2006

Annual Report and Accounts HSBC France

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, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises around 10,000 offices in 82 countries and territories in Europe, Asia, The Americas, The Middle East and Africa.

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

HSBC provides a comprehensive range of financial services to more than 125 million customers through four customer groups and global businesses: Personal Financial Services (including consumer finance); Commercial Banking; Corporate, Investment Banking and Markets; and Private Banking.

In 2006, HSBC's profit before tax was USD 22,086 million and profit attributable was USD 15,789 million. Total assets were USD 1,861 billion at 31 December 2006.

Geographical breakdown of profit before tax:

Year ended 31 December 2006

	USDm	%
Europe	6,974	31.5
Hong Kong	5,182	23.5
Rest of Asia Pacific	3,527	16.0
North America	4,668	21.1
Latin America	1,735	7.9
Profit before tax	22,086	100.00

AUTORITÉ DES MARCHÉS FINANCIERS

AMF

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Annual Report and Accounts 2006

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2006 was notable for significant acquisition of new customers and a sharp increase in name recognition associated with the use of the HSBC brand.

HSBC France continued to strengthen its positions in many areas, including Retail Banking, Corporate, Investment Banking and Markets, Asset Management and Private Banking. 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

Central to the strategic plan outlined in January 2005 and a major step forward in the bank's evolution, the deployment of the "HSBC" brand name in France in November 2005 was accompanied by large-scale advertising campaigns in airports, in the press, on television and in cinemas. These campaigns were effective in doubling the name recognition of the HSBC brand in France between November 2005 and January 2006, from 16 per cent to 34 per cent.

To increase the brand's prominence even further, a second wave of advertising conducted in the spring of 2006 raised the name recognition rate to 46 per cent in May.

In October 2006 a new phase of the institutional campaign was launched, featuring the philosophy of the brand: *"avoir l'esprit ouvert sur le monde, c'est comprendre les différences de point de vue"* ("being open-minded means understanding different points of view").

This campaign, called *"votre point de vue"* (your point of view), was again based on the diversity of points of view in the general public. The originality of this campaign is its interactive element: a new website, www.votrepointdevue.fr, provides a means for each person to share his or her own point of view and discover others' points of view. The objective is to prompt an exchange on a wide variety of subjects related to daily life. With the new campaign, name recognition has been lifted to 49 per cent.

In late September 2006 the roll-out of the HSBC name in France continued with the rebranding of eight branch offices of Société Marseillaise de Crédit in the Toulouse region, making HSBC a leading player in that area's banking market.

Following the adoption of the HSBC brand by the Group's five branch networks in France (HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie) in November 2005, operational integration of these networks continued throughout 2006.

In line with the programme in the strategic plan, retail expansion continued in 2006 with the opening of nine new branches (with another ten added in January and February 2007) and eight Premier centres.

Another key element of the strategic plan is the deployment in France of the HUB ("HSBC Universal Banking") system, which is the banking platform used by the HSBC Group in more than 60 countries. In 2004 and 2005, HSBC Picardie and HSBC UBP were the first to switch over to this system.

In 2007 it will be HSBC France's turn to migrate to it. The objective is to have single information system for the Group's banks in France which are already operating under a single brand name, so that all the branch networks can offer customers the same range of products and service and share the costs of IT system development and production.

In early 2006, the representative bodies of the staff of the constituent companies of the HSBC France platform were consulted on the measures in the social plan (Book III of France's Labour Code) that must accompany the planned reorganisation of central and back-office functions. These measures give priority to internal job reassignment and mobility and provide for 350 voluntary departures.

The employees concerned were informed of these measures and given an opportunity to request a mobility assignment or voluntary departure, expressing their wishes in interviews with HR managers or via the Internet or by mail. During the third quarter these requests were analysed from the standpoint of organisational needs. Responses were prepared and sent out in September. Since that time, employees who requested a mobility assignment have been interviewed by a team of specialists at a "redeployment centre" or by their HR managers, and employees who requested outplacement have been received by an external firm that has studied and reviewed with them the feasibility of their plans. A monitoring committee meets every two months to keep the staff representatives abreast of plan implementation.

