management and Markets, which meets monthly and is headed by the Chairman and Chief Executive Officer or Deputy CEO. Committee members include the heads of business units involved in market activities and heads of support services in charge of risk management.

On 1 March 2005, HSBC France reorganised its risk management structure to bring it more into line with that of the HSBC Group. A new Product Control Unit brings together the teams responsible for control over trading results and those responsible for control over market risk. The Credit Service Unit combines the teams responsible for measuring and controlling counterparty risk with those responsible for setting limits and reviewing credit applications made by Corporate and Institutional Banking. The two new units report to the Chief Operating Officer of Corporate and Institutional Banking, who in turn reports to the Senior Corporate Vice President in charge of support functions. In addition, a Market Risk Manager (MRM) has been appointed for the dealing rooms. The MRM has a functional reporting line to the Market Risk Manager for Europe, based in London.

Market risks are governed by a risk policy set by the Executive Management Committee, and must comply with global mandates attributed by the HSBC Group to HSBC France. These global mandates are divided by business line within ALCO Balance Sheet Management and Markets, then translated into operational limits within each entity. These limits are expressed in terms of Value at Risk, sensitivity, maximum loss and lists of authorised instruments and maturities. They are revised at least once a year by ALCO Balance Sheet Management and Markets and may be amended on an ad hoc basis.

Product Control teams ensure compliance with limits on a day-to-day basis. Product Control is also in charge of informing ALCO Balance Sheet Management and Markets or its secretary of limit breaches and of decisions or actions made by the front office. The MRM is in charge of carrying out all actions to resolve breaches and to request temporary limits if necessary.

HSBC France has developed its own internal models for managing, assessing and valuing certain derivative products. These models are validated by a specialist team, the Derivative Models Review Group (DMRG), which reports to the Head of Risks and Product Control.

Procedures for ensuring reliability of data processing

Governance of IT processes and internal control in the Information Systems Department (ISD)

The Information Systems Department's compliance committee assesses the efficiency of internal controls on IT processes, intended to combat material IT risks, every two months. This committee comprises the head of the ISD, the deputy head of the ISD, the head of infrastructure and production and the ISD's head of quality.

Acquisition and development of information systems (applications or infrastructure)

Project management methods are used to acquire or develop information systems, in line with HSBC recommendations. These methods include a number of control points throughout the project cycle, from initial business unit request to go-live. These control points ensure that each stage of the cycle is complete and approved by all stakeholders.

In addition, Information Systems has created an Architecture Committee and an IT Validation Committee to ensure that projects comply with HSBC Group architecture rules, but most importantly with rules for security and regulatory compliance.

Testing

Testing is conducted throughout the project management process. There are several types of tests concerning different project resources. They are carried out in sequence and each within its own environment.

Each stage of testing must be validated. Validation takes the form of a report on each phase, signed by the tester, the tester's manager and the person in charge of the subsequent testing phase. For production testing, the validation of the Change Control Committee is required. A signed implementation certificate is required before development can go ahead.

System go-live control

HSBC France has a change control system which has been reinforced by the establishment of a Change Control Committee responsible for examining and approving changes prior to implementation and monitoring progress on a monthly basis.

For applications and systems, new versions are implemented and checked by "configuration control tools" specific to each environment type. These tools ensure the completeness and effectiveness of programmes upon installation and serve as a back-up in case of system failure.

In addition to these back-up plans, HSBC France has a high-level Business Recovery Plan to ensure that the bank's key functions can resume operations without delay, principally through the use of independent back up sites in different geographical locations. This plan is tested every quarter.

System access control

Password controls are set for any person with access to development and testing systems and environments. A person is granted access by a dedicated ISD Security team following approval by his/her hierarchical head.

Access to programme and system libraries is limited to the relevant experts.

Access to production environments is granted on a one-off basis to research or production experts in the event of an incident, via "Emergency" accounts. This access may be used only once, to carry out repairs, and is controlled by ISD Security.

Operations control

Computer equipment is installed in a secured computer centre, with round-the-clock security. All production environment operations are recorded in a log file.

Control procedures for financial reporting

Production of financial and accounting information

The following areas are involved in the production of financial and accounting information:

- HSBC France group Finance – General Accounting. The General Accounting team centralises all HSBC France parent company accounting data in GL Expert. It produces parent company financial statements on a monthly basis and completes the consolidation package. It also produces most regulatory ratios.
- Group Finance – Consolidation. On a monthly basis, the Consolidation team collects the reporting package from all companies in the group (approximately 90), produces the financial statements using French GAAP and makes the restatements required to convert to IFRS before sending the package to HSBC Bank plc.
- Decentralised accounting departments (HSBC France, HSBC France subsidiaries, HSBC France foreign branches) are responsible for controlling and monitoring one or more accounting centres. They produce monthly reports which are sent to the General Accounting team of HSBC France group Finance. More specifically, the finance team dedicated to Corporate Investment Banking & Markets (CIBM) reconciles economic and accounting results for this business unit, and handles all accounting and reporting responsibilities.

There are three types of monthly financial reporting, at both the parent company and consolidated levels:

- Regulatory reporting:
  BAFI (Base des Agents Financiers), ECB (European Central Bank) and EMI (European Monetary Institute) reports, liquidity and solvency ratios, balance of payments, Bank of France central risk and major exposures reports.
- Reporting to HSBC France's Executive Management Committee:
  A summary showing the group's consolidated results by business line together with activity indicators.
- Reporting to HSBC Bank plc:
  Mainly the monthly consolidation package completed using HFM. A list of specific reports has also been established by HSBC Bank plc and gradually implemented in accordance with the HSBC format and accounting standards.

The main accounting principles applicable within the HSBC France group are summarised in the Accounting Controls Manual, which is available to all group accountants on the HSBC France intranet. These principles are based mainly on the French Code of Commerce, the fourth European Directive and all CRC texts and recommendations, particularly those referring specifically to banks.

DCGC's standards unit is in charge of monitoring regulatory changes and transposing new texts into HSBC France group principles.

A questionnaire on accounting principles and valuation methods is sent to subsidiaries and the parent company in the year-end consolidation period, to ensure that the principles used are consistent throughout the group. In 2004, pro forma financial statements based on IFRS were prepared to produce figures comparable with 2005 IFRS financial statements.

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

HSBC France parent company's accounting architecture is based on events-driven operating systems. At the end of each day, an accounting interpreter converts the events into journal entries.

The operating systems comprise 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 recorded in the accounting system under Sundry Transactions. Secure manual entry systems have been developed and installed to replace the old systems. Like the other operating systems, they send events to the accounting interpreter, thereby providing pre-set controls.

HSBC France's subsidiaries have their own accounting systems which are similar to those of HSBC France, or else they use integrated software suites. HSBC France has embarked on a systems convergence plan to standardise accounting systems throughout the HSBC France group. The introduction of IFRS means that the accounting system is being adapted to allow HSBC France and its main subsidiaries to produce partial consolidated financial statements using both French GAAP and IFRS, and to create common tools (provisions, fair value, etc.). The HSBC Group's integrated HFM consolidation software was introduced in January 2005 and meets all US regulatory requirements for the production of financial information. It also handles IFRS consolidation and reporting to HSBC Bank plc.

HSBC France's banking operations are heavily automated using internally and externally developed software systems to provide consistent, reliable and timely management information. Systems are tested by the developers before user acceptance tests. Specific internal training programmes are designed to ensure that users fully understand the new process and its consequences.

The introduction of a financial data warehouse in early 2005 has facilitated reconciliation and consistency between reporting for accounting, financial, regulatory and management purposes. The datawarehouse stores data from both HSBC France and its subsidiaries, including accounting data, carrying values and detailed breakdowns of accounting values depending on the information required for internal and external publications. Consistency controls have been established within the datawarehouse, which feeds the new HFM consolidation software and will in 2006 be used to produce the French various regulatory reports.

Internal control over accounting information production

HSBC France's financial control environment is based on routine controls such as basic reconciliation, audit trails and spot checks by financial control staff. Regular controls are also carried out to ensure the accuracy of transaction recording and allocation. HSBC France draws up a monthly certificate of accounting reconciliation which is sent to the HSBC Group Finance Division. This certificate attests that all HSBC France accounts are properly reconciled and is a summary of accounting reconciliation certificates provided by the various accounting departments of HSBC France and its subsidiaries. This monthly reporting relating to the proper reconciliation of accounts is based on the principle that each general ledger account is assigned to a specific person who is responsible for its reconciliation and signs the corresponding accounting certificate. This is the responsibility of the subsidiary and the head of the accounting department. Any anomalies identified by the reconciliation certificate are used as a basis for corrective action by the business units concerned, with the establishment of an action plan.

Group Finance also receives GAF audit reports and uses them for monitoring implementation of recommendations relating to accounting.

Statements to the supervisory authorities that contain accounting information are prepared directly by operational departments. The head of accounting or finance examines and validates the information before submitting it to HSBC France group Finance. The process is formalised every quarter through the signature of financial statements sent to DCGC. This control is one of the permanent accounting controls defined as part of HSBC France's compliance with the new requirements of the amended CRBF regulation 97-02. Financial reports are submitted to the Chief Financial Officer and HSBC France's Executive Committee and, before the financial statements are published, sent to the HSBC Group's Finance Department for presentation to the Group Management Board and HSBC Bank plc's Executive Committee.

Financial control is decentralised at business unit and subsidiary level. Business units and subsidiaries report monthly to their own management and to HSBC France group Finance.

The Chief Financial Officer holds a monthly meeting attended by representatives of each core business division to examine results, and particularly any variances against budget. The CFO presents the results to the Executive Committee each month and reports to the Board of Directors at each Board meeting.

In September 2005, DCGC started a Management Information System (MIS) project, organised around the group's financial datawarehouse. The aim of this project is to ensure the consistency of financial and accounting information and to produce all management reports from 2007.

To comply with Sarbanes-Oxley as of 31 December 2006, (see the section above on internal control procedures), HSBC France's management must carry out an in-depth assessment of the internal control procedures used in drawing up financial statements. Following the announcement by the Securities Exchange Commission on 16 May 2005, the HSBC Group has altered its approach to this project, and has adopted a risk-based approach. This approach is supported by the existence of strong control procedures within the HSBC Group. As a result, the project will focus on certain complementary areas, such as documentation and testing of key controls at the level of legal entities, significant functions and certain processes. Any weaknesses identified in the way controls are designed or implemented will give rise to immediate remedial action.

A project team has been set up for this purpose. It will adapt and apply HSBC Group directives locally and is responsible for implementing the project throughout the HSBC France group.

As of 2006, the CEO and the CFO of HSBC France will send HSBC Bank plc a certificate half-yearly stating the effectiveness of the financial internal control system and mentioning any weaknesses currently being corrected. The project is designed to ensure reliable financial reporting. It will result in a more formal documentation of manual and computerised controls for the most sensitive processes in terms of producing financial statements, along with a more systematic review of these controls.

Internal audit is conducting quality reviews and independent tests. The external auditors will conduct a review of work undertaken, on behalf of KPMG London, the HSBC Group's auditors. KPMG London will give its opinion on the SOX 404 report due to be drawn up at end-2006 by HSBC Holdings' management.

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

Independently of regular updates and continuous improvements to procedures, the internal control systems were substantially revised in 2005. This revision was prompted by work to ensure compliance with Basel II and Sarbanes-Oxley regulations, and to implement the system required by the French Banking Commission's amended regulation CRBF 97-02. Efforts to formalise business processes and to identify and test related controls in this area will be stepped up in 2006. The system developed by HSBC France for assessing the effectiveness of its internal controls should go a long way towards achieving the internal control assessment targets set in 2004 by the Autorité des Marchés Financiers.

Charles-Henri Filippi
Chairman

Paris, 24 February 2006

Corporate social responsibility policy

CSR: a business strategy recognised by our stakeholders

"For a company like HSBC, which in 2005 celebrated 140 years of aspiring to the highest standards of conduct, corporate social responsibility has been a vital ingredient in our success," wrote the then Group Chairman of HSBC Holdings plc, Sir John Bond, in his introduction to the HSBC CSR Report 2005, emphasising the integral part played by CSR in the Group's strategy. HSBC's CSR activities have gained broad recognition. For example, HSBC ranked fourth in the 2005 AccountAbility rating of the Fortune "Global 100", which assesses the best performing multinational companies in terms of sustainable development.

From its formation in September 2003, the CSR Committee of the HSBC Holdings Board, chaired by Lord Butler, has overseen the Group's CSR and sustainability policies. It also advises the Board, committees of the Board and executive management. The CSR Executive Steering Group oversees the implementation of CSR policies, performance evaluation and communications, including HSBC's commitments to the United Nations Global Compact, the Global Sullivan Principles and the OECD guidelines for multinational companies. The steering group comprises executives from business functions that influence the Group's overall CSR performance.

In France, a similar committee chaired by G Denoyel, Deputy CEO, implements Group strategy and co-ordinates local efforts. The committee meets every quarter. CSR forms one of the 22 key items of the "Efficacité pour la Croissance" (Managing for Growth) strategic plan. As a result, each CSR project of each department represented on the committee is monitored properly with a high priority level.

HSBC France publishes a CSR annual report, in which it discusses its efforts and how they fit in with the Group strategy[1]. In 2005, the CSR annual report gave detailed information on the 2004 CSR policy. It comprised a French translation of the Group CSR report along with a description of CSR work carried out in France.

Controlling reputation risk: the basis for integrating CSR efforts into our business activities

HSBC is a member of the Climate Group and is committed to combating the impact of climate change by incorporating environmental risk management criteria into its lending policy.

Since 2003, HSBC has applied the Equator Principles to its project financing business. This is a first step towards integrating social and environmental criteria into project financing deals worth more than USD 50 million. To enhance its environmental risk management procedures, the Group has developed in-house sector guidelines. The first was published in 2004 covering forest lands and forest products. The second concerned freshwater infrastructure and the third the chemicals industry. These guidelines form part of the standard procedures that govern HSBC's lending policy. All staff in charge of implementing these procedures received training on environmental risk and the guidelines.

In addition, the Group's compliance policy means that all our units and staff are required to comply with the spirit and letter of all applicable laws, rules, regulations and standards of conduct. HSBC is a founder member of the Wolfsberg Group, and applies the global directives established with the group's other members to combat money laundering. HSBC's compliance policy is also intended to guarantee that the bank's activities are conducted with integrity and professionalism.

HSBC France group has a network of 80 compliance officers, who ensure that this commitment is met by the compliance department and by the business line to which each of them reports.

Finally, HSBC's corporate governance policies promote a transparency about our decisions. The Group in France has applied French corporate governance recommendations since 1995. Its integration into the HSBC Group in 2000 did not alter the application of these rules and HSBC France has adopted the new rules and recommendations regarding corporate governance in order to comply with the regulatory developments and with the Group requirements. Although it has been an unlisted company since 2000, it maintains the same corporate governance standards as before.

HSBC: the first carbon-neutral global bank

HSBC is the first major global bank to achieve carbon neutrality. This objective was announced in December 2004 by Sir John Bond, and was fulfilled in October 2005. This means that the HSBC Group now fully offsets its carbon dioxide emissions.

HSBC was able to meet its carbonneutral target through tracking environmental performance in each region in which it operates. Based on the results of this reporting, many countries took steps to reduce energy consumption. In France, one member of staff works full-time on the Group's national environmental reporting. In 2005, emissions were estimated at 17,170 tonnes of CO_2 for the Group in France. The Group then started buying "green" electricity, and also purchased offset credits from

1 *These reports are available on request from HSBC France's Communication Department.*

four alternative energy projects to reduce CO_2 emissions. HSBC's climate change commitments and its carbon-neutral policy made it one of the 60 companies most active in combating global warming as ranked by the Carbon Disclosure Project. HSBC's plans in this area are also helping customers to reduce their CO_2 emissions.

SRI: strict procedures in France, resulting in strong business potential

In the field of Socially Responsible Investment (SRI), the commitment and performance of HSBC Investments (France) resulted in major progress in 2005. The team of SRI analysts was strengthened and the voting policy was formalised. HSBC Investments has set up an SRI area of its website, which is accessible to all visitors. This area describes its SRI approach, its philosophy, its commitment and its products and services. With its HSBC Valeurs Responsables fund, HSBC Investments was the first French asset management company to adhere to the Eurosif (the European Social Investment Forum) transparency code. The aim of this transparency code is to give investors precise information about SRI funds, which is vital in a field that is often confusing for customers.

HSBC Investments has expanded its product range by creating a European equity SRI sub-fund of its global umbrella HSBC GIF fund. The sub-fund was developed in conjunction with LEAD, an international non-profit organisation that provides training and raises awareness of environmental issues around the world. The novel aspects of this sub-fund are as follows:

– its investment universe consists of 60 stocks selected from the MSCI Europe index, which has around 600 constituents. These 60 stocks are those that HSBC Investments, through its SRI selection process, deems to be sector leaders in terms of socially responsible practices;

– part of the management fee is paid to LEAD to support its activities.

At year-end 2005, HSBC Investments France's SRI assets under management totalled EUR 511 million, a year-on-year increase of 33 per cent.

Finally, HSBC Investments maintained and stepped up its contribution to international and national think-tanks. As well as its involvement in UNEP-FI's Asset Management Working Group, HSBC Investments held a climate risk seminar on 1 February 2005, attended by around 60 participants invited from around the world by the UN and CERES. In October, HSBC Investments also played an active role in the UNEP-FI Global Round Table conference at the UN's headquarters. HSBC co-presented a study on the materiality of extra-financial criteria in the banking sector.

Since the second half of 2005, institutional investors have sharply increased demand for SRI investments in all asset classes. This shows the growing interest in SRI among the largest institutional investors and society. HSBC Investments has been growing its SRI capacity over the last three years and so is confident about meeting this new demand.

Diversity: an internal priority

The HSBC Group's 284,000 staff work in 76 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. This diversity is an asset, and is a driving force that enables the Group to anticipate worldwide social developments. To promote diversity, each country adopts initiatives to avoid discrimination, in accordance with specific cultural and legal circumstances.

In France, the Group has defined and is implementing a global diversity policy, covering social and ethnic origin, gender, disability and age.

– As a signatory of the Diversity Charter, the Group is committed to combating discrimination, particularly cultural and ethnic.

  HSBC France is a signatory of the Institut Montaigne's Diversity Charter. By signing this charter, HSBC France and 40 other major French companies have undertaken to combat all forms of discrimination, particularly cultural and ethnic.

  HSBC France has made a commitment to the French association "Des entreprises aux couleurs de la France" to consider all job applications and to take into account the potential of candidates from disadvantaged backgrounds. In addition, HSBC in France is gradually introducing diversity and CSR modules into its training courses for managers and HR staff. The Group has recently sealed a partnership with the Institut d'Etudes Politiques in Paris to sponsor young high school graduates from disadvantaged areas. This partnership includes study grants and career assistance. It is intended to help talented young people gain access to higher education and work, and to help HSBC managers implement our diversity policy in a practical manner.

– Equal opportunities: still a priority.

  In 2003, an agreement concerning equal opportunities for men and women was signed, in order to continue improving the Group's performance in this area in France.

  HSBC France has also developed specific measures to enable women to reconcile their career objectives with their family lives.

Corporate social responsibility policy (continued)

– Integrating and encouraging the employment of people with disabilities.

CCF's management and social partners signed an agreement on the employment of people with disabilities in 2004, with the aim of improving employment and employment conditions. Within the next two years, HSBC France is aiming to increase employment of people with disabilities by 9 per cent compared with 2002.

Development of an education policy in France

Education is one of the key factors in success. The aim of HSBC's education initiatives is to increase access to education, particularly for children from disadvantaged areas. HSBC assists local authorities' education efforts in regions where the Group operates, particularly through foundations.

To fulfil the Group's commitment to supporting education, HSBC France announced the creation of its "Fondation HSBC pour l'Education" in late 2005, under the aegis of "Fondation de France". The partnership with Institut d'Etudes Politiques in Paris is the first project supported by this foundation, and aims to facilitate access to education for disadvantaged young people.

Outside France, HSBC has joined forces with SIFE (Students in Free Entreprise), which every year organises competitions in schools and universities across more than 40 countries. The winners of these competitions then take part in a global competition. The HSBC Group's worldwide Corporate Client teams have partnered with SIFE since March 2005. The French team was represented on the jury of SIFE France's national competition, encouraging students of top French universities to create and develop business plans.

2005 "NRE" Appendix – environmental section

Information regarding the consequences of the company's activity on environment, accordingly Article 2 of decree 2002-221 of 20 February 2002 enacting Article L. 225-102-1 of the French Commercial Code.

Water consumption

In 2005, HSBC France consumed 270,586 m^3 of water and had 12,848 staff (full-time equivalent) in France, giving water consumption of 21 m^3 per employee. This figure is almost the same as the previous year. However, HSBC is committed to cutting water consumption by 9 per cent in France between now and end-2007. To achieve this, the Group intends to pursue its awareness-raising campaign among staff, extending it to cover reducing water consumption, and to replace air-conditioning systems that waste water. The group has also initiated an action of equipment of its sanitary facilities in order to reduce water consumption.

	2005	2004	2003
Water consumption in thousands of m^3	**270**	258	226
Water consumption per person (m^3)	**21**	20.3	21

Raw materials consumption

Paper consumption

HSBC in France used 2,305 tonnes of paper in 2005, an increase of more than 15 per cent. This rise was due to increased communication efforts and higher business levels related to the strategic plan and rebranding. Measures are now being taken to reduce paper usage. These include distributing all internal circulars in electronic form, gradually removing all individual printers, installing intranet-based absence management software and messages to encourage employees to reduce the number of documents they print.

	2005	2004	2003
Paper purchased (tonnes)	**2,305**	1,993	1,956

Energy consumption

Electricity consumption:

74,009 MWh, giving average consumption of 5.7 MWh per FTE employee.

Gas consumption:

16,604 MWh, giving average consumption of 1.3 MWh per FTE employee.

Fuel oil consumption:

6,549 MWh, giving average consumption of 0.5 MWh per FTE employee.

	2005	2004	2003
Energy consumption (GWh)	**111**	109	91

The increase in energy consumption was due to the build-up in business levels and IT hardware requirements in 2005. However, HSBC France is committed to reducing energy consumption by 2 per cent between now and year-end 2007. To achieve this, energy diagnostic work has been carried out at its central sites by an ADEME-approved company. This work started in the fourth quarter of 2005 and will continue in 2006. The aim is to gain an overview of energy consumption and to produce recommendations for improving energy use. When this work is complete, an action plan will be drawn up by the business premises department.

Air, water and ground pollution

HSBC in France estimates carbon dioxide (CO_2) emissions as part of environmental reporting carried out by the HSBC Group worldwide. In 2005, HSBC France's CO_2 emissions totalled 17,170 tonnes. This includes commercial activities and business travel. Information campaigns have been conducted among staff to encourage them to use public transport and to favour trains over planes when journey times are similar. HSBC France group has set a target of reducing CO_2 emissions by 1 per cent by the end of 2007.

Noise and odour pollution

Not significant in HSBC France's business.

Waste

HSBC France group produced 4,403 tonnes of waste in 2005, equal to 342 kg per FTE employee. 1,412 tonnes were recycled. HSBC France group is committed to reducing waste production by 4 per cent between now and year-end 2007 through improved recycling and, in the case of paper, by reducing printing volumes.

Measures to limit disturbances to the ecological balance, natural habitats and protected animal and plant species

As a member of the HSBC Group, HSBC France has incorporated the Equator Principles, and therefore assesses social and environmental criteria when evaluating financing projects. It has also adopted Group guidelines for the financing of projects in the following sectors: forest lands and forests products, chemicals and freshwater. New sector guidelines will be developed in 2006. In 2005, HSBC in France declined to finance two projects that did not include sufficient environmental guarantees.

Since 2005, HSBC in France's purchasing department has offered recycled office supplies, such as ink cartridges for office printers, and ensured that used materials are recovered by the supplier.

With regard to printing, HSBC France started using paper certified by the Forest Stewardship Council (FSC), which ensures sustainable forest management for its corporate publications starting with the 2004 annual report.

Finally, the purchasing department is planning to replace part of its existing vehicle fleet with new electric or hybrid models, and has ordered two hybrid vehicles.

Measures to ensure that the company's activities comply with applicable laws and regulations

HSBC in France, at the initiative of its parent company, has since 2001 had a compliance department, which is intended to provide a consistent and high-performance control system. This department ensures that HSBC France's activities are conducted with integrity and professionalism, and that they comply with laws, regulations and commercial best practices applicable in France. It ensures that the Group fulfils its duty of best advice, and covers major issues such as the prevention of money laundering and terrorist financing.

Internal environmental management, training and employee information departments

HSBC in France has had a CSR (corporate social responsibility) function since 2003. It is chaired by the Deputy CEO and is made up of 20 heads and representatives of the HSBC Group in France's main functional and operational departments: credit, asset management, human resources, compliance, purchasing, business premises, communication and marketing. Its co-ordinator reports to the Executive Management Committee and the communication department. The committee meets every quarter to discuss actions carried out, current issues, developments in the HSBC Group's policy and measures to be taken locally. The post of environmental officer was created within the business premises department on 1 January 2005. The environmental officer's main duties are environmental reporting, the definition of environmental standards and their implementation by teams in charge of business premises.

With regard to reporting, HSBC in France has set up a dedicated CSR site on its intranet. It provides up-to-date news on CSR, information about the HSBC Group's values and actions in this area, and examples of CSR in action in the various business areas. The in-house magazine "Ressources" contains a section devoted to CSR. In 2005, during Sustainable Development Week, a campaign to raise awareness of energy-saving was organised. Each HSBC employee in France received stickers to place above power switches (on computers, screens, printers and in offices and meeting rooms, etc.) with the slogan "Je sors, j'éteins !" ("I leave, I turn the light off").

A CSR competition was also initiated in 2005, with awards due to be given in 2006. This will identify the best CSR initiatives undertaken by HSBC France teams.

Finally, as part of its "Investing in Nature" programme, the HSBC Group has set up a five-year partnership with the Earthwatch Institute. Every year, several HSBC staff in France take part in a two-week scientific expedition intended to preserve the environment and threatened animal and plant species. The time required to carry out these expeditions is counted as working time by HSBC in France.

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 (which includes country and cross-border risk), liquidity risk and market risk. Market risk includes foreign exchange, interest rate and equity price risk.

The management of all risks which are significant to the HSBC France group is discussed below.

Credit risk management

Initiatives undertaken and risks identified

Credit risk management within the HSBC France group is the responsibility of the Credit and Operational Risk Division (CORD). CORD reports directly to Senior Management and is completely independent from the operational units that present applications for credit facilities.

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance, treasury and leasing activities. The HSBC Group has standards, policies and procedures dedicated to controlling and monitoring all such risks.

CORD ensures that loan approval forms part of the risk selection and measurement process, that the counterparty complies with set limits and that counterparty default is identified and dealt with appropriately. CORD monitors the concentration of risks at the counterparty, group and sector levels.

A Basel II-compliance rating system has been set up to evaluate credit risks and assess counterparties.

Evaluation of counterparty risk

HSBC France applies the worldwide scoring system defined by HSBC Holdings plc. HSBC Holdings plc is responsible for the formulation of high-level credit policies. HSBC's risk rating framework has consisted of a minimum of seven grades, taking into account the risk of default and the availability of security or other credit risk mitigation. The first three of which are applied to differing levels of satisfactory risk. Accounts in grade 4 and 5 require different degrees of special attention and grades 6 and 7 indicate non-performing status.

A risk rating framework for banks and other customers, based on default probability and loss estimates and comprising up to 22 categories, is progressively being implemented throughout the HSBC Group. This new approach will increasingly allow a more granular analysis of risk and trends. Rating methodology is based upon a wide range of financial analytics together with market data-based tools which are core inputs to the assessment of counterparty risk. Although automated risk rating processes are increasingly in use, for the larger facilities ultimate responsibility for setting risk grades rests with the final approving executive in each case. Risk grades are reviewed frequently and amendments, where necessary, are implemented promptly.

CORD has established a project management team in charge of credit systems development. This team is involved in implementing the new Basel capital accord, in association with the Information Systems Division. The "Basel II project", which is broken down into a number of sub-projects, is headed by an Operational Monitoring Committee, comprising members of Senior Management, supported by a number of Project Committees. It has the tools and systems required for effective project progress monitoring.

Procedures for monitoring and measuring various types of risk

The Chairman has delegated his lending authorities to the head of CORD.

These authorities are USD 50 million for new deals and USD 100 million for renewals. All applications above those limits approved by CORD are sent to HSBC Holdings plc for confirmation.

CORD is responsible for credit approvals, risk supervision and credit systems development.

The credit approval process is based on a system of designated limits. Limits are notified in writing and apply to specific named counterparties. They now depend on the counterparty's Basel II rating. HSBC France's business units (HSBC branches, subsidiaries etc.) have lending authority limits, beyond which they must submit dossiers to CORD for approval.

CORD is also responsible for risk supervision and control over designated limits.

As regards counterparty risk management, HSBC France is currently implementing tools allowing it to:

– gain an overview of risks on a single counterparty or group of counterparties (monitoring concentration of major risks);

– analyse sector concentration;

– ensure the quality of commitments by portfolio and determine deteriorating risks.

Key credit risk management data are presented to ALCO Credit, a special committee that meets twice a month. Its role is to set the HSBC Group's credit policy, and it is informed of the most important lending decisions during the most recent period, along with the main existing commitments and changes in their risk profile.

Indeed, the HSBC Group's credit risk limits to counterparties in the financial and government sectors are managed centrally to optimise the use of credit availability and to avoid excessive risk concentration. Cross-border risk is controlled through the imposition of country limits, which are determined by taking into account economic and political factors, and local business knowledge, with sub-limits by maturity and type of business. Transactions with counterparties in higher risk countries are considered on a case-by-case basis.

Within the overall framework of the HSBC Group policy, the bank has an established risk management process encompassing credit approvals, the control of exposures (including those to borrowers in financial difficulty), credit policy direction to business units and the monitoring and reporting of exposures both on an individual and a portfolio basis. Local management is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual industry sectors and products.

Special attention is paid to the management of problem loans. Where deemed appropriate, specialist units are established to provide intensive management and control to maximise recoveries of doubtful debts.

Maximum exposure to credit risk

Maximum exposure to credit risk excluding collateral held or other credit enhancements

(in millions of euros)	*Maximum exposure*
Items in course of collection from other banks	2,110
Trading assets	37,920
– treasury & other similar bills	27,031
– debt securities	4,914
– loans and advances	5,975
Derivatives	18,030
Loans and advances to banks	16,557
Loans and advances to customers	37,226
Financial investments	3,223
– treasury and other similar bills	2,957
– debt securities	266
Other assets	
– endorsements and acceptances	19
– other	2,778
Off-balance sheet	
– financial guarantees and other credit related contingent liabilities	7,637
– loan commitments and other credit related commitments	14,762
Total	**140,262**

Guarantees received and other credit risk enhancements

Loans and advances

The 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 conservative, reviewed regularly and be 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. While guarantees received are an important mitigant to credit risk, it is the Group's policy to establish that loans are within the customer's capacity to repay rather than to over-rely on security. In certain cases, depending on the customer's standing and the type of product, facilities may be unsecured. The principal guarantees received types are as follows:

- mortgages over residential properties in the personal sector;
- charges over business assets being financed in the commercial and industrial sector;
- charges over the properties being financed in the commercial real-estate sector;
- charges over financial instruments such as debt securities and equities in support of trading facilities in the financial sector.

Other securities

Other securities held as guarantee for financial assets other than loans and advances is determined by the structure of the instrument. Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets.

Credit quality

Loans and advances

	At 31 December 2005	
(in millions of euros)	***Loans and advances to customers***	***Loans and advances to banks***
Gross loans and advances:		
– not impaired	**36,824**	**16,556**
– impaired	**1,323**	**3**
	38,147	**16,559**

Risk management (continued)

Distribution of not impaired loans and advances by facility grade, at 31 December 2005

(in millions of euros)	At 31 December 2005 Loans and advances to customers	Loans and advances to banks
Grade 1 – low risk	213	6,227
Grade 2 – satisfactory risk	567	5,304
Grade 3 – fair risk	35,432	4,936
Grade 4 – watch list	97	89
Grade 5 – sub-standard but not impaired	515	–
	36,824	16,556

Grades 1 and 2 represent facilities demonstrating financial condition, risk factors and capacity to repay that are good to excellent, residential mortgages with low to moderate loan to values ratios, and other retail accounts which are not impaired and are maintained within product guidelines.

Grade 3 represents satisfactory risk and includes facilities that require closer monitoring, mortgages with higher loan to value ratios than grades 1 and 2.

Grade 4 and 5 represent corporate facilities that require various degrees of special attention and all retail exposures that are progressively between 30 and 90 days past due.

Grade 6 and 7 indicate impaired status including all retail accounts that are progressively more than 90 days past due or 180 days for property.

Other securities

Debt securities and treasury bills

The following table presents an analysis of debt securities and treasury bills by rating agency designation at 31 December 2005, based on Standard and Poor's ("S&P") ratings or their equivalent:

(in millions of euros)	At 31 December 2005 Treasury bills	Debt securities	Total
AAA	21,159	3,135	24,294
AA – to AA +	8,262	1,394	9,656
A – to A +	485	70	555
Unrated	82	581	663
Total	29,988	5,180	35,168
Of which issued by:			
— governments	29,988	–	29,988
— corporates	–	3,090	3,090
— other	–	2,090	2,090
Total	29,988	5,180	35,168
Of which classified as:			
— available-for-sale securities	2,957	266	3,223
— held for trading	27,031	4,914	31,945
Total	29,988	5,180	35,168

If major rating agencies have different ratings for the same debt securities, the securities are reported against the lower rating.

Netting of assets and liabilities

An amount of EUR 11 billion of financial assets which is subject to a legally enforceable right of set-off against a financial liability is not presented on the balance sheet net as there is no intention for settlement to take place on a net basis or simultaneously.

(in millions of euros)	At 31 December 2005 Book value	Amount for which HSBC has a legally enforceable right to offset [1]	Net total credit risk
Derivatives	18,030	(11,047)	6,983

1 Against financial liabilities with the same counterparties.

Impairment assessment

It is HSBC France policy that each entity makes allowance for impaired loans promptly and on a consistent basis in accordance with established Group guidelines.

HSBC France rating process for credit facilities extended by members of the Group is designed to highlight exposures requiring greater management attention based on a higher probability of default and potential loss. Management particularly focuses on facilities to those borrowers and portfolio segments classified below satisfactory grades. Amendments to risk grades, where necessary, are required to be undertaken promptly. Management also 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.

Group policy requires a review of the level of impairment allowances that are above materiality thresholds at least half-yearly, and more regularly where individual circumstances require. This will normally include a review of guarantees received (including re-confirmation of its enforceability) and an assessment of actual and anticipated cash flows. For significant commercial and corporate debts, specialised loan "work-out" teams with experience in insolvency and specific market sectors are used. This expertise enables likely losses on significant individual exposures to be assessed more accurately. Reversals on individually calculated impairment allowances are recognised whenever the Group has reasonable objective evidence that the established estimate of loss has been reduced.

Portfolio allowances are generally reassessed monthly and charges for new allowances, or releases of existing allowances, are calculated for each separately identified portfolio.

In relevant cases, impairment allowances will include an element in respect of exposures to countries assessed by management to be vulnerable. This assessment includes analysis of both economic and political factors existing at the time. Economic factors include the level of external indebtedness, the debt service burden and access to external sources of funds to meet the debtor country's financing requirements. Political factors taken into account include the stability of the country and its government, threats to security and the quality and independence of the legal system.