Organisational consequences of the strategic plan and regulatory developments

Several large-scale projects to comply with regulatory developments continued in 2006, with significant impact on the organisation of internal control in particular[1]. CRBF (Financial and Banking Regulation Committee) Regulation 97-02 as amended came into force at the beginning of the year, and in compliance with its provisions, the following were designated for HSBC France:

– a permanent control officer, who is also responsible for coordination for the whole Group in France,

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

– a compliance control officer.

Regarding the Sarbanes-Oxley Act in the United States, the work needed to comply with its provisions consisted largely of updating the description of the internal control system. Lastly, work continued on putting in place the regulatory framework required by the Basel II Accord and on convergence projects for the group's IT systems, in particular HUB.

Further simplification of the HSBC France group's structure

In 2006, the HSBC France group moved forward on implementation of certain objectives set out in the strategic plan with, among other items, a reorganisation of Asset Management, illustrated by the following events:

– Staff reorganisation effective 1 January 2006 at HSBC Investments (France), HSBC France's Asset Management subsidiary, which was bolstered by the transfer of sales personnel from Sinopia Asset Management and a portion of support functions. This reorganisation is part of the "Strategy for Sustainable Growth" plan announced in December 2004 by the worldwide Asset Management business line of the HSBC Group. This strategy stems from the HSBC Group's ambition to offer its customers a full range of high-valued-added services and to be a major worldwide player in Asset Management.

  In France as from 1 January 2006, Asset Management is organised around three entities:

  – HSBC Investments (France) is set up to make all of the Group's Asset Management expertise available to customers. It includes:

    – all the sales forces covering France and continental Europe,

    – "core" Asset Management activities such as ordinary cash management, fixed-income management under constraint and multi-management.

  – Halbis Capital Management (France) is the specialist in active fundamental management with high value added. Its mission is to generate sustainable investment performance through value-added active fundamental management in its specific areas of expertise, which are European equities, world-wide fixed-income, emerging markets, Asian equities and certain alternative investment strategies.

  – Sinopia Asset Management is the specialist in quantitative management, well known in the market for its rigorous style, research capacity and ability to offer robust, inventive investment solutions.

– Creation on 2 February 2006 of a joint account management platform for employee share ownership plans, shared by AXA Epargne Entreprise, BNP Paribas Epargne & Retraite Entreprises, HSBC Epargne Entreprise, and Société Générale.

  This platform is the leading player in the French market with more than four million employee accounts under management and more than 300 employees. Its objective is to put the four partners in a favourable position to meet the opportunities arising in the fast-growing employee savings market: offer comprehensive, high-quality services to an increasing number of companies and beneficiaries; play a role in the expansion of this form of collective investment; and provide a central account-keeping service in collaboration with several financial management companies.

  This partnership provides a means of pooling the resources needed for administrative processing of account transactions. Each partner retains its own brand and its own customers. The joint platform will invoice each partner for the services provided to it.

HSBC France has sold its issuer services business to CACEIS (Credit Agricole and Caisse d'Epargne Investor Services). The business sold included all the registrar, transfer agent and corporate action activities. HSBC France has kept and will continue to develop its business in management of stock option and bonus share plans, which was not included in the sale.

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

1 *Cf. the Chairman's Report on internal control procedures, pages 31 to 43.*

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

2006 financial results of the HSBC Group in France (legal entities)

Under IFRS as adopted by the European Union, the profit before tax of the consolidated HSBC France group (legal entities rather than managerial scope) was EUR 801.5 million. After tax, profit attributable to shareholders of the Group was EUR 613 million.

Total operating income before loan impairment charges and other for credit risk provision was down compared with 2005, to EUR 2,614 million, because substantial capital gains had been booked upon disposal of non-strategic assets outside France. Corrected for the effect of these gains, net operating income was up 2.3 per cent.

After an unusual situation in 2005 in terms of release of credit risk provision, credit risk held at a very low level, with a net charge for credit risk of EUR 10 million.

Operating expenses were closely monitored, and tight cost control achieved a one per cent reduction from 2005 in this line item, to EUR 1,823 million including planned investments under the strategic plan.

Operating profit was EUR 781 million. Excluding the gains on disposal mentioned above, it was down one per cent compared with 2005.

After appropriation of profit, HSBC France shareholders' equity at year-end amounted to EUR 5.4 billion, and its international solvency ratio (Tier One) stood at 9.9 per cent, well above the minimum regulatory capital requirement, thanks to strict control of risk. The liquidity ratio averaged 112.9 per cent in 2006.

Return on average investment capital was 12%.

Net profit of HSBC France, the parent company, was EUR 434 million in 2006.

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

HSBC in France posted very good financial results in 2006: profit before tax of EUR 787 million, up 17 per cent from 2005, excluding non-recurring items (gains on disposal, release of impairment on PEL/CEL and changes in charges for credit risk).

The revenue growth of 5 per cent compared with 2005 (up 4 per cent excluding release of PEL/CEL impairment and gains on disposal) reflects varied trends across the business lines (see below).

Control of operating expenses was remarkable, with a rise of just 1.3 per cent, even though significant outlays were made as part of the Strategic Plan to expand marketing and sales, promote the HSBC brand and transform our technical systems.

The cost:income ratio, at 70 per cent, was down 2.4 points from the year before, in line with our efficiency plan.

After the substantial release of impairment in 2005, the cost of credit risk held a very low level.

Business segment results

Personal Financial Services

Since the rebranding in November 2005, HSBC in France has followed a strategy of active marketing designed to win over new customers.

In this effort, the tools of conquest include:

- entering into numerous partnerships with professional associations (lawyers, doctors, architects, etc.), thereby bolstering HSBC's presence in the professional market;
- establishing a privileged relationship with students under the "*Etudiants*" programme (partnership with some 20 schools);
- a special product and service offering for the international segment: "Home and Away" and "International Banking Center" (IBC) services (a network of 36 IBCs around the world and 200 "international customer" correspondents in France), the "Buying a Home in France" (BHF) and "Corporate Expatriate Employee" programmes for employees of international companies;
- a successful recommendation campaign with a conversion rate of 46 per cent; and
- a drive to expand in property lending, a key element in winning new customers.

With 90,000 customers added in 2006, the number of new customers was up 37 per cent from 2005. The highlights of this development drive include:

- a winning percentage of better than 130 per cent in strategic customer segments for HSBC France;
- a tripling of the number of new "*Etudiants*" customers;
- a 64 per cent increase in new international customers;

1 *The commentary on pages 4 to 7 relates to France's contribution to the HSBC Group under UK GAAP. The French managerial scope includes:*
- the HSBC France group's French activities but does not include the results of entities that, although legally owned by HSBC France, are located outside France (mainly HSBC France's branch in Belgium, CMSL in the UK and several subsidiaries in Asset management);
- the operating results of HSBC Paris Branch (a branch of HSBC Bank plc).

- growth in the customer base served by the HSBC platform, especially in the Premier (6 per cent) and international (13 per cent) segments.

HSBC's goal is to be the principal banker for each of its customers, and it has developed a range of products and services for this purpose.

The success of this strategy is reflected in volume growth:

- Sight deposits: up 8 per cent.
- Life insurance: assets of policies in force up 14 per cent, with 35 per cent of the total invested in unit-linked accounts in 2006, and successful introduction of the HSBC Evolution Patrimoine product.
- Property loan production: up 43 per cent.

The revenue impact of this strong business activity was held down, however, by the intense competition in lending and by the trend in interest rates.

Commercial Banking

The results of the first customer satisfaction surveys among corporate clients, and the subsequent improvement in those results, demonstrate the quality that HSBC has brought in: 87 per cent of clients will recommend HSBC (up from 75 per cent in October 2006).

Following the success of the initial foray to gain large commercial clients in 2005, the new-customer strategy proceeded at a brisk pace in 2006, with strong growth in new customers (up 48 per cent) leading to a 5 per cent expansion in the customer base.

This was accomplished by extending and enhancing the line-up of products and services, with emphasis on the differentiating factor provided by the HSBC Group, its international scale:

- Continued success of the "Club Pays" in the United Kingdom and China, with extension of the concept to Hong Kong under study;
- Joint marketing with Global Transactions Banking (CRM (Customer Relationship Management) systems, prospecting, advertising campaign);
- Enhancement of bilateral offerings and participation at the "World SME Exhibition" in Hong Kong.

Cross-border synergies were supplemented by synergies between business lines:

- successful marketing of funds managed by the Group, in particular Sinopia funds;
- HSBC Mid cap: LBO, IPO and similar transactions carried out jointly with Corporate and Investment Banking;
- Private Banking: entrepreneur clients for other banking services.

The online banking service was enhanced further with the introduction of "Sales Zone" at "Elys PC" and "Elys PC International", marketed by the call centres. The percentage of customers equipped with Internet connections continued to rise, reaching 62 per cent (versus 51 per cent in 2005).