Non-performing loans

Loans are designated as non-performing as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence of impairment includes observable data such as when contractual payments of principal or interest are 90 days overdue or 180 days for property.

Charge-offs

Loans (and the related impairment allowances) are charged off, either partially or in full, when there is no realistic prospect of recovery of these amounts and when the proceeds from the realisation of security have been received.

Impaired loans

Impaired loans by industry sector

	Year to 31 December 2005	
(in millions of euros)	***Gross loans and advances to customers***	***Gross loans by industry sector as a % of total Gross loans***
Personal	**295**	**22**
Corporate	**979**	**74**
Financial	**49**	**4**
Total impaired loans and advances to customers	**1,323**	**100**

Impairment allowances

When losses are expected, HSBC France reduces the carrying amount of loans and advances through the use of an allowance account. When losses on available-for-sale financial assets are expected, the carrying amount of the asset is reduced directly.

Movement in allowance accounts for total loans and advances

	Year ended 31 December 2005		
(in millions of euros)	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January (including IFRS 32 and 39 adjustments)	**(995)**	**(114)**	**(1,109)**
Utilised provisions reversed	**100**	**–**	**100**
Release of allowances no longer required	**246**	**37**	**283**
New (allowances)	**(232)**	**(19)**	**(251)**
Exchange, changes in scope of consolidation and other movements	**47**	**7**	**54**
At 31 December	**(834)**	**(89)**	**(923)**

Impairment allowances against loans and advances to customers

(in %)	**2005**	2004
Total impairment allowances to gross lending[1]		
Individually assessed impairment allowances	**2.47**	–
Collectively assessed impairment allowances	**0.26**	–
Specific provision	**–**	3.53
Total	**2.73**	3.53

1 *Net of reverse repo transactions and settlement accounts.*

Net loan impairment charge/(release) and other credit risk provision

	Year ended 31 December 2005	Year ended 31 December 2004
(in millions of euros)	***Total***	*Total*
Individually assessed impairment allowances		
New allowances	**232**	330
(Release) of allowances no longer required	**(246)**	(294)
Recoveries of amounts previously written off	**–**	(12)
	(14)	24
Collectively assessed impairment allowances		
New allowances	**19**	–
(Release) of allowances no longer required	**(37)**	–
Recoveries of amounts previously written off	**–**	–
	(18)	–
Total charge/(release) for impairment losses	**(32)**	24
– bank	**(3)**	(6)
– customer	**(29)**	30
Other credit risk provisions	**(43)**	(51)
Cost of risk	**(75)**	(27)
Customer charge for impairment losses as a percentage of closing gross loans and advances	**0.07%**	0.09%
Total balances outstanding		
Non-performing loans	**1,326**	1,415
Impairment allowances	**923**	964
Gross loans and advances	**54,706**	50,477
Total allowances cover as a percentage of non-performing loans and advances	**69.6%**	68.1%

Risk management (continued)

In 2004, provisions were only on non-performing loans. As a result, a direct comparison cannot be made between 2004 and 2005 provisions.

Liquidity and funding management

HSBC France maintains a diversified and stable funding base of core retail and corporate customer deposits as well as portfolios of highly liquid assets. The objective of HSBC France's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due.

That liquidity and funding management process includes:

- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debt maturities;
- maintaining debt financing plans;
- monitoring deposit or 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.

Core retail deposits (current accounts and savings deposits payable on demand or at short notice) form a significant part of the Group's overall funding. Considerable importance is attached to this core deposit base which, over the years, has been stable and predictable. HSBC France follows the HSBC Group's policy and prefers to grow its balance sheet through increasing core retail deposits where possible.

Global Markets is an important player in the money markets and debt capital markets. HSBC France routinely accepts deposits, often of a short-term nature, from banks and other institutions. In addition, the funding of capital markets activities, by repo arrangements for example, will often result in funding directly in the wholesale market.

Most of the bank's asset base is Euro-based with the remainder mostly denominated in GBP and US dollars. The non-euro asset base is partially funded through currency-denominated, deposits taken from the Eurocurrency interbank market, from central banks, corporate customers and other financial institutions.

The sources of such deposits, by type of institution and country, are monitored in order to avoid an undesirable dependence on any particular institution or category of depositor.

HSBC France complies with the regulatory liquidity ratio requirements of the Banque de France, overseen and monitored by the Commission Bancaire. Banks are required to submit quarterly returns which are used to compute a monthly liquidity ratio for the last three months. Banks simultaneously submit a future forecast of liquidity positions called "observation ratios". The ratios are derived by dividing liquid assets (which are subject to discount factors) by liabilities (which include a proportion of customer accounts, 5 per cent of off-balance-sheet commitments and all borrowings and subordinated loan stock maturing within one month). Banks are required to maintain, at all times, a ratio in excess of 100 per cent. For the year 2005, the HSBC France average liquidity ratio was 112.43 per cent.

HSBC France follows the HSBC Group's policy that on an all-currency basis all professional deposits with residual maturities up to 30 days, plus 5 per cent of deposit liabilities should be backed by liquid assets. This means that, in a crisis, the Group would be able to meet its obligations as they fall due for at least 30 days without recourse to the wholesale markets. This requirement is additional to the regulatory requirement.

Market risk management

The objective of the Group's market risk management 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 premier provider of financial products and services.

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and equity and commodity prices will reduce the group's income or the value of its portfolios.

HSBC France separates exposures to market risk into either trading or non-trading positions. Trading exposures include those positions arising from market-making and proprietary position-taking. Non-trading exposures arise from the management of the commercial banking assets and liabilities.

Both exposures are reviewed on a systematic basis by the Committee "ALCO Balance Sheet and Market" which ensure that adequate controls exist and set related policies.

The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to professionally manage such risks.

Risk Management procedures

The process for allocating market limits and the market risk management system as a whole involve a number of people from the HSBC Group and HSBC France, as well as special committees, the roles of which are set out below.

Traded Markets Development & Risk (TMR) – HSBC Group

The HSBC Group's management plays an active role in defining and monitoring HSBC France's market risks through its Traded Markets Development & Risk (TMR) department. This department's brief is to allocate risk limits to the HSBC Group's various entities through the Global Mandate, and to check usage of these limits. The head of the TMR department reports to the HSBC Group's Head of Finance.

Product Control

Within HSBC France's support functions for its large corporate segment, Product Control teams managed by the Head of Market Risk and Product Control calculate, control and analyse market risk indicators and results on a day-to-day basis. Their tasks also include daily position valuations, reserve allocation and daily results recording.

Product Control forms the backbone of the independent system for regular control of the bank's market risks. As part of the new market risk organisation, the Product Control unit has assumed responsibility for monitoring market limits, which was previously the task of the Market Risks and Modelling Division.

A special team within Product Control has the task of consolidating the HSBC France group's risks and of producing and disseminating reporting documents concerning HSBC France's market risks.

Derivative Models Review Group (DMRG)

Models developed by the front-office research team are crucial in managing, valuing and assessing the risks of some derivative products. These models are validated by an independent, specialist unit, the Derivative Models Review Group (DMRG), which previously formed part of the Market Risks and Modelling Division. Since March 2005, the unit has been part of the Corporate Banking Chief Financial Officer's teams and reports to the Head of Market Risk & Product Control. The Paris DMRG team reports functionally to the Group DMRG, which itself forms part of the TMR department.

Parameters Committee

This committee is managed by the Head of Market Risk & Product Control, and is made up of members of the DMRG, Product Control and front-office representatives. It meets in the first two weeks of every month, and discusses the parameters of the models used by the front office. Changes in the main market indicators are also examined during these monthly meetings.

Securities Committee

This committee also meets every month, and consists of front-office operational staff and members of Product Control. Its task is to examine major securities positions and to book illiquidity provisions as necessary.

Balance Sheet and Markets ALCO

The Balance Sheet and Markets ALCO meets every month, and is chaired by the Deputy CEO. Its role is to examine key issues relating to market risks, structural balance sheet risks (i.e. interest-rate risk, exchange-rate risk and liquidity risk), the securities portfolio and solvency ratios. The committee was formed in early 2005 via the combination of two existing committees, i.e. the ALM Committee and the Market Risks Committee. Its task is to supervise market and balance sheet risks in a systematic manner, to ensure that appropriate controls exist and to approve the main rules included in the supervision system. The Balance Sheet and Markets ALCO consists of Senior Management, the heads of the business segments directly concerned, the Senior Corporate Vice President in charge of Capital Markets, the Head of Management Accounting and Chief Accountant, the Head of Market Risk and Product Control, the Corporate and Institutional Banking segment's Chief Operating Officer and the Head of Asset and Liability Management, who is the committee's secretary.

The Balance Sheet and Markets ALCO examines every month ALCO risk indicators prepared by Product Control, and analyses any significant events that took place during the previous month. Any entity that generates market risks must request the renewal or extension of its limits every year.

Periodic control

Periodic control of market risks, as described above, is carried out by Group Finance Audit (GFA), which is the HSBC Group's unit in charge of the periodic control of world-wide capital markets activities.

HSBC France's Audit Committee and Board of Directors

HSBC France's Audit Committee and Board of Directors fully comply with the tasks laid out by legislation and regulations. Every HSBC France Audit Committee meeting involves the submission of market limits for approval. In addition, the main information relating to market risks and market

Risk management (continued)

risk management is presented to this committee, enabling it to gain an overview of the entire risk management system. Similarly, every HSBC France Board meeting involves a presentation of the main market risk information.

Value at Risk

One of the principal tools used by the Group to monitor and limit market risk exposure is VaR. Internal model of HSBC France is used to calculate a Value-at-Risk (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 movements in market prices are calculated with reference to market data from the last two years. Internal model of HSBC France has been validated by the French regulator "Commission Bancaire" in 1999 for capital requirements calculations. HSBC France calculates a VaR based on an assumed holding period of 10 days. On a Group perspective, 1-day period VaR is obtained by dividing ten-day VaR by square root of ten. According to Group standards, the VaR exposure reported on pages 48 and 49 is expressed in VaR one-day.

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.

The one-day VaR, both trading and non-trading, for Global Markets was as follows:

(in millions of euros)	*Total*
At 31 December 2005	**9.5**
At 31 December 2004	10.6

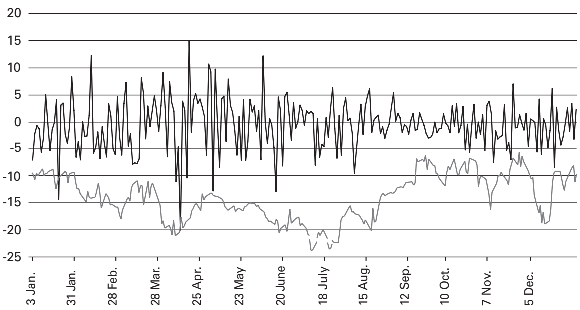
(in millions of euros)	*Average*	*Minimum*	*Maximum*
2005	**13.7**	**5.6**	**22.9**
2004	9.9	6.0	14.7

Back testing

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. Back-testing is carried out on a D+2 basis by business area and for all of the HSBC Group's market positions.

It allows the model to be validated, ensuring that the actual result, in absolute terms, is lower than the calculated one day-VaR in 99 per cent of cases.

Pro forma Back testing January-December 2005
(in millions of euros)



1-day HSBC France Variation Global pro forma P&L variation
HSBC France Global VaR (99%, 1 day)

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 are 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 are 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. Senior management are required to assess the resourcing and expertise of Finance functions within the Group on a regular basis to ensure that the Group's financial control and price verification processes are properly staffed to support the required control infrastructure.

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 Traded Markets Development and 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 control systems.

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 type, by positions taken with trading intent and by positions taken without trading intent (not significant for HSBC France) :

Total trading VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2005	**0.2**	**7.6**	**0.5**	**7.3**
At 31 December 2004	0.4	8.7	2.0	n.a.
Average				
2005	**0.3**	**11.1**	**1.2**	**12.0**
2004	0.3	8.4	1.8	n.a.
Minimum				
2005	**0.1**	**3.6**	**0.3**	**4.5**
2004	0.1	4.8	0.7	n.a.
Maximum				
2005	**0.5**	**21.6**	**3.7**	**22.4**
2004	0.5	14.6	3.7	n.a.

Positions taken with trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2005	**0.2**	**7.4**	**0.5**	**7.1**
At 31 December 2004	0.4	8.7	2.0	n.a.
Average				
2005	**0.3**	**10.7**	**1.2**	**11.6**
2004	0.3	8.4	1.8	n.a.
Minimum				
2005	**0.1**	**3.5**	**0.3**	**4.4**
2004	0.1	4.8	0.7	n.a.
Maximum				
2005	**0.5**	**20.5**	**3.7**	**21.3**
2004	0.5	14.6	3.7	n.a.

Positions taken without trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2005	**–**	**0.2**	**–**	**0.2**
At 31 December 2004	–	–	–	–
Average				
2005	**–**	**0.4**	**–**	**0.4**
2004	–	–	–	–
Minimum				
2005	**–**	**0.1**	**–**	**0.1**
2004	–	–	–	–
Maximum				
2005	**–**	**1.1**	**–**	**1.1**
2004	–	–	–	–

Risk management (continued)

Non-trading

The main objective of market risk management of non-trading portfolios is to optimise net interest income.

Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on optionality in certain product areas, for example, mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts. In order to manage this risk optimally, market risk in non-trading activities is measured and managed centrally by the ALM team which defined the rules to transfer this risk to Global Markets. When the behavioural characteristics of a product differ from its contractual characteristics, the behavioural characteristics are assessed to determine the true underlying interest rate risk. ALCO regularly monitor all such behavioural assumptions and interest rate risk positions, to ensure they comply with interest rate risk limits established by the HSBC Group Management Board. The transfer of the net interest exposure to dedicated trading books managed by Global Markets is achieved by a series of internal deals (cash or swap) between the business units and these trading books.

Once market risk has been consolidated in Global Markets books, the net exposure is typically managed through the use of interest rate swaps to reverse the risk to the market within agreed limits.

A principal management tool for this non-trading risk is the control of the sensitivity of projected net interest income under varying interest rate scenarios.

Market risk also arises in HSBC's insurance businesses within their portfolios of investments and policyholder liabilities. The principal market risks are interest-rate risk and equity risk, which primarily arise when guaranteed investment return policies have been issued. The insurance businesses have a dedicated ALM team which oversees management of this risk under the auspices of local and Group ALCOs.

Structural foreign exchange exposures

Structural foreign exchange exposures represent net investments in subsidiaries, branches or associated undertakings, the functional currencies of which are currencies other than the euro.

The investment in foreign subsidiaries is limited in amounts and totally funded in the same currency. As a result, the structural exchange exposure is coming from the P&L of these subsidiaries which stays in reserves.

Capital Adequacy reporting

Internal model allows the daily calculation of Value at Risk for all positions. It has been approved by the Commission Bancaire for regulatory capital adequacy calculations. At 31 December 2005, it covered 98 per cent of market risks within HSBC France. 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 (millions of euros):

	31 December 2005		31 December 2004	
	BIS	*CAD*	*BIS*	*CAD*
Internal Model:	**117.2**	**117.2**	141.8	141.8
Foreign exchange risk	**3.0**	**3.0**	4.0	4.0
General interest-rate risk	**124.7**	**124.7**	121.5	121.5
General equities risk	**11.2**	**11.2**	34.5	34.5
Netting effect	**(21.7)**	**(21.7)**	(18.2)	(18.2)
Standard methods:	**60.8**	**60.7**	45.5	45.4
Foreign exchange risk	**0.05**	**0.05**	0.07	0.06
General interest-rate risk	**0.12**	**0.08**	0.59	0.62
Specific interest-rate risk	**60.6**	**60.6**	44.3	44.3
General equities risk	**0.0**	**0.0**	0.3	0.3
Specific equities risk	**0.0**	**0.0**	0.3	0.1
Total	**178.0**	**177.9**	187.4	187.2

Risk cover and regulatory ratios

Large exposures

The HSBC France group complies with the French Banking Commission'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 8 times net capital. Ten groups had individual exposures exceeding 10 per cent of net capital at the end of 2005.

Loan loss provisions

At 31 December 2005, loan loss provisions represented 69.6 per cent of the HSBC France group's total doubtful and non-performing exposure.

Liquidity ratio

The group's regulatory ratios reflect its good liquidity risk cover. The regulatory liquidity ratio, which measures the potential one-month liquidity gap, averaged 112.43 per cent in 2005.

International solvency ratio (BIS ratio)

The group's international solvency ratio (BIS ratio) was 10.05 per cent at 31 December 2005, compared with a minimum requirement of 8 per cent. The group's Tier 1 capital ratio was 9.49 per cent compared with a minimum requirement of 4 per cent.

Under the BIS definition, total HSBC France group capital amounted to EUR 4.19 billion at 31 December 2005, of which EUR 3.96 billion was Tier 1 capital.

The corresponding risk-weighted assets totalled EUR 41.7 billion, broken down as follows:

(in billions of euros)

Credit risks, not including trading book	37.7
Trading book credit risks	2.5
Market risks	1.5

Operational risk management

Operational risk is the risk that financial loss arises from frauds, non-authorised activities, errors, oversights, inefficiency, failures in systems or external events.

It includes the risk linked to the security of information systems, legal and regulatory risks and environmental risks.

Identification and management of operational risks

An operational risk management system was established in 2003 as an extension of the loss-reporting system set up for all HSBC France group business units in 2002. In addition to a small central operational risk management team, each business unit has its own Operational Risk Business Co-ordinators (ORBC) who, within their entities, co-ordinate work to identify operational risks liable to affect their business. In conjunction with the business head concerned, they analyse and quantify the risk of loss in terms of frequency, severity and exposure (with exposure taking account of the effectiveness of existing procedures), using the grading system recommended by the HSBC Group.

During 2004, action plans were drawn up for all risks identified by the system as significant, after review and validation by an Operational Risk Management Committee. The ORBCs are responsible for monitoring these action plans and more generally for measuring trends in their business unit's exposure to risk.

In January 2005, the HSBC Group rounded out existing procedures by drawing up a summary of all methods for identifying, reporting, managing, controlling and preventing risks. These rules include the following:

- responsibility for operational risk management falls primarily to managers, through transaction processing;
- information systems are used to identify and report operational risks and to generate appropriate regular reporting documents;
- operational risks are identified on the basis of statements covering all activities. Risk identification work is regularly updated in order to identify significant developments;
- operational losses are noted and reported to management, the Operational Risk Management Committee and the Audit Committee.

As part of these procedures, for the HSBC France group as a whole, an Operational Risk Management Committee regularly reviews risks by business segment and operating losses.

HSBC France carries out an annual review of risks for all business segments, together with a quarterly review of trends in exposure and the impact of measures taken to mitigate risks identified as significant. A summary of its work is submitted to the Audit Committee.

An IT application developed by the HSBC Group is currently undergoing testing at HSBC France, and is due to be deployed in the first half of 2006 to manage the process of identifying and updating risks and loss-reporting within an automated database.

Risk management (continued)

Legal risks and litigation

The Legal and Tax Division (DAJF) assists HSBC France's operating units in preventing legal risks, and is responsible for litigation.

– Prevention of legal risks:
  The DAJF manages the Legal and Tax Risks Committee, which may be consulted on situations likely to generate specific substantive legal and tax risks, and the Structured Transactions Committee, which reviews the legal, accounting, tax and financial risks connected with complex structured transactions. The DAJF is also involved in due diligence procedures concerning market operations, structured transactions and any new acquisition (or disposal) of an entity by HSBC France group.

  The DAJF is responsible for managing risks directly or indirectly connected with all contentious matters. It is also involved in handling large exposures at risk or doubtful debts, and monitors all other risks which may have legal or tax implications.

– Litigation:
  Since 2001, the HSBC France group has been involved in legal actions taking place in the United States, relating to banking operations and fiduciary loans. As jurisdiction has not yet been definitively allocated to the courts involved, it is not possible at this stage to estimate the outcome of these legal proceedings. In any case, the allegations made are fiercely contested.

  There are no other litigation or arbitration proceedings likely to have or have recently had a material impact on HSBC France's financial position, its activities and results, or consequently on the HSBC France group.

Business Recovery Plan

Business recovery plans (BRP) have been devised for all sensitive activities of the HSBC platform and financial subsidiaries located in the Group's sites in the Ile-de-France region. It does not cover network activities and those of regional banking subsidiaries that have implemented their own BRP, except for HSBC UBP and HSBC Picardie, which are included in HSBC France BRP.

HSBC France (parent company and subsidiaries at central sites) only takes into consideration the loss of one building at a time (except for the Head Office complex on the Champs Elysées area). In the case of such a loss, a back up site is located in Lognes for all essential operations.

The loss of the Lognes site is covered by the IT Back up Plan.

Capital market activities, asset management, processing of bank transactions and non-production IT support – which is covered by the IT Back up Plan – are given priority in the case of a crisis.

Tests to ensure business continuity following a crisis were performed successfully in the fourth quarter of 2005 for all CIBM activities – capital markets, asset management, transactions and IT support – and are planned for other activities in the first half of 2006.

A consultation took place in the fourth quarter of 2005, both with the FBF (Fédération Bancaire Française) and internally, to define a specific plan covering other major risks that may affect business continuity, such as floods and pandemics.

This should lead to specific business continuity/resumption plans being drawn up during 2006.

In terms of organisation, a security department was set up on 1 January 2006, with the brief of managing crises and co-ordinating group business continuity plans.

Dependency

HSBC France is not dependent on any patents, licences or industrial, commercial and financial supply contracts.

Environmental risks

The Corporate Social Responsibility policy is described on pages 38 to 41 of this annual report.

Compliance and money laundering

Within HSBC France, the system for controlling the risk of non-compliance with laws, regulations and professional and ethical standards has been managed since September 2001 by HSBC France group Compliance (DGCD). The group Compliance Department, composed of specialists in money-laundering prevention, investment services control and financial compliance, organises and develops its action to implement a consolidated approach to compliance for all HSBC France group's activities.

Four Business Compliance Officers are supervised by the Head of Compliance and are each responsible for one of the group's core businesses: Retail & Commercial Banking, Corporate, Investment Banking & Markets, Asset Management and Private Banking. Group Compliance is supported by Local Compliance Officers (LCOs) within each entity. In accordance with the decree of 31 March 2005 and CRBF regulation 97-02, all compliance staff report to Group Compliance as of the start of 2006, in order to ensure the full independence of the compliance function with respect to operational activities.

In association with the Training team of the Human Resources department and other departments of the Group such as Legal and Tax Affairs, the Group Compliance organises training and information seminars for the LCOs on current regulations and developments, together with workshops on specific regulatory issues. It also contributes to the many training sessions organised by the LCOs for staff dealing with customers or staff in support services dealing with money laundering prevention or compliance with Autorité des Marchés Financiers (AMF) regulations, concerning in particular the duties of best advice.

Prevention of money laundering and terrorism financing

French and European regulations on money laundering and terrorism financing have been tightened up considerably over the past few years. In particular in April 2002, the French Banking Regulations Committee (CRBF) issued Regulation no. 2002-01. European legislation on terrorism financing requires banks to take specific measures to prevent the flow of funds to or from suspected terrorists, and to report all suspicious accounts and transactions to the relevant authorities. Since 2004, financial institutions have also been required to report sums and transactions that might have been involved in fraud affecting the financial interests of the European Communities, corruption, or financing terrorism. In June 2005, the third European directive against money laundering and terrorist financing was adopted, including the 40 recommendations of the FATF (Financial Action Task Force) on money laundering, which were revised in June 2003. The directive has not yet been transposed into French law.

The HSBC France group pursued its action in three key areas during 2005 – procedures, information systems and staff training – to ensure that it complies fully with the new provisions and to further strengthen its money laundering prevention systems.

Procedures

The HSBC France group has a dedicated intranet site, accessible to all employees, featuring all general procedures to combat money laundering and terrorist financing in an organised and hierarchical way. In 2005, special intranet sites were set up for the Private Banking and Corporate, Investment Banking and Markets business lines. These procedures incorporate legal obligations as well as HSBC Group rules, which are sometimes more restrictive than legal requirements. They are updated regularly to take account of regulatory developments and any risks revealed by the money laundering risk mapping process. The site also contains concrete examples and general information obtained from the websites of organisations such as the Financial Action Task Force (FATF), Transparency International, a non-governmental anti-corruption organisation, and the Wolfsberg Group, of which HSBC has been a member for several years.

HSBC France introduced a formal money laundering risk mapping process for each business unit of the group as part of the work being carried out for the Basel II operational risks project. Risk mapping involves analysing and classifying risks specific to each business activity by operation, transaction and customer type, together with a critical analysis of the control system in place for those risks. The results are used by business unit heads to draw up continuous progress plans for their anti money laundering systems. It also gives Group Internal Audit a means of identifying areas at risk. It will therefore become for the business and executive management an essential tool for measuring money laundering risk and drawing up targeted action plans.

Money Laundering Prevention Committees have been established in each activity of the HSBC France group. The Committees are responsible for examining all matters relating to the prevention of money laundering in their business unit.

IT resources

The HSBC network has a supervision system that enables relationship managers to monitor and carry out centralised reporting for sensitive client accounts. The system focuses on controls of cheques issued and submitted, in accordance with CRBF regulation 2002-01, and cash transactions. It is gradually being implemented across the HSBC France group's banking subsidiaries. In 2005, it was deployed at HSBC Picardie, CCSO and HSBC Hervet. The system for control over payments made has been upgraded to improve detection of suspicious transactions.

As part of HSBC France's drive to combat terrorism financing, Group Compliance has supervised a project to implement an automated filtering and blocking system for international payments in all HSBC France units. Developments were also carried out in 2005 to allow daily checks of client databases with respect to terrorist lists drawn up by the European Union and the US Treasury's Office of Foreign Assets Control (OFAC).

Staff training

An ambitious two-year training plan has been implemented for the retail banking, CIBM and private banking businesses, covering all employees concerned. It is based on training packages developed in conjunction with Tracfin and the French Banking Commission.

Risk management (continued)

Other compliance issues

Staff ethics

In 2005, in order to comply fully with requirements arising from the new European directive on market abuse, staff that have sensitive information on the HSBC Group were informed of their insider status and of the specific rules that apply to them. These include restrictions on trading HSBC securities for their own account.

In addition, procedures relating to the prevention of insider trading and the circulation of confidential or sensitive information, and arrangements regarding gifts, invitations and benefits received or given were updated and disseminated among the staff concerned.

Compliance training

The Compliance function continued to train staff in the areas of professional secrecy, staff ethics and rules of conduct. New themes will be added to these training sessions in 2006.

As regards the directive on market abuse, a number of training sessions were organised in 2005 for Corporate, Investment Banking and Markets staff. In 2006, these training sessions will continue, and will be extended to all staff working in the branch network and Private Banking business line.

Insurance and risk coverage

HSBC France and its subsidiaries are covered by the main world insurance programmes taken out by HSBC Holdings plc in London regarding the coverage of the major risks (fraud, professional liability, directors' and officers' liability).

As regards the specific insurance requirements of its operations and to comply with French regulations, HSBC France arranges local insurance programmes centrally, via its Insurance Department, on behalf of the HSBC France group.

In particular, insurance is used to cover civil liability relating to regulated activities, operational civil liability, banking risks and the automobile fleet.

Damage to real-estate and other property, including IT hardware, and the associated operating losses are insured by a policy taken out in France. This local policy is linked to the global programme taken out by HSBC Holdings plc. Replacement value guarantees vary between sites.

Sums insured, retentions and excesses are:

- in line with market conditions, industry practice and legislation;
- based on 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 for 2005 represented 0.27 per cent of net operating income.

Broker, insurance and expert partners are selected in accordance with a strict selection and solvency supervision policy, established and controlled by HSBC Insurance Holdings plc.

There were no major claims in 2005 concerning the HSBC France group.

Risk insurability and the consistency of insurance programmes were analysed regularly in 2005 in conjunction with operational risk monitoring staff and the Risk Committee in charge of supervising efforts to prevent and reduce operational risks and losses.

Financial highlights *

HSBC France group

(in millions of euros)	**2005 [1]**	2004 [2]	2003 [3]	2002 [3]	2001 [3]
Profit on ordinary activities before tax	**1,240**	608	643	770	941
Profit attributable to shareholders	**1,119**	528	692	602	504
At year-end					
Shareholders' funds	**5,325**	4,168	3,427	3,259	3,501
Loans and advances to customers and banks	**53,783**	49,513	38,441	38,804	42,267
Customers accounts and deposits by banks	**54,858**	52,454	43,474	41,281	45,178
Total assets	**128,100**	87,947	71,191	66,285	67,403
Number of employees (full-time equivalents)	**13,878**	13,908	13,577	13,797	14,071
Ratios					
Capital ratios					
Total capital	**10.1%**	8.9%	9.1%	8.6%	8.7%
Tier One capital	**9.5%**	8.8%	8.8%	8.2%	8.1%
Cost:income ratio	**63.4%**	76.7%	68.8%	67.9%	66.4%

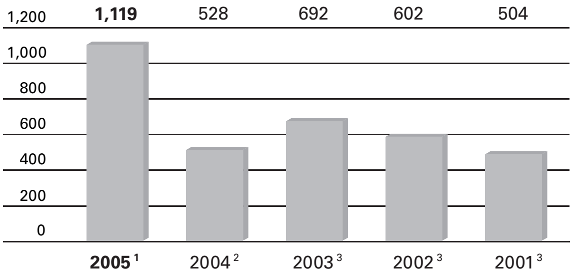
The financial highlights are influenced by changes in the Group structure over the past five years. The most significant changes are as follows:

– in 2001: acquisitions of Banque Hervet and HSBC Securities SA; disposals of CCF Brazil, of Crédit International d'Egypte, and of minority interests in Quilter; transfer of private banking activities in Switzerland, Monaco, Luxembourg in exchange for shares in PBSU;

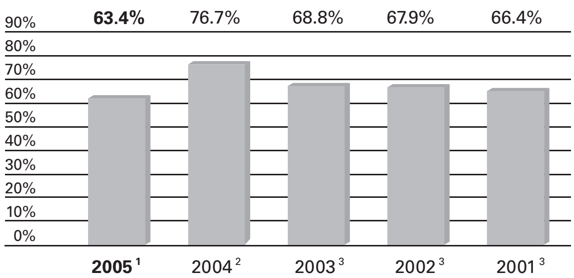
– in 2002: acquisition of HSBC Republic Bank France SA;

– in 2005: disposals of the group Dewaay, Framlington and Netvalor.

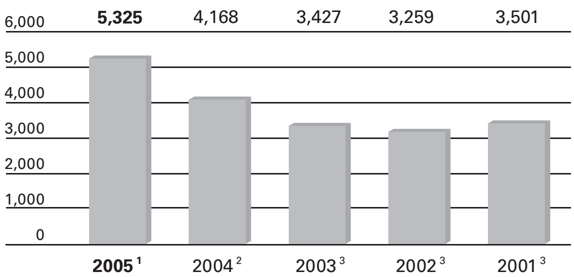
Profit attributable to Shareholders



Cost:income ratio



Shareholders' funds



* *Published consolidated financial information: HSBC France legal perimeter.*
1 *The 2004 and 2005 financial highlights are prepared in accordance with IFRS as endorsed by the EU.*
2 *2004 financial highlights excludes IAS 32, 39 and IFRS 4.*
3 *The 2001, 2002 and 2003 financial highlights are French GAAP as reported previously. The profit on ordinary activities before tax and the profit attributable to shareholders for the years 2001-2003 exclude goodwill armortisation.*

Consolidated financial statements

Consolidated income statement for the year ended 31 December 2005

(in millions of euros)	*Notes*	**2005 IFRS**	2004 IFRS except IAS 32, 39
Interest income		**2,133**	2,750
Interest expense		**(1,389)**	(1,719)
Net interest income		**744**	1,031
Fee income		**1,112**	1,091
Fee expense		**(251)**	(240)
Net fee income		**861**	851
Trading income		**617**	191
Net income from financial instruments designated at fair value	*3*	**1**	-
Gains less losses from financial investments		**244**	24
Dividend income		**29**	111
Other operating income		**405**	180
Total operating income before loan impairment (charges)/release and other credit risk provisions		**2,901**	2,388
Loan impairment (charge)/release and other credit risk provisions		**75**	27
Net operating income		**2,976**	2,415
Employee compensation and benefits	*5*	**(1,094)**	(1,024)
General and administrative expenses		**(651)**	(594)
Depreciation of property, plant and equipment	*17*	**(65)**	(124)
Amortisation of intangible assets and impairment of goodwill	*16*	**(30)**	(89)
Total operating expenses		**(1,840)**	(1,831)
Operating profit		**1,136**	584
Share of profit in associates and joint ventures	*15*	**104**	24
Profit before tax		**1,240**	608
Tax expense	*7*	**(123)**	(81)
Profit for the year		**1,117**	527
Attributable to shareholders	*29*	**1,119**	528
Attributable to minority interests	*29*	**(2)**	(1)

(in euros)			
Basic earnings per ordinary share	*9*	**14.95**	7.08
Diluted earnings per ordinary share	*9*	**14.62**	6.88
Dividend per ordinary share	*9*	**5.19**	6.22

Consolidated balance sheet at 31 December 2005

ASSETS

(in millions of euros)	*Notes*	**2005 IFRS**	2004 IFRS except IAS 32, 39
Cash and balances at central banks	*30*	**482**	623
Items in the course of collection from other banks	*30*	**2,110**	203
Trading assets	*12*	**41,821**	21,206
Derivatives	*13*	**18,030**	3,334
Loans and advances to banks	*26*	**16,557**	17,544
Loans and advances to customers	*26*	**37,226**	31,969
Financial investments	*14*	**6,260**	8,339
Interests in associates and joint ventures	*15*	**174**	104
Goodwill and intangible assets	*16*	**461**	444
Property, plant and equipment	*17*	**733**	821
Other assets	*19*	**3,070**	2,014
Deferred taxation	*22*	**19**	2
Prepayments and accrued income		**1,157**	1,344
TOTAL ASSETS	*10*	**128,100**	87,947

LIABILITIES AND EQUITY

(in millions of euros)	*Notes*	**2005 IFRS**	2004 IFRS except IAS 32, 39
Liabilities			
Deposits by banks	*26*	**20,494**	20,987
Customer accounts	*26*	**34,364**	31,467
Items in the course of transmission to other banks	*30*	**2,069**	105
Trading liabilities	*25*	**32,182**	11,496
Financial liabilities designated at fair value	*20*	**314**	–
Derivatives	*13*	**19,408**	2,745
Debt securities in issue	*26*	**9,912**	10,819
Retirement benefit liabilities	*5*	**202**	199
Other liabilities	*21*	**1,132**	3,414
Current taxation		**273**	242
Accruals and deferred income		**1,342**	1,135
Provisions for liabilities and charges:			
– deferred tax	*22*	**111**	116
– other provisions	*22*	**165**	177
Subordinated liabilities	*24*	**795**	864
TOTAL LIABILITIES		**122,763**	83,766
Equity			
Called-up share capital	*28*	**376**	374
Share premium account	*29*	**1,125**	1,093
Other reserves and retained earnings	*29*	**3,824**	2,701
TOTAL SHAREHOLDERS' EQUITY		**5,325**	4,168
Minority interests	*29*	**12**	13
TOTAL EQUITY		**5,337**	4,181
TOTAL EQUITY AND LIABILITIES		**128,100**	87,947

Consolidated financial statements (continued)

Consolidated statement of recognised income and expense for the year ended 31 December 2005

(in millions of euros)	**2005**	2004
Available-for-sale investments:		
– fair value changes net of deferred tax	**233**	–
Cash flow hedges:		
– fair value changes taken to equity net of deferred tax	**52**	–
– fair value changes transferred to income statement net of deferred tax	**(173)**	–
Exchange differences	**4**	2
Actuarial losses on post-employment benefits	**(9)**	–
	107	2
Profit for the year	**1,117**	527
Total recognised income and expense for the year	**1,224**	529
Effects of changes in accounting policy		
IFRSs transition adjustments at 1 January 2005 (net of deferred tax)		
– available-for-sale securities	**320**	–
– derivatives and hedge accounting	**203**	–
– fair value option	**(12)**	–
– fee and commission income	**(38)**	–
– loan impairment	**(104)**	–
– other	**8**	–
	377	–
	1,601	529
Total recognised income and expense for the year:		
– Attributable to shareholders	**1,226**	530
– Attributable to minority interests	**(2)**	(1)
	1,224	529

Consolidated cash flow statement for the year ended 31 December 2005

(in millions of euros)	*Notes*	**2005 IFRS**	2004 IFRS except IAS 32, 39
Cash flows from operating activities			
Profit before tax		**1,240**	608
Adjustments for:			
– non-cash items included in net profit	*30*	**(18)**	–
– change in operating assets	*30*	**(1,468)**	(4,103)
– change in operating liabilities	*30*	**(894)**	9,731
– elimination of exchange differences and transition adjustments		**1,279**	294
– net gain from investing activities		**(243)**	(83)
– share of profits in associates and joint ventures		**(104)**	(24)
– dividends received from associates		**63**	6
– tax paid		**(160)**	(180)
Net cash from operating activities		**(305)**	6,249
Cash flows (used in)/from investing activities			
Purchase of financial investments		**(2,808)**	(4,632)
Proceeds from the sale of financial investments		**4,938**	3,539
Purchase of property, plant and equipment		**(74)**	(109)
Proceeds from the sale of property, plant and equipment		**53**	47
Purchase of intangible assets		**(21)**	(1)
Net cash outflow from acquisition of and increase in stake of subsidiaries		**–**	–
Net cash inflow from disposal of subsidiaries		**92**	–
Net cash outflow from acquisition of and increase in stake of associates		**(25)**	–
Proceeds from disposal of associates		**4**	(2)
Net cash (used in)/from investing activities		**2,159**	(1,158)
Cash flows (used in)/from financing activities			
Issue of ordinary share capital		**35**	31
Net purchases and sales of own shares for market-making purposes		**–**	–
Increase in non-equity minority interests		**–**	–
Subordinated loan capital issued		**–**	150
Subordinated loan capital repaid		**(67)**	(229)
Dividends paid to shareholders	*8*	**(511)**	(477)
Dividends paid to minority interests		**(1)**	(1)
Net cash (used in)/from financing activities		**(544)**	(526)
Net increase in cash and cash equivalents		**1,310**	4,565
Cash and cash equivalents at 1 January		**15,584**	11,036
Effect of exchange rate changes on cash and cash equivalents		**65**	(17)
Cash and cash equivalents at 31 December	*30*	**16,959**	15,584

Notes to the consolidated financial statements

1 Basis of preparation

a For all reporting periods up to and including the year ended 31 December 2004, HSBC France prepared its consolidated financial statements in accordance with French Generally Accepted Accounting Policies ("French GAAP"). From 1 January 2005, HSBC France has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as endorsed by the European Union ("EU") and effective for HSBC France's reporting for the year ended 31 December 2005. IFRS comprises 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.