Growth in the customer base translated into a 12 per cent increase in deposits and, under the impetus of the lending drive begun in 2005, a 41.5 per cent rise in production of business equipment loans.

However, as in Personal Financial Services, revenue growth continued to be held back by intense competition and unfavourable trends in interest rates.

Corporate, Investment Banking and Markets (CIBM)

Broader coverage of the large corporate sector in France and the presence of global platforms in Paris played a part in the growth of this business line.

The three global platforms now in operation in Paris are a perfect illustration of the HSBC development model: "product" expertise developed and managed where it is strong, served by local outposts with intimate knowledge of local markets and by a worldwide sales force:

- the Liquid platform (European government bonds): HSBC's status as a primary dealer for government debt of all the countries issuing in euro has led to strong growth in deal flow, especially with institutional and hedge fund customers, and sharply increased the profitability of this business;
- the Structured Equity Derivatives platform: the range of products built on listed underlyings in 35 countries has broadened and the customer base has expanded through transaction processing platforms in Hong Kong, New York and Dusseldorf;
- the Structured Interest-Rate Derivatives platform.

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

Revenues from fixed income and interest rates derivatives rose by 50 per cent and revenue of the Structured Equity Derivatives have more than tripled.

With the foreign exchange capabilities provided by the HSBC Group, all French corporates are now aware of the trading possibilities that HSBC France can offer. Synergies between the corporate customer base and customers of the Regional Treasury Centres were exploited further.

The corporate and investment banking business rang up a number of successes in 2006, not just in France but in cross-border transactions as well, and HSBC's standing was confirmed in the various league tables:

– Mergers & Acquisitions: HBSC continues in the Top Ten, ranking 7th (Completed Transactions – Thomson). HSBC took part in large transactions, both French and cross-border: Mittal/Arcelor, sale of TDF to Texas Pacific Group and Axa, Vinci/ASF, Natixis, acquisition of Cora GMB by Delhaize.

– Primary market – equities: HSBC ranked 5th (Initial public offerings – Bondware). In a market that saw numerous transactions in equity stakes involving French banks, HSBC lead-managed transactions outside the banking sector, such as the initial public offering of Aéroports de Paris.

– Fixed Income Issuance: HSBC ranked 4th (among French issuers across all currencies – Bloomberg).

– Syndicated loans: HSBC ranked 6th (book runner – Dialogic Loanware).

Furthermore, HSBC completed numerous cross-border transactions in Project finance and Structured finance.

The CIBM business line developed its business with due regard for its assigned objective of controlling its risk-weighted capital requirement.

In Asset Management activities, 2006 was notable for consolidation of the marketing and sales staffs and success in gaining new clients and entering new markets. With the formation of Halbis in 2006, the HSBC Group's specialist in fundamental equity management, the structural organisation of the business line has now been finalised.

HSBC Investments (France), positioned as the HSBC Group's expert in investment and wealth management solutions for continental Europe, achieved:

– a brisk expansion in France with notable success in doing business with institutional clients;

– close collaboration with Personal Financial Services: an inflow of EUR 1 billion in new funds (thanks to the success of the "HSBC Objective 3-6-8" and "HSBC Objective 3-6-8 PEA" multi-manager and guaranteed investment funds), training of a thousand relationship managers development of specialised marketing tools with periodic reporting and analysis features, and numerous road shows for potential clients;

– strong expansion in the strategic markets of continental Europe, as reflected in significant funds under management (EUR 8 billion) in Switzerland, Italy, Spain (where a subsidiary was set up in Madrid) and Scandinavia (where the representative office in Stockholm was converted to a branch).

Sinopia, the centre of the HSBC Group's expertise in quantitative management, continued its geographic and product-line expansion with:

– the creation of Sinopia UK (EUR 13 billion of assets under management);

– the introduction of new absolute return strategies with multiple performance drivers.

The launch of Halbis in France brought in new funds of more than EUR 3.4 billion. In consonance with the HSBC Group's worldwide positioning in corporate responsibility, Halbis moved into socially responsible investing with its new "GIF Sustainability Leaders" fund, invested in European multinationals with outstanding social and environmental practices.

Funds under management or distributed topped USD 100 billion (EUR 84.5 billion including UK activities) and now represent 30 per cent of the Group's worldwide total for asset management.