In preparing these consolidated financial statements, HSBC France has elected to take advantage of certain transitional provisions within IFRS 1 "First time adoption of International Financial Reporting Standards" ("IFRS 1") which offer exemption from presenting comparative information or applying IFRS retrospectively. The most significant of these provisions is the exemption from presenting comparative information in accordance with IFRSs in the following areas:

– IAS 32 "Financial Instruments: Disclosure and Presentation" ("IAS 32");

– IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39");

– and IFRS 4 "Insurance Contracts" ("IFRS 4").

In addition to exempting companies from the requirement to restate comparatives for IAS 32, IAS 39 and IFRS 4, IFRS 1 grants certain exemptions from the full requirements of IFRS to companies adopting IFRS for the first time in the transition period.

HSBC France has elected to take the following exemptions affecting comparative financial data:

Business combinations
HSBC France has chosen not to restate business combinations that took place prior to the 1 January 2004 transition date.

Fair value or revaluation as deemed cost
A first-time adopter may elect to measure individual items of property at fair value at the date of transition to IFRS and use that fair value as deemed cost at that date. HSBC France has made this election.

Employee benefits
HSBC France has elected to apply the employee benefits exemption and has therefore recognised in equity at 1 January 2004 all cumulative actuarial gains and losses on retirement benefit obligations.

Cumulative translation differences
HSBC France has set the cumulative translation differences for all foreign operations to zero at 1 January 2004.

In addition, HSBC France has elected to present part of the disclosures required by IFRS 7 (ahead of the effective date of this standard), with no comparative information provided for 2004. This disclosure provides detailed information, most notably on fair value components and analysis of net operating income.

Comparative information for financial instruments and insurance contracts has been prepared on the basis of HSBC France's previous accounting policies. The accounting policies applied to financial instruments for 2004 and 2005 are disclosed separately below.

HSBC France has adopted the "Amendment to IAS 39 Financial Instruments: Recognition and Measurement: The Fair Value Option" (the "Amendment") and the "Amendment to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures' with effect from 1 January 2005, ahead of their effective date.

The balance sheets and income statements in this document are presented in accordance with IAS 1 "Presentation of Financial Statements".

1 Basis of preparation *(continued)*

b The HSBC France group's consolidated financial statements consist of the financial statements of HSBC France, its subsidiaries and associates.

Acquisitions

Acquired subsidiaries are consolidated from the date on 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 on 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 on 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 on 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. 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 or remove 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 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.

Finally, 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 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 bylaws and to veto proposed changes of the Special purpose entities' (SPE) charter or bylaws. 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.

Notes to the consolidated financial statements (continued)

1 Basis of preparation *(continued)*

Eliminations 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, based on financial statements made up-to-date not earlier than three months prior to 31 December.

c The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those reported. In this regard, management believes that the critical accounting policies where judgement is necessarily applied are those which relate to loan impairment, goodwill impairment and the valuation of financial instruments.

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 for the periods have been made.

2 Principal accounting policies

a Interest income and expense

From 1 January 2005:
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 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.

From 1 January 2004 to 31 December 2004:
Interest income and expense were recognised in the income statement as it accrued.

b Non-interest income

Fee income

From 1 January 2005:
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 as revenue 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 revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and

– 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" (See Note 2(a)).

2 Principal accounting policies *(continued)*

From 1 January 2004 to 31 December 2004:
Fee income was accounted for as follows:

- *if the income was earned on the execution of a significant act, it was recognised as revenue when the significant act had been completed (for example, commission and 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 was earned as services were provided, it was recognised as revenue as the services were provided (for example, asset management, portfolio and other management advisory and service fees); and*
- *if the income was interest in nature, it was recognised on an appropriate basis over the relevant period and recorded in 'Interest income' (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

From 1 January 2005:
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 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.

c Segment reporting

HSBC France mainly operates in France. HSBC France manages its business through the following customer groups: Personal Financial Services, Commercial Banking, Corporate Investment Banking and Markets, and Private Banking. The reporting of financial information by segment required by IAS 14 is disclosed in Note 10.

d Determination 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 other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets.

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.

A number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

Notes to the consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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 Loans and advances to banks and customers

From 1 January 2005:
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. 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.

From 1 January 2004 to 31 December 2004:
Loans and advances to banks and customers included loans and advances originated by HSBC France. Loans and advances were recognised when cash was advanced to borrowers. They were measured at amortised cost less provisions for impaired loans and advances.

f Loan impairment

From 1 January 2005:
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. This procedure is applied to all accounts that are considered individually significant. In determining such impairment losses on individually assessed accounts, the following factors are considered:

– HSBC France's aggregate exposure to the customer;

– the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service their debt obligations;

– the likely dividend available on liquidation or bankruptcy;

– the extent of other creditors' commitments ranking ahead of, or pari passu with, HSBC France and the likelihood of other creditors continuing to support the company;

– the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;

– the amount and timing of expected receipts and recoveries;

– the realisable value of security (or other credit mitigants) and likelihood of successful repossession;

– the likely 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.

2 Principal accounting policies *(continued)*

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);

– 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 grouping.

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.

From 1 January 2004 to 31 December 2004:
Provisions for bad and doubtful debts recognised in the income statement were determined each year in light of estimated potential losses and were based on an individual analysis of each loan concerned.

All loans were classified as bad and doubtful debts, even if secured by a guarantee, where there was a probability or certainty of total or partial non-recovery, or where amounts had been in arrears for more than three months in the case of most loans and operating leases, or more than six months in the case of property loans or leasing, or more than nine months in the case of local authority loans. Loans were also deemed to be at risk where legal proceedings were already in progress (e.g. receivership, court-ordered liquidation, personal bankruptcy, etc.), or where it was likely that the borrowers would be unable to meet their obligations.

Loans to property developers were assessed on a case-by-case basis utilising various criteria, including the likely outcome of the project, the capacity of partners to contribute the necessary equity as well as their solvability. In this context, all interest on doubtful property loans booked as operating income were fully provided for. Moreover, provisions made against the principal outstanding were also based on a case-by-case assessment using various criteria, including the credibility of the project's intended sale price, its rental income potential, the soundness of the investor pool and the value of any guarantees received.

Specific provisions were established for restructured loans and bad debts. Loans restructured on off-market terms were identified separately and a discount recognised representing the difference between the new interest rate and the lower of the original interest rate of the loan and the market rate prevailing at the time of restructuring, applied to future expected cash flows. This discount was booked as a provision for bad and doubtful debts and written back to net interest income over the remaining term of the loan.

Bad debts included debts which had become accelerated as a result of certain events, restructured debts which were in default and debts classified as doubtful for more than one year, where they were in arrears and not accompanied by guarantees covering virtually the entire amount and would later be booked as losses.

In compliance with standard banking practice, HSBC France established country risk provisions against exposure in certain countries generally considered by the banking industry as involving a high degree of risk.

Notes to the consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

g Trading assets and trading liabilities

From 1 January 2005:
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 on 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.

From 1 January 2004 to 31 December 2004:
Trading securities were carried at cost (including accrued interest in the case of fixed interest securities) and they were marked to market at the year-end. Changes in the market value of such assets and liabilities were recognised in the income statement as "Trading income" and related interest income and expense and dividends were recognised in the income statement (as they arose separately from 'Trading income") and aggregated with similar amounts arising from other activities.

h Financial instruments designated at fair value

From 1 January 2005:
A financial instrument, other than one held for trading, is classified in this category if it meets the 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;

– applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or

– relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments, including certain debt issues and debt securities held.

The fair value designation, once made, is irrevocable. Designated financial assets and financial liabilities are recognised on 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 designated at fair value, gains and losses from changes therein are recognised in "Net income from financial instruments designated at fair value".

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets 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 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.

2 Principal accounting policies *(continued)*

i Financial investments

From 1 January 2005:
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(h)) or classified as "held-to-maturity". Financial investments are recognised on trade date, when the Group enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the transactions are sold or the borrowers repay their obligations.

Available-for-sale securities are initially measured at fair value plus direct and incremental transactions 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.

An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment being circumstances where an adverse impact on estimated future cash flows of the financial asset or Group of assets can be reliably estimated.

If an available-for-sale financial asset is determined to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases 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. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

From 1 January 2004 to 31 December 2004:
Treasury bills, debt securities and equity shares intended to be held on a continuing basis were classified as financial investments and included in the following categories:

– *available-for-sale securities*

– *held-to-maturity securities*

– *portfolio securities*

– *other long-term securities*

– *other participating interests*

Specific accounting methods applied to each of these categories:

– ***Available-for-sale securities:***

Securities acquired for their yield, but held principally with the intention of reselling them in the relatively short term were considered to be available-for-sale.

On the acquisition date, they were recorded at cost (less accrued interest at the time of purchase in the case of fixed interest securities).

Premiums and discounts were amortised on a straight-line basis over the remaining life of the securities.

At the year-end, they were valued on a line-by-line basis at the lower of cost or market value. In the case of equities, market value was the price on 31 December for listed securities and the anticipated resale price for unlisted securities. In the case of fixed interest securities, market value was the price quoted on the last working day of the year.

Notes to the consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

Actual or unrealised gains or losses on hedging instruments were recognised on a line-by-line basis, and a provision for impairment made where necessary.

– ***Held-to-maturity securities***

These were fixed interest securities acquired with the intention of holding them over the long term, in principle, until maturity.

They were carried at cost and any premium or discount was amortised over their residual life. A provision for impairment could be taken to cover counterparty risk.

Securities purchased for their yield or held for regulatory reasons by certain foreign subsidiaries or branches were classified as held-to-maturity securities.

– ***Portfolio securities***

Portfolio securities comprised investments purchased with the intention of realising a medium-term capital gain, but with no intention of investing in the business on a long-term basis. This was notably the case for securities held as part of a venture capital business.

Portfolio securities were carried at the lower of cost or fair value, determined by taking account of the issuer's general prospects and the forecast holding period.

– ***Other long-term securities***

Other long-term securities comprised equities and similar securities acquired with the intention of achieving a satisfactory return in the relatively long term by building an ongoing business relationship with the issuing company, but with no influence over its management.

These securities were accounted for on a line-by-line basis and they were carried at the lower of cost or fair value.

– ***Other participating interests***

Other participating interests comprised the securities held with a long-term intention. They were valued at the lower of cost or fair value.

Fair value for portfolio securities, other long-term securities and other participating interests is determined on a multi-criteria approach, as follows:

- *economic and financial appraisal of the company based primarily on net asset value;*
- *market appraisal based on financial analyst's reports;*
- *share price performance for listed companies, taking account of any specific relationships existing between HSBC France and each of the companies concerned.*

Gain or losses

Gains or losses on disposal and movements in provisions were included in "Gains less losses from financial investments".

j 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.

2 Principal accounting policies *(continued)*

k Derivatives and hedge accounting

From 1 January 2005:
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 (i.e. without modification or repackaging) 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, 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 (PEL/CEL) are some of the main embedded derivatives identified by HSBC France, and have therefore been valued using a 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 a net basis.

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 HSBC France classifies them as derivatives 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 HSBC Group policy, HSBC France is not using the "carve out" arrangements contained in the European regulation no. 2086/2004 in relation to the accounting for macro-hedging operations.

It is HSBC France's policy to document, 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. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks. 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.

Notes to the consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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. 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.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method an HSBC France entity adopts for assessing hedge effectiveness will depend on its risk management strategy.

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.

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'.

From 1 January 2004 to 31 December 2004:
Derivative financial instruments comprised futures, forward, swap and option transactions undertaken by HSBC France in the foreign exchange, interest rate, equity, credit derivative, and commodity markets that were held off-balance sheet.

Accounting for these instruments was dependent upon whether the transactions were undertaken for trading or non-trading purposes. However, certain general rules applied to all market positions, while others were specific to certain categories of instruments.

Foreign currency and interest rate swaps options:

At the origination of the options contract, the notional amount of the underlying was recognised as an off-balance sheet item.

For income and expenses, a distinction was made between hedging transactions and trading or arbitrage transactions:

- *Income and expense items related to hedging transactions were recognised symmetrically with those arising on the hedged item;*
- *In the case of trading transactions, positions were marked to market at the year-end. For transactions on an organised market or an equivalent market defined in Regulation CRB 88-02, changes in the value of the position were booked to the income statement either by means of margin calls or, in the case of unlisted options, directly by means of a mathematical calculation.*

Index and equity options

Index and equity options were entered into for trading purposes. Changes in the value of options outstanding at the year-end were booked directly to the income statement.

Interest rate futures

The accounting treatment was identical to that which is described above for options.

Currency andlor interest rate swaps (swaps, FRAs)

Foreign currency and interest-rate swaps were accounted for differently if their purpose was:

- *to maintain isolated open positions in order to benefit from changes in interest rates, if and when they occur;*
- *to hedge interest-rate risk on a specific item or homogeneous Group of items,*
- *to allow for specialised management of a trading book,*
- *to hedge and manage the bank's structural interest-rate risk on all its assets, liabilities and off- balance sheet items, except for those transactions referred to above.*

Accounting treatments differed depending on whether the transaction was entered into for hedging or trading purposes.

Gains or losses on instruments designed to hedge assets or liabilities were booked to the income statement on an accrual basis, unless the hedged items were themselves marked to market in the balance sheet. This applied in particular to swaps traded for Asset and Liability Management purposes.

Gains or losses on positions managed as part of a swap trading book were booked to the income statement at their present value, after deducting a percentage for counterparty risk and future management costs.

Trading transactions were marked to market on the day of the trade. The corresponding liability was recorded as an off-balance sheet item from the date of the trade to the value date. The value date generally corresponded to the date on which an exchange of monetary flows took place that was normally booked to the balance sheet.

Notional amounts were recorded off-balance sheet whether they were actually swapped or simply used as a benchmark.

Currency swaps which were not hedged by spot transactions were valued at the forward rate prevailing for the remainder of their term.

l 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.

m 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.

Notes to the consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

n Associates and joint ventures

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.

o Goodwill and intangible assets

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.

Intangible assets include computer software, trade names, customer lists, core deposit relationships and merchant or other loan relationships. 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 are stated at cost less amortisation and accumulated impairment losses and are amortised over their useful lives. Estimated useful life is the lower of legal duration and expected economic life.

p 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 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.

q 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.

r 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, related to income taxes levied by the same taxation authority, and a legal right to set off exists in the entity.

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 re-measurement 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.

Notes to the consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

s 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 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.

t Equity compensation plans

In existing share-based payment transactions, HSBC Holdings is granting right to its equity instruments direct to HSBC France group employees. The compensation expense to be spread over the vesting period is determined by reference to the fair value of the options on grant date, and the impact of any non-market vesting conditions such as option lapses. The compensation exposure is recognised on a straight-line basis over the vesting period. 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.

Costs relating to the 2005 stock option plan will be recharged by HSBC Holdings as and when employees exercise their options. This expense, spread over the vesting period, reduces the increase of shareholders' equity previously recognised.

Guaranteed bonuses awarded in respect of service in the past, where an employee must complete a specified period of service until entitled to the award, are spread over the period of service rendered to the vesting date.

Discretionary bonuses awarded in respect of service in the past, are expensed over the vesting period which, in this case, is the period from the date the bonus is announced until the award vests.

As permitted by IFRS 1, HSBC France has undertaken full retrospective application of IFRS 2 "Share-based payment".

u 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, which is the Group's presentation currency.

2 Principal accounting policies *(continued)*

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.

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 consolidated financial statements these exchange differences are recognised in the foreign exchange reserve in shareholders' equity. As permitted by IFRS 1, HSBC France has 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.

v 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 as a result of past events and a reliable estimate can be made of the amount of the obligation.

w Debt securities in issue and subordinated liabilities

From 1 January 2005:
Debt securities in issue 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 (Note 2(h)).

From 1 January 2004 to 31 December 2004:
Debt securities in issue were initially measured at fair value, which was the consideration received net of transaction costs incurred. Premiums and discounts on the issue of debt and fair value adjustments to debt arising on acquisitions were amortised to interest payable so as to give a constant interest rate over the life of the debt.

x 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.

y 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) early 2006 in respect of "OPCVM de trésorerie" (cash unit trusts).

Notes to the consolidated financial statements (continued)

3 Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value includes:

- all gains and losses from changes in the fair value of financial assets and liabilities designated at fair value, including liabilities under investment contracts;
- all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities designated at fair value; and
- interest income, expense and dividend income of financial assets and liabilities designated at fair value, liabilities under investment contracts and derivatives managed in conjunction with them, except for interest arising on HSBC France's debt securities in issue and subordinated liabilities, together with the interest on derivatives managed in conjunction with them, which is recognised in "Interest expense".

(in millions of euros)	**2005**
Net income arising on:	
– HSBC France's debt securities in issue and subordinated liabilities [1]	**9**
– other financial liabilities designated at fair value	**–**
– derivatives managed in conjunction with financial liabilities designated at fair value	**(8)**
Net income arising on financial instruments designated at fair value	**1**

1 *Gains and losses from changes in the fair value of the group's debt securities in issue and subordinated liabilities may arise from changes in the group's own credit risk. In 2005, HSBC France recognised a EUR 0.6 million gain on changes in the fair value of these instruments arising from changes in HSBC's own credit risk.*

4 Net operating income

Net operating income for the year ended 31 December 2005 amounts to EUR 2,976 million and is stated after the following items of income, expense, gains and losses:

(in millions of euros)	**2005**
Income	
Fees earned on financial assets that are not held for trading or designated at fair value and that is not included in their effective interest rates	**663**
Fees earned on trust and other fiduciary activities where HSBC France holds or invests assets on behalf of its customers	**376**
Gains on sale of subsidiaries, associates and joint ventures	**256**
Expense	
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	**(1 389)**
Fees payable on financial assets or liabilities that are not held for trading or designated at fair value and that is not included in their effective interest rates	**(225)**
Gains/(losses)	
Impairment losses on:	
– loans and advances	**32**
– available-for-sale financial investments	**(2)**

5 Employee compensation and benefits

(in millions of euros)	**2005**	2004
Wages and salaries	**793**	720
Social security costs	**245**	239
Post-employment benefits	**56**	65
	1,094	1,024

The average number of persons employed by the HSBC France group during the year was as follows:

	2005	2004
Personal Financial Services and Commercial Banking	**10,304**	10,213
Corporate, Investment Banking and Markets	**1,271**	1,260
Asset Management	**690**	684
Private Banking	**363**	360
Support Functions & Others	**1,555**	1,540
TOTAL	**14,183**	14,057

a Post-employment benefit plans

Provisions for employee benefits cover commitments relating to the ARCCO-AGIRC agreement of 13 September 1993, commitments relating to end-of-career bonuses and long-service awards, commitments relating to supplementary pension schemes and the CATS early retirement scheme, and commitments relating to supplementary healthcare schemes.

b Post-employment defined benefit plan principal actuarial assumptions

The principal actuarial financial assumptions used to calculate the defined benefit pension plans and post-employment healthcare benefits at 31 December 2005, and the 2006 periodic costs, were:

(in %)	*Discount rate*	*Expected rate of return on plan assets*	*Rate of increase for pensions in payment and Inflation assumption*	*deferred pension*	*Rate of pay increase*	*Mortality rate*	*Healthcare cost trend rates*
At 31 December 2005							
France	**4**	**7**[1]	**2**	**2**	**3.5**	**_**[2]	**6**
At 31 December 2004							
France	4.5	7[1]	2	2	3.5	_[2]	6

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 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.

The principal actuarial financial assumptions used to calculate the defined benefit pension plans and post employment healthcare benefits at 31 December 2004 and the 2005 periodic costs, were:

1 *Expected rate on equities. However expected rate of return on bonds was 4.75 per cent for 2005 and 5.25 per cent for 2004.*
2 *We used "les tables de mortalité (TV88-90 pour les indemnités de départs à la retraite et les médailles du travail et TPG93 pour les engagements de retraite)."*

Notes to the consolidated financial statements (continued)

5 Employee compensation and benefits *(continued)*

c Defined benefit pension plans

Value recognised in the balance sheet

(in millions of euros)	**2005** **HSBC France Pension Plan**	2004 HSBC France Pension Plan
Equities	**11**	9
Bonds	**56**	56
Property	**–**	–
Other	**2**	2
Fair value of plan assets	**69**	67
Present value of funded obligations	**–**	–
Present value of unfunded obligations	**(234)**	(233)
Defined benefit obligation	**(234)**	(233)
Unrecognised past service cost	**3**	–
Net liability	**(162)**	(166)

Changes in the present value of the defined benefit obligation

(in millions of euros)	**2005** **HSBC France Pension Plan**	2004 HSBC France Pension Plan
At 1 January	**233**	264
Current service cost	**4**	3
Interest cost	**10**	13
Contributions by employees	**–**	–
Actuarial (gains)/losses	**12**	4
Benefits paid	**(22)**	(9)
Past service cost – vested immediately	**(3)**	(40)
Past service cost – unvested benefits	**3**	–
Acquisitions	**–**	–
(Gains)/losses on curtailments	**(3)**	(2)
(Gains)/losses on settlements	**–**	–
Exchange and other movements	**–**	–
At 31 December	**234**	233

5 Employee compensation and benefits *(continued)*

Changes in the fair value of plan assets

(in millions of euros)	**2005** *HSBC France Pension Plan*	2004 *HSBC France Pension Plan*
At 1 January	**67**	65
Expected return	**3**	4
Contributions by the Group	**–**	–
Contributions by employees	**–**	–
Actuarial gain	**4**	5
Benefits paid	**(5)**	(7)
Acquisitions	**–**	–
(Gains)/losses on settlements	**–**	–
Exchange and other movements	**–**	–
At 31 December	**69**	67

Total expense recognised in the income statement, in "Employee compensation and benefits"

(in millions of euros)	**2005** *HSBC France Pension Plan*	2004 *HSBC France Pension Plan*
Current service cost	**4**	3
Interest cost	**10**	13
Expected return on plan assets	**(3)**	(4)
Past service cost	**(3)**	(40)
(Gains)/losses on curtailments and settlements	**(3)**	(2)
Exchange and other movements	**–**	–
Total net expense	**5**	(30)

Total net actuarial losses included in the statement of recognised income and expense in 2005 in respect of defined benefit pension plans were EUR 8 million (2004: net actuarial gain of EUR 1 million).

d Post-employment healthcare benefits plans

Value recognised in the balance sheet

(in millions of euros)	**2005**	2004
Present value of funded obligations	**–**	–
Present value of unfunded obligations	**(40)**	(33)
Defined benefit obligation	**(40)**	(33)
Effect of limit on plan surpluses	**–**	–
Unrecognised past service cost	**–**	–
Net liability	**(40)**	(33)

5 Employee compensation and benefits *(continued)*

Changes in the present value of the defined benefit obligation

(in millions of euros)	**2005**	2004
At 1 January	**33**	–
Current service costs	**1**	–
Interest costs	**2**	–
Contributions by employees	**–**	–
Actuarial (gains)/losses	**4**	1
Benefits paid	**–**	–
Past service cost:		
– vested immediately	**–**	32
– unvested benefits	**–**	–
Acquisitions	**–**	–
(Gains)/losses on curtailments	**–**	–
(Gains)/losses on settlements	**–**	–
Exchange and other movements	**–**	–
At 31 December	**40**	33

Total expense recognised in the income statement, in "Employee compensation and benefits"

(in millions of euros)	**2005**	2004
Current service cost	**1**	–
Interest cost	**2**	–
Expected return on plan assets	**–**	–
Past service cost	**–**	32
(Gains)/losses on curtailments and settlements	**–**	–
Exchange and other movements	**–**	–
Total expense	**3**	32

Total net actuarial losses recognised in the statement of recognised income and expense in 2005 in respect of post-employment healthcare benefits plans were EUR 4 million (2004: EUR 1 million)

The actuarial assumptions of the healthcare cost trend rates have a significant effect on the amounts recognised. A one percentage point change in assumed healthcare cost trend rates would have the following effects on amounts recognised in 2005:

(in millions of euros)	***1% increase***	***1% decrease***
Effect on the aggregate of the current service cost and interest cost	**1**	–
Effect on defined benefit obligation	**11**	**(8)**

e Retirement benefit liabilities

(in millions of euros)	**2005**	2004
Net liability on defined pension plans (Note 5 c)	**(162)**	(166)
Net liability on post-employment healthcare benefits plans (Note 5 d)	**(40)**	(33)
Total	**(202)**	(199)

6 Share-based payments

The HSBC France group has no specific share-based payment arrangements of its own and participates in HSBC Holdings plans consisting of share-option awards and share awards.

Share option awards are granted by HSBC Holdings to Group employees and are satisfied by HSBC Holdings transferring shares to the employees on exercise.

Where an award of HSBC Holdings shares is made to a Group employee by a Group entity, the employing entity has an obligation to transfer HSBC Holdings shares to the employee if the vesting conditions of the award are satisfied. The employing entity incurs a liability in respect of the share awards recognised at fair value, remeasured at each reporting date over the vesting period and at the date of settlement.

During 2005, EUR 26.2 million was charged to the income statement in respect of equity-settled (2004: EUR 18.2 million). This expense was based on the fair value of the share-based payment transactions when contracted. All of the expense arose under employee share awards made within the group's reward structures.

Calculation of fair values

Fair values of share options/awards, measured at the date of grant of the option/award, are calculated using a binomial lattice model methodology that is based on the underlying assumptions of the Black-Scholes model. When modelling options/awards with vesting dependent on the Group's total shareholder return over a period, these performance targets are incorporated into the model using Monte-Carlo simulation. The expected life of options depends on the behaviour of option holders, which is incorporated into the option model consistent with historic observable data. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

The significant weighted average assumptions used to estimate the fair value of the options granted in 2005 were as follows:

	Group Option Share Plan
Risk-free interest rate [1] (%)	4.6
Expected life [2] (years)	7.8
Expected volatility [3] (%)	20

1 *The risk-free rate was determined from the UK gilts yield curve for Group Share Option Plan awards and UK Savings-Related Share Option Schemes. A similar yield curve was used for the Overseas Savings-Related Share Option Schemes.*
2 *Expected life is not a single input parameter but a function of various behavioural assumptions.*
3 *Expected volatility is estimated by considering both historic average share price volatility and implied volatility derived from traded options over HSBC shares of similar maturity to those of the employee options.*

Expected dividend growth was determined, denominated in US Dollars, to be 12 per cent for the first year and 8 per cent thereafter, consistent with consensus analyst forecasts.

The average share price for 2005 was GBP 8.89. The high mid-market price for the year was GBP 9.5 and the low mid-market price was GBP 8.25 (2004: GBP 9.54 and GBP 7.84 respectively).

Notes to the consolidated financial statements (continued)

6 Share-based payments *(continued)*

Share Options Plan

Share Options without performance conditions[1]

The 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 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 of grant, subject to vesting conditions.

	2005		2004 [1]	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**49,486**		37,345	
Granted in the year	**7,499**	**8.370**	12,496	8.286
Exercised in the year	**(241)**			
Transferred in the year				
Expired in the year	**(460)**		(355)	
Outstanding at 31 December	**56,284**		49,486	

1 *Share options granted to senior executives are subjected to the performance conditions of the Group.*

Share Options with performance conditions

Share options were granted under the Rules of The HSBC Share Plan to senior executives in France. The award of these options is accompanied by a bonus to be paid at the exercise date of the options and equal to the exercise price of the awarded options. The 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 Group's ranking against a comparative group of 28 major banks. The options vest after three years and are exercisable up to the fourth anniversary of the date of grant, after which they will lapse.

	2005	
	Number (000)	***Weighted average exercise price (in GBP)***
Granted in the year	**523**	**8.794**
Forfeited in the year	**0**	
Outstanding at 31 December	**523**	

The fair value of options granted in the year as at the date of exercise was GBP 1.054 on average. The remaining contractual life of options outstanding at the balance sheet date is 4 years. None of these options are exercisable at the balance sheet date.

7 Tax expense

(in millions of euros)	**2005**	2004
Current tax	**195**	95
Deferred tax	**(72)**	(14)
Tax expense	**123**	81
Effective tax rate (per cent)	**9.9**	13.3

Analysis of overall tax charge

	2005		2004	
(in millions of euros)	***Amount***	***%***	*Amount*	*%*
Taxation at French corporate tax rate	**433**	**34.93**	216	35.43
Impact of overseas profits in principal locations taxed at different rates	**(6)**	**(0.5)**	(11)	(1.8)
Tax-free gains	**(153)**	**(12.3)**	(47)	(7.7)
Other items including result for tax Group integration	**(151)**	**(12.2)**	(77)	(12.6)
Overall tax charge	**123**	**9.9**	81	13.3

HSBC France and its subsidiary undertakings in France provided for French corporation tax at 34.93 per cent for Short term (ST) and 15.72 per cent for Long term (LT) (2004: (ST) 35.43 per cent and (LT) 20.20 per cent ; 2006: (ST) 34.43 per cent (LT) 8.26 [1] per cent ; 2007: (ST) 34.43 per cent (LT) 1.721 [1] per cent);

1 *Except property company securities and securities with cost price superior to EUR 22,8 million but lower than 5 per cent of capital, and securities from FCPR and SCR.*

8 Dividends paid in 2004 and 2005

	2005		2004	
(in millions of euros)	***EUR per share***	***Amount***	*EUR per share*	*Amount*
Second interim dividend for previous year	**3.07**	**230**	3.25	242
First interim dividend for current year	**3.74**	**281**	3.15	235
		511		**477**

Dividends paid in 2005 related to 2004

On 17 May 2005, the shareholders approved the proposal of the Board of Directors voted at its meeting on 22 February 2005 in relation to the distribution of net profit and the payment of a total dividend of EUR 465 million, EUR 6.22 per share. This dividend was paid on 18 May 2005 after the deduction of the interim dividend voted by the Board of directors at its meeting of 27 July 2004. An amount of EUR 235 million was paid in 2004 and EUR 230 million in 2005.

Notes to the consolidated financial statements (continued)

8 Dividends paid in 2004 and 2005 *(continued)*

Dividends related to 2005

On 26 July 2005, the Board of Directors decided to pay an interim dividend of EUR 3.74 per share. This dividend was paid with respect to the 75,053,185 shares in issue on that date (including 251,039 shares resulting from the exercise of options since 1 January 2005 and not yet included in the share capital at that date), making a payment of EUR 281 million.

The interim dividend payment was taken in full from retained earnings, consisting of earnings generated between 1 January and 31 December 2004.The interim dividend was paid on 27 July 2005.

The Board of Directors, at its meeting on 28 February 2006, proposes a final dividend to shareholders. This dividend will be payable with respect to the 75,237,930 shares in issue at 31 December 2005, making a total dividend EUR 390 million for the financial year 2005.

9 Earnings and dividends per share

(in millions of euros)	**31 December 2005**	31 December 2004
Basic earnings per share	**14.95**	7.08
Diluted earnings per share	**14.62**	6.88
Dividend per share	**5.19**	6.22

Basic earnings per ordinary share was calculated by dividing the earnings of EUR 1,119 million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 74,826,025 (full year of 2004: earnings of EUR 528 million and 74,374,838 shares).

Diluted earnings per share was calculated by dividing the basic earnings, which require no adjustment for the effects of dilutive 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 dilutive potential ordinary shares of 76,559,021 (full year of 2004: 76,537,618 shares).

10 Segment analysis

HSBC France mainly operates in France. HSBC France manages its business through the following customer groups: Personal Financial Services, Commercial Banking, Corporate, Investment Banking and Markets, Private Banking. Subventions received from HSBC Bank plc, impairment of goodwill and Insurance activity are the main items included in “Other”.

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. In addition, there are a number of income and expense items, charged between customer groups.

10 Segment analysis *(continued)*

(in millions of euros)	2005	2004
Total operating income before loan impairment charges		
Personal Financial Services	**911**	863
Commercial Banking	**705**	710
Corporate, Investment Banking and Markets	**782**	590
Private Banking	**90**	92
Other	**1**	(2)
TOTAL FRANCE	**2,489**	2,253
Activities outside France	**439**	158
Group reporting differences	**(27)**	(23)
TOTAL LEGAL	**2,901**	2,388
Profit/(loss) on ordinary activities before tax		
Personal Financial Services	**180**	165
Commercial Banking	**218**	213
Corporate Investment Banking and Markets	**337**	252
Private Banking	**46**	(1)
Other	**(21)**	(28)
TOTAL FRANCE – BEFORE GOODWILL IMPAIRMENT	**760**	601
Goodwill Impairment	**–**	(61)
TOTAL FRANCE	**760**	540
Activities outside France	**487**	94
Group reporting differences	**(7)**	(26)
TOTAL LEGAL	**1,240**	608
Total assets		
Personal Financial Services	**14,675**	14,285
Commercial Banking	**11,140**	10,128
Corporate Investment Banking and Markets	**100,745**	60,835
Private Banking	**964**	2,198
Other	**576**	501
	128,100	87,947
Cost to acquire property, plant and equipment		
Personal Financial Services	**26**	41
Commercial Banking	**21**	33
Corporate Investment Banking and Markets	**11**	20
Private Banking	**1**	6
Other	**–**	–
	59	100
Cost to acquire intangibles		
Personal Financial Services	**7**	3
Commercial Banking	**8**	2
Corporate Investment Banking and Markets	**6**	2
Private Banking	**1**	–
Other	**–**	–
	22	7

11 Analysis of financial assets and liabilities by measurement bases

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 in the balance sheet by the class of financial instrument to which they are assigned, and therefore by the measurement basis:

Notes to the consolidated financial statements (continued)

11 Analysis of financial assets and liabilities by measurement bases *(continued)*

(in millions of euros)	*Held for Trading*	*Designated at fair value* [1]	*Held-to-maturity securities*	*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*
ASSETS									
Cash and balances at central banks						482			**482**
Items in the course of collection from other banks						2,110			**2,110**
Trading assets	41,821								**41,821**
Financial assets designated at fair value									**–**
Derivatives	16,917						33	1,080	**18,030**
Loans and advances to banks				16,557					**16,557**
Loans and advances to customers				37,226					**37,226**
Financial investments					6,260				**6,260**
Other assets (including deferred tax)						3,089			**3,089**
TOTAL FINANCIAL ASSETS	**58,738**	**–**	**–**	**53,783**	**6,260**	**5,681**	**33**	**1,080**	**125,575**
Total non-financial assets									**2,525**
TOTAL ASSETS									**128,100**
LIABILITIES									
Deposits by banks						20,494			**20,494**
Customer accounts						34,364			**34,364**
Items in the course of transmission to other bank						2,069			**2,069**
Trading liabilities	32,182								**32,182**
Financial liabilities designated at fair value		314							**314**
Derivatives	18,672						16	720	**19,408**
Debt securities in issue						9,912			**9,912**
Other liabilities (including current tax)						1,405			**1,405**
Liabilities to customers under investment contracts									**–**
Subordinated liabilities						795			**795**
TOTAL FINANCIAL LIABILITIES	**50,854**	**314**	**–**	**–**	**–**	**69,039**	**16**	**720**	**120,943**
Total non-financial liabilities									**7,157**
TOTAL LIABILITIES									**128,100**

1 *The derivatives included under "Designated at fair value" are trading derivatives used to economically hedge the corresponding assets and liabilities designated at fair value.*

12 Trading assets

(in millions of euros)	2005
Trading assets:	
– which may be repledged or resold by counterparties	**25,748**
– not subject to repledge or resale by counterparties	**16,073**
	41,821

(in millions of euros)	2005	2004[1]
Treasury and other eligible bills	**27,031**	14,031
Debt securities	**4,914**	4,703
Equity securities	**3,901**	2,472
Loans and advances to banks	**3,997**	–
Loans and advances to customers	**1,978**	–
	41,821	21,206

1 *In accordance with IFRS 1, the Group's consolidated balance sheet at 31 December 2004 does not reflect the adoption of IAS 32 and IAS 39. The analysis in the above note is therefore not applicable for 2004.*

13 Derivatives

Fair values of third party derivatives open positions by type of product contract:

	At 31 December 2005					
	Assets			***Liabilities***		
(in millions of euros)	***Trading***	***Hedging***	***Total***	***Trading***	***Hedging***	***Total***
Exchange rate	**1,135**	**–**	**1,135**	**(1,222)**	**(2)**	**(1,224)**
Interest rate	**18,275**	**1,113**	**19,388**	**(19,487)**	**(734)**	**(20,221)**
Equities	**1,439**	**–**	**1,439**	**(1,895)**	**–**	**(1,895)**
Credit derivatives	**6**	**–**	**6**	**(6)**	**–**	**(6)**
Commodity and other	**–**	**–**	**–**	**–**	**–**	**–**
Gross total fair values	**20,855**	**1,113**	**21,968**	**(22,610)**	**(736)**	**(23,346)**
Netting			**(3,938)**			**3,938**
TOTAL			**18,030**			**(19,408)**

	At 31 December 2004	
(in millions of euros)	*Assets*	*Liabilities*
Exchange rate	2,563	(1,986)
Interest rate	15,284	(15,182)
Equities	373	(463)
Credit derivatives	–	–
Commodity and other	–	–
Gross total fair values	18,220	(17,631)
Netting	(14,886)	14,886
TOTAL	3,334	2,745

Derivatives are financial instruments that derive their value from the price of an underlying item such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risks. The group makes markets in derivatives for its customers and uses derivatives to manage its exposure to credit and market risks.

Notes to the consolidated financial statements (continued)

13 Derivatives *(continued)*

Derivatives are carried at fair value and shown in the balance sheet as separate totals of assets and liabilities. Asset values represent the cost to the group of replacing all transactions with a fair value in the group's favour assuming that all group's relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the group counterparties of replacing all their transactions with the group with a fair value in their favour if the group were to default. 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 intended to be settled on a net basis. Changes in the values of derivatives are recognised in "Trading income" or "Net income from financial instruments designated at fair value" unless they qualify as hedges for accounting purposes.

a Use of derivatives

HSBC France transacts derivatives for three primary purposes: to create risk management solutions for clients, for proprietary trading purposes and to manage and hedge the 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 type of held-for-trading category includes derivatives managed in conjunction with financial instruments designated at fair value. These activities are described more fully below.

The 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 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 group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to 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 participants for the purpose of generating revenues based on spread and volume; positioning means managing market risk positions in the expectation of benefiting 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. 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".

13 Derivatives *(continued)*

Contract amounts of derivatives held-for-trading purposes by product type

(in millions of euros)	2005
Exchange rate	**96,251**
Interest rate	**2,068,984**
Equities	**40,211**
Credit derivatives	**551**
Commodity	**–**
TOTAL DERIVATIVES	**2,205,997**

Derivatives valued using models with unobservable inputs

The amount that has yet to be recognised in the income statement relating to the difference between the fair value at initial recognition (the transaction price) and the amount that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

(in millions of euros)	2005
Unamortised balance at 1 January	**4**
Deferral on new transactions	**38**
Recognised in the income statement during the period:	
– amortisation	**(6)**
– subsequent to observability	**–**
– maturity or termination	**(3)**
– FX movements and other	**(3)**
Unamortised balance at 31 December	**30**

c Hedging intruments

HSBC France uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the group to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, or cash flow hedges. These are described under the relevant headings below.

Contract amounts of derivatives held for hedging purposes by product type

	At 31 December 2005	
(in millions of euros)	***Cash flow hedge***	***Fair value hedge***
Exchange rate contracts	**4**	**108**
Interest rate contracts	**80,918**	**2,968**

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 group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates. 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.

Notes to the consolidated financial statements (continued)

13 Derivatives *(continued)*

The fair values of outstanding derivatives designated as fair value hedges at 31 December 2005, were assets of EUR 33 million and liabilities of EUR 16 million.

Gains or losses arising from the change in fair value of fair value hedges:

(in millions of euros)	2005
Gains/(losses) arising from the change in fair value of fair value hedges:	
– on hedged instruments	(4)
– on hedged items attributable to the hedged risk	(5)

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was insignificant in the year ended 31 December 2005.

Cash flow hedges

The 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 2005, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of EUR 1,080 million and liabilities of EUR 720 million.

The schedule of forecast principal balances on which the expected interest cash flows arise as at 31 December 2005 is as follows:

	At 31 December 2005			
(in millions of euros)	*3 months or less*	*More than 3 months but less than 1 year*	*5 years or less but more than 1 year*	*More than 5 years*
Cash inflows from assets	15,296	10,662	10,269	1,204
Cash outflows from liabilities	(5,800)	(800)	(800)	–
Net cash inflows/(outflows)	9,496	9,862	9,469	1,204

Reconciliation of movements in the cash flow hedge reserve

(in millions of euros)	At 31 December 2005
At 1 January	257
Amounts recognised directly in equity during the year	81
Amounts removed from equity and included in the income statement for the year	(269)
Deferred taxation	67
At 31 December	136

The amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was EUR 2 million in the year-ended 31 December 2005.

13 Derivatives *(continued)*

d Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives

Fair values of financial instruments recognised in the financial statements 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. In these instances, the net fair value recorded in the financial statements is the sum of three components:

(i) the value given by application of a valuation model, based upon the group's best estimate of the most appropriate model inputs;

(ii) any fair value adjustments to account for market features not included within the valuation model (for example, bid-mid spreads, counterparty credit spreads and/or market data uncertainty); and

(iii) inception profit, or an unamortised element thereof, not recognised immediately in the income statement in accordance with Note 2, and separately detailed within (b) above.

As the valuation models are based upon assumptions, changing the assumptions will change the resultant estimate of fair value. The group performs various sensitivity analyses on these valuation assumptions. The potential effect of using reasonably possible alternative assumptions in valuation models has been quantified as a reduction in assets of approximately EUR 5 million using less favourable assumptions, and an increase in assets of approximately EUR 6 million using more favourable assumptions. The ranges of reasonably possible alternative assumptions are established by application of professional judgement to an analysis of the data available to support each assumption.

The total amount of the change in fair value estimated using a valuation technique that was recognised in the year ended 31 December 2005 was a loss of EUR 22 million.

Fair value profits on derivatives and complex structured products indicated by a valuation model for which observable market data are not available for key components are not recognised immediately in the income statement. These profits are recognised in the income statement when the model valuation inputs become observable in external markets or when the transaction matures or is closed out. The table below summarises the group's portfolios held at fair value by valuation methodology at 31 December 2005:

	Assets		*Liabilities*	
(in %)	*Trading securities purchased*	*Derivatives*	*Trading securities sold*	*Derivatives*
Fair value based on:				
Quoted market prices	**99.92**	**–**	**100**	**–**
Internal models with significant observable market parameters	**0.08**	**98.88**	**–**	**99.47**
Internal models with significant unobservable market parameters	**–**	**1.12**	**–**	**0.53**
	100	**100**	**100**	**100**

Notes to the consolidated financial statements (continued)

13 Derivatives *(continued)*

e 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 on 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 2005, derivatives embedded in home purchase savings products represented a liability of EUR 40.7 million.

14 Financial investments

(in millions of euros)	2005
Financial investments:	
– which may be pledged or resold by counterparties[1]	2,862
– not subject to repledge or resale by counterparties[1]	3,398
	6,260

	2005		2004
(in millions of euros)	*Book value*	*Fair value*	*Book value*[1]
Treasury and other eligible bills	2,957	2,957	4,177
– available-for-sale	2,957	2,957	
– held-to-maturity	–	–	
Debt securities	266	266	441
– available-for-sale	266	266	
– held-to-maturity	–	–	
Equity securities	3,037	3,037	3,721
– available-for-sale	3,037	3,037	
TOTAL FINANCIAL INVESTMENTS	6,260	6,260	8,339

1 *In accordance with IFRS 1, the Group's consolidated balance sheet at 31 December 2004 does not reflect the adoption of IAS 32 and IAS 39. The analysis is in the above note is therefore not applicable for 2004.*

15 Interests in associates and joint ventures

a Principal associates

	At 31 December 2005		
	Country of incorporation	*Interest in equity capital*	*Issued equity capital (100%, in millions of euros)*
Erisa	**France**	**49.99%**	**115**
Erisa IARD	**France**	**49.98%**	**7**

All the above investments in associates are owned by subsidiaries of HSBC France.

Summarised aggregate financial information on associates
(Figures from the local financial statements : 100%)

(in millions of euros)	**2005**	2004
Assets	**11,527**	10,164
Liabilities	**11,201**	9,851
Revenues	**2,472**	1,997
Profit/(loss)	**1**	49

b Interests in joint ventures

	At 31 December 2005		
	Principal activity	*Interest in equity capital*	*Issued equity capital*
HCM Holdings Limited	**Holding company**	**51%**	**–**

Although HSBC France owns more than 50 per cent of the equity capital of HCM Holdings Limited, the agreement with the other shareholder includes restrictions to the rights of HSBC France as the majority shareholder and indicates joint control over HCM by the two shareholders.

Summarised aggregate financial information on joint ventures:
(Figures from the local financial statements : 100%)

(in millions of euros)	**2005** [1]	2004
Current assets	**70**	90
Non-current assets	**–**	187
Current liabilities	**3**	43
Non current liabilities	**–**	102
Income	**104**	83
Expenses	**9**	71

1 *Disposal of Framlington group on 31 October 2005.*

Notes to the consolidated financial statements (continued)

16 Goodwill and intangible assets

"Goodwill and intangible assets" includes goodwill arising on business combinations and other intangible assets.

a Goodwill

(in millions of euros)	**2005**	2004
Cost		
At 1 January	**510**	507
Additions	**–**	4
Disposals[1]	**(78)**	–
Exchange translation differences	**–**	1
Changes in scope of consolidation and other changes[2]	**(12)**	(2)
At 31 December	**420**	510
Accumulated impairment losses		
At 1 January	**(79)**	–
Disposals	**47**	–
Impairment losses recognised in profit or loss	**–**	(78)
Changes in scope of consolidation and other changes	**–**	(1)
At 31 December	**(32)**	(79)
Net book value at 31 December	**388**	431

1 *Disposal of group Dewaay.*
2 *Deconsolidation of CCF Holding Suisse occurred in 2005 for EUR 12 million.*

b Other intangible assets

The analysis of the movement of intangible assets for the year ended 31 December 2005 is as follows:

(in millions of euros)	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost				
At 1 January 2005	134	–	25	159
Additions	6	11	5	22
Disposals	–	–	–	–
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes		34	28	62
At 31 December 2005	140	45	58	243
Accumulated amortisation				
At 1 January 2005	(134)	–	(12)	(146)
Charge for the year[1]	–	(28)	(2)	(30)
Disposals	–	–	–	–
Impairment losses	–	–	–	–
Reversal of impairment losses	–	–	–	–
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes	–	10	(4)	6
At 31 December 2005	(134)	(18)	(18)	(170)
Net book value at 31 December 2005	**6**	**27**	**40**	**73**

1 *The amortisation charge for the year is recognised within the income statement under "Amortisation of intangible assets and impairment of goodwill".*

16 Goodwill and intangible assets *(continued)*

(in millions of euros)	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost				
At 1 January 2004	134	–	24	158
Additions	–	–	7	7
Acquisition of subsidiaries	–	–	–	–
Disposals	–	–	–	–
Reclassified as held for sale	–	–	–	–
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes	–	–	(6)	(6)
At 31 December 2004	134	–	25	159
Accumulated amortisation				
At 1 January 2004	(124)	–	(11)	(135)
Charge for the year[1]	(10)	–	(1)	(11)
Disposals	–	–	–	–
Reclassified as held for sale	–	–	–	–
Impairment losses	–	–	–	–
Reversal of impairment losses	–	–	–	–
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes	–	–	–	–
At 31 December 2004	(134)	–	(12)	(146)
Net book value at 31 December 2004	**–**	**–**	**13**	**13**

1 *The amortisation charge for the year is recognised within the income statement under "Amortisation of intangible assets and impairment of goodwill".*

c Goodwill and intangible assets:

(in millions of euros)	**2005**	2004
Cost		
Goodwill – net book value (note 16a)	**388**	431
Other intangible assets – net book value (note 16b)	**73**	13
	461	444

Notes to the consolidated financial statements (continued)

17 Property, plant and equipment

a Property, plant and equipment

(in millions of euros)	*Freehold land and buildings* [1]	*Equipment, fixtures and fittings*	*Total*
Cost or fair value			
At 1 January 2005	**545**	**555**	**1,100**
Additions at cost	**1**	**58**	**59**
Fair value adjustments	**–**	**–**	**–**
Disposals	**(31)**	**(36)**	**(67)**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**3**	**(287)**	**(284)**
At 31 December 2005	**518**	**290**	**808**
Accumulated depreciation			
At 1 January 2005	**(10)**	**(306)**	**(316)**
Depreciation charge for the year	**(10)**	**(55)**	**(65)**
Disposals	**4**	**32**	**36**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**–**	**243**	**243**
At 31 December 2005	**(16)**	**(86)**	**(102)**
Net book value at 31 December 2005	**502**	**204**	**706**

1 *Include assets on finance leases with a net book value of EUR 7 million, on which the depreciation charge for the year ended 31 December 2005 was EUR 0.3 million.*

(in millions of euros)	*Freehold land and buildings*	*Equipment, fixtures and fittings*	*Total*
Cost or fair value			
At 1 January 2004	529	462	991
Additions at cost	3	97	100
Fair value adjustments	–	–	–
Disposals	(22)	(7)	(29)
Exchange translation differences	–	–	–
Changes in scope of consolidation and other changes	35	3	38
At 31 December 2004	545	555	1,100
Accumulated depreciation			
At 1 January 2004	–	(193)	(193)
Depreciation charge for the year	(10)	(114)	(124)
Disposals	–	1	1
Exchange translation differences	–	–	–
Changes in scope of consolidation and other changes	–	–	–
At 31 December 2004	(10)	(306)	(316)
Net book value at 31 December 2004	535	249	784

17 Property, plant and equipment *(continued)*

b Investment properties

The composition of the investment properties at fair value in the year was as follows:

(in millions of euros)	**2005**	2004
Freehold land and buildings Investment properties	**27**	37

As at January 1, 2005 HSBC France group owned two properties which were recognized as investment properties. During the year, one of these properties has been disposed of. Investment properties are valued on an open market value basis as at 31 December each year by professional valuers.

Included within "Other operating income" was rental income of EUR 2 million (2004: EUR 2 million) earned by HSBC France group on its investment properties.

c Property, plant and equipment

(in millions of euros)	**2005**	2004
Cost		
Property, plant and equipment Goodwill – net book value (note 17a)	**706**	784
Investment properties – net book value (note 17b)	**27**	37
	733	821

Notes to the consolidated financial statements (continued)

18 Investments

Consolidated Companies	*Country*	*Consolidation Method **	*Main line of business*	HSBC France group interest 2005	2004
Retail and Commercial Banking					
Banque Chaix	France	FC	Bank	**100.0%**	100.0%
HSBC de Baecque Beau (ex Banque de Baecque Beau)	France	FC	Bank	**100.0%**	100.0%
HSBC Picardie (ex Banque de Picardie)	France	FC	Bank	**100.0%**	100.0%
Banque de Savoie	France	FC	Bank	**99.9%**	99.9%
Banque Dupuy de Parseval	France	FC	Bank	**100.0%**	100.0%
HSBC Hervet (ex Banque Hervet)	France	FC	Bank	**100.0%**	100.0%
Banque Marze	France	FC	Bank	**100.0%**	100.0%
Banque Pelletier	France	FC	Bank	**100.0%**	100.0%
CCF Change [8]	France	FC	Service company	–	100.0%
Compagnie du Delta Rhodanien	France	FC	Holding company	**100.0%**	100.0%
Compagnie Financière Ile-du-Rhône (CFIR)	France	FC	Investment company	**100.0%**	100.0%
COPARI	France	FC	Holding company	**99.8%**	99.8%
Crédit Commercial du Sud-Ouest (CCSO)	France	FC	Bank	**100.0%**	100.0%
Elysées Factor	France	FC	Financial company	**100.0%**	66.0%
Financière d'Uzès	France	EM	Financial company	**34.0%**	34.0%
Hervet Mathurins	France	FC	Holding company	**100.0%**	100.0%
Marly Gestion [3]	France	FC	Investment company	**-**	100.0%
Massilia Participations Immobilieres	France	FC	Holding company	**100.0%**	100.0%
Netvalor [11]	France	FC	Financial company	**-**	100.0%
Provençale de participation	France	FC	Financial company	**100.0%**	100.0%
Provence Languedoc Finance	France	FC	Financial company	**99.8%**	99.8%
SARL Neuilly valeurs	France	FC	Investment company	**99.8%**	99.8%
SCI Baie Ménard	France	FC	Holding company	**100.0%**	100.0%
SCI Château Richard	France	FC	Holding company	**100.0%**	100.0%
SCI les hauts de Malençons	France	FC	Holding company	**100.0%**	100.0%
SNC Neuilly l'écrin	France	FC	Holding company	**100.0%**	100.0%
SCI Neuilly Vichy	France	FC	Holding company	**100.0%**	100.0%
SCI Pelletier	France	FC	Holding company	**100.0%**	100.0%
Société Anonyme Professionnelle de Crédit (SAPC)	France	FC	Bank	**100.0%**	100.0%
Société Auxiliaire Immobilière	France	FC	Holding company	**100.0%**	100.0%
Société Immobilière et Foncière Savoisienne (SIFS)	France	FC	Holding company	**99.9%**	99.9%
Société Immobilière Provence Côte d'Azur	France	FC	Holding company	**100.0%**	100.0%
Société Marseillaise de Crédit (Groupe)	France	FC	Bank	**100.0%**	100.0%
Sofimurs	France	FC	Property leasing company	**100.0%**	100.0%
Sté Immobilière de la Région Rhône-Alpes (SIRRA)	France	FC	Service company	**99.9%**	99.9%
Union pour la gestion et les transactions (UGT)	France	FC	Service company	**100.0%**	100.0%
HSBC UBP (ex Union de Banques à Paris)	France	FC	Bank	**100.0%**	100.0%
Vernet Expansion	France	FC	Investment company	**100.0%**	100.0%

18 Investments *(continued)*

Consolidated Companies	*Country*	*Consolidation Method **	*Main line of business*	HSBC France group interest 2005	HSBC France group interest 2004
Corporate and Investment Banking					
CCF Charterhouse GmbH	Germany	FC	Financial company	**100.0%**	100.0%
DEM9	France	FC	Financial company	**100.0%**	100.0%
DEMPAR1	France	FC	Financial company	**100.0%**	100.0%
DEMPAR2	France	FC	Financial company	**100.0%**	100.0%
DEMPAR4	France	FC	Financial company	**100.0%**	100.0%
Finely	France	FC	Financial company	**99.8%**	99.8%
Foncière Elysées	France	FC	Holding company	**100.0%**	100.0%
France Titrisation	France	EM	Service company	**33.3%**	33.3%
Hotelière Haussmann [4]	France	FC	Holding company	–	100.0%
HSBC Financial Products (France) (ex HSBC CCF Financial Product)	France	FC	Financial company	**100.0%**	100.0%
HSBC Leasing (France) (ex HSBC CCF Leasing)	France	FC	Financial company	**100.0%**	100.0%
HSBC Real Estate Leasing (France) (ex HSBC CCF Real Estate Leasing)	France	FC	Financial company	**100.0%**	100.0%
HSBC REIM (France) (ex HSBC CCF REIM France)	France	FC	Service company	**100.0%**	100.0%
HSBC Securities (France) (ex HSBC CCF Securities)	France	FC	Financial company	**100.0%**	100.0%
Immobilière Bauchard	France	FC	Holding company	**100.0%**	100.0%
Neuilly St Paul	France	FC	Investment company	**100.0%**	100.0%
Realimo Negociation	France	FC	Service 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%
FDM1	France	FC	Financial company	**100.0%**	100.0%
FDM2	France	FC	Financial company	**100.0%**	100.0%
FDM3	France	FC	Financial company	**100.0%**	100.0%
FDM4	France	FC	Financial company	**100.0%**	100.0%
FDM5	France	FC	Financial company	**100.0%**	100.0%
FDM6	France	FC	Financial company	**100.0%**	100.0%
FDM7	France	FC	Financial company	**100.0%**	–
FDM8	France	FC	Financial company	**100.0%**	–
FDM9	France	FC	Financial company	**100.0%**	–
FDM10	France	FC	Financial company	**100.0%**	–
MOABI	France	FC	Financial company	**100.0%**	–
Saussaies Haussmann	France	FC	Holding company	**100.0%**	–
Finanpar2	France	FC	Financial company	**100.0%**	100.0%
Finanpar5	France	FC	Financial company	**100.0%**	100.0%
Finanpar6	France	FC	Financial company	**100.0%**	100.0%
Finanpar7	France	FC	Financial company	**100.0%**	100.0%
Sopingest	France	FC	Financial company	**100.0%**	100.0%
SAS Losange Immobilier	France	FC	Financial company	**100.0%**	100.0%
DEM 10	France	FC	Financial company	**100.0%**	100.0%
SAF Huang he	France	FC	Financial company	**100.0%**	–
SAF Zhu jiang	France	FC	Financial company	**100.0%**	–
SAF Whe he	France	FC	Financial company	**100.0%**	–
SAF Boabab	France	FC	Financial company	**100.0%**	–
SAF Palissandre	France	FC	Financial company	**100.0%**	–
SAF Chang jiang	France	FC	Financial company	**100.0%**	–
SNC Nuku Hiva Bail	France	FC	Financial company	**80,0%**	–

Notes to the consolidated financial statements (continued)

18 Investments *(continued)*

Consolidated Companies	*Country*	*Consolidation Method **	*Main line of business*	HSBC France group interest 2005	HSBC France group interest 2004
Asset Management and Insurance					
CCF Holdings Ltd [1]	United Kingdom	FC	Financial company	–	100.0%
CCF & Partners Asset Management Ltd	United Kingdom	FC	Financial company	**100.0%**	100.0%
EMI Advisory company	Luxembourg	EM	Asset management	**33.3%**	33.3%
Erisa	France	EM	Insurance company	**50.0%**	50.0%
Erisa IARD	France	EM	Insurance company	**50.0%**	50.0%
Exatis Financial Adviser Europe (EFAE) [7]	France	FC	Asset management	–	100.0%
FONCAPI SAS	France	FC	Financial company	**100.0%**	100.0%
Framlington Group plc [10]	United Kingdom	Joint control	Financial company	**–**	51.0%
HCM Holdings Ltd (ex Framlington Holdings Ltd)	United Kingdom	Joint control	Financial company	**51.0%**	51.0%
HSBC FCP (France) (ex HSBC AME Europe FCP) [7, 3]	France	FC	Financial company	**100.0%**	100.0%
HSBC Investments (France) (ex HSBC Asset Management Europe)	France	FC	Asset management	**100.0%**	100.0%
Sinopia AM Luxembourg	Luxembourg	FC	Asset management	**100.0%**	100.0%
HSBC Asset Management Holding (ex HSBC CCF Asset Management Holding)	France	FC	Financial company	**100.0%**	100.0%
HSBC Epargne Entreprise (ex HSBC CCF Epargne Entreprise)	France	FC	Financial company	**100.0%**	100.0%
Sinopia Asset Management	France	FC	Financial company	**100.0%**	100.0%
Sinopia Asset Management (Asia Pacific) Ltd (ex Sinopia Greater China Limited)	Hong Kong	FC	Asset management	**100.0%**	100.0%
Sinopia Financial Services	France	FC	Financial company	**100.0%**	100.0%
Sinopia International Limited	United Kingdom	FC	Service company	**100.0%**	100.0%
Sinopia Société de Gestion	France	FC	Service company	**100.0%**	100.0%
SNC Olivier d'Antibes	France	FC	Financial company	**60.0%**	60.0%
HSBC Securities Services (France) (ex Vernet Valor)	France	FC	Financial company	**100.0%**	100.0%
Private Banking					
BDL Gestion [2]	France	FC	Financial company	**–**	96.5%
Byron Equilibre	France	FC	Insurance broker	**96.7%**	96.5%
CCF Holding Suisse [6]	Switzerland	FC	Financial company	**–**	100.0%
Compagnie de Gestion du Patrimoine	France	FC	Bank	**100.0%**	100.0%
Delosfin SA	France	FC	Investment company	**96.6%**	96.4%
Eurofin Assurance SA	France	FC	Insurance broker	**96.5%**	96.4%
Eurofin Capital Partners (ECP)	France	FC	Investment company	**96.1%**	95.9%
Group Financiere Dewaay [12]	Belgium	FC	Bank	–	100.0%
HSBC Private Bank France (ex : HSBC Bank France SA)	France	FC	Bank	**96.7%**	96.5%
HSBC Republic Assurance SARL	France	FC	Insurance broker	**96.7%**	96.5%
LGI	Luxembourg	FC	Wealth management	**96.7%**	96.5%
Louvre Gestion [2]	France	FC	Financial company	**96.7%**	96.5%
Octogone immobilier	France	FC	Holding company	**96.7%**	96.5%
SCI Triangle d'or	France	FC	Holding company	**96.7%**	96.5%
Société des cadres de la Banque Eurofin	France	FC	Financial company	**100.0%**	100.0%

18 Investments *(continued)*

Consolidated Companies	*Country*	*Consolidation Method **	*Main line of business*	HSBC France group interest 2005	HSBC France group interest 2004
Others					
Charterhouse Management Service Limited	United Kingdom	FC	Investment company	**100.0%**	100.0%
Elysées Forêts	France	FC	Service company	**58.2%**	51.6%
Elysées Formation	France	FC	Service company	**100.0%**	100.0%
Enership	France	FC	Investment company	**100.0%**	100.0%
Equity Finance [5]	France	EM	Investment company	–	23.9%
Excofina	France	FC	Investment company	**100.0%**	100.0%
Finanpar 17	France	FC	Investment company	**100.0%**	100.0%
Finanpar 18	France	FC	Investment company	**99.7%**	99.7%
Forepar	France	FC	Financial company	**100.0%**	100.0%
Hervet Participation	France	FC	Investment company	**99.8%**	99.8%
HSBC PP 1	France	FC	Financial company	**100.0%**	–
Nobel	France	FC	Investment company	**100.0%**	100.0%
Participaciones y Financiacion SA [9]	Spain	FC	Service company	–	100.0%
SAGP	France	FC	Investment company	**100.0%**	100.0%
Serdac	Suisse	FC	Investment company	**100.0%**	100.0%
SGEFF	France	FC	Service company	**100.0%**	100.0%
Sinopia TRS 1	France	FC	Financial company	**100.0%**	–
Société Française et Suisse (SFS) [8]	France	FC	Investment company	**100.0%**	100.0%
Société Parisienne de Participations (SPP)	France	FC	Investment company	**100.0%**	100.0%
Value Fund 1	France	FC	Financial company	**63.6%**	63.6%
Value Fund 2	France	EM	Financial company	**18.2%**	18.2%
Vernet Rendement 22	France	FC	Financial company	**100.0%**	100.0%
Vernet Rendement 37	France	FC	Financial company	**100.0%**	100.0%

* *FC: Full consolidation - EM: Equity method.*
1 *Liquidation of CCF Holding Ltd.*
2 *Absorption of BDL Gestion by Louvre Gestion.*
3 *Absorption of Marly Gestion by HSBC FCP (France).*
4 *Disposal of Hôtelière Haussmann.*
5 *Deconsolidation of Equity Finance.*
6 *Deconsolidation of CCF Holding Suisse.*
7 *Absorption of Exatis Financial Adviser Europe (EFAE) by HSBC FCP (France).*
8 *Absorption of CCF Change by SFS.*
9 *Liquidation of Participaciones y Financiacion, SA.*
10 *Disposal of Framlington Group plc.*
11 *Disposal of Netvalor.*
12 *Disposal of group Dewaay.*

Notes to the consolidated financial statements (continued)

18 Investments *(continued)*

Additions	*Year*
CCF Charterhouse GmbH	2004
Compagnie du Delta Rhodanien	2004
COPARI	2004
DEM 9	2004
DEM 10	2004
DEMPAR1	2004
DEMPAR2	2004
DEMPAR4	2004
Elysées Forêts	2004
Elysées Formation	2004
Enership	2004
Excofina	2004
FDM1	2004
FDM2	2004
FDM3	2004
FDM4	2004
FDM5	2004
FDM6	2004
Finanpar 18	2004
Finanpar2	2004
Finanpar5	2004
Finanpar6	2004
Finanpar7	2004
Finely	2004
FONCAPI SAS	2004
Forepar	2004
France Titrisation	2004
Hervet Participation	2004
Massilia Participations immobilières	2004
SARL Neuilly Valeurs	2004
Provençale de participation SASU	2004
Provence Languedoc Finance	2004
Réalimo Négociation	2004
SAS Losange Immobilier	2004
SCI Baie Menard	2004
SCI Château Richard	2004
SCI les hauts de Malençons	2004
SCI Neuilly Vichy	2004
SCI Pelletier	2004
Serdac	2004
SGEFF	2004
SNC Neuilly l'écrin	2004
SNC Olivier d'Antibes	2004
Société Auxiliaire Immobilière	2004
SOPINGEST	2004
Société Immobilière Provence Cote d'Azur	2004
UGT	2004
Value Fund 1	2004
Value Fund 2	2004
Vernet expansion	2004
Vernet Rendement 22	2004
Vernet Rendement 37	2004
Sinopia TRS 1	2005
HSBC PP 1	2005
Saussaies Haussmann	2005
FDM7	2005
FDM8	2005
FDM9	2005
FDM10	2005
MOABI	2005
SAF Chang jiang	2005
SAF Huang he	2005
SAF Zhu jiang	2005
SAF Whe he	2005
SAF Baobab	2005
SAF Palissandre	2005
SNC Nuku Hiva Bail	2005

Exits	*Year*
Hotelière Haussmann [4]	2005
BDL Gestion [2]	2005
Exatis Financial Adviser Europe (EFAE) [7]	2005
Marly Gestion [3]	2005
Equity Finance [5]	2005
Succursale de Milan	2005
CCF Holding Ltd [1]	2005
CCF Holding Suisse [6]	2005
Participaciones y financiacion, SA [9]	2005
Framlington group plc [10]	2005
Netvalor [11]	2005
Group Dewaay [12]	2005
CCF Change [8]	2005

Merger:
Louvre Gestion absorbed BDL Gestion
HSBC FCP (France) absorbed
  Exatis Financial Adviser Europe (EFAE)
SFS absorbed CCF Change
HSBC FCP (France) absorbed Marly Gestion

Change of name:
Sinopia Asset Management (Asia Pacific) Limited
  (Sinopia Greater China Ltd)
HCM Holdings Limited (Framlington Holdings Limited)
HSBC Real Estate Leasing (Immobilier Elybail)
HSBC REIM (Auxilia)
HSBC Investments (France)
  (HSBC Asset Management Europe SA)
HSBC Securities Services (France) (Vernet Valor)
HSBC Leasing (France) (Charterhouse leasing)
HSBC FCP (France) (HSBC Asset Management Europe FCP)

Liquidation:
Participaciones y Financiacion, SA
Succursale de Milan
CCF Holding Ltd

Disposal:
Framlington Group plc
Netvalor
Group Dewaay
Hoteliere Haussmann

Deconsolidation:
Equity Finance
CCF Holding Suisse

19 Other assets

(in millions of euros)	**2005**	2004
Assets held for sale[1]	–	17
Current taxation recoverable	**296**	280
Other accounts	**2,774**	1,717
	3,070	2,014

1 *Disposal of Immobilière Bauchard assets in 2005.*

20 Financial liabilities designated at fair value

(in millions of euros)	**2005**
Deposits by banks	–
Customer accounts	–
Debt securities in issue	**300**
Subordinated liabilities	**14**
	314

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2005 was EUR 9.6 million.