Again in 2006, the investment skills of the different entities were recognised in industry rankings and prizes. Among the awards:

- Sinopia:
  - 5th – Top Hedge Funds in Europe (Institutional Investor);
  - Actiprimes Obligations – best fund over ten years in the Bond Global Euro Hedged category (Reuters Lippers Funds Awards France).
- Halbis:
  - 3rd prize for HSBC GIF Euro High Yield Bond in the three-year high-yield bond category (AGEFI – Grand Prix of Asset Management);
  - 53 per cent of the european equity funds ranked in the top 25 or 50 per cent of their category over one year (Micropal).
- For the funds distributed by HSBC Investments and managed by Halbis Capital Management, Sinopia and HSBC Investments:
  - The overall "multi-manager" funds were awarded four and five-star ratings (Standard & Poor's).
  - Silver award for performances over five years in the Equity and Mixed category (Investir Magazine).

This commercial momentum is reflected in 24 per cent revenue growth and very strong earnings growth.

Private Banking

After several years of restructuring and with a new management team brought in 2005, the private banking business line showed new dynamism in 2006 as it beefed up its staff and its skills in the field. The changes include:

- a new front-office organisation that has raised sales productivity significantly and brought in new private clients;
- synergies with Personal Financial Services and Corporate Banking achieved through transfers of clients that had a highly favourable impact: one euro of new money collected for every euro of business transferred;
- successful openings of branch offices in Lyon, Bordeaux and Marseille, proving the value of geographic proximity.

The product and service offering was also filled out considerably:

- The wealth management advice and "engineering" business, with analysis of inheritance, tax and cross-border issues, was strengthened as a means of driving sales.
- Structured products and stock option hedging instruments were developed in cooperation with HSBC Financial Products.
- The products offered by Louvre Gestion through the Group's private banking entities proved successful.
- The discretionary multi-manager programme, which brings together the expertise of the various HSBC Private Banking entities (Private Bank Investment Group, Louvre Gestion, LGI, and HSBC Alternative Investments Ltd) was launched in April 2006.
- A number of new products were launched with partners external to the HSBC Group:
  - with Edgewood, the "US Quality Fund", invested in US growth stocks;
  - with Crédit Agricole Asset Management, "Alpha Bond Plus", an innovative fixed-income product.

Private Banking's line of mutual funds posted excellent performance (4th quarter 2006):

- 30 per cent of funds in the top 10 per cent;
- 83 per cent of funds in the top 25 or 50 per cent.

Moreover, as in previous years, the quality of Private Banking's management was recognised in industry awards:

- "OPA Monde", best fund over 3 years, and "Senioractions", tied for 2nd in the international equities category (Agefi – 2006 Grand Prix for asset management);
- "America LMM", 3rd among French funds over five years in the U.S. equity and mixed equity category (2006 Grand Prix des Sicav – Le Figaro & Journal des Finances).

Business growth was accompanied by consolidation of support staff in internal control, compliance and IT.

Assets under management increased by 13 per cent to EUR 13.4 billion, with the growth due mainly to new money, and financial results improved sharply compared with 2005.

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

Proposed resolutions

The Board of Directors has drawn up the following resolutions to be presented at the Annual General Meeting of Shareholders on 10 May 2007.

Ordinary business

In Resolution 1, the Board proposes that the shareholders, having read the Board's management report, the Statutory Auditors' report on the financial statements, the Chairman's report on corporate governance and internal control procedures, and the Statutory Auditors' report on the Chairman's report regarding the internal control procedures, approve the annual financial statements for the year ended 31 December 2006 as well as the transactions reflected in those statements or summarised in those reports.

Resolution 2 concerns the allocation of the 2006 net profit which after the allocation of EUR 136,672.00 to the legal reserve, amounts to EUR 434,228,894.36. The dividend to be paid to shareholders would be EUR 8.10 per share, for a total distribution of EUR 613,032,664.50.

This dividend would be distributed thanks to the allocation of all the distributable profit and a deduction of EUR 178,803,770.14 from free reserves. The dividend will be payable beginning 11 May 2007, after deduction of the advance dividend of EUR 4 per share decided by the Board on 25 July 2006 and paid in the form of shares issued at that date.