At 31 December 2005, the accumulated amount of the change in fair value attributable to changes in credit risk for the Group was EUR 0.6 million.

21 Other liabilities

(in millions of euros)	**2005**	2004
Obligations under finance leases	**8**	8
Other liabilities	**1,124**	3,406
	1,132	3,414

22 Provisions

a Deferred taxation

	2005			2004		
(in millions of euros)	***Deferred tax asset***	***Deferred tax liability***	***Total***	*Deferred tax asset*	*Deferred tax liability*	*Total*
Temporary differences:						
– retirement benefits	**–**	**(50)**	**(50)**	–	(52)	(52)
– assets leased to Customers	**–**	**35**	**35**	–	35	35
– revaluation of property (including investment properties)	**–**	**65**	**65**	–	69	69
– other short-term timing differences	**19**	**61**	**42**	2	64	62
	19	**111**	**92**	2	116	114

Notes to the consolidated financial statements (continued)

22 Provisions *(continued)*

The main amounts of deferred tax related to items that are charged directly to equity are detailed as follows:

(in millions of euros)	**2005**	2004
Cash flow hedge	**71**	–
Available-for-sale reserve	**78**	–
Actuarial losses	**(3)**	nil

b Other provisions for liabilities and charges

(in millions of euros)	*Provisions*
At 1 January 2005	177
Additional provisions/increase in provisions	92
Provisions utilised	(17)
Amounts reversed	(93)
Exchange, changes in scope of consolidation and other movements	6
At 31 December 2005	**165**

In the context of the HSBC France Strategic Plan 2005-2008, which includes a social plan, the staff representatives were advised in November 2005 of the various options, which are principally early retirement, voluntary redundancy or staff redeployment inside the HSBC France group.

At 31 December 2005, "Employee compensation and benefits" included a provision of EUR 38 million, based on the estimated cost for early retirement and voluntary redundancies under the purposed scheme.

23 Sale and repurchase and settlement accounts

(in millions of euros)	**At 31 December 2005**	At 31 December 2004[1]
Assets		
Customer accounts include		
– assets under sale and repurchase agreements	**3,948**	5,443
– settlement accounts	**440**	682
Deposits by banks include		
– assets under sale and repurchase agreements	**10,920**	14,098
– settlement accounts	**2,085**	360

(in millions of euros)	**At 31 December 2005**	At 31 December 2004[1]
Liabilities		
Customer accounts include		
– liabilities under sale and repurchase agreements	**8,626**	6,968
– settlement accounts	**1,467**	1,083
Deposits by banks include		
– liabilities under sale and repurchase agreements	**8,521**	9,629
– settlement accounts	**1,888**	175

1 *In accordance with IFRS 1, the group's consolidated balance sheet at 31 December 2004 does not reflect the adoption of IAS 32 and IAS 39. The analysis in the above note is therefore not applicable for 2004.*

24 Subordinated liabilities

(in millions of euros)	Book value 2005	2004
Subordinated liabilities:		
– at amortised cost	**795**	864
– designated at fair value	**14**	–
	809	864

Subordinated borrowings of the Group:

(in millions of euros)		Book value 2005	2004
USD 81m	Floating rate notes maturing 2005	**–**	59
EUR 500m*	Floating rate notes maturing 2011	**500**	500
EUR 150m*	Floating rate notes maturing 2014	**150**	150
Yen10bn	Undated subordinated variable rate notes	**84**	72
EUR 15m	Floating rate notes maturing 2015	**14**	15
Yen 5bn	Undated subordinated variable rate notes	**42**	36
	Other subordinated variable rate notes	**19**	32
		809	864

* *Debt issued to HSBC Bank plc.*

25 Trading liabilities

(in millions of euros)	**At 31 December 2005**	At 31 December 2004
Financial net short position securities	**30,237**	11,496
Debt securities in issue	**1,945**	–
TOTAL	**32,182**	11,496

26 Fair value of financial instruments

The following table provides an analysis of the fair value of financial instruments not measured at fair value in the balance sheet. For all other instruments the fair value is equal to the carrying value:

(in millions of euros)	**2005** *Carrying value*	**2005** *Fair value*	2004 *Carrying value*
Assets			
Loans and advances to banks	**16,557**	**16,559**	17,544
Loans and advances to customers	**37,226**	**37,387**	31,969
Liabilities			
Deposits by banks	**20,494**	**20,494**	20,987
Customer accounts	**34,364**	**34,393**	31,467
Debt securities in issue	**9,912**	**10,052**	10,819
Subordinated liabilities	**795**	**806**	864

The methods used to determine fair values for financial instruments for the purpose of measurement and disclosure are set out in Note 2. The majority of the group's financial instruments measured at fair value are valued using quoted market prices or valuation techniques based on observable market data. Observable market

Notes to the consolidated financial statements (continued)

26 Fair value of financial instruments *(continued)*

prices are not, however, available for many of the group's financial assets and liabilities not measured at fair value. The determination of the fair values of the assets and liabilities in the table above are as follows:

(i) Loans and advances to banks and customers

The fair values of personal and commercial loans and advances are estimated by discounting contractual cash flows at current rates. Performing loans are grouped, as far as possible, into homogeneous pools segregated by type of credit, counterparty. Cash flows are discounted using current market rates for instruments with similar credit risk characteristics (type of loan, counterparty). For fixed rate loans, assumptions are made on the expected prepayment rates.

For non-performing uncollateralised commercial loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered. For non-performing commercial loans where collateral exists, fair value is the lower of the carrying values of the loans net of impairment allowances, and the fair value of the collateral, discounted as appropriate.

(ii) Deposits by banks and customer accounts

Deposits by banks and customer accounts are grouped by product and counterparty. Fair values are estimated by discounting contractual cash flows on current rates.

(iii) Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where applicable, or by reference to quoted market prices for similar instruments.

The fair values presented in the table above are stated at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values. Accordingly these fair values do not represent the value of these financial instruments to the group as a going concern.

As other financial institutions use different valuation methodologies and assumptions in determining fair values, comparisons of fair values between financial institutions may not be meaningful and users are advised to exercise caution when using this data.

In addition, the following table lists those financial instruments where the carrying amount is a reasonable approximation of fair value, for example, because they are either short-term in nature or reprice to current market rates frequently.

Assets	**Liabilities**
Cash and balances at central banks	Items in the course of transmission
Items in the course of collection	Short-term payables within "Other Liabilities"
Short-term receivables within "Other Assets"	

27 Maturity analysis of financial assets and liabilities

The following is an analysis of assets and liabilities by remaining contractual maturities as the balance sheet date for assets and liability line items that combines amounts expected to be recovered or settled in under one year and after one year.

Trading assets and liabilities are excluded because they are not held for collection or settlement over the period of contractual maturity.

	At 31 December 2005		
(in millions of euros)	***Due within one year***	***Due after more than one year***	***Total***
Assets			
Loans and advances to banks	**16,311**	**246**	**16,557**
Loans and advances to customers	**20,402**	**16,824**	**37,226**
Financial investments	**1,476**	**4,784**	**6,260**
Other financial assets	**1,123**	**9**	**1,132**
	39,312	**21,863**	**61,175**
Liabilities			
Deposits by banks	**19,494**	**1,000**	**20,494**
Customer accounts	**33,466**	**898**	**34,364**
Financial liabilities designated at fair value	**66**	**248**	**314**
Debt securities in issue	**7,496**	**2,416**	**9,912**
Other financial liabilities	**748**	**17**	**765**
Subordinated liabilities	**–**	**795**	**795**
	61,270	**5,374**	**66,644**

	At 31 December 2004		
(in millions of euros)	*Due within one year*	*Due after more than one year*	*Total*
Assets			
Loans and advances to banks	17,139	405	17,544
Loans and advances to customers	18,377	13,592	31,969
Financial investments	1,370	6,969	8,339
	36,886	20,966	57,852
Liabilities			
Deposits by banks	20,192	795	20,987
Customer accounts	30,923	544	31,467
Debt securities in issue	7,641	3,178	10,819
Other financial liabilities	–	8	8
Subordinated liabilities	59	805	864
	58,815	5,330	64,145

Notes to the consolidated financial statements (continued)

28 Called-up share capital

The authorised ordinary share capital of HSBC France at 31 December 2005 was EUR 376 million divided into 75,237 million ordinary shares of EUR 5 each.

(in millions of euros)	*Number of HSBC France ordinary shares*	*Amount*
At 1 January 2005	**74,802,146**	**374**
Shares issued	**435,784**	**2**
At 31 December 2005	**75,237,930**	**376**
At 1 January 2004	74,350,066	372
Shares issued	452,080	2
At 31 December 2004	74,802,146	374

29 Capital and reserves

The following table shows an analysis of the change in equity attributable to equity holders of HSBC France.

(in millions of euros)	**31 December 2005**	31 December 2004
Called-up share capital		
Balance at the beginning of the period	**374**	372
Capital increase	**2**	2
Balance at the end of the period	**376**	374
Share premium		
Balance at the beginning of the period	**1,093**	1,064
New share capital subscribed, net of costs	**32**	29
Balance at the end of the period	**1,125**	1,093

(in millions of euros)	**31 December 2005**	31 December 2004
Other reserves		
Balance at the beginning of the period	**2,701**	2,620
IFRS transition adjustment at 1 January 2005	**377**	–
Profit for the period attributable to shareholders	**1,119**	528
Dividends	**(511)**	(477)
Exchange differences items	**4**	2
Share-based payment	**31**	28
Actuarial gains and losses net of deferred tax	**(9)**	–
Available-for-sale investments net of deferred tax	**233**	–
Cash flow hedges net of deferred tax	**(121)**	–
Balance at the end of the period	**3,824**	2,701
Capital (see above)	**376**	374
Share premium account (see above)	**1,125**	1,093
TOTAL SHAREHOLDERS' EQUITY AT THE END OF THE PERIOD	**5,325**	4,168

29 Capital and reserves *(continued)*

The following table shows an analysis of the changes in equity attributable to minority interests.

(in millions of euros)	**31 December 2005**	31 December 2004
Balance at the beginning of the year	**13**	11
IFRS transition adjustment as at 1 January 2005	**–**	–
Foreign currency translation	**–**	–
Profit attributable to minority interests	**(2)**	(1)
Dividends	**(1)**	(1)
Other increases	**2**	4
Balance at the end of the year	**12**	13

30 Reconciliation of profit before tax to net cash flow from operating activities

Non-cash items included in income:

(in millions of euros)	**31 December 2005**	31 December 2004
Depreciation and amortisation	**96**	212
Loan impairment losses	**(75)**	(27)
Loans written off net of recoveries	**(99)**	(85)
Provisions raised	**43**	(53)
Provisions utilised	**(17)**	(21)
Impairment of financial investments	**1**	(67)
Accretion of discounts and amortisation of premiums	**33**	41
	(18)	–

Change in operating assets:

(in millions of euros)	**31 December 2005**	31 December 2004
Change in prepayments and accrued income	**212**	498
Change in net trading securities and net derivatives	**3,290**	2,760
Change in loans and advances to banks	**1,335**	(1,183)
Change in loans and advances to customers	**(5,231)**	(3,483)
Change in other assets	**(1,074)**	(2,695)
	(1,468)	(4,103)

Change in operating liabilities:

(in millions of euros)	**31 December 2005**	31 December 2004
Change in accruals and deferred income	**(431)**	489
Change in deposits by banks	**(493)**	4,140
Change in customer accounts	**2,902**	3,473
Change in debt securities in issue	**(907)**	940
Change in financial liabilities designated at fair value	**313**	–
Change in other liabilities	**(2,278)**	689
	(894)	9,731

Notes to the consolidated financial statements (continued)

30 Reconciliation of profit before tax to net cash flow from operating activities *(continued)*

Cash and cash equivalents comprise:

(in millions of euros)	**2005**	2004
Cash and balances at central banks	**482**	623
Items in the course of collection from other banks	**2,110**	203
Loans and advances to banks of one month or less	**14,035**	13,706
Treasury bills, other bills, certificates of deposit less than three months and cash unit trusts	**2,401**	1,157
Less: items in the course of transmission to other banks	**(2,069)**	(105)
	16,959	15,584

31 Contingent liabilities and contractual commitments

a Contingent liabilities and commitments

(in millions of euros)	**2005**	2004
Contract amounts		
Contingent liabilities		
Acceptances and endorsements	**–**	49
Guarantees and assets pledged as collateral security	**7,551**	7,612
Other contingent liabilities	**87**	4
	7,638	7,665
Commitments		
Documentary credits and short-term trade-related transactions	**345**	150
Undrawn note issuing and revolving underwriting facilities	**42**	52
Undrawn formal stand-by facilities, credit lines and other commitments to lend:		
– 1 year and under	**2,207**	1,175
– over 1 year	**12,168**	10,884
	14,762	12,261

The above table discloses the nominal principal amounts of third party off-balance sheet transactions.

Contractual amounts represent the amounts at risk should contracts be fully drawn upon and clients default. The total of the contractual amounts is not representative of future liquidity requirements.

31 Contingent liabilities and contractual commitments *(continued)*

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 2005 were as follows:

(in millions of euros)	**At 31 December 2005**	At 31 December 2004
Guarantee type		
Acceptances and endorsements [1]	**–**	49
Financial guarantees [2]	**26**	30
Stand-by letters of credit which are financial guarantees [3]	**5**	–
Other direct credit substitutes [4]	**1,078**	1,098
Performance bonds [5]	**12**	67
Bid bonds [5]	**66**	1
Standby letters of credit related to particular transactions [5]	**29**	–
Other transaction-related guarantees [5, 6]	**6,335**	6,416
Other items	**87**	4
TOTAL	**7,638**	7,665

1 *Acceptances and endorsements arise when the group agrees to guarantee payment on a negotiable instrument drawn up by a customer. The accepted instrument is then sold into the market on a discounted basis. From 1 January 2005, acceptances and endorsements are recognised on-balance sheet in "Other assets" and "Other liabilities" as a result of the adoption of IAS 32.*

2 *Financial guarantees include undertakings to fulfill the obligations of customers or group entities should the obligated party fail to do so. Intra-group financial guarantees include a guarantee of a capital nature issued by the group to a group entity for inclusion as capital support by the latter's regulator.*

3 *Stand-by letters of credit which are financial guarantees are irrevocable obligations on the part of HSBC France to pay a third party when a customer fails to meet a commitment.*

4 *Other direct credit substitutes include re-insurance letters of credit and trade-related letters of credit issued without provision for the issuing entity to retain title to the underlying shipment.*

5 *Performance bonds, bid bonds, stand-by letters of credit and other transaction-related guarantees 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.*

6 *Including guarantees by the group in favour of other HSBC Group entities: 2005 EUR 28 million (2004 EUR 14 million).*

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.

Approximately one half of the above guarantees have a term of less than one year. Guarantees with terms of more than one year 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 in respect of the group's obligations under outstanding guarantees:

(in millions of euros)	**2005**	2004
Acceptances and endorsements	**–**	40
Other items	**12**	8

Notes to the consolidated financial statements (continued)

32 Finance lease receivables

Book value

(in millions of euros)	**2005**	2004
Lease receivables:		
– no later than one year	**86**	53
– later than one year and no later than five years	**398**	272
– later than five years	**623**	455
	1,107	780

The group leases a variety of different assets to third parties under operating and finance lease arrangements, including property, aircraft and general plant and machinery.

33 Litigation

Since 2001, HSBC France has been involved in legal actions taking place in the United States, relating to banking operations and fiduciary loans.

As jurisdiction has not yet been definitively allocated to the courts involved, it is not possible at this stage to estimated the outcome of these legal proceedings. In any case, the allegations made are fiercely contested.

There is no other litigation or arbitration proceedings likely to have or which has recently had a material impact on HSBC France's financial position, its activities and results, or consequently on the HSBC France group.

34 Related party transactions

The ultimate parent company of the group is HSBC Holdings plc, which is incorporated in England.

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 unfavorable features.

a Transactions, arrangements and agreements involving Directors and others

The table below sets out transactions which fall to be disclosed under IAS 24 "Related Party Disclosures" between the Group and the Key Management Personnel of both the bank and it's parent company, HSBC Holdings plc, and their connected persons or controlled companies.

	2005	
	Number of persons	***Balance at 31 December (in thousands of euros)***
Loans	**8**	**3,041**
Credit cards	**7**	**29**
Guarantees	**–**	**–**

Compensation to the Key Management Personnel of the Group under IAS 24 is disclosed as follows:

(in thousands of euros)	**2005**	2004
Short-term employee benefits	**116**	103
Post-employment benefits	**137**	103
Long-term benefits	**0**	0
Termination benefits	**0**	0
Share-based payment	**1,584**	1,312
	1,837	1,518

The Annual Report also includes a detailed description of Directors' remuneration.

34 Related party transactions *(continued)*

b Transactions with other related parties

Transactions with other related parties of the Group

(in millions of euros)	**2005**	2004
	Balance at 31 December	*Balance at 31 December*
Amounts due from joint ventures and associates:		
– subordinated	**28**	28
– unsubordinated	**–**	52
	28	80
Amounts due to joint ventures and associates	**–**	12

Transactions detailed below include amounts due to/from HSBC France and fellow subsidiaries of HSBC Holdings plc.

(in millions of euros)	**31 December 2005**	31 December 2004
Assets		
Trading assets	**1,158**	650
Derivatives	**3,953**	1,209
Loans and advances to banks	**2,551**	1,204
Loans and advances to customers	**80**	83
Financial investments	**1,052**	693
Other assets	**1,724**	1,083
Prepayments and accrued income	**6**	3
Liabilities		
Deposits by banks	**9,214**	5,409
Customer accounts	**742**	34
Trading liabilities	**1,051**	–
Derivatives	**5,255**	2,115
Other liabilities	**373**	58
Accruals and deferred income	**47**	34
Subordinated liabilities	**650**	650

(in millions of euros)	**2005**	2004
Income Statement		
Interest Income	**95**	50
Interest expense	**173**	83
Fee income	**13**	13
Fee expense	**60**	60
Gains less losses from financial investments	**161**	2
Other operating income	**44**	34
Dividend income	**11**	29
General and administrative expenses	**29**	22

Notes to the consolidated financial statements (continued)

35 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 2005 financial statements.

36 Transition to IFRS

a Basis of transition to IFRS

In accordance with European regulation 1606/2002 of 19 July 2002, HSBC France has adopted international accounting standards as of its 2005 financial year.

In line with the HSBC Group's communication policy, HSBC France did not publish any quantitative information concerning the adoption of IFRS in its 2004 Annual Report and Accounts. The Annual Report 2005 sets out:

– the main differences identified between French GAAP (as set out in CRC regulations 99-07 and 2000-04) and IFRS applied in 2004, and having a material impact on HSBC France's financial statements;

– 2004 comparative data;

– a reconciliation between shareholders' equity reported under French GAAP and shareholders' equity reported under IFRS (excluding IAS 32/39) at 1 January 2004 and 31 December 2004;

– a reconciliation between attributable net profit reported under French GAAP and net profit reported under IFRS (excluding IAS 32/39) at 31 December 2004;

– a reconciliation between balance sheet information reported under French GAAP and balance sheet information reported under IFRS (excluding IAS 32/39) at 31 December 2004.

Main differences identified between accounting principles and IFRS standards applied in 2004

Revaluation of fixed asset investments

Following HSBC Group policy, HSBC France has opted to use the fair value of fixed asset investments at 1 January 2004 as their historical cost by convention. Investment properties are stated at fair value through profit and loss.

Pension provisions

As required by CRB regulations 90-02 and 91-01, HSBC France had set up a reserve in its French GAAP accounts intended to cover general banking risks (RGBR), particularly those that might eventually result from additional social security contribution requirements following the implementation of the AFB-AGIRC-ARRCO agreement of 13 September 1993 relating to the pension plans of staff working for credit institutions.

The application of valuation methods and the extension of benefits to be provided for under IAS 19 has led to a revaluation of the reserves booked by HSBC France (in the form of pension provisions or the RGBR) under previous accounting principles. This led to the recognition of EUR 56 million of surplus reserves at 1 January 2004.

At 31 December 2004, HSBC France opted to adopt CNC recommendation 2003 R01 concerning rules for recognising and valuing liabilities relating to pensions and similar benefits in its French GAAP accounts. As a result, the portion of the RGBR covering employee liabilities under the 1993 agreement was reallocated to pension provisions, and the remainder was taken to shareholders' equity. The resulting EUR 53.9 million increase in French GAAP shareholders' equity in 2004 has been cancelled under IFRS.

Reserve for general banking risks

As well as covering pension expenses, these reserves could be added to through charges to income and used to cover possible banking risks related to the Group's various activities.

The accounting standard relating to provisions and contingent liabilities (IAS 37) does not recognise the RGBR, which is therefore added to shareholders' equity at the transition date for an amount of EUR 195 million.

36 Transition to IFRS *(continued)*

Intangible assets

The application of IAS 38 prompted HSBC France to recognise internal IT development costs of EUR 7 million as assets at 1 January 2004 (net of deferred tax).

Goodwill

In accordance with IAS 36 and IFRS 3, negative goodwill is immediately taken to profit and loss, and positive goodwill is no longer amortised, but instead subject to impairment tests.

Impairment tests carried out by HSBC France on the goodwill carried in its French GAAP accounts resulted in no impairment charge at both 1 January 2004 and 1 January 2005 in the IFRS accounts.

The cessation of the amortisation carried out under French GAAP increases net profit by EUR 30 million in full-year 2004.

Share-based payments

Some HSBC France employees are granted HSBC Holdings stock options.

Under IFRS 2, these stock options are regarded as a cost for the company, and so the value of options granted in return for services rendered must be stated as an expense.

The fair value of these options, calculated on the grant date, is expensed over the vesting period, with a balancing adjustment to shareholders' equity. The exception is the 2005 stock option plan, for which a provision has been booked since the corresponding expense is due to be recharged by the parent company when the options are exercised.

The cost of these share-based payments was EUR 28 million in full-year 2004.

Scope of consolidation

The application of IAS 27, 28 and 31 has had a limited impact on HSBC France's scope of consolidation.

With a view to the introduction of IFRS and in order to align itself with the principles of its parent company, HSBC France had elected at 31 December 2004 to stop applying the criterion of total assets exceeding EUR 15 million, resulting in the consolidation of 52 additional business units, with no significant impact on the Group's financial statements.

In accordance with IAS 27 and 31, the Framlington sub-group is no longer fully consolidated, since HSBC France only exercises joint control over this entity.

Presentation of 2004 comparative data

Since IAS 32 and 39, regarding financial instruments, had not been applied in drawing up 2004 comparative data, the presentation and valuation of financial instruments differ between 2004 and 2005.

The format of the summary statements in which 2004 comparative data are presented has been changed, so that it is structurally comparable with the format of summary statements used by the HSBC Group, which HSBC France has decided to use. This format partially differs from that proposed by the CNC recommendation 2004 R03 of 27 October 2004.

Notes to the consolidated financial statements (continued)

36 Transition to IFRS *(continued)*

b Reconciliation of previously reported shareholders' funds under French GAAP to total shareholders' equity under IFRS excluding (IAS 32, 39) at 1 January 2004

(in millions of euros)	At 1 January 2004
Shareholders' funds as previously reported under French GAAP	3,668
Revaluation of fixed assets net of deferred tax (IAS 16 & 40)	125
Retirement provision (IAS 19)	56
General banking risks (IAS 37)	195
Intangible assets (IAS 38)	7
Deferred tax (IAS 12)	3
Positive and negative Goodwill (IAS 36)	1
Shareholder's funds as previously reported under IFRS excluding (IAS 32, 39)	4,055

c Reconciliation of net profit attributable to shareholders for the full-year 2004 and shareholders' equity at 31 December 2004

Reconciliation of previously reported profit attributable to shareholders under French GAAP to profit attributable to shareholders under IFRS excluding (IAS 32, 39) for the year to 31 December 2004

(in millions of euros)	*Full year to 31 December 2004*
Net profit under French GAAP	729
Revaluation of fixed assets net of deferred tax (IAS 16 & 40)	(2)
General banking risks (IAS 37)	(194)
Intangible assets (IAS 38)	(7)
Positive and negative Goodwill (IAS 36)	30
Share-based payment (IFRS 2)	(28)
Profit under French IFRS excluding (IAS 32, 39)	528

Reconciliation of previously reported shareholders' funds under French GAAP to total shareholders' equity under IFRS excluding (IAS 32, 39) at 31 December 2004

(in millions of euros)	At 31 December 2004
Shareholders' funds as previously reported under French GAAP	4,009
Revaluation of fixed assets net of deferred tax (IAS 16 & 40)	124
General banking risks (IAS 37)	1
Deferred tax (IAS 12)	3
Positive and negative Goodwill (IAS 36)	31
Shareholders' funds as previously reported under IFRS excluding (IAS 32, 39)	4,168

Reconciliation of consolidated balance sheet at 31 December 2004 [1]

(in millions of euros)

	French GAAP at 31 December 2004	Reclassification: Related receivables payables	Reclassification: Settlement accounts	Reclassification: Collection / transmission accounts	Reclassification: Trading assets and liabilities	Reclassification: Financial investments	Reclassification: Derivatives	Reclassification: Other	IFRS Impacts: General banking risks reserves (IAS37)	IFRS Impacts: Revaluation on fixed assets net of deferred tax (IAS 16 & 40)	IFRS Impacts: Change of scope of consolidation (IAS 27)	IFRS Impacts: Deferred Tax (IAS 12)	IFRS Impacts: Goodwill and Badwill (IAS 36)	IFRS at 31 December 2004
ASSETS														
Cash and balances at central banks	**624**	(1)												623
Items in the course of collection from other banks				203										203
Trading assets					21,206									21,206
Financial assets designated at fair value														
Securities portfolio [2]	**30,013**	(461)			(21,206)	(8,339)		(2)			(5)			–
Derivatives							3,334							3,334
Loans and advances to banks	**17,146**	(41)	358					129			(48)			17,544
Loans and advances to customers	**31,424**	(139)	684											31,969
Financial investments						8,339								8,339
Interests in associates and joint ventures	**119**										(15)			104
Goodwill and intangible assets	**511**							(68)			(29)		30	444
Property, plant and equipment	**576**							43		204	(3)			821
Other assets	**6,322**	(9)	(1,042)				(3,115)	(102)		(10)	(31)	3		2,016
Prepayments and accrued income	**1,120**	651		(203)			(219)				(5)			1,344
TOTAL ASSETS	**87,855**	–	–	–	–	–	–	–	–	**194**	**(135)**	**3**	**30**	**87,947**
LIABILITIES AND EQUITY														
Liabilities														
Deposits by banks	**22,208**	(41)	176					(1,255)			(101)			20,987
Customer accounts	**29,275**	(146)	1,083					1,255						31,467
Items in the course of transmission to other banks				105										105
Trading liabilities					11,496									11,496
Financial liabilities designated at fair value														
Derivatives							2,745							2,745
Liabilities to customers under investment contracts														
Debt securities in issue	**10,933**	(114)												10,819
Retirement benefit liabilities								199						199
Other liabilities	**18,443**	(9)	(1,259)		(11,496)		(2,107)	110			(26)			3,656
Accruals and deferred income	**1,578**	313		(105)			(638)				(12)		(1)	1,135
Provisions for liabilities and charges														
— deferred tax	**46**									70				116
— other provisions	**498**							(309)	(1)		(11)			177
Subordinated liabilities	**867**	(3)												864
TOTAL LIABILITIES	**83,848**	–	–	–	–	–	–	–	**(1)**	**70**	**(150)**	–	**(1)**	**83,766**
Called up share capital	**374**													374
Share premium account	**1,093**													1,093
Reserves	**2,542**							–	1	124		3	31	2,701
TOTAL SHAREHOLDERS' EQUITY	**4,009**	–	–	–	–	–	–	–	**1**	**124**	–	**3**	**31**	**4,168**
Minority interests	**(2)**										15			13
TOTAL EQUITY AND LIABILITIES	**87,855**	–	–	–	–	–	–	–	–	**194**	**(135)**	**3**	**30**	**87,947**

1 *CCF did not apply IAS 32 and 39 in 2004, nevertheless the comparative data have been presented using the 2005 format.*

2 *Securities portfolio (treasury bills, debt securities and equity shares classified under French GAAP as trading securities, available-for-sale securities, held to maturity securities, portfolio securities, other long-term securities and other participations).*

Notes to the consolidated financial statements (continued)

36 Transition to IFRS *(continued)*

d Key impact analysis on the opening balance sheet as at 1 January 2005

Reconciliation of previously reported shareholders' funds under IFRS excluding IAS 32,39 to total shareholders' equity under IFRS at 1 January 2005

(in millions of euros)	At 1 January 2005
Shareholders' funds as previously reported under IFRS excluding IAS 32,39	4,168
IAS 32, IAS 39	
Derivatives and hedge accounting	203
Available-for-sale securities	320
Fair value option	(12)
Fee and commission income	(38)
Loan impairment	(104)
Other	8
Shareholders' funds as previously reported under IFRS	4,545

Comments on the main differences of standards

Derivatives and hedge accounting

Under French GAAP derivatives were classified as trading, micro-hedging, macro-hedging or isolated open positions. Trading derivatives were reported at market value in the balance sheet, with movements in market value recognised immediately in the income statement. Non-trading derivatives, which were transacted for hedging and risk management purposes, were accounted for as off-balance sheet commitments; isolated open positions with a negative present value were provided for.

IAS 39 requires that all derivatives be recognised at fair value in the balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and its resulting designation, as describe in Note 2(l).

The main impact of hedging on HSBC France's shareholders' equity is an increase of EUR 257 million resulting from cash flow hedges (net of deferred tax). Derivatives embedded in home purchase savings products have been separately valued, resulting in a EUR 31 million reduction in shareholders' equity (net of deferred tax).

Available-for-sale securities

Under French GAAP, securities not held for trading purposes were recognised at the lower of cost or market/going value.

Under IAS 32 and 39, fixed-income and variable-income securities must be listed and classified in one of the following three categories: available-for-sale securities, held-to-maturity securities or securities recognised at fair value through profit and loss (trading securities optionally recognised at fair value). Securities previously categorised as trading securities remain classified as such. The accounting treatment of each of these categories under IFRS is described in Note 2, Accounting Policies and Methods.

When adopting IFRS, in accordance with IAS 39, HSBC France classified all non-trading securities as available-for-sale securities. This led to EUR 320 million of unrealised capital gains relating to these securities (net of deferred tax) being added to shareholders' equity.

Fair value option

Under IAS 39, financial assets and financial liabilities may be designated at fair value through profit or loss if they meet the criteria set out in the "Amendment to IAS 39 Financial Instruments: Recognition and Measurement: The Fair Value Option". HSBC France has designated at fair value at 1 January 2005 certain loans and advances to customers, financial investments, and some own debt issued which satisfied the criteria in the Amendment. This had the impact of reducing shareholders' equity by EUR 12 million on 1 January 2005.

Fee and commission income

Fee and commission income was previously accounted for in the period when receivable, except when charged to cover the costs of a continuing service to, or risk borne for, the customer, or when in the nature of interest. In these cases, income was recognised on an appropriate basis over the relevant period. Under IFRS, the main change in accounting relates to loan fee income and incremental directly attributable loan origination costs, which are amortised to the income statement over the expected life of the loan as part of the effective interest calculation. This resulted in a reduction in shareholders' equity by EUR 38 million as previously recognised fees after deduction of directly attributable costs are reversed and spread forward over the residual term of the financial instrument.

Loan impairment

In accordance with IAS 39, impairment is calculated on the basis of discounted future cash flows.

Discounting of future cash flows led to a EUR 48 million reduction in shareholders' s equity at 1 January 2005.

HSBC France booked a provision on a portfolio basis using the method described in note 2(f), leading to a EUR 75 million reduction in shareholders' equity at 1 January 2005 (net of deferred tax). Changes in the method of calculating country risks resulted in a EUR 19 million increase in shareholders' equity at 1 January 2005 (net of deferred tax).

Offsetting of financial assets and financial liabilities

Under IAS 32, financial assets and liabilities are netted, and the net balance is taken to the balance sheet when there is an unconditional legal right to settle on a net basis and to realise the asset and settle the liability simultaneously. Complying with these two conditions led to a EUR 10,169 million increase in HSBC France's total assets and total liabilities at 1 January in respect of the fair value of derivative instruments and a EUR 7,815 million reduction in respect of repurchase transactions.

Securities to be received/delivered

Under French GAAP, securities transactions were recognised on the balance sheet on the settlement date. As allowed by IAS 39, HSBC France has opted to recognise trading securities on the trade date, with a balancing entry in settlement accounts, which are presented as receivables or payables with respect to credit institutions or customers.

Notes to the consolidated financial statements (continued)

36 Transition to IFRS *(continued)*

Balance sheet as at 1 January 2005

The table below sets out the IFRS adjustments made to the balance sheet as at 31 December 2004 in order to integrate IFRS at 1 January 2005 (cf. Note 2):

(in millions of euros)	*31 December 2004 IFRS except IAS 32,39*	*Effect of adoption of IAS 32,39*	*1 January 2005 Full IFRS*
ASSETS			
Cash and balances at central banks	623	–	623
Items in the course of collection from other banks	203	–	203
Trading assets	21,206	(687)	20,519
Financial assets designated at fair value	–	–	–
Derivatives	3,334	11,226	14,560
Loans and advances to banks	17,544	(3,039)	14,505
Loans and advances to customers	31,969	1,671	33,640
Financial investments	8,339	(1,067)	7,272
Interests in associates and joint ventures	104	7	111
Goodwill and intangible assets	444	–	444
Property, plant and equipment	821	–	821
Other assets	2,016	596	2,612
Prepayments and accrued income	1,344	643	1,987
TOTAL ASSETS	**87,947**	**9,349**	**97,296**
LIABILITIES AND EQUITY			
Deposits by banks	20,987	(3,126)	17,861
Customer accounts	31,467	837	32,304
Items in the course of transmission to other banks	105	–	105
Trading liabilities	11,496	–	11,496
Financial liabilities designated at fair value	–	386	386
Derivatives	2,745	11,412	14,157
Debt securities in issue	10,819	(368)	10 ,451
Retirement benefit liabilities	199	–	199
Other liabilities	3,656	23	3,679
Accruals and deferred income	1,135	(376)	759
Provision for liabilities and charges			
– deferred taxation	116	162	278
– other provisions	177	–	177
Subordinated liabilities	864	22	886
TOTAL LIABILITIES	**83,766**	**8,972**	**92,738**
Called-up share capital	374	–	374
Share premium account	1,093	–	1,093
Reserves	2 ,701	377	3,078
TOTAL SHAREHOLDERS' EQUITY	**4,168**	**377**	**4,545**
Minority interests	13	–	13
TOTAL EQUITY AND LIABILITIES	**87,947**	**9,349**	**97,296**

Reconciliation of previously reported balance sheet under the local interpretation of IFRS excluding (IAS 32, 39) to total shareholders' equity under IFRS FULL IAS at 1 January 2005

(in millions of euros)	*IFRS (except IAS 32/39)*	*Derivatives and hedge accounting*	*Trade date accounting*	*Available for sale*	*Fair Value option*	*Fee commission income*	*Loan Impairment*	*Offsetting*	*Other*	*IFRS (Full)*
ASSETS										
Cash and balances at central banks	623									623
Items in the course of collection from other banks	203									203
Trading assets	21,206		(653)						(34)	20,519
Financial assets designated at fair value										
Derivatives	3,334	1,057						10,169		14,560
Loans and advances to banks	17,544		4,763				13	(7,815)		14,505
Loans and advances to customers	31,969		346			(58)	(155)		1,538	33,640
Financial investments	8,339		1	430					(1,498)	7,272
Interests in associates and joint ventures	104								7	111
Goodwill and intangible assets	444									444
Property, plant and equipment	821									821
Other assets	2,016	596								2,612
Prepayments and accrued income	1,344	(412)	1,055							1,987
TOTAL ASSETS	**87,947**	**1,241**	**5,512**	**430**	**–**	**(58)**	**(142)**	**2,354**	**13**	**97,296**
LIABILITIES AND EQUITY										
Deposits by banks	20,987	3	4,682					(7,815)	4	17,861
Customer accounts	31,467	8	829							32,304
Items in the course of transmission to other banks	105									105
Trading liabilities	11,496									11,496
Financial liabilities designated at fair value					386					386
Derivatives	2,745	1,243						10,169		14,157
Liabilities to customers under investment contracts										
Debt securities in issue	10,819	(1)			(366)					10,451
Retirement benefit liabilities	199									199
Other liabilities	3,656	23								3,679
Accruals and deferred income	1,135	(376)								759
Provision for liabilities and charges										
— deferred taxation	116	114		110	(6)	(20)	(38)		1	278
— other provisions	177									177
Subordinated liabilities	864	24			(2)					886
TOTAL LIABILITIES	**83,766**	**1,038**	**5,512**	**110**	**12**	**(20)**	**(38)**	**2,354**	**5**	**92,738**
Called up share capital	374									374
Share premium account	1,093									1,093
Reserves	2,701	203		320	(12)	(38)	(104)		8	3,078
TOTAL SHAREHOLDERS' EQUITY	**4,168**	**203**	**–**	**320**	**(12)**	**(38)**	**(104)**	**–**	**8**	**4,545**
Minority interests	13	–								13
TOTAL EQUITY AND LIABILITIES	**87,947**	**1,241**	**5,512**	**430**	**–**	**(58)**	**(142)**	**2,354**	**13**	**97,296**

Parent company financial statements

Balance sheet 2005-2004-2003

The annual financial statements of HSBC France, as at 31 December 2005, were audited and gave rise to an unqualified opinion with emphasis of matter regarding the first application of CRC regulation 2002-03 on the accounting treatment of credit risk, and CRC regulation 2002-10 on the amortisation and depreciation of assets.