It is also proposed that you allow the Board the choice to pay this dividend either entirely in cash or partly in cash and partly in shares of HSBC Private Banking Holdings (Suisse) SA. In the latter case, each shareholder would have the option of taking payment in cash or in kind. For the purposes of this distribution, each share of HSBC Private Banking Holdings (Suisse) SA would be valued at its fair market value of EUR 5,375.16.

Resolution 3 proposes that you approve the consolidated financial statements at 31 December 2006 so as to comply with Article L. 225-100 of the French Commercial Code, after having heard the Statutory Auditors' report on consolidated financial statements.

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

Resolution 5 proposes that you take note of the expiry of the term of office of Mr Jean-Claude Jolain as Director.

Resolutions 6 and 7 propose that you renew the directorships of Mr Stephen Green and Mr Philippe Pontet for a term of four years ending with the Annual General Meeting that will be called to approve the financial statements of the year ending in 2010.

In Resolution 8, the Board proposes that you appoint Léger & associés and Mr François Allain as new statutory and alternate Auditors for the remaining term of their predecessors, BDO Marque & Gendrot and Mr Patrick Giffaux, who have resigned. That term will end with the General Meeting called to approve the financial statements of the year ending in 2011.

Special business

To enable your company to build up its equity capital, if necessary, or to take advantage of investment opportunities that may arise, Resolution 9 proposes that you authorise the Board to increase the Company's share capital to EUR 120 million. The proposed resolution also allows this to be done by incorporation of reserves and share premiums.

Under Article L. 225-129-6, indent 1 of the French Commercial Code, whenever the shareholders delegate authority to the Board to make a cash capital increase, the shareholders must also, at the same extraordinary general meeting, consider a draft resolution to make a capital increase under the conditions set forth in Article L. 443-5 of the French Labour Code, that is reserved for participants in an employee share ownership plan.

Furthermore, under Article L. 225-129-6, indent 2 of the French Commercial Code, every three years the shareholders must consider a draft resolution to make a capital increase reserved for employees of the company and its affiliated companies under the conditions set forth in Article L. 443-5 of the French Labour Code, if the shares held collectively or individually during the lock-up period by employees of the company and companies affiliated with it within the meaning of Article L.225-180 of the French Commercial Code represent less than 3 per cent of the share capital.

At 31 December 2006, employees held no equity interest in the company under the conditions of Article L. 225-102 of the French Commercial Code. The most recent previous resolution submitted to you pursuant to Article L. 225-129-6, indent 2 of the French Commercial Code resulted from the Annual General Meeting of 12 May 2004.

To comply with the aforementioned legal requirements, we ask you in Resolution 10 to decide on the principle of granting an authority to the Board to increase the share capital by issuing shares reserved for participants in the employee share ownership plan.

This resolution is presented to you to meet a legal obligation, but your Board is not disposed to make a capital increase of this kind, given that employees of the company are already able to participate in capital increases reserved for them under the Employee Share Ownership Plan of the HSBC Group. You are therefore requested to reject this resolution.

Resolution 11 proposes to harmonise the Company's Articles of Association with the requirements of Decree 2006-1566 of 11 December 2006, which amended Decree 67-236 of 23 March 1967 on commercial companies. This decree has amended, inter alia, the procedures governing a shareholder's right to participate in general meetings.

Powers (Resolution 12)

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

The Board hopes that the resolutions we have submitted to you will meet with your approval except for Resolution 10.

Senior Executives

Executive Management Committee

Charles-Henri Filippi *Chairman and Chief Executive Officer, Group Managing Director and a member of the Group Management Board HSBC Holdings plc, a Director of HSBC Bank plc.*
Age 54. 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.

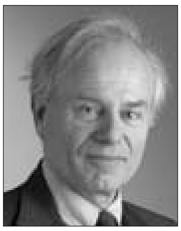
Patrick Careil *Director and Deputy Chief Executive Officer, Head of Retail Banking.*
Age 59. Having previously held senior appointments in the French Civil Service and as adviser to several Ministers, was appointed Chairman and CEO of Banque Hervet in 1989. Chairman of Société Marseillaise de Crédit (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 52. 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, market risk, legal and tax, compliance).

Charles-Henri Filippi

Patrick Careil

Gilles Denoyel



Philippe Pontet *Director and Vice-Chairman Corporate Finance Europe, HSBC France.*
Age 64. 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 46. 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. Since May 2006, Head of HSBC Global Markets for Europe, Middle East and Africa.