The annual financial statements as at 31 December 2004 were audited and gave rise to an unqualified opinion with emphasis of matter regarding the first application of the recommendation 2003 R01 of the Conseil National de la Comptabilité, relating to the accounting treatment of pension benefit obligations and similar advantages.

ASSETS

(in thousands of euros)	**2005**	2004	2003
Cash and balances at central banks	**224,678**	368,790	398,983
Treasury bills and other eligible bills	**29,622,142**	18,595,948	14,031,216
Loans and advances to banks	**24,267,302**	17,521,738	11,225,146
Loans and advances to customers	**42,263,528**	24,328,587	20,868,680
Debt securities	**5,809,340**	4,629,949	3,676,922
Equity shares	**88,794**	590,731	86,484
Other participating interests and long-term securities	**1,380,091**	1,034,869	1,047,526
Interests in associates	**3,072,604**	2,768,613	2,722,993
Intangible fixed assets	**57,627**	70,505	84,392
Tangible fixed assets	**318,344**	322,009	330,638
Other assets	**7,643,643**	5,320,372	4,203,528
Prepayments and accrued income	**1,092,891**	742,359	1,486,019
TOTAL ASSETS	**115,840,984**	76,294,470	60,162,527
Memorandum items			
Financing commitments	**13,983,286**	11,691,070	10,056,956
Guarantees and endorsements	**7,113,933**	7,439,683	6,410,360
Securities commitments (other commitments received)	**3,335,635**	5,574,709	3,514,151
Financial instruments and other (notional principal)	**2,272,382,009**	1,350,191,614	841,769,086

Balance sheet 2005-2004-2003 (continued)

LIABILITIES

(in thousands of euros)	2005 Before appropriation	2005 After appropriation [1]	2004 After appropriation	2003 After appropriation
Deposits by banks	**28,650,250**	**28,650,250**	24,379,861	19,881,771
Customer accounts	**33,852,874**	**33,852,874**	18,789,922	16,431,720
Debt securities in issue	**12,306,903**	**12,306,903**	10,741,017	9,839,848
Other liabilities	**34,619,318**	**34,729,103**	17,165,686	9,344,125
Accruals and deferred income	**1,812,088**	**1,812,088**	1,277,699	809,149
Provisions for liabilities and charges	**274,084**	**274,084**	220,083	234,026
Reserve for general banking risks				74,700
Subordinated liabilities	**790,554**	**790,554**	857,950	898,195
Called-up share capital	**376,190**	**376,190**	374,011	371,750
Share premium account	**1,125,028**	**1,125,028**	1,092,515	1,063,618
Reserves	**948,772**	**1,884,351**	955,138	954,334
Special tax-allowable reserves	**39,559**	**39,559**	40,619	38,307
Retained earnings	**399,969**		399,969	220,984
Interim dividend	**(280,699)**			
Reserve for general banking risks recovery	**(14,562)**			
Exit tax	**4,987**			
Net profit for the year	**935,669**			
Interim dividend deducted from net result				
TOTAL LIABILITIES	**115,840,984**	**115,840,984**	76,294,470	60,162,527
Memorandum items				
Financing commitments	**499,708**	**499,708**	367,944	709,914
Guarantees and endorsements	**3,181,953**	**3,181,953**	2,774,251	1,851,328
Securities commitments	**2,771,872**	**2,771,872**	6,209,255	3,521,339

1 *Proposed appropriation.*

Parent company financial statements (continued)

Profit and loss account 2005-2004-2003

(in thousands of euros)	**31.12.2005**	31.12.2004	31.12.2003
Expenses in brackets			
Interest and similar income	**1,881,242**	1,855,719	1,664,331
Interest and similar expense	**(1,706,353)**	(1,348,065)	(1,198,293)
Income from equity shares	**811,487**	419,400	365,064
Fees and commissions received	**524,852**	506,400	488,840
Fees and commissions paid	**(158,074)**	(144,423)	(102,242)
Dealing profits	**501,291**	114,260	104,044
Gains or losses on available-for-sale securities	**(3,205)**	20,112	25,096
Other operating income	**85,390**	60,509	48,642
Other operating expense	**(8,606)**	(24,646)	(20,765)
Net operating income	**1,928,024**	1,459,266	1,374,717
General operating expenses	**(973,307)**	(893,929)	(761,508)
Depreciation and amortisation	**(63,321)**	(84,575)	(64,205)
Operating profit before provisions	**891,396**	480,763	549,004
Provisions for bad and doubtful debts	**34,366**	30,396	(124,337)
Operating profit after provisions	**925,762**	511,159	424,666
Gains or losses on disposals	**(18,298)**	47,629	9,366
Profit on ordinary activities before tax	**907,464**	558,788	434,032
Exceptional items	**1,111**		12,251
Corporation tax	**26,032**	77,540	26,779
Net recovery from the reserve for general banking risks	**1,062**	15,983	(6,425)
Net attributable profit	**935,669**	652,311	466,637

Statement of reported net profit and movements in shareholders' funds and the reserve for general banking risks

(Commission des Opérations de Bourse Recommendation - Bulletin no. 79, February 1979)

(in thousands of euros)	**31.12.2005**	31.12.2004	31.12.2003
Net profit for the year			
– Total	**935,668.5**	652,311.4	466,637.3
– Per share (in euros) [1] [2]	**12.44**	8.72	6.28
Movements in shareholders' funds and the reserve for general banking risks (after appropriation of 2004 and 2003 net profit and proposed appropriation for 2005 net profit)			
– Change in revaluation difference	**(690.6)**	806.2	(64.4)
– Transfer to reserves and change in retained earnings	**545,185.0**	187,042.1	1,949.4
– Change in revaluation reserve and special tax-allowable reserves	**(1,748.5)**	2,310.5	2,860.1
– New shares issued upon exercise of stock options	**34,692.5**	31,157.1	13,983.1
– Pension provisions taken from RGBR/retained earnings		(59,476.1)	
– Exit tax taken from retained earnings		(4,987.5)	
– Free RGBR		(18,293.9)	
– Discounting cash flows impact [3]	**(14,562.0)**		
– Integration of Charterhouse, Webroker and Selectbourse			
Change in shareholders' funds	**562,876.4**	138,558.4	18,728.2
Per share (in euros) [1]	**7.5**	1.8	0.2
Proposed dividend			
– Gross	**390,484.8**	465,269.3	464,687.9
– per share (in euros) [1]	**5.19**	6.22	6.25

1 *Number of shares outstanding at year-end (excluding own shares held): 75,237,930 in 2005; 74,802,146 in 2004; 74,350,066 in 2003.*
2 *Based on the weighted average number of shares outstanding (excluding own shares held), net earnings per share amounts to EUR 5.22 in 2005 (74,826,025), EUR 6.26 in 2004 (74,374,838 shares), EUR 6,29 in 2003 (74,129,833 shares).*
3 *Cash Flow discount related to the implementation of CRC 2002-03 recommendation (Credit Risk)*

Parent company financial statements (continued)

Statement of reported net profit and movements in shareholders' funds and the reserve for general banking risks

(Article 295 of Decree n° 67-236, 23 March 1967)

(in thousands of euros)	**31.12.2005**	31.12.2004	31.12.2003
Sums available for distribution			
– Retained earnings	**399,969**	220,984	219,035
– RGBR and pension provisions	**–**	(3,070)	
– Exit tax	**4,987**	(4,987)	
– Discounting cash flows impact	**(14,562)**		
Sub-total	**390,394**	212,927	219,035
– Net profit for the year	**935,669**	652,311	466,637
TOTAL (A)	**1,326,063**	865,238	685,672
Appropriation of income			
– Dividends	**390,484**	465,269	464,688
– Reserves	**935,579**		
TOTAL (B)	**1,326,063**	465,269	464,688
Retained earnings (A - B)	**–**	399,969	220,984

Five-year highlights

(Articles 133 and 148 of the decree of 23 March 1967 on commercial companies)

(in thousands of euros)	**2005**	2004	2003	2002	2001
Share capital at year-end					
Called-up share capital	**376,190** [2]	374,011 [2]	371,750 [2]	370,585 [1]	377,048 [2]
Number of issued shares	**75,237,930**	74,802,146	74,350,066	74,117,066	75,409,701
Nominal value of shares in euros	**5**	5	5	5	5
Results of operations for the year					
Gross operating income (excluding compensation of Financial Instruments)	**32,661,166**	–	–	–	–
Gross operating income (after compensation of Financial Instruments)	**–**	3,762,736	3,076,321	3,727,332	3,748,256
Profit before tax, depreciation and provisions	**1,044,550**	633,771	633,284	729,661	659,241
Profit after tax, depreciation and provisions	**935,669**	652,311	466,637	620,213	542,651
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**14.3**	9.1	9.3	10.0	8.3
Profit after tax, depreciation and provisions	**12.4**	8.7	6.3	8.4	7.2
Dividend paid per ordinary share, eligible as of 1 January	**5.19**	6.22	6.25	7.25	5.6
Employees (France)					
Number of employees [3]	**7,749**	7,344	6,997	6,742 [5]	6,313
Average number of employees (excluding employees available) [4]	**7,197**	6,879	6,614	6,326	
Salaries and wages	**341,642**	330,246	288,738	269,528	236,672
Employee benefits	**149,569**	139,943	123,398	112,008	104,433
Payroll and other taxes	**43,680**	40,643	34,711	30,923	22,176
Incentive schemes and/or employee profit-sharing plan [6]	**15,883**	23,210	19,619	22,396	17,369

1 *Capital reduction of EUR 7.6 million pursuant to cancellation of own shares and capital increase of EUR 1.1 million pursuant to the exercise of share options.*
2 *Capital increases pursuant to the exercise of share options.*
3 *Banking status employees, registered as at 31 December of each year.*
4 *Of which 4,113 executives and 3,084 non-executives in 2005; of which 3,824 executives and 3,055 non-executives in 2004; of which 3,497 executives and 3,117 non-executives in 2003.*
5 *Figures for 2002 are not comparable with those of 2001, due to the integration within CCF of HSBC Investment Bank, Selectbourse, Webroker and eleven "Banque Worms" branches.*
6 *Based on previous year's profits.*

Parent company financial statements (continued)

List of equity shares and debt securities held at 31 December 2005

Investment, available-for-sale and trading securities

(in thousands of euros)

A – Investment securities	**48,058**
Debt securities	**48,058**
Treasury bills and other eligible bills	
Other public sector securities	
Money market instruments	
Negotiable certificates of deposit	
Negotiable medium-term notes	
Bonds and similar	47,766
Accrued interest	292
B – Available-for-sale and trading securities	**3,421,646**
Debt securities	**3,332,853**
Treasury bills and other eligible bills	485,085
Other public sector securities	2,446,312
Money market instruments	
Commercial paper	
Negotiable certificates of deposit	1,011
Negotiable medium-term notes	
Asset-backed securities	95,735
Bonds and similar	225,039
Negotiable medium-term notes issued by banks	
Accrued interest	79,671
Equity shares	**88,793**
Equity shares and similar	69,169
Mutual fund units	19,624
TOTAL INVESTMENT, AVAILABLE-FOR-SALE AND TRADING SECURITIES	**3,469,704**

List of equity shares and debt securities held at 31 December 2005 (continued)

Interests in associates, other participating interests and long-term securities

(in thousands of euros)

A – Other participating interests and long-term securities	**1,380,091**
Securities listed on a recognised French exchange	2,313
Unlisted French securities	55,705
Foreign securities listed on a recognised French exchange	3,476
Foreign securities listed elsewhere	35,296
Unlisted foreign securities	1,283,301
Accrued income	–
B – Interests in associates	**3,072,604**
Listed French securities	–
Unlisted French securities	2,008,891
Listed foreign securities	–
Unlisted foreign securities	1,063,713
Accrued income	–
TOTAL INTERESTS IN ASSOCIATES, OTHER PARTICIPATING INTERESTS AND LONG-TERM SECURITIES	**4,452,695**

Parent company financial statements (continued)

Parent company financial statements interests in subsidiaries and associates at 31 December 2005

(as required under Articles 247 and 295 of the 23 March 1967 Decree on commercial companies)

(in thousands of currency units)

Companies	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
A – Companies whose book value at cost exceeds 1% of HSBC France's share capital				
1 – Subsidiaries (over 50%)				
HSBC Hervet 1, place de la Sous-Préfecture - 18000 Bourges (France)	Bank	EUR16,805	EUR236 646	98.45
HSBC Private Bank France 117, avenue des Champs-Elysées - 75008 Paris (France)	Bank	EUR42,444	EUR128,622	94.44
Crédit Commercial du Sud-Ouest 17, Allée James Watt - Parc Chemin-Long 33700 Mérignac (France)	Bank	EUR12,078	EUR42,375	99.89
Société Française et Suisse 64, rue Galilée - 75008 Paris (France)	Investment company	EUR599	EUR(389)	100.00
Société Parisienne de Participations 64, rue Galilée - 75008 Paris (France)	Investment company	EUR72,282	EUR91,332	100.00
Banque de Savoie 6, Bd du Théâtre - 73000 Chambéry (France)	Bank	EUR6,853	EUR43,703	99.96
HSBC Picardie 3, rue de la Sous-Préfecture - 60200 Compiègne (France)	Bank	EUR6,007	EUR16,738	100.00
HSBC UBP 22, place de la Madeleine - 75008 Paris (France)	Bank	EUR59,941	EUR41,498	99.45
HSBC Asset Management Holding 4, place de la Pyramide - 92800 Puteaux (France)	Investment company	EUR41,305	EUR92,324	100.00
Nobel 64, rue Galilée - 75008 Paris	Investment company	EUR128,468	EUR167,236	100.00
HSBC Leasing (France) 39, rue Bassano - 75008 Paris	Finance company	EUR27,250	EUR(35,602)	100.00
Société Financière et Mobilière 103, avenue des Champs-Elysées - 75008 Paris	Finance company	EUR40,000	EUR55,960	100.00
HSBC Financial Products (France) 103, avenue des Champs-Elysées - 75008 Paris	Finance company	EUR30,107	EUR(10,817)	58.25

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		Loan and advances granted by HSBC France [1]	Guarantees given by HSBC France [1]	Prior-year sales [2]	Prior-year net profit or loss	Dividends received by HSBC France in the last financial year	Comments
Cost	Estimated						
EUR520,934	EUR520,934	–	–	EUR176,120	EUR63 089	EUR65 856	–
EUR393,595	EUR393,595	–	–	EUR62,423	EUR13,115	EUR10,598	–
EUR16,607	EUR16,607	–	–	EUR59,457	EUR13,000	EUR12,971	–
EUR60,384	EUR13,548	CHF40,206.6	–	EUR4,470	EUR13,326	–	–
EUR82,727	EUR82,727	–	–	EUR755	EUR(28,867)	–	–
EUR27,413	EUR27,413	–	–	EUR48,146	EUR13,813	EUR11,370	–
EUR18,939	EUR18,939	–	–	EUR21,793	EUR5,699	EUR5,526	–
EUR109,856	EUR109,856	–	–	EUR146,955	EUR25,684	EUR29,414	–
EUR127,509	EUR127,509	–	–	EUR65,599	EUR60,191	EUR69,514	–
EUR207,647	EUR207,647	–	–	EUR134,508	EUR89,909	EUR17,664	–
EUR27,246	EUR27,246	–	–	EUR41,573	EUR2,888	–	–
EUR84,053	EUR84,053	–	–	EUR6,341	EUR7,260	–	–
EUR29,212	EUR29,212	–	–	EUR39,876	EUR(1,192)	–	–

Parent company financial statements (continued)

Parent company financial statements interests in subsidiaries and associates at 31 December 2005 (continued)

(as required under articles 247 and 295 of the 23 March 1967 Decree on commercial companies)

(in thousands of currency units)

Companies	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
A – Companies whose book value at cost exceeds 1% of HSBC France's share capital				
1 – Subsidiaries (over 50%)				
Cie Financière des Iles du Rhône 64, rue Galilée - 75008 Paris (France)	Investment company	EUR15,493.6	EUR121,959.3	99.49
Cie de Gestion du Patrimoine 15, rue Vernet - 75008 Paris	Finance Company	EUR20,098.8	EUR2,357.1	100.00
Foncière Elysées S.A. 103, avenue des Champs-Elysées - 75008 Paris (France)	Property company	EUR14,043	EUR21,214	99.99
HSBC Securities (France) 103, avenue des Champs-Elysées - 75008 Paris (France)	Finance company	EUR12,626	EUR30,198	100.00
Vernet Expansion 14, rue Vernet - 75008 Paris (France)	Investment company	EUR6,956	EUR(714)	100.00
Société Immobilière Malesherbes Anjou 103, avenue des Champs-Elysées - 75008 Paris (France)	Property company	EUR13,412	EUR10,238	100,00
Charterhouse Management Services Ltd 8, Canada Square - London (England)	Investment company	GBP328,357	GBP6,458	100.00
HSBC Real Estate Leasing (France) 15, rue Vernet - 75008 (France)	Finance Company	EUR29,547	EUR6,682	75.39

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: Estimated	Loan and advances granted by HSBC France [1]	Guarantees given by HSBC France [1]	Prior-year sales [2]	Prior-year net profit or loss	Dividends received by HSBC France in the last financial year	Comments
EUR119,108	EUR119,108	–	–	EUR136,482	EUR133,090.9	EUR115,141.8	–
EUR22,336	EUR22,336	–	–	EUR1,799	EUR1,812	–	–
EUR44,476	EUR33,307	–	–	EUR1,258	EUR(1,642)	EUR12,310	–
EUR55,988	EUR55,988	–	–	EUR32,953	EUR(914)	–	–
EUR7,019	EUR6,391	–	–	EUR2	EUR30	–	–
EUR49,386	EUR49,386	–	–	EUR18,612	EUR3,858	–	–
493,045	470,634	–	–	nd	GBP281,120	GBP72,000	–
EUR22,270	EUR22,270	–	–	EUR63,613	EUR2,466	–	–

Parent company financial statements (continued)

Parent company financial statements interests in subsidiaries and associates at 31 December 2005 (continued)

(as required under articles 247 and 295 of the 23 March 1967 Decree on commercial companies)

(in thousands of currency units)

Companies	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
2 - Associated companies (10-50%)				
Erisa 15, rue Vernet - 75008 Paris (France)	Insurance company	EUR115,000	EUR203,092	33.85
Erisa I.A.R.D. 15 rue Vernet - 75008 Paris (France)	Insurance company	EUR7,500	EUR(1,264)	49.98
HSBC Private Banking Holdings (Suisse) SA 1, place Longemalle - Genève (Switzerland)	Finance company	CHF186,041	CHF94,205	13.65
AUREL LEVEN 29, rue de Berri - 75008 Paris (France)		EUR10,085	EUR14,687	14.68
Banian Invesments U.K. 22, Grenville Street, St Helier, Jersey JE4 8PX, Channel Islands		GBP900,000	GBP1,664	19.00
V.E.A. Limited Ground Floor, Lancaster Court, Forest Lane St Peter Port, Guernsey		GBP355,250	GBP982,564	19.00
Lafarge Finance Limited		GBP240,000	GBP160,000	26.67
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 – Associated 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: Estimated	Loan and advances granted by HSBC France [1]	Guarantees given by HSBC France [1]	Prior-year sales [2]	Prior-year net profit or loss	Dividends received by HSBC France in the last financial year	Comments
EUR35,809	EUR35,809	–	–	EUR1,714,135	EUR974	EUR2,843	–
EUR3,727	EUR3,293	–	–	EUR20,021	EUR80	–	–
EUR591,468	EUR591,468	–	–	CHF149,756	CHF146,361	EUR11,326	
EUR4,131	EUR0	–	–	EUR3,948	EUR(1,527)	–	–
GBP437,764	GBP437,764	–	–	GBP42,900	GBP42,911	EUR19,964	–
GBP291,551	GBP291,551	–	–	GBP9,410,580	GBP9,480,505	EUR13,271	–
GBP291,843	GBP291,843	–	–	–	GBP3,850	GBP5,267	–
EUR772	EUR423	–	–	–	–	–	–
EUR1,818	EUR1,810	–	–	–	–	–	–
EUR72,762	EUR58,020	–	–	–	–	EUR1,776	
EUR303,707	EUR300,575	–	–	–	–	EUR13,617	of which 39.8 tax recovery

Group structure and summary of business activities of HSBC France's principal subsidiaries

HSBC France group's main subsidiaries at 31 December 2005

Retail banking

Paris region	HSBC de Baecque Beau (98%) HSBC Hervet (98%) HSBC Picardie (100%) HSBC UBP (100%)
Southeast France	Banque Chaix (100%) Banque Marze (100%) Banque Dupuy, de Parseval (100%) Société Marseillaise de Crédit (100%)
Other	Banque Pelletier (100%) Banque de Savoie (100%) Crédit Commercial du Sud-Ouest (100%) Elysées Factor (100%)

Corporate, investment banking & markets

Property	Foncière Elysées SA (100%) HSBC Real Estate Leasing (France) (100%) HSBC REIM (France) (100%) Immobilière Bauchart (100%) Réalimo Négociations (100%) SAS Saussaies Haussmann (100%) Participar (100%)
Structures financing and CIBM	Société Financière et Mobilière (100%) Neuilly Saint-Paul (100%) HSBC Leasing (France) (100%) CCF Charterhouse GmbH (100%)
Capital Markets	HSBC Securities (France) (100%) HSBC Financial Products (France) (100%) Financière d'Uzès (34%)

– *Stated percentages indicate the group's percentage of control.*
– *The subsidiaries are classified in the area where they principally operate.*

Asset management & insurance

France	HSBC Investments (France) (100%) HSBC FCP (France) (100%) Sinopia Asset Management (100%) Sinopia Financial Services (100%) Sinopia Société de Gestion (100%) HSBC Epargne Entreprise (100%) HSBC Securities Services (France) (100%) Erisa (50%) Erisa IARD (50%)
Outside France	HSBC AME (Luxembourg) SA (100%) Sinopia Asset Management Luxembourg (100%) Sinopia Asset Management (Asia Pacific) Ltd (100%) Sinopia International Ltd (100%)

Private banking

France	HSBC Private Bank France (95%) Louvre Gestion (95%)
Outside France	LGI (95%)

Subsidiaries & equity investments

France	Nobel (100%) Société Française Suisse (100%) Elysées Formation (100%) Malesherbes Anjou (100%) Excofina (100%)
Outside France	Charterhouse Management Services Ltd (100%)

Group structure and summary of business activities of HSBC France's principal subsidiaries (continued)

COMPANIES	COMMENTS *(in thousands of euros)*	Total assets 2005	Total assets 2004
Retail and Commercial Banking			
HSBC Hervet	HSBC Hervet has been part of the HSBC France platform since 8 November 2005. It is principally involved in retail banking for personal and business customers and has a network of 79 branches, chiefly in the Paris region and central France. Operating performance in retail banking improved significantly, with revenue growth of over 6%, a firm grip on expenses and net provision releases resulting from low ordinary loan losses. However, HSBC Hervet's net profit fell sharply, from EUR 89.2 million in 2004 to EUR 63.1 million in 2005. This was mainly due to changes in the scope of HSBC Hervet's activities carried out in 2004 as part of the HSBC France group's reorganisation. These resulted in lower net operating income and gains on fixed assets in 2005. Net profit also suffered from a restructuring provision relating to the 2008 strategic plan and the non-recurrence of 2004's sectorial provision releases.	**2,878,448**	2,973,446
HSBC de Baecque Beau	HSBC de Baecque Beau provides retail banking services to personal and business customers, and is headquarted in Paris. It became part of the HSBC France platform on 8 November 2005. Despite a restructuring provision relating to the 2008 strategic plan, operating profit before provisions rose in 2005, albeit by less than 1%. Net profit was boosted only modestly by releases from provisions for bad and doubtful debts, after a EUR 5.3 million positive impact in 2004 arising from the release of all sectorial provisions. As a result, net profit fell from EUR 17.1 million to EUR 11.5 million. Nevertheless, business was brisk in 2005. Excluding changes in scope and exceptional items, revenues grew by around 3.7%.	**1,015,178**	991,122
HSBC UBP	HSBC UBP pursued its policy of tightening control of operational and credit risk and developing its business in strategic segments. This policy forms part of the HSBC Group's strategy in France. In addition, there were changes in Group organisation and IT systems, leading to the unification of the Group's retail banks under the HSBC brand. Aggressive commercial efforts led to a 3.6% increase in customer loans and advances and a 6% rise in deposits. Despite commercial success, mainly among individual customers in the second half of the year, net operating income suffered from the policy of reducing risks among business customers in late 2004 and the first half of 2005, along with lower margins. As a result, net operating income fell by 3% and operating profit before provisions by 10.7%. Provision charges fell by 60.4%, allowing a 3.6% increase in profit on ordinary activities before tax. Nevertheless, a 24.3% increase in income tax caused net profit to fall by 5.3%.	**1,932,653**	1,841,429
HSBC Picardie	There were two major events at HSBC Picardie in 2005. The implementation of phase B of the HUB project took place in October, and the unit was rebranded in November 2005. HSBC Picardie continued to generate strong net profits, equal to 25% of its shareholders' equity. Firm commercial business levels resulted in a 11.3% rise in loans outstanding and a 4.2% increase in deposits.	**339,148**	273,193
Société Marseillaise de Crédit	In 2005, new money rose by 7.2%. Total client deposits came to EUR 2,696 million, with sight deposits up by 4.8%. Assets under management continued to grow, helped by investment gains of 12% for mutual funds and 11.2% for life assurance funds. After nearly three years of strong growth, the production of new loans rose by only 4.8%. However, total outstanding loans were 9.6% higher at EUR 1,617 million despite a further slight fall in short term loans. On a like-for-like basis, the net operating income was 3.4% higher at EUR 200.3 million, due to a 1.1% improvement in value added and an 8% rise in commissions to EUR 69.3 million (9.4% in banking and 5.3% in finance). Overheads came to EUR 121.5 million and, taking account of the provision reversal which had a considerable impact on overheads in 2004, remained well under control, with a reduction of 1.5%. Gross operating income was EUR 78.9 million, a fall of 8.3% on reported figures. Corrected for the impact of the provision mentioned above, it was up by 4%. The cost of risk (EUR 27.9 million) continued to make a positive contribution to profits, albeit not quite on the scale of previous years. Net income, at EUR 76.1 million, was lower than in 2004, due to the exceptional items recorded in that year, particularly the exceptional reversal of a general banking reserve provision. At 31 December, Société Marseillaise de Crédit had a liquidity ratio of 119% and a cost/income ratio of 63%. Key events during the year included the launch of the bank's plan to expand its network by opening six new branches, and the successful introduction of the CRM software package.	**3,208,619**	3,133,985
Crédit Commercial du Sud-Ouest	Net operating income rose by 3.3% due to a 9.3% increase in fee and commission income. Some banking expenses relating to e-cash services were transferred to general expenses. The significant increase in loans and advances meant that value added was little changed, despite a sharp decline in income rate from sight deposits. The highlights in 2005 included changes in regulations introducing flat-rate cheque rejection fees, dragging down fee and commission income, along with additional expenses relating to e-cash services provided by NBP. Operating profit before provisions rose by 2.4%, due to a firm grip on general expenses after adjusting for the reclassification of e-cash expenses. Operating profit fell by 1.7%, mainly due to a 55% increase in provision charges. 2005 net profit excluding non-recurring items rose by 0.1% relative to the 2004 figure, adjusted for the exceptional EUR 2.3 million release from the reserve for banking risks.	**808,314**	754,423

** Comprising share capital + reserves + FRBG.*

Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
2005	2004	**2005**	2004	**2005**	2004
253,451	233,659	**63,089**	89,221	98.4	98.4
41,438	32,737	**11,514**	17,093	**98.3**	98.2
94,439	98,340	**25,685**	27,134	**100.0**	100.0
22,745	24,033	**5,699**	5,684	**100.0**	100.0
245,842	120,612	**76,097**	235,863	**100.0**	100.0
67,453	66,230	**13,000**	15,308	**100.0**	100.0

Group structure and summary of business activities of HSBC France's principal subsidiaries (continued)

COMPANIES	COMMENTS *(In thousands of euros)*	Total assets 2005	Total assets 2004
Retail and Commercial Banking (continued)		**2005**	2004
Banque de Savoie	Banque de Savoie put in an excellent commercial performance in 2005. Deposits rose by 6% to EUR 706 million, driven by strong growth in sight deposits (+9.4%) and special time deposits (+5.6%). Loan production was impressive, with mortgages and medium- and long-term business loans the main contributors. Loans and advances rose by 5.6% to EUR 498.2 million. The number of retail clients remained high, while the number of business customers jumped by 15%. Banque de Savoie also improved profitability and bolstered its financial position in 2005. Net operating income rose by 6.9% to EUR 47.7 million due to growth in value added and a sharp increase in fees and commissions. Firm control over operating expenses enabled operating profit before provisions to hit its target, rising by 10.5% to EUR 20.66 million. The cost:income ratio is the key indicator of operational performance, and improved further, falling by almost 1 point to 56.7%. Provision charges remained low at only 0.23% of loans and advances. After a net tax charge of EUR 6.01 million, the net profit of the parent company rose by 11.2% to EUR 13.8 million. Banque de Savoie will continue to expand in its local region in 2006. Its high standards of customer service and in-depth knowledge of winter sports-related businesses give it a major advantage in winning new customers and supporting the region's economic development.	**905,297**	790,892
Banque Chaix	Overall, loans outstanding fell by 0.5% to EUR 592 million, despite loan production rising by 26% to EUR 193.3 million. Total deposits grew by 2.7% to EUR 988.8 million. Sight deposits rose by 4.1%, accounting for 54.6% of the total. Assets under management in mutual funds increased by 1.6% and in-force life insurance by 6.9%. Net new money rose by 11.7%, from EUR 56.7 million in 2004 to EUR 63.1 million in 2005. Total customer assets grew by 3.6% to EUR 1,948 million. Value added fell by 2.2% to EUR 53.61 million. Fee income rose by 7.5% to EUR 23.92 million. Banking fees were up 7.7% at EUR 15.2 million, and net operating income was stable at EUR 80.1 million. Operating expenses were EUR 40.3 million. Operating profit before provisions fell by 6.3% to EUR 39.8 million. The provision charge declined by 14.5% to EUR 3 million. Parent company net profit fell by 4.8%, from EUR 27.2 million in 2004 to EUR 25.89 million in 2005. The cost/ income ratio rose from 46.8% to 50.7%. One new branch was opened in 2005, in Rognac.	**1,166,164**	1,133,523
Banque Marze	Customer assets rose substantially, by 7.1% in 2005. Sight deposits were up 6.6%, special time deposits up 12% and life insurance assets under management up 14.6%. Loans and advances rose by 8.2% on the back of a sharp 17% rise in medium- and long-term lending. Despite these positive factors, net operating income declined by 1.7% due in particular to flat value added and a 3.9% fall in fee and commission income. Net profit after capital gains rose by 4.9% to EUR 3.147 million.	**181,741**	165,964
Banque Pelletier	Banque Pelletier is a regional bank based in Dax, with branches in southwest France. Loans and advances posted strong growth in 2005, rising by 18.5%. Deposits rose by 8.2%, with growth in both sight deposits and special time deposits. As a result, there was a firm 6.6% advance in value added, while fee and commission income jumped by 25.1%. This led to a 10.95% rise in net operating income to EUR 15 million.	**251,641**	219,866
Banque Dupuy, de Parseval	Banque Dupuy, de Parseval saw slower growth than in 2004. Deposits rose by 7.2% and total customer assets managed were up 8.4%. Net operating income excluding non-recurring items grew by 1.1%, with a 1.1% rise in value added and a 0.2% rise in fee and commission income. Operating expenses rose by 2.5%, including initial network development and extension costs. Provision charges remained under control at 0.39% of loans and advances. Net profit excluding exceptional items fell by 1.2% to EUR 10.21 million.	**604,750**	525,522
Elysées Factor	Elysées Factor's factored receivables rose by 12% to EUR 1,049 million in 2005. Steady growth in the business base and success in maintaining provision charges at a favourable level led to a significant increase in profits. Net operating income rose by 8% to EUR 10.9 million, and the contribution to Group pre-tax profit grew by 38% to EUR 3.4 million. The HSBC Group's "Invoice Finance" strategy for France resulted in the acquisition of the 34% stake in Elysées Factor that HSBC did not already own, along with preparations to switch to the factoring software package to be provided by HSBC Invoice Finance UK in 2006.	**205,823**	186,621

** Comprising share capital + reserves + FRBG.*

Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
2005	2004	**2005**	2004	**2005**	2004
50,556	48,837	**13,813**	12,416	**100.0**	100.0
68,139	70,405	**25,892**	27,199	**100.0**	100.0
8,855	9,759	**3,147**	3,001	**100.0**	100.0
12,805	12,677	**3,481**	3,096	**100.0**	100.0
24,440	21,229	**10,321**	10,436	**100.0**	100.0
8,006	6,988	**1,348**	1,018	**100.0**	66.0

Group structure and summary of business activities of HSBC France's principal subsidiaries (continued)

COMPANIES	COMMENTS *(in thousands of euros)*	Total assets 2005	2004
Corporate and Investment Banking and Markets			
HSBC Securities (France)	2005 saw a decline in business, due to credit downgrades concerning certain Tier 1 clients. On the other hand, the unit carried out major secondary offerings for mid-cap stocks such as Geodis, Séché Environnement and Medidep. HSBC Securities France also took part in the privatisation of Sanef.	**137,375**	125,849
Foncière Elysées SA	In 2005, Foncière Elysées disposed of property assets in accordance with Group strategy. Residual tax on these disposals resulted in an overall loss, since the positive impact of the disposals will be recognised in the unit's 2006 financial statements. Foncière Elysées' subsidiaries continued to develop their business activities: property leasing for large corporate customers; third-party property asset management, with a further EUR 85 million of new money for SCPI Elysées Pierre, managed by wholly-owned Foncière Elysées subsidiary HSBC REIM.	**37,070**	52,857
HSBC Real Estate Leasing (France)	This subsidiary provides property leasing services to the Group's large corporate customers, and has generated constant earnings growth since it started operating in 2000. It maintained its development in 2005, despite a fall in new business caused by market conditions. Several deals negotiated in 2005 should mean that new business in 2006 is in line with strategic objectives.	**581,488**	568,129
Asset Management and Private Banking			
HSBC Investments (France)	In 2005, HSBC Asset Management was replaced by two new entities: HSBC Investments, which is the Group's Investment solutions platform and houses all sales staff, and HSBC Halbis Partners, which specialises in high-value-added fundamentals-based active asset management in the HSBC Group's core areas of expertise. This new organisation enables HSBC Investments to act as a distributor of all the HSBC Group's global investment products. The legal structure HSBC Halbis Partners will be set up in 2005 in France. 2005 was a very busy year in commercial terms, with strong new money inflows into bond and equity investments, particularly emerging-market and high-income equity products. The year also featured significant progress in Socially Responsible Investing. HSBC Investments became a signatory to the Eurosif transparency guidelines for the HSBC *Valeurs Responsables* fund, and set up a SRI European equity subfund of the HSBC GIF global umbrella fund, launched in conjunction with LEAD, an international non-profit organisation focusing on environmental issues. SRI assets under management totalled EUR 511 million at the end of 2005, representing a 33% increase over the year. Assets managed and distributed rose by 14% to EUR 44.663 million in 2005. Net operating income increased by 37.8% from EUR 60.351 million to EUR 83.146 million, and operating profit before provisions rose by 56%.	**111,799**	87,976
Sinopia	Assets under management rose by 34.6% to EUR 21.5 billion. This strong growth was driven in particular by net new money in alternative funds (AuM of EUR 7.5 billion at 31 December 2005) and renewed growth in equity asset management, where AuM rose by 45% to EUR 2.6 billion by end-2005. Sinopia maintained its strong R&D efforts in 2005, developing innovative new products such as HSBC Plus, which combines alternative and equity asset management, the Alterbonds range of guaranteed alternative funds, and new alternative strategies to be introduced in early 2006. Sinopia is the HSBC Group's quantitative investment specialist and continued to expand in France and Europe, where its strategies have been particularly well received, especially in the private banking sector. In addition, Sinopia continued to expand its activities in the Asia-Pacific region, particularly in Hong Kong, Tokyo and Singapore, and in America under an agreement with HSBC Investments (USA). There was a reorganisation of the asset management business in late 2005, with Sinopia transferring its sales teams to HSBC Investments (France).	**63,146**	58,194
Erisa	Premium income rose by 18% to EUR 1.71 billion in 2005. Net new money and improved stockmarket performance led to a 15% rise in assets under management to EUR 10.9 billion at 31 December 2005, up from EUR 9.5 billion a year earlier. As a result of developments in the general market environment, Erisa adopted a very cautious policy as regards covering liabilities, and paid particular attention to the contractual duration of these liabilities. Net profit totalled EUR 0.6 million, due to a specific provisionon certain contracts and down from EUR 37million in 2004.	**11,491,495**	10,097,722

** Comprising share capital + reserves + FRBG.*

Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
2005	2004	**2005**	2004	**2005**	2004
42,824	43,083	**(914)**	(259)	**100.0**	100.0
33,615	43,151	**(1,642)**	4,415	**100.0**	100.0
36,229	34,073	**2,466**	2,155	**100.0**	100.0
73,071	57,647	**26,953**	10,979	**100.0**	100.0
43,244	40,856	**5,262**	2,862	**100.0**	100.0
318,092	236,766	**648**	37,018	**50.0**	50.0

Group structure and summary of business activities of HSBC France's principal subsidiaries (continued)

COMPANIES	COMMENTS *(in thousands of euros)*	Total assets 2005	Total assets 2004
Asset Management and Private Banking (continued)			
HSBC Epargne Entreprise (France)	HSBC Epargne Entreprise is a wholly-owned subsidiary of the HSBC Group and specialises in employees savings. It has 10,000 corporate clients and manages 900,000 employee savings accounts. Its employees savings funds are managed by HSBC Investments (France). Assets under management totalled EUR 3.5 billion at the end of 2005. As a result, the unit ranks seventh among employee savings companies. Its products are distributed through the HSBC France network (including regional banks) and partner networks (Swiss Life and Caixa Bank). They cover the needs of corporate clients of all sizes.	**84,851**	145,397
HSBC Private Bank France	2005 was a year of consolidation for HSBC Private Bank France, in which it focused on repositioning its efforts to win new customers and gaining fresh sales impetus. In addition, it developed synergies with the HSBC France network for customers whose assets make this necessary (individuals, business managers and business owners). HSBC Private Bank France also started to roll out its range of services in France's regions in 2005, starting with a new office in Lyon. Louvre Gestion is HSBC Private Bank France's asset management unit, managing EUR 6.1 billion of assets. It won a series of hawa rds from the financial press in 2005. Louvre Gestion also continued to reorganise and develop its product range, particularly with the launch of L Multi Hedge, its first alternative fund.	**1,029,307**	1,277,250
Own investments			
SFS	SFS has improved its financial situation thanks to the significant recovery of the value of its investment portfolio and the disposal of some assets with important capital gains. The net profit amounted to EUR 13 million and the shareholders' funds have been restored.	**45,080**	52,823
Nobel	Nobel is a holding company for the Group's own investments. Its investment strategy focuses principally on mid-caps and private equity funds. Nobel also takes minority stakes in companies, usually mid-cap stocks that receive little coverage from research desks. It adopts a value-based approach focusing on fundamentals, and has a genuinely medium-term investment horizon. Assets are managed by a dedicated and independent team of seven investment professionals. Over the last 10 years, Nobel has achieved an IRR of more than 22%, without using gearing. In 2005, Nobel's results were substantially higher than in previous years, and the unit's portfolio continued to outperform comparable stockmarket indexes. These results vindicate Nobel's highly selective investment approach, focused on a limited number of listed stocks and a selection of private equity funds.	**490,534**	407,883

* *Comprising share capital + reserves + FRBG.*

Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
2005	2004	**2005**	2004	**2005**	2004
19,259	17,738	**2,144**	3,501	**100.0**	100.0
172,398	158,672	**13,115**	36,685	**95.1**	94.8
209	8,413	**13,326**	(8,203)	**100.0**	100.0
295,705	291,097	**89,908**	22,272	**100.0**	100.0

Investment policy

2001

- Acquisition of 97.9 per cent of Banque Hervet.
  Cost: EUR 518 million.
- Transfer of Crédival Latinsul to HSBC Latin America BV.
  Proceeds: EUR 276.2 million.
- Disposal of CCF's 93.3 per cent holding in Crédit International d'Egypte to Crédit Agricole Indosuez.
  Proceeds: EUR 62.8 million.
- Disposal of CCF's 33.3 per cent holding in Gesconsult and 2.6 per cent holding in Finconsult to their respective partners.
  Proceeds: EUR 3.4 million.
- Acquisition of HSBC Securities (France) SA.
  Cost: EUR 39.6 million.
- Transfer of CCF Italy's corporate finance, treasury and private banking activities to HSBC Republic Italy.
  Proceeds: EUR 2.2 million.
- Acquisition by CCF Holding Suisse of the remaining 42.76 per cent minority interests in Primecorp.
  Cost: EUR 13.1 million.
- Acquisition by CCF of the remaining 25.1 per cent minority interests in Banque Dewaay.
  Cost: EUR 68.7 million.
- Disposal to the KBL Group of Teaside Business SA, which owned a building in the Principality of Monaco.
  Proceeds: EUR 35.1 million.
- Transfer of CCF's private banking activities in Switzerland (Handelsfinanz Geneva and CCF Switzerland), Monaco and Luxembourg, together with Handelsfinanz Nassau, to HSBC Private Banking Holdings (Switzerland) SA (PBSU), in exchange for shares in PBSU, and acquisition of 17.5 per cent of HSBC Guyerzeller Bank SA (HGZB).
  Cost: EUR 364 million (excluding PBSU shares received).
- Disposal of the 20.3 per cent holding in Quilter Holdings Group owned by CCF Holdings (UK) to Morgan Stanley.
  Proceeds: EUR 53.2 million.
- Acquisition by HSBC CCF AMG of the shares in Sinopia owned by KBC Group, BBVA Group and Mellon Group, raising its holding from 60.4 per cent to 76.7 per cent, launch of a simplified cash offer and squeeze-out for the remaining shares still owned by the general public.
  Cost: EUR 61.6 million
- Acquisition of shares issued by Euroclear Holding on the occasion of the merger between Euroclear and Sicovam.
  Cost: EUR 15.9 million.
- Subscription to the rights issue made by the Lafarge Group on the occasion of its bid for Blue Circle and payment of a scrip dividend.
  Cost: EUR 11.8 million.
- Acquisition by Malesherbes Anjou of the Avenue II property complex located in Nanterre.
  Cost: EUR 39.8 million.
- Acquisition by CCF Partners Asset Management Ltd. and CCF Charterhouse European Holding Ltd. of the shares in Banque du Louvre owned by the employees, raising CCF's holding to 86.5 per cent.
  Cost: EUR 7 million.

2002

- Disposal of 50 per cent stake in Lixxbail (formerly Loxxia) to Crédit Lyonnais.
  Proceeds: EUR 160 million.
- Disposal of 25 per cent stake in Financo to Crédit Mutuel de Bretagne.
  Proceeds: EUR 12.6 million.
- Subscription to the rights issue made by Netvalor
  Cost: EUR 10 million.
- Disposal of HSIL, a subsidiary specialising in the management of property assets, property funds and privatisation funds, to HSBC Asset Management.
  Proceeds: EUR 220.5 million.
- Disposal of 21.74 per cent stake in Lombard Bank.
  Proceeds: EUR 8.3 million.
- Disposal of CCF Immo, a mortgage lending subsidiary.
  Proceeds: CHF 5 million.
- Disposal of 49 per cent stake in Myriade, an investment company.
  Proceeds: CAD 22 million.

- Subscription to rights issue made by Erisa IARD.
  Cost: EUR 1.8 million.
- Disposal of Cedel International shares to Deutsche Börse.
  Proceeds: EUR 46.6 million.
- Acquisition of HSBC Republic Bank France SA by CSML.
  Cost: EUR 325 million.
- Disposal of CCF SEI Investment to SEI Investment Company.
  Proceeds: EUR 0.2 million.
- Subscription to capital increase made by Immobilier Elybail following a call for the remaining unpaid capital.
  Cost: EUR 5.5 million.
- Disposal of CCF Eurozone Italy (8 Italian branches) to Banca Immobiliare.
  Proceeds: EUR 1.2 million.
- Subscription by SFS to rights issue made by Swiss Life.
  Cost: EUR 8.8 million.

2003

- Acquisition by Elysées Gestion of the part of the capital of Elysées Fonds held by Médéric and Malakoff (49 per cent) and disposal by Elysées Fonds to Médéric of a part of its activity.
  Cost: EUR 14 million.
  Disposal: EUR 2 million.
- Acquisition of 3 per cent of Société Marseillaise de Crédit.
  Cost: EUR 13.1 million.
- Acquisition of Société des Cadres de la Banque Eurofin and of other minority interests of Banque Eurofin.
  Cost: EUR 35.2 million.
- Subscription to capital increases made by Netvalor.
  Cost: EUR 10 million.
- Subscription by HSBC CCF Asset Management Holding to capital increase made by HSBC CCF Epargne Entreprise.
  Cost: EUR 10 million.
- Disposal of Altadis shares.
  Disposal: EUR 29.5 million.
- Disposal by HSBC CCF Securities of a stake in Euronext.
  Disposal: EUR 15.7 million.
- Disposal of HSBC CCF Asset Management Holding of HSBC Multimanager subsidiaries to HSBC Multimanager Ltd.
  Disposal: EUR 12.2 million.
- Disposal of 40 per cent of group CCF's stake in Société de la Tour Eiffel.
  Disposal: EUR 2.2 million.
- Disposal of Crédit Lyonnais shares.
  Disposal: EUR 45 million.
- Subscription to capital increases made by Crédit Logement.
  Cost: EUR 8.4 million.

2004

- Subscription to capital increase made by Netvalor.
  Cost: EUR 4 million.
- Subscription to capital increase made by Crédit Logement.
  Cost: EUR 3.9 million.
- Subscription to capital increase made by HSBC CCF Leasing.
  Cost: EUR 7 million.
- Subscription to capital increase made by HSBC CCF Real Estate Leasing (ex Elybail).
  Cost: EUR 15 million.
- Capital increase made by HSBC CCF Financial Products.
  Cost: EUR 22.7 million.
- Acquisition of minority interests of HSBC Private Bank France.
  Cost: EUR 3.1 million.
- Subscription to capital increase made by Société Française et Suisse (SFS).
  Cost: EUR 12 million.
- Subscription by SFS to capital increase made by Rhodia.
  Cost: EUR 1.5 million.
- Disposal of Swiss Life shares by SFS.
  Proceeds: EUR 10.3 million.

Investment policy (continued)

2005

– Subscription to capital increase made by BMS and SFPMEI.
  Cost: EUR 0.8 million.

– Subscription by SFS to capital increase made by Rhodia.
  Cost: EUR 0.6 million.

– Disposal of Swiss Life shares by SFS.
  Proceeds: EUR 9.5 million.

– Redemption of the participating notes issued by CCF.
  Cost: EUR 7.9 million.

– Acquisition of 34 per cent of the capital of Elysees Factor from Eurofactor.
  Cost: EUR 2.7 million.

– Disposal by HSBC France of its participation in Eurofactor.
  Proceeds: EUR 7.0 million.

– Subscription to capital increase made by Netvalor.
  Cost: EUR 14.3 million.

– Disposal of Netvalor.
  Proceeds: EUR 30.2 million.

– Disposal of HSBC Dewaay to KBL.
  Proceeds: EUR 122 million.

– Acquisition of minority interests in HSBC Private Bank France.
  Cost: EUR 14.1 million.

– Subscription to capital increase of HSBC Leasing (France).
  Cost: EUR 7.2 million.

– Acquisition by HSBC France of the BIAT shares held by the SMC, according to the rationalization of the group's participation.
  Cost: EUR 3.2 million.

– Subscription by HSBC France and HSBC Epargne Entreprise to capital increase made by Erisa.
  Cost: EUR 25.0 million.

– Disposal of 51 per cent held of the capital of Framlington Group Limited to AXA Investment Managers.
  Proceeds: EUR 133.4 million.

– Disposal by Charterhouse Management Services Limited of three subsidiaries holding private equity assets (Charterhouse Development Ltd, Charterhouse Buy-Out Fund Investment Advisers Ltd and Charterhouse Finance Corporation Ltd) to HSBC Investment Bank Holdings plc.
  Proceeds: GBP 236.7 million.

Other legal documents relating to the Annual General Meeting of Shareholders

Agreements governed by Article L225-38 of the Code de Commerce

Article L. 235-38 of the Code de Commerce requires that any agreement entered into directly or indirectly between a company and one of its Directors or senior 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 prior years and still in full force and effect during 2005

Two new agreements subject to the provisions of Article L. 235-38 of the *Code de Commerce* and to the approval of HSBC France's Board of Directors were entered into in 2005, with HSBC Holdings plc and HSBC Bank plc, concerning the onward invoicing of services provided by the central departments of HSBC Holdings plc and HSBC Bank plc.

The new agreement with HSBC Holdings plc replaces the agreement entered into in 2003. A reorganisation of central departments between HSBC Holdings plc and HSBC Bank plc led HSBC France to enter into a similar agreement with HSBC Bank plc. Charles-Henri Filippi and Peter Shawyer are Directors of both HSBC France and HSBC Bank plc.

A service contract entered into in December 2003 specified that HSBC Bank plc Paris branch would bear the development costs of the HUB project. In 2005, HSBC France's Board of Directors decided to end this service contract as well as the system for paying subsidies to HSBC France. Charles-Henri Filippi and Peter Shawyer are Directors of both HSBC France and HSBC Bank plc.

Agreements entered into in prior years and still in force and effect during 2005

Three agreements governed by Article L. 225-38 of the *Code de Commerce* entered into during 2001 by HSBC France and its direct 99.99 per cent shareholder, HSBC Bank plc Paris Branch, remained in full force and effect during 2005. 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.

Three agreements entered into in 2003 also remained in full force and effect during 2005:

- agreement with HSBC Bank plc for the provision of services for the HSBC France Group's markets activities. This agreement remained in effect until May 2005 and was then replaced by a new agreement as explained above;
- agreement with HSBC Bank plc Paris branch concerning the development costs of the HUB project. The end of this agreement on 31 December 2005 was decided as explained above;
- agreement with HSBC Bank plc for use of the Opsco system, software developed by HSBC Bank plc for forex and derivative products.

In addition various agreements entered into in 2001 with HSBC Bank plc Paris branch remained in full force and effect during 2005.

Various agreements entered into in 2002 and 2003 by HSBC France and some subsidiaries (HSBC UBP, HSBC Hervet and HSBC de Baecque Beau) also remained in full force and effect during 2005.

Other legal documents relating to the Annual General Meeting of Shareholders (continued)

Statutory Auditors' report on the consolidated financial statements

For the year ended 31 December 2005

To the shareholders,

Following our appointment as statutory auditors by your Annual General Meetings, we have audited the accompanying consolidated financial statements of HSBC France for the year ended 31 December 2005.

The consolidated financial statements have been approved by the Board. Our role is to express an opinion on these financial statements based on our audit. These financial statements have been prepared for the first time in accordance with IFRSs as adopted by the EU. They include comparative information restated in accordance with the same standards in respect of financial year 2004 except for IAS 32, IAS 39 and IFRS 4 which, in accordance with the exemption permitted by IFRS 1, are applied only from 1 January 2005 onwards.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our 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 2005 and of the results of its operations for the year then ended in accordance with IFRSs as adopted by the EU.

II - Justification of our assessments
In accordance with the requirements of article L. 823-9 of the French Commercial Law (Code de Commerce) relating to the justification of our assessments, we bring to your attention the following matters :

As mentioned in the note n°1 to the accounts, your company provides for provisions in order to cover the risks incurred by its activities. We have identified the processes put in place in order to identify and assess those risks as well as to determine the required levels of provisions.

As mentioned in the note n°1 to the accounts, your company accounts for and value its financial instruments in accordance with applicable accounting principles and, for some of them, uses internal models. We have reviewed the control environment relating to the control of models, to the determination of parameters used as well as to the assessment of associated risks.

On this basis, we have appreciated those estimates for reasonabless.

These assessments were made in the context 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
In accordance with professional standards applicable in France, we have also verified the information given 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, 1 March 2006

KPMG Audit
Department of KPMG SA
Fabrice Odent
Partner

BDO Marque & Gendrot
Joël Assayah
Partner

Statutory Auditors' report prepared in accordance with article L. 225-235 of the Commercial Code, on the report prepared by the Chairman of the Board on the internal control procedures relating to the preparation and processing of financial and accounting information

For the year ended 31 December 2005

To the shareholders,

In our capacity as Statutory Auditors of HSBC France, and in accordance with article L. 225 235 of the Commercial Code, we report to you on the report prepared by the President of your Company in accordance with article L. 225-37 of the Commercial Code for the year ended 31 December 2005.

It is for the President to give an account, in his report, notably of the conditions in which the duties of the Board of Directors are prepared and organized and of the internal control procedures in place within the company.

It is our responsibility to report to you our observations on the information and assertions set out in the President's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information and assertions set out in the President's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

These procedures notably consisted of:

– obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the President's report;

– obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information and the assertions given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the President of the Board's report, prepared in accordance with article L. 225-37 of the Commercial Code.

Paris La Défense and Paris, 1 March 2006

KPMG Audit
Department of KPMG SA
Fabrice Odent
Partner

BDO Marque & Gendrot
Joël Assayah
Partner

Other legal documents relating to the Annual General Meeting of Shareholders (continued)

Statutory Auditors' report on regulated agreements

Year ended 31December 2005

To the shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present to you our report on the regulated agreements.

Agreements entered into by the Company in 2005

In accordance with article L. 225-40 of the Commercial Code we have been advised of agreements which have been previously authorised by your Board of Directors. We are not required to ascertain whether any other agreements exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements of which we were notified. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of article 92 of the March 23, 1967 Decree, to evaluate the benefits arising from these agreements prior to their approval. We conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

Group services agreement (HSBC Holdings plc)

– Directors concerned by the agreement: HSBC Holdings plc, company which controls a shareholding firm holding over 10% of the voting stock;

– Purpose of the agreement: under the terms of this agreement, services provided by central departments of HSBC Holdings are invoiced to HSBC France. This agreement has been authorised by the Board of Directors held on 17 May 2005;

– Terms and conditions of the agreement: charges for the services utilised by HSBC France will correspond to the appropriate proportion of the internal operational costs (absorbing both direct and indirect costs) plus a mark-up that shall be determined in accordance with UK and OECD transfer pricing guidelines. With respect to that agreement, HSBC France received invoices amounting to GBP 4.4 million (VAT excluded) in respect of 2005.

Group services agreement (HSBC Bank plc)

– Directors concerned by the agreement: HSBC Bank plc, direct shareholder of over 10 per cent of the voting stock;

– Purpose of the agreement: under the terms of this agreement, services provided by central departments of HSBC Bank are invoiced to HSBC France. This agreement has been authorised by the Board of Directors held on 17 May 2005;

– Terms and conditions of the agreement: charges for the services utilised by HSBC France will correspond to the appropriate proportion of the internal operational costs (absorbing both direct and indirect costs) plus a mark-up that shall be determined in accordance with UK and OECD transfer pricing guidelines. With respect to that agreement, HSBC France received invoices amounting to GBP 62 thousand (VAT excluded) in respect of 2005.

Funding costs of the HUB project

– Directors concerned by the agreement: HSBC Bank plc Paris Branch, direct shareholder of over 10 per cent of the voting stock;

– Purpose of the agreement: end of the service level contract signed in December 2003, which provided for the settlement by HSBC Bank plc Paris Branch of the funding costs of project HUB borne by HSBC France. This agreement forms an additional clause to the agreement signed on 19 December 2003 and has been authorised by the Board of Directors held on 17 November 2005;

– Terms and conditions of the agreement: this service level contract will end on 31 December 2005.

Continuing agreements which were entered into in prior years

In addition, in accordance with the 23 March 1967 decree, we were informed that the following agreements, which were entered into in prior years, have continued during the year.

With HSBC Bank plc

Two agreements entered into during 2003 with HSBC Bank, direct shareholder of over 10 per cent of the voting stock, remained in full force and effect during 2005.

– Service level agreement for all market activities of the HSBC France group. No invoice was made in respect of 2005;

– Agreement in order to use the system Opsco, software developed by HSBC Bank for foreign exchange and derivative products. The access costs to the system Opsco and the participation in the research work are valued at a total of USD 13 million. Invoices amounting to GBP 532 thousand (VAT excluded) were sent by HSBC Bank in respect of 2005.

With HSBC Bank plc Paris Branch
An agreement entered into during 2003 with HSBC Bank plc Paris Branch, direct shareholder of over 10 per cent of the voting stock, remained in full force and effect during 2005.

- Service level contract for the HUB project: the funding costs of the project are paid by HSBC Bank plc Paris Branch, amounting to EUR 149 million for the next 5 years starting 2003. The services paid for by HSBC Bank plc Paris Branch amounted to EUR 43.2 million in respect of 2005.

Three agreements entered into during 2001 by HSBC France and HSBC Bank plc Paris Branch, direct shareholder of over 10 per cent of the voting stock, also remained in full force and effect during 2005.

- A groupwide service agreement for the purpose of rendering services to its members at cost concerning diverse activities of the two entities: back-office payments, back-office treasury, IT and euro zone management. Invoices amounting to EUR 214 thousand were sent by HSBC France in respect of 2005.
- Service level agreement issued by HSBC France to HSBC Bank plc Paris Branch concerning:
  - Services related to back-office payment processing activities;
  - Services related to back-office treasury activities;
  - Some services related to information technology.

  Payment for the services rendered is equal to the cost incurred by HSBC France in providing the services. The agreement is valid for an indeterminate period. No invoice was made in respect of 2005.
- Tax integration agreement between HSBC Bank plc Paris Branch, the Company at the head of the group tax integration, and HSBC France: this agreement allows for the tax savings realised each year by the tax integration group, that are not used by the member companies in deficit, to be available for HSBC France after deducting the amounts already paid by HSBC Bank plc Paris Branch to other members of the Group. The net amount paid to HSBC France in 2005 amounted to EUR 74 million.

With HSBC UBP, HSBC Hervet and HSBC de Baecque Beau
Three agreements entered into during 2003 by HSBC France and its subsidiaries HSBC UBP (ex-Union de Banques à Paris (UBP)), HSBC Hervet (ex-Banque Hervet), and HSBC de Baecque Beau (ex-Banque de Baecque Beau) remained in full force and effect during 2005.

Under the terms of these agreements, HSBC UBP, HSBC Hervet and HSBC de Baecque Beau undertake to direct their clients to HSBC France (although reserving the right to deal directly with some clients) whenever they seek advice or have a project concerning the skills of HSBC France in SME advisory services, or when searching partners and counterparts in the following fields:

- mergers and acquisitions, including equity research;
- financing acquisitions, particularly LBO and MBO;
- debt syndication;
- structured financial products.

HSBC UBP, HSBC Hervet and HSBC de Baecque Beau also undertake to give priority to HSBC France when in need of a third party to prepare loan files concerning the HSBC France skill field defined above. By applying these agreements,

- HSBC France pays respectively HSBC UBP, HSBC Hervet and HSBC de Baecque Beau a commission equal to 50 per cent of the fees and commissions net of tax collected for services rendered, increased by VAT;
- HSBC France receives respectively from HSBC UBP, HSBC Hervet and HSBC de Baecque Beau a sum equal to 50 per cent of the commissions inherent to the installment of loans and 50 per cent of the interest margin on the first 12 months of these loans, installed by HSBC UBP, HSBC Hervet and HSBC de Baecque Beau, and for which HSBC France performed the administrative work prior to their installment.

Paris La Défense and Paris, 1 March 2006

KPMG Audit
Department of KPMG SA
Fabrice Odent
Partner

BDO Marque & Gendrot
Joël Assayah
Partner

Annual General Meeting of 17 May 2006 – Proposed resolutions

Ordinary business

First resolution

Having heard and considered the report of the Directors, the general report of the Auditors for the year ended 31 December 2005, and the Chairman's and the Auditors' reports on corporate governance and internal control, and voting under the quorum and majority conditions required to transact ordinary business, 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 required to transact ordinary business, the shareholders hereby approve the following proposed distribution of net profit for the year:

Net profit for the year	EUR 935,668,520.74
Plus retained profits	EUR 390,394,174.01
Total sum available for distribution	EUR 1,326,062,694.75

To be distributed as follows:

Dividend of EUR 5.19 per share to be paid to the shareholders . .	EUR 390,484,856.70
Free reserve	EUR 935,577,838.05

The dividend will be paid on 18 May 2006, after deduction of the interim dividend of EUR 3.74 per share voted by the Board of Directors at its meeting of 26 July 2005 and paid in respect of shares in issue as of that date.

The dividend is not eligible for the 50 per cent tax deduction referred to in article 158 para. 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	Tax credit
2002	EUR 7.25	EUR 3.625*
2003	EUR 6.25	EUR 3.125**
2004	EUR 6.22	–
2005	EUR 5.19	–

* *The 2003 French Finance Act provides that, in certain cases, the tax credit used in 2003 is equal to 10 per cent of the dividend paid rather than 50 per cent.*

** *The 2003 French Finance Act provides that, in certain cases, the tax credit used in 2004 is equal to 10 per cent of the dividend paid rather than 50 per cent.*

Dividends paid in respect of the three previous years are not eligible for the 50 per cent tax deduction referred to in article 158 paragraph. 3.2 of the General Tax Code.

Third resolution

Having heard and considered the report of the Directors, and voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby resolve to maintain the sum of EUR 422,041,360.61 registered in the long-term capital gains reserve account.

Fourth resolution

Having heard and considered the report of the Directors and the report of the Auditors regarding the consolidated statements for the year ended 31 December 2005, and voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby approve the consolidated financial statements for that year as presented.

Fifth resolution

Having heard and considered the special report of the Auditors on agreements governed by Article L.225-38 of the *Code de Commerce*, and voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby approve the agreements described therein under the conditions referred to in Article L. 225-40 of said Code.

Sixth resolution

Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby re-elect Mr Martin Bouygues, who is retiring by rotation, as Director for a further term of four years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2009.

Seventh resolution

Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby re-elect Mr Gilles Denoyel, who is retiring by rotation, as Director for a further term of four years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2009.

Eighth resolution

Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby re-elect KPMG S.A., who is retiring by rotation, as Statutory Auditors for a further term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2011.

Ninth resolution

Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby re-elect BDO Marque & Gendrot, who is retiring by rotation, as Statutory Auditors for a further term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2011.

Tenth resolution

Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby re-elect Mr Gérard Gaultry, who is retiring by rotation, as Alternate Auditors for a further term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2011.

Eleventh resolution

Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby re-elect Mr Patrick Giffaux, who is retiring by rotation, as Alternate Auditors for a further term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2011.

Special Business

Twelfth resolution

Having heard and considered the report of the Directors, and voting under the quorum and majority conditions required to transact special business, the shareholders hereby decide to harmonise the company's articles of association with act 2005-842 of 26 July 2005.

Shareholders therefore decide to make the following amendments to articles 13 and 28 of the articles of association:

– Article 13: decisions by the Board of Directors.

  Paragraphs 7, 9 and 10 are amended as follows:

  Decisions shall be taken on the basis of a majority of votes cast by members present, including via videoconferencing and telecommunication, or represented. Each Director shall have one vote and shall not be able to represent more than one other Director.

  [.../...]

  An attendance register shall be kept. It shall be signed by the Directors taking part in the meeting, and shall mention the participation of any Directors via videoconferencing or telecommunication.

  With respect to third parties, the only valid source of information concerning the number of incumbent Directors and their appointment shall be the names of Directors present (including via videoconferencing or telecommunication), represented or absent as stated in the minutes to each meeting.

– Article 28: Access - quorum - majority

  Paragraph 2 is amended as follows:

  Ordinary shareholders' meetings, the first time they are convened, may only validly transact business if shareholders present, represented, voting by post or taking part via video-conferencing, own at least one-fifth of the company's shares carrying voting rights.

Thirteenth resolution

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.

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 *Code de Commerce* (the French commercial code). The Company is a credit institution and authorised bank, and as such is also governed by the *Code Monétaire et Financier.*

Term
The Company's term ends on 30 June 2043, unless previously wound up or extended.

Corporate object (Article 3 of the Articles of Association)
The Company's corporate object 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 Finance Code, and more generally, to conduct within the limits permitted by law any and all commercial, industrial or agricultural transactions, whether involving property or securities, and 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 651C.

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

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.

Shareholders' meetings
Meetings are open to all shareholders. They are convened and transact business in accordance with the provisions of the law and regulations in force and effect from time to time. All shareholders owning at least one share are entitled to attend and participate in shareholders' meetings either in person or by proxy.

Form of shares
All fully paid up shares are in registered form. They are registered on an individual securities account under the terms and conditions provided for by law.

Voting rights
Each fully paid up share entitles the holder to one vote.

Transfer of shares
The shares are freely transferable.

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 representation 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 department.

1992: CCF acquires Banque Marze in Ardèche department.

1993: CCF acquires Banque de Savoie.

1994: centenary of CCF.

CCF develops its activities in investment bank, international private banking, asset management, and French retail banking with the acquisition of other regional banks.
During the 90's, the 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 in Ile-de-France region, HSBC UBP, HSBC Picardie and HSBC de Baecque Beau constitute the new HSBC network.

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 2005, the share capital amounted to EUR 376,189,650 divided into 75,237,930 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	17 May 2005
– Expiry date	17 July 2007
– Maximum nominal amount	EUR120 million
– Used amount	EUR0

Information on HSBC France and its share capital (continued)

Movements in share capital

	2005			2004		
	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	**74,802,146**	**374,010,730**	**—**	74,350,066	371,750,330	—
Exercise of share options [1]	**435,784**	**2,178,920**	**32,513,604.12**	452,080	2,260,400	28,896,678.34
Reduction of share capital by cancellation of own shares held	**—**	**—**	**—**	—	—	—
At 31 December	**75,237,930**	**376,189,650**	**—**	74,802,146	374,010,730	—

1 *Of which:*

2005:
52,000 shares issued at EUR 34.00
20,000 shares issued at EUR 35.52
53,560 shares issued at EUR 37.05
103,054 shares issued at EUR 73.48
112,920 shares issued at EUR 81.71
94,250 shares issued at EUR 142.50

2004:
10,000 shares issued at EUR 32.78
1,130 shares issued at EUR 34.00
25,000 shares issued at EUR 35.52
67,070 shares issued at EUR 37.05
147,102 shares issued at EUR 73.48
199,778 shares issued at EUR 81.71
2,000 shares issued at EUR 142.50

	2003			2002			2001		
	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
	74,117,066	370,585,330	—	75,409,701	377,048,505	—	74,888,902	374,444,510	ns
	233,000	1,165,000	12,818,145	229,066	1,145,330	7,700,064.02	520,799	2,603,995	15,943,471.73
	—	—	—	1,521,701	7,608,505	247,428,582.60	—	—	—
	74,350,066	371,750,330	—	74,117,066	370,585,330	—	75,409,701	377,048,505	ns
			3,000 shares issued at EUR 34.00 *7,000 shares issued at EUR 35.52* *78,000 shares issued at EUR 37.05* *138,000 shares issued at EUR 73.48* *6,500 shares issued at EUR 81.71* *500 shares issued at EUR 142.50*			*4,200 shares issued at EUR 32.78* *2,170 shares issued at EUR 34.00* *25,326 shares issued at EUR 35.52* *193,370 shares issued at EUR 37.05* *4,000 shares issued at EUR 142.50*			*625 shares issued at EUR 33.69* *29,000 shares issued at EUR 34.00* *488,174 shares issued at EUR 35.52* *1,000 shares issued at EUR 37.05* *2,000 shares issued at EUR 81.71*

Information on HSBC France and its share capital (continued)

Share options

Pursuant to the authorities granted by Extraordinary General Meetings held on 13 May 1992, 7 May 1997 and 29 April 1998, and the ensuing Board resolutions, share options have been granted to managers and Directors of the Company, as follows:

Year	Allocation	Exercise price		Options outstanding on 31.12.2005	Expiry date
1995	675,000	FRF223	EUR34.00	0	2005
1996	696,000	FRF233	EUR35.52	44,500	2006
1997	715,000	FRF243	EUR37.05	162,000	2007
1998	728,000	FRF482	EUR73.48	285,244	2008
1999	909,000	FRF536	EUR81.71	475,502	2009
2000	909,000	–	EUR142.50	765,750	2010

The maximum number of HSBC France shares that may be issued pursuant to the exercise of share options is 1,732,996, which would raise the total number of EUR 5 nominal shares in circulation to 76,970,926.