Christophe de Backer *Senior Corporate Vice-President, Private Banking.*
Age 44. 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 44. 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 47. 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.

Samir Assaf

Christophe de Backer

Jean Beunardeau

Matthew Paul Smith

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
Caroline Brousse	Head of Asset Management
Alain Cadiou	Head of Group Audit France
Didier Descamps	Treasurer and Deputy Head of Global Markets 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. Group Managing Director and member of the Group Management Board, HSBC Holdings plc.

Other directorships in the HSBC Group:
Chairman of the Supervisory Board, HSBC Private Bank France (since 28 September 2006). Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG (since 31 July 2006). Director, HSBC Bank plc. Director, HSBC Private Banking Holdings (Suisse) SA. Directorship expired in 2006: Director, HSBC Asset Management Holding.

Other directorships outside of the HSBC Group:
Director and member of the Executive Commission, Altadis. Director, Centre National d'Art et de Culture Georges Pompidou.

Gilles Denoyel *Born in 1954* [1]
Holds 1 HSBC France share. First elected: 2004. Last re-elected: 2006. Term ends: 2010.

Principal position:
Deputy CEO, HSBC France.

Other directorships in the HSBC Group:
Chairman and CEO, HSBC Asset Management Holding (since 1 January 2006). Chairman of SAS, HSBC Investments FCP (France) (since 6 February 2006). Chairman, HSBC Investments (France) (since 1 January 2006). Chairman, Sinopia Asset Management (since 6 February 2006). Chairman, Halbis Capital Management (France) (since 6 February 2006). Chairman, HSBC Epargne Entreprise (since 5 May 2006). Vice-Chairman, Erisa (since 9 May 2006). Director, Erisa Iard. Director, Sinopia-Société de Gestion (permanent representative of HSBC Asset Management Holding). Member of the Supervisory Board, HSBC Private Bank France. Directorship expired in 2006: Chairman, HSBC FCP (France) SAS.

Other directorships outside of the HSBC Group:
Director, DCN. Member of the orientation committee, Euronext (since 1 January 2006).

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).

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. Last re-elected: 2006. Term ends: 2010.
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 10.*

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]*:*
Director, Oberthur Card Systems. Manager, Société d'Exploitation et d'Investissements Hôteliers – SEIH. Directorship expired in 2006: Chairman, Maison de la France.

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 to 2003, and responsible for all of HSBC's business throughout South America from 2000 to 2003. Chief Executive of HSBC Bank plc from 2004 to 6 March 2006. Executive Director of HSBC Holdings plc since 2004. Group Chief Executive of HSBC Holdings plc since 26 May 2006.

Stephen Green *Born in 1948*
Holds 1 HSBC France share. First elected: 2000. Last re-elected: 2003. Term ends: 2007[2].
Member of the HSBC France Nomination and Remuneration Committee.

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

Other directorships [1]*:*
Chairman, British Bankers' Association (since 28 November 2006). Director, Friends of the Archbishop of Canterbury's Anglican Communion Fund, Inc. Director, The Institute of International Finance, Inc. Director, British Museum. Director, China Festival 2008 (since 21 July 2006). Director, The Hong Kong Association (since 11 July 2006). Director, Confucius Institute for Business, London (since 20 July 2006). Director, China Now Trading Limited (since 19 February 2007). Member, London Business School.

Résumé:
British nationality. Joined HSBC in 1982. 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. Group Chairman of HSBC Holdings plc since 26 May 2006.

1 *For the most part, appointments held in companies which do not belong to the group in which the Directors have their principal position.*
2 *Director re-elected by the Annual General Meeting held on 10 May 2007 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 2010.*

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, Société Anonyme des Galeries Lafayette.

Other directorships[1]*:*
Chairman and CEO, Monoprix SA. Director, Casino Guichard Perrachon. Director, Société d'Exploitation du Palais des Congrès de Paris. Member of the Executive Board, MEDEF (since February 2006). Member, Union du Grand Commerce de Centre Ville (UCV). Member of the Board of Directors, National Retail Federation (NRF-USA). Elected member, Chambre de Commerce et d'Industrie de Paris.

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[2].
Independent Director. Member of the HSBC France Nomination and Remuneration Committee.

Principal position:
Chairman and CEO, Sagi.