Ownership of share capital and voting rights at 31 December 2005

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

	2005	2004	2003	2002	2001
Number of shares at 31 December	**75,237,930**	74,802,146	74,350,066	74,117,066	75,409,701
Average number of shares outstanding during the year	**74,826,025**	74,374,838	74,129,833	74,928,199	75,019,102
EPS [1]	**EUR14.95**	EUR9.80	EUR8.46	EUR7.50	EUR6.89
Net dividend	**EUR5.19**	EUR6.22	EUR6.25	EUR7.25	EUR5.60
Dividend + tax credit	**–**	–	EUR9.375	EUR10.875	EUR8.40
Payout [2]	**34.9%**	63.8%	74.1%	95.6%	74.7%

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 held on 17 May 2006, the Board will propose a net dividend of EUR 5.19 per EUR 5 nominal share.

Dividends which are not claimed within five years of the payment date lapse and become the property of the French Treasury.

Employees, remuneration, share offering and incentive schemes

The following information is provided in compliance with the provisions of Article 1 of the decree 2002-221 of 20 February 2002, in application of Article L. 225-102-1 of the Code of Commerce inserted by the Law no. 2001-420 (the "New Economic Regulations" Act)

Employees at 31 December

	2005 [1]	2004 [1]	2003 [1]	2002 [1]	2001 [1]
Total HSBC France (excluding those seconded to branches)	**7,494**	7,104	6,754	6,669	6,230
Total foreign branches	**37**	61	70	82	91
Total HSBC France	**7,457**	7,165	6,824	6,751	6,321
Total HSBC France group	**13,878**	13,908	13,577	13,797	14,071

1 *Full time equivalents.*

2005 employment report

The figures given below are based on actual staff numbers and are not weighted for part-time employees.

HSBC France's headcount increased in 2005.

2005 headcount: 7,752, an increase of 5.5 per cent or 405 employees on 2004. The number of employees with management status rose by 7.7 per cent in 2005 (compared to 8.8 per cent in 2004).

New employees (excluding Group mobility): 655 new permanent employees joined the group in 2005, representing a year of heavy increase in recruitments. The same tendency is noted regarding contract staff: 305 new contract staff also joined the group, including 124 young people on work placements.

Departures: resignations accounted for 34.1 per cent of total departures in 2005.

Further rise in percentage of management staff and women managers.

– The proportion of management staff increased from 56.7 per cent at the end of 2004 to 57.8 per cent at the end of 2005.

– The number of women managers also increased and 42.7 per cent of HSBC France's management staff are women (42.0 per cent in 2004).

Employment conditions

The annual number of working hours is 1,592. This reduction in annual working hours has been effected partly through a reduction in weekly working hours and partly through the grant of additional days leave.

At 31 December 2005, 723 employees worked part time under the flexible working agreements signed by HSBC France.

In 2005, 103 employees left under the early retirement plan introduced in 2002, bringing the total number of employees benefiting from the plan to over 300. A total of 215 employees had registered for early retirement at the end of 2005.

In 2005, HSBC France employed 231 disabled workers.

Employee relations and collective bargaining agreements

– Employment management agreement;

– agreement on the substitution and harmonisation of SMC's collective bargaining arrangements with those of HSBC France;

– 2005 Profit-sharing and incentive agreements;

Employees, remuneration, share offering and incentive schemes (continued)

- agreement on the substitution and harmonisation of HSBC Hervet's collective bargaining arrangements with those of HSBC France;
- amendment No 1 to the profit-sharing agreements for HSBC France employees, dated 28 June 2005;
- amendment No 5 to HSBC France's employee savings scheme;
- agreement on changes to the information and consultation procedures of the HSBC France group's works councils under book III of the labour code;
- agreement on changes to the information and consultation procedures of the HSBC France group's central works councils and works councils under book III of the labour code;
- agreement relating to the introduction of night working within DSI (data centre management).

Pay

In 2005, the pay agreement signed by HSBC France covered the following:

- minimum increases for employees with a basic salary of less than EUR 30,000;
- performance-related increases awarded on merit;
- bonuses for achieving or exceeding individual qualitative and quantitative targets (the amount of this bonus can not be less than EUR 600 for a full-time employee);
- a review of increases in annual remuneration in the event of a promotion;
- a budget for individual pay increases for employees in the following situations:
  - employees having taken long-term maternity, paternity or parent education leave, with a control of the human resources department;
  - employees, in particular those aged over 50, who have not received any salary increase for three years.
- a special review of the remuneration paid to managerial staff whose gross basic annual salary is over EUR 30,000, who do not receive a large bonus and who have not had an increase in their annual salary in the last three years.

The ratio between average management pay and average non-management pay is 2:1.

Training

In 2005, HSBC France provided over 210,000 hours of training for more than 5,700 employees.

As part of the strategic plan, the group introduced training for Retail Banking sales staff in charge of *Premier* and professional client groups. 210 work experience staff took part in this training in 2005. 120 work experience staff also took part in sales training for the mass-market client group.

The training course supported 261 branch empoyees to take a new position.

In addition, 280 employees took one of the training programmes offered in the area of wealth management in 2004.

The Operations Department continued the "Working together to please our customers" training programme for 268 trainees.

A new training course dealing with lending to corporate customers was introduced. 88 staff attended these sessions, and the programme will continue in 2006.

The regulatory training was numerous and concerned in particular:

- the anti-money laundering training programme put in place last year for managers, has been extended to the commercial branches employees and the employees of the Operations Department. It concerned 2,300 persons;
- futher IAS training concerned 200 trainees from different departments.

As part of the preparations for HUB, 260 work experience staff received training tailored to their specific needs and area of activity, with 15 different training courses being offered.

Overtime, temporary staff and sub-contracting

There was an increase in the number of hours overtime in 2005 as a result of the introduction of new IT applications and the development in commercial activity. Half of these hours overtime were hours declared under the exceptional work agreement.

In addition, works relating to IT developments or IT conversions needed a high recourse to sub-contracting in 2005.

Health and safety

HSBC France has Health and Safety and Work Committees covering all its activities in France.

These Committees are endowed with resources above the minimum required by law, particularly in terms of inspections of the Group's premises and the number of representatives.

A risk assessment report was drawn up and presented to staff representative bodies. It was updated in 2004.

Absenteeism

The maternity leaves increased in 2005. Absences due to sickness and occupational accident did not change significantly.

Staff welfare

The total amount of funds paid to the central and local works councils, based on a percentage of total payroll costs, was EUR 2,156,000.

The amount of subsidy paid to the mutual insurance fund increased by 9.2 per cent to EUR 916,000.

HSBC France devoted more than EUR 6,227,000 to social welfare benefits (housing, new school year allowances, travel, child minding, Mothers' Day, loyalty and HSBC France medals).

Employee share offering for the employees of the HSBC Group in France ("the group")

Each year since 1993, HSBC France has made an employee share offering open to current employees of HSBC France, former employees who are members of the employee share ownership plan and employees of French subsidiaries in which HSBC France owns over 51 per cent. Since 2000, when the group was integrated to the HSBC Group, employees have been proposed an annual employee share offering, in the same way the group has done in the past. The 2005 offering ran from 5 to 21 October 2005, with payment made on 14 November 2005. The key terms and conditions were as follows:

– offering of HSBC Holdings plc shares open to current employees of HSBC France, former employees who are members of the employee share ownership plan and employees of French subsidiaries in which HSBC France owns over 51 per cent;

– an offer price of EUR 10.525 per share, calculated as in the previous year by applying a 20 per cent discount to the average HSBC Holdings plc share price during the twenty trading sessions preceding 29 September 2005, the date on which the Remuneration Committee of HSBC Holdings plc decided to make the offering;

– An employee's total contribution to the share offering via profit-sharing and incentive payments, exceptional bonuses and voluntary contributions must not exceed EUR 25,000.
  The total number of HSBC shares subscribed by Group employees must not exceed 4,300,000, representing a total amount of EUR 45,257,500. If applications exceeded this amount, the largest contributions were scaled down, although a minimum contribution of EUR 15,000 was guaranteed.
  Portions of total individual contributions exceeding EUR 15,000 were scaled down in proportion to aggregate corresponding contributions.

HSBC France employees with at least three months service were offered the opportunity of investing the following sums:

– their employee profit-sharing entitlement;

– their incentive scheme entitlement;

– their exceptional incentive scheme entitlement (act of 26 July 2005);

– their own personal funds up to the maximum permitted by law.

Employees, remuneration, share offering and incentive schemes (continued)

Employees took up, by way of the H Fund, a total of 3,705,594 HSBC Holdings plc shares, representing a total capital amount of EUR 39 million. The H fund is a mutual fund forming part of the group or company employee share ownership plan, invested in HSBC Holdings plc shares since HSBC's takeover of CCF in 2000.

Incentive schemes

Profit-sharing and incentive plan agreements

A profit-sharing agreement was signed on 28 June 2005 for a term of one year covering 2005: the profit-sharing component is calculated as a function of HSBC France's restated operating profit before provisions.

An amendment to the profit-sharing agreement was also signed on 30 September 2005. This amendment is intended to allow employees to benefit from early profit-sharing benefit drawdown arrangements under article 39 of the act of 26 July 2005, and to define the terms of application.

In addition, an incentive agreement was signed on 28 June 2005 for a term of three years covering 2005, 2006 and 2007. Incentive payments are calculated on the growth in HSBC France's restated net operating income and the improvement in HSBC France's cost:income ratio.

Profit-sharing agreement

The HSBC France's profit-sharing entitlement is calculated using the alternative method to the standard method applicable under ordinary law. In respect of 2005, profit-sharing is equal to 7 per cent of the contribution made by HSBC France's activities in France, determined as restated operating profit before provisions less various provisions and a theoretical tax charge (instead of 11 per cent for previous years which to took into account the lack of incentive agreement).

Under the alternative method, the profit-sharing entitlement may not exceed 5 per cent of HSBC France's reported net profit less 5 per cent of shareholders' funds. In addition, the profit-sharing entitlement may not exceed 6.75 per cent of total payroll costs serving as a basis for social security contributions as defined in the annual wage declaration.

Incentive agreement

HSBC France's incentive payments are initially calculated on the basis of restated net operating income for 2005, 2006 and 2007. An amount A is obtained by applying a percentage to the differential between actual restated net operating income and the various thresholds defined for each of these three years.

Secondly, a multiplying coefficient B is calculated, based on the percentage-point improvement in the cost: income ratio.

Thirdly, amount A is multiplied by coefficient B.

As stated above for profit-sharing, the profit-sharing and incentive scheme entitlement is limited to 6.75 per cent of total gross payroll costs used as the basis for social security contributions, as defined in the annual wage declaration.

In accordance with article 38 of act 2005-842 of 26 July 2005, the incentive agreement states that employees may receive an exceptional bonus of EUR 200 (for a full-time employee having worked the whole year), plus an exceptional top-up payment of 150 per cent (EUR 300 for a full-time employee having worked the whole year) if the bonus is paid into the employee share ownership plan.

If the exceptional bonus is not paid into the employee share ownership plan, it will not be topped up. However, an additional bonus of EUR 200 will be added to gross salary, and will be subject to social security charges and income tax.

The amount of EUR 400 corresponds to the amount paid to a full-time employee. For part-time employees, the amount is scaled down in proportion to their occupation rate.

Top-up payments

The employee share ownership plan's regulations have been amended to award an exceptional top-up payment to employees choosing to pay their aforementioned exceptional 2005 bonus into the plan, in accordance with article 38 of act 2005-842 of 26 July 2005.

HSBC France grants employees paying their exceptional 2005 bonuses into the employee share ownership plan a top-up payment equal to 150 per cent of the bonus (i.e. a maximum of EUR 300 for a full-time employee).

The annual gross top-up limit of EUR 1,680 applies to all payments into the employee share ownership plan during the calendar year.

The specific 150 per cent top-up applied to the exceptional 2005 bonus (leading to a maximum top-up of EUR 300 for a full-time employee) is in addition to any other top-ups received during the year, and so the annual gross top-up limit was exceptionally raised to EUR 1,980 per employee in 2005.

Share option policy

Pursuant to the authority granted by the shareholders at the Annual General Meeting of 22 July 1987, renewed at the Annual General Meetings of 13 May 1992 and 7 May 1997, the Board of Directors established a policy of awarding share options each year to the Executive Directors and senior managers of CCF. At the proposal of the Nomination and Remuneration Committee, the Board gradually extended the share option policy with a view to retaining key employees and encouraging value creation.

CCF Options awarded:

Date of Annual General Meeting authority	13.05.1992	13.05.1992	7.05.1997	7.05.1997	7.05.1997	7.05.1997
Date of Board meeting	22.06.1995	9.05.1996	7.05.1997	29.04.1998	7.04.1999	12.04.2000
Total number of options awarded	675,000	696,000	715,000	728,000	909,000	909,000
of which: number of options awarded to members of the Management Committee	261,000	297,000	305,000	321,000	312,000	161,000 *
Total number of beneficiaries	114	125	127	199	331	502
Number of Management Committee beneficiaries	28	29	29	31	29	10 *
First exercise date	22.06.1997	9.05.1998	7.06.2000	7.06.2000	7.06.2000	1.01.2002
Expiry date	22.06.2005	9.05.2006	7.05.2007	29.04.2008	7.04.2009	12.04.2010
Exercise price	FRF223 (EUR34.00)	FRF233 (EUR35.52)	FRF243 (EUR37.05)	FRF482 (EUR73.48)	EUR81.71	EUR142.50 **
Discount to average quoted share price	5%	5%	5%	5%	5%	5%
Number of options exercised at 31.12.2005	651,000	639,500	533,000	425,256	421,498	100,750
Number of options lapsed	24,000	12,000	20,000	17,500	12,000	42,500
Number of options outstanding	0	44,500	162,000	285,244	475,502	765,750

* *Executive Committee.*
** *Discount to HSBC offer price of EUR150 per share.*

Employees, remuneration, share offering and incentive schemes (continued)

Key regulations governing share option plans

The regulations governing all share option plans still in force and effect were approved by the Board of Directors at its meeting of 7 May 1997.

However, under these regulations, option holders were entitled to exercise all their outstanding share options during the period of HSBC's public offer for CCF in 2000, with the exception of those awarded in 2000, which were not exercisable before the close of the offer. In view of the adverse tax effects – for both beneficiaries and CCF – that would have resulted from a breach of the lock-up period required under Article 163 bis C of the French General Tax Code, HSBC offered option holders the benefit of a liquidity contract in the CCF shares issued upon exercise of their options during the offer period, subject to two undertakings:

- not to sell the CCF shares issued upon exercise of their options on terms likely to incur a tax or social security cost to CCF;
- to sell to or exchange with HSBC all CCF shares issued upon exercise of their options at the end of the lock-up period.

The liquidity contract set out the terms and conditions on which CCF employees undertook to sell or exchange their CCF shares, depending on the year in which the options were awarded.

- Options awarded before 1996 and from 1997 to 2000: upon expiry of the lock-up period or upon exercise of the options if later, beneficiaries will exchange all the CCF shares issued pursuant to the exercise of their options for a number of ordinary HSBC shares determined using the ratio applicable to the offer, adjusted for any changes in the share capital of either HSBC or CCF.
- Options granted in 1996: beneficiaries irrevocably committed to one or other of the following two options:
  - upon expiry of the lock-up period or upon exercise of the options if later, to exchange all the CCF shares issued pursuant to the exercise of their options for a number of ordinary HSBC shares determined using the ratio applicable to the offer, being 13 HSBC shares for one CCF share, adjusted for any changes in the share capital of either HSBC or CCF;
  - on 28 September 2001, to sell to HSBC all CCF shares issued pursuant to the exercise of their options for a price consistent with the offer price and determined according to a formula which takes account of CCF's average operating profit in the eight consecutive calendar quarters ending in June 2001.

HSBC Holdings plc options and shares

Since 2001, following CCF's integration into the HSBC Group, CCF has no longer awarded CCF share options as employees can now participate in the share option plan offered by the HSBC Group (part B) in the form of a French sub-plan which complies with the legal and fiscal regulations applicable in France.

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 fiscal regulations applicable in France.

From 2006, the general policy of HSBC Group is to award shares instead of share options (except in case of specific legal and fiscal regulations). The Group distinguishes several categories of shares:

- "Performance shares" awarded to the Group's Executive Directors and Executive Managers under performance conditions detailed below;
- "Achievement shares" and "Restricted shares" awarded to the Group's senior managers without particular performance conditions and which definitely vest for the employees still working for the Group after a two-year period.

Vesting of performance shares granted to HSBC France executives is subject to a three-year vesting period and two performance conditions, which each determine the vesting of half of the performance shares granted.

- A first condition relates to the total shareholder return (TSR) of HSBC shares compared with a reference sample of the world's largest 28 banks by market capitalisation.

  If, at the end of a three-year period following the announcement of annual results, HSBC's TSR is in the top quartile (i.e. if its ranking is between 1 and 7 out of 28), 100 per cent of the performance shares concerned will vest. If HSBC's ranking is 14, 30 per cent of the performance shares will vest. The vesting proportion increases by 10 per cent for each better ranking between 14 and 7. If the HSBC share is ranked below that of the bank ranked 14th, the performance condition will be considered not to be met.

- The second condition relates to growth in earnings per share (EPS) during the three-year period. 30% of the performance shares concerned will vest if EPS has increased by at least 24% relative to the reference year by the end of the period. The vesting proportion will increase in line with EPS growth over the three years, such that 100% of performance shares will vest if EPS growth reaches 52% or more relative to the reference year. If the EPS increases less than 24 per cent over the considered period, the performance condition will be considered not to be met.

All these shares categories can not be sold before the end of a further two-year tax lock-up period. Earlier, the shares and/or options used to be awarded each year in late April or at the beginning of May. Under the new plans, the awards of shares were decided at the end of March 2006 and so relate to 2006.

Special report

HSBC France

Information required under the "New Economic Regulations" Act on share options awarded in 2005

Since its integration into the HSBC Group in July 2000, CCF has ceased to award options to employees and Executive Directors of the CCF group. Since then, HSBC Holdings plc share options are awarded to employees and Executive Directors.

In 2005, HSBC Holdings plc awarded two types of options:

- options with performance conditions to the Executive Directors and five Executive managers. The award of these options is accompanied by a bonus to be paid at the exercise date of the options and equal to the exercise price of the awarded options;
- options without performance conditions to about a thousand employees of the HSBC France group. These options can be exercised after a three-year period and have to comply with the legal and fiscal regulations applicable to the options in France.

HSBC Holdings plc options awarded in 2005 in respect of 2004:

	Options awarded	Exercise price £/share	Date of award	First exercise date	Expiry date
Options awarded to Executive Directors in 2005 (with performance conditions)					
C-H Filippi	103,071	8.794	21.06.2005	21.06.2008	21.06.2009
G Denoyel	88,530	8.794	21.06.2005	21.06.2008	21.06.2009
P Careil	88,530	8.794	21.06.2005	21.06.2008	21.06.2009
Total options awarded to					
5 employees (subject to performance conditions)	272,395	8.794	21.06.2005	21.06.2008	21.06.2009
15 employees of the HSBC France group (without performance conditions)	790,000	8.362	20.04.2005	30.04.2008	20.04.2015

From 2006, the general policy of the HSBC Group is to award shares instead of share options. As explained on pages 166 and 167, the Group awarded in March 2006 three categories of shares:

- "Performance shares" awarded under performance conditions to the HSBC France Executive Directors and three Executive Managers;
- "Achievement shares" and "Restricted shares" awarded to the senior managers without performance conditions and which definitely vest for the employees still working for Group after a two-years period.

Employees, remuneration, share offering and incentive schemes (continued)

HSBC Holdings plc shares awarded in 2006 in respect of 2005:

– Shares subject to performance conditions

	Face value of the shares awarded[1] in euro	Expected value of the shares awarded[1,2] in euro	Award price GBP/share	Date of award	Vesting date
Value of the shares subject to performance conditions awarded to Executive Directors in respect of 2005					
C-H Filippi	1,162,400	511,456	9.84665	21.03.2006	21.03.2009
G Denoyel	795,455	350,000	9.84665	21.03.2006	21.03.2009
P Careil	545,455	240,000	9.84665	21.03.2006	21.03.2009
Total value of the shares awarded to 3 employees	1,931,819	850,000	9.84665	21.03.2006	21.03.2009

1 *The shares awarded by other Group companies are included.*
2 *After applying the performance conditions.*

– Shares without performance conditions

	Value of the shares awarded[1] in euro	Award price GBP/share	Date of award	Vesting date
Value of the shares without performance conditions awarded to Executive Directors in respect of 2005				
C-H Filippi	360,000	9.84665	21.03.2006	21.03.2008
G Denoyel	200,000	9.84665	21.03.2006	21.03.2008
P Careil	240,000	9.84665	21.03.2006	21.03.2008
Total value of the shares awarded to 10 employees	4,471,650	9.84665	21.03.2006	21.03.2008

1 *The shares awarded by other Group companies are included.*

Information on options exercised in 2005

CCF options

	Options exercised	Exercise price euro per share	Date of award	Expiry date
Options exercised by an Executive Director during 2005				
C-H Filippi	3,000	81.71	7.04.1999	7.04.2009
Total options exercised by 10 employees	93,114	34 to 142.50 (average price 77.74)	1995 to 2000	2005 to 2010

HSBC Holdings plc options

	Options exercised	Exercise price euro per share	Date of award	Expiry date
Total options exercised by 10 employees of the HSBC France group	115,000	8.712 to 8.405 (average price 8.637)	2001 to 2002	2011 to 2012

Options granted by subsidiaries to their employees

Several of CCF's French subsidiaries have established their own share option plans. However, in order to comply with the regulations governing HSBC, CCF decided to cease this practice in 2001, with the exception of two subsidiaries, which were granted special dispensation. These were therefore the only two subsidiaries to have awarded share options during 2001. In 2002, only Banque Eurofin awarded options under the special dispensation granted by CCF. Since 2003, no subsidiary has awarded share options.

No Executive Director of HSBC France or member of HSBC France's Executive Committee holds options in the HSBC France group's subsidiaries.

Banque Chaix

	Options exercised	Exercise price euro per share	Date of award	Expiry date
Options exercised by Executive Directors in 2005				
P-M Bonaccorsi	1,800	105.94	7.06.2000	7.12.2005
J-P Mannini	1,350	105.94	7.06.2000	7.12.2005
Total options exercised by 11 employees	2,100	105.94	7.06.2000	7.12.2005

Banque de Savoie

	Options exercised	Exercise price euro per share	Date of award	Expiry date
Options exercised by Executive Directors in 2005				
L Hermet	1,500	64.79	8.02.1999	9.03.2005
	1,500	69.52	14.06.2000	12.07.2005
Options exercised by 8 employees	3,100 (average price to 67.12)	64.79 to 69.52	1999 to 2000	2005

Banque Dupuy, de Parseval

	Options exercised	Exercise price euro per share	Date of award	Expiry date
Options exercised by Executive Directors in 2005				
A Gros	1,400	36.36	3.04.2000	3.07.2005
	1,200	39.50	8.06.2000	8.09.2005
Options exercised by 5 employees	4,000	36.36 to 39.50 (average price 38.09)	2000	2005

Crédit Commercial du Sud-Ouest

	Options exercised	Exercise price euro per share	Date of award	Expiry date
Options exercised by Executive Directors in 2005				
B Francisoud	3,000	102.29	7.06.2000	7.12.2005
D Dejean	1,000	95.89	9.09.1999	9.03.2005
	850	102.29	7.06.2000	7.12.2005
Total options exercised by 9 employees	10,150	95.89 to 102.29 (average price 98.10)	1999 to 2000	2005

Employees, remuneration, share offering and incentive schemes (continued)

HSBC de Baecque Beau

	Options exercised	Exercise price euro per share	Date of award	Expiry date
Options exercised by Executive Directors in 2005				
O Motte	4,572	61.66	22.12.2000	22.12.2005

HSBC Private Bank France

Following the merger between HSBC Bank France, Banque Eurofin, Banque du Louvre and CCF Banque Privée Internationale on 1 October 2003, options over Banque Eurofin, Banque du Louvre and CCF Banque Privée Internationale shares have been exchanged for options over shares in the merged entity at a parity determined at the time of the merger.

In addition, a liquidity contract has been granted to beneficiaries of HSBC Private Bank France options, which sets out the terms and conditions for their exchange against ordinary HSBC Holdings shares on the basis of a parity of 1.83, fixed on 1 October 2003.

	Options exercised	Exercise price euro per share	Date of award	Expiry date
Options exercised by Executive Directors in 2005				
A Beauvy	13,500	10.84	21.12.1999	21.12.2009
C Guilloux	30,000	15.475	7.09.2001	7.10.2007
Total options exercised by 13 employees	217,835	10.84 to 20.80 (average price 14.75)	1999 to 2001	2007 to 2011

HSBC UBP

	Options exercised	Exercise price euro per share	Date of award	Expiry date
Options exercised by Executive Directors in 2005				
B Petin	2,200	47.81	12.07.2000	12.01.2006
J-L Wahl	1,200	47.81	12.07.2000	12.01.2006
Total options exercised by 10 employees	7,700	47.81	12.07.2000	12.01.2006

Sinopia Asset Management

	Options exercised	Exercise price euro per share	Date of award	Expiry date
Options exercised by an Executive Director in 2005				
P Goimard	10,000	18.86	18.02.2000	18.08.2005
Total options exercised by 9 employees	47,500	18.86	18.02.2000	18.08.2005

Recent developments and outlook

Post-balance sheet events

New products and services are frequently offered to the customers of the HSBC France Group. 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 deterioration or change affecting the issuer's or its subsidiaries' financial situation or outlook since 31 December 2005, the date of the last audited and published financial statements.

The main post-balance sheet events are:

HSBC Investments to reorganise Continental European asset management commercial teams.

On 1 January 2006 HSBC Investments (France), the Paris-based unit of the global asset management business of the Group, will reorganise its asset management commercial teams in Continental Europe by integrating the sales teams of Sinopia Asset Management.

The integrated sales and marketing team will be able to serve customers throughout Continental Europe to an even higher standard, leveraging a stronger and broader set of resources as a result of the integration of the previously separate teams of HSBC Investments and Sinopia Asset Management. The team will represent the services of HSBC Investments and those of the Group's specialist asset management companies, mainly including Sinopia Asset Management and HSBC Halbis Partners.

This reorganisation follows on from the announcement in December 2004 of a new global strategic plan for asset management activity. The new strategy for asset management reflects the HSBC Group's goal of providing its customers with a comprehensive, high value-added offering and being a world leader in asset management. As part of this plan, a new corporate structure has been created to:

- provide customers with investment solutions best adapted to their needs via a full range of products drawing on all the expertise of the HSBC Group, including multi-management strategies using third-party products;
- reinforce the specialisation of its investment companies to position them among the best in the market.

Therefore on 1 January 2006, the asset management activities of HSBC France will be organised around three entities:

- HSBC Investments (France), comprising:
  - All sales and marketing teams covering France and continental Europe, including those previously within Sinopia;
  - Core asset management activities for HSBC, namely liquidity management and multi-management strategies.

  HSBC Investments provides customers with a comprehensive range of investment solutions drawing on all the Group's investment capabilities.

  It has two main types of expertise:

  - Investment solutions that combine different investment strategies or even styles, drawing on the Group's international strength and all of its investment resources;
  - Highly specialised solutions created by the Group's specialist investment companies including HSBC; Halbis Partners and Sinopia Asset Management.
- HSBC Halbis Partners is the Group's specialist in high value-added fundamental active investment. It aims to create long-term sustainable performance in certain specific areas of expertise, which are European equities, global fixed-incom, emerging markets, Asian equities and some alternative investment strategies.
- Sinopia Asset Management is the Group's active quantitative investment specialist. It is well known for it rigorous investment style, research capability and ability to offer robust and innovative investment solutions.

Creation of a joint platform for employee savings plan administration.

AXA Epargne Entreprise, BNP Paribas Epargne & Retraite Entreprises (BNP Paribas ERE), HSBC Epargne Entreprise (HSBC EE) and Société Générale are to create a joint platform for employee savings plan administration in France.

Recent developments and outlook (continued)

The joint venture, a simplified limited company (*Société Anonyme Simplifiée*), with a capital of EUR 213,607 on 1 January, will be known as Service Epargne Entreprises. Ownership of its capital will be updated every year and will vary according to the volume of business given to it by each of the partners. It was as follows on 1 January 2006:

– 11.7 per cent by AXA Epargne Entreprise,

– 33.5 per cent by BNP Paribas ERE,

– 18.1 per cent by HSBC EE,

– 36.7 per cent by Société Générale.

This platform is set to become the leading player in employee savings account administration in France, with more than 4 million accounts under management and over 300 employees.

This joint venture will allow the four partners to take advantage of excellent growth opportunities offered by the employee savings market. The aim is to provide a growing number of companies and employees with a comprehensive range of high quality services, to support the expansion of employee savings and to provide a centralised account management service in association with several fund management companies.

The platform will allow the pooling of administration resources while at the same time allowing the partners to continue to distribute own-branded products to their own clients. Partners will be charged for the administration services received.

Disposal by HSBC France of its issuer services business to CACEIS.

HSBC France has sold its issuer services business to CACEIS for EUR 410,000 (USD 492,533).

The sale relates to the management of registered share account activity for issuing companies. These accounts will be transferred to CACEIS Corporate Trust, the issuer services subsidiary of CACEIS, commencing in the second quarter of 2006, through to December 2006.

HSBC France intends to focus on its remaining stock option scheme and bonus share issue management businesses which are not included as part of this sale.

Outlook

In France, the HSBC Group's major objective in 2006 is to continue building its profile and differentiating itself from its rivals.

Following the 2005 rebranding, the group intends to capitalise on the HSBC brand in France by raising its profile and strengthening its brand as an employer. HSBC wants to become a benchmark employer for 20 target educational establishments in France, increase recruitment of young graduates, bolster its training policy and make HSBC France a company that is recognised for its career opportunities and professional development.

To achieve these objectives, the HSBC France group will take full advantage of the HSBC Group's international strength. This strength was once again widely acknowledged in 2005, with HSBC winning numerous awards including: "Global Bank of the Year" (The Banker, September 2005), "Overall deal of the year" for the EUR 6billion French Government 50-year bond issue, in which HSBC was the lead arranger and manager (Euroweek, February 2006), "No. 2 cash management" (Euromoney, October 2005), "The World's Best Sub-Custodian" (Global Finance Magazine, August 2005), No.4 in the 2005 Accountability Rating of the Fortune Global 100 (Accountability Institute / Fortune, September 2005) and No. 29 in the 2005 Interbrand/Business Week Global Brand Scorecard.

The HSBC France group will also maintain its progress in customer service. It will open 20 *Premier* Centres in 2006, as well as increasing in-branch customer service training. There will be a drive to improve quality, including a toll-free phone line and a quality questionnaire, while internet services will be developed and their technology improved.

In 2006, the HSBC group will maintain its corporate social responsibility efforts in France. A CSR module will be included in manager training courses. Other existing initiatives will be stepped up, such as the carbon-neutral policy, responsible financing, socially responsible investment, diversity and the HSBC Education Foundation.

Persons responsible for the registration document and for auditing the financial statement

Responsible person for the Registration Document

Charles-Henri Filippi, Chairman and Chief Executive Officer.

Statement by the responsible person for the Registration Document

Having taken all reasonable steps for this purpose, I hereby certify that the information provided in this Registration Document is, to the best of my knowledge, true and accurate and there are no omissions that could impair its significance.

I have obtained a completion letter from the Statutory Auditors, in which they confirmed that they have verified the financial information relating to the statutory financial statements contained in this registration document, and that they also have conducted a general reading of this document.

The Statutory Auditors have issued a report on the financial information presented in this registration document, available on page 150 of this document.

Paris, 16 June 2006

Chairman and CEO, Charles-Henri Filippi

Responsible persons for auditing the financial statements

	Date first appointed	Date re-appointed	Date term ends
Incumbents			
KPMG Represented by Fabrice Odent 1, cours Valmy 92923 Paris la Défense Cedex	2001	–	2006[2]
BDO Marque & Gendrot[1] Represented by Joël Assayah 7, rue Ernest Renan 92130 Issy-les-Moulineaux	2005	–	2006[2]
Alternates			
Gérard Gaultry 1, cours Valmy 92923 Paris la Défense Cedex	2001	–	2006[2]
Patrick Giffaux[1] 25, quai Carnot 92210 Saint-Cloud	2005	–	2006[2]

1 *Appointed by the General Meeting held on 17 May 2005 following the resignation of RSM Salustro Reydel from its function of incumbent Statutory Auditor and of Benoit Lebrun from his function of alternate Statutory Auditor, due to the merger of RSM Salustro Reydel with KPMG.*

2 *The renewal of the Incumbent and Alternates Auditors for a further term of six years will be proposed to the Annual General Meeting to be held on 17 May 2006.*

Cross-reference table

The following information is provided for reference:

– Consolidated financial statements for the year ended 31 December 2004 and the Statutory Auditors' report on the consolidated financial statements, presented on pages 50-91 and 123-124 of the Annual Report and Accounts filed with the AMF on 29 June 2005 under reference number D.05-0952;

– Consolidated financial statements for the year ended 31 December 2003 and the Statutory Auditors' report on the consolidated financial statements, presented on pages 50-91 and 121-122 of the Annual Report and Accounts filed with the AMF on 14 June 2004 under reference number D.04-0930;

These documents are available at the www.hsbc.fr website or on the Autorité des Marchés Financiers' website www.amf-france.org.

1 *European Commission regulation EC 809/2004 of 29 April 2004 implementing European Parliament and Council directive 2003/71/EC as regards information contained in prospectuses, the structure of prospectuses, the inclusion of reference information, the publication of prospectuses and the dissemination of promotional information, known as the Prospectus Directive.*

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Web: www.bdp.fr

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Network of offices (continued)

HSBC GROUP INTERNATIONAL NETWORK

Around 9,500 offices in 76 countries and territories

EUROPE	OFFICES
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Belgium	2
Channel Islands	38
Cyprus	3
Czech Republic	9
France	807
Germany	11
Greece	79
Hungary	11
Ireland	8
Isle of Man	5
Italy	4
Luxembourg	4
Malta	61
Monaco	2
Netherlands	2
Poland	10
Russia	2
Slovakia	3
Spain	2
Sweden	4
Switzerland	12
Turkey	165
United Kingdom	1,743

ASIA-PACIFIC	
Australia	33
Bangladesh	7
Brunei Darussalam	13
China	50
Cook Islands	1
Hong Kong Special Administrative Region	357
India	61
Indonesia	14
Japan	5
Kazakhstan	1
Korea, Republic of	14
Macau Special Administrative Region	6
Malaysia	42
Maldives	1
New Zealand	9
Pakistan	2
Philippines	23
Singapore	21
Sri Lanka	11
Taiwan	18
Thailand	1
Vietnam	3

AMERICAS	
Argentina	147
Bahamas	6
Bermuda	15
Brazil	1,675
British Virgin Islands	1
Canada	317
Cayman Islands	5
Chile	3
Mexico	1,579
Panama	33
United States of America	1,922
Uruguay	4
Venezuela	1

MIDDLE EAST AND AFRICA	
Algeria	1
Bahrain	7
Egypt	22
Iran	1
Iraq	13
Israel	4
Jordan	2
Kuwait	1
Lebanon	6
Libya	1
Mauritius	12
Oman	5
Palestinian Autonomous Area	1
Qatar	4
Saudi Arabia	72
South Africa	4
United Arab Emirates	16

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FSC

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