Other directorships[1]*:*
Chairman and CEO, Ville Service Plus. Director, Unibail Holding. Member of the Supervisory Board, GCE Immobilier (Caisse d'Epargne Group).

Résumé:
From 1968 to 1986, he held a number of ministerial positions, and at Mairie de Paris. 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:
Director, Sanofi-Aventis. Member of the Supervisory Board, Dresdner Bank AG. Member of the Supervisory Board, Adidas-Salomon. Member of the Supervisory Board, Allianz AG. Member of the Supervisory Board, IDI (Institut de Développement Industriel). Directorship expired in 2006: Director, Essilor.

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. Chairman, Groupe Euris.

Other directorships[1]*:*
Chairman and CEO, Rallye. Chairman, Euris. Chairman, Finatis. Vice-Chairman, Fondation Euris. Chairman, association "Promotion des talents". Honorary Chairman, Institut d'Expertise et de Prospective de l'École Normale Supérieure. Member of the Supervisory Board, Laurus. Member of the Supervisory Board, Natixis. Associé Commanditaire, Rothschild & Cie Banque. Director, Fimalac. Manager, SCI Penthièvre Seine. Manager, SCI Penthièvre Neuilly. Censor, Caisse Nationale des Caisses d'Epargne et de Prévoyance (CNCE). Member of the Advisory Committee, Banque de France. Directorships expired in 2006: Member of the Supervisory Board, Groupe Marc de Lacharrière (SCA). Censor, Fimalac.

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.*
2 *Director retiring by rotation at the Annual General Meeting held on 10 May 2007 and who did not stand for re-election.*

Corporate Governance (continued)

Philippe Pontet *Born in 1942*[1]
Holds 1 HSBC France share. First elected: 2005. Term ends: 2007[2].

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

Other directorships:
Chairman, SOGEPA. Chairman, SOGEADE Gérance.

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 as permanent representative of TSA. Director, France Telecom. Censor, Cap Gemini. Directorship expired in 2006: Censor, Pages Jaunes Groupe.

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.
Independent Director. Member of the HSBC France Audit Committee.

Other directorships:
Independent Director and member of the Audit Committee of HSBC Bank plc. Director, Ingenious Music VCT 2 plc.

Résumé:
British nationality. He spent his whole 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 10.*
2 *Director re-elected by the Annual General Meeting held on 10 May 2007 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 2010.*

Directorships held[1] 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 ends	**2006**	2005	2004	2003	2002
Charles-Henri Filippi Chairman & CEO, HSBC France	1998	2008	Directorships in the HSBC Group: Chairman and CEO: HSBC France. Group Managing Director and member of the Group Management Board: HSBC Holdings plc. Chairman of the Supervisory Board:HSBC Private Bank France. Member of the Supervisory Board: HSBCTrinkaus & Burkhardt AG. Director: HSBC Bank plc, HSBC Private Banking Holdings (Suisse) SA. Directorships outside of the HSBC Group: Director and member of the Executive Commission: Altadis. Director: Centre National d'Art et de Culture Georges Pompidou	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.
Gilles Denoyel Deputy CEO, HSBC France	2004	2010	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman and CEO: HSBC Asset Management Holding. Chairman of SAS: HSBC Investments FCP (France). Chairman: HSBC Investments (France), Sinopia Asset Management, Halbis Capital Management (France), HSBC Epargne Entreprise. Vice Chairman: Erisa. Director: Erisa lard, Sinopia – Société de Gestion (permanent representative of HSBC Asset Management Holding). Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCN. Member of the orientation committee: Euronext.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Director: Erisa, Erisa lard, 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 *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)

Director's name Principal position	First elected	Term ends	**2006**	2005	2004	2003	2002
Patrick Careil Deputy CEO, HSBC France	2004	2008	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Director: Société Marseillaise de Crédit. 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: 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	2010	Chairman and CEO: Bouygues. Director: TF1, Société de Distribution d'Eau de la Côte d'Ivoire (SODECI), Compagnie Ivoirienne d'Electricité (CIE). Chairman: SCDM, Actiby (permanent representative of SCDM), SCDM Participations (permanent representative of SCDM).	Chairman and CEO: Bouygues. Director: TF1, Société de Distribution d'Eau de la Côte d'Ivoire (SODECI), Compagnie Ivoirienne d'Electricité (CIE). Chairman: SCDM, Actiby (permanent representative of SCDM), SCDM Participations (permanent representative of SCDM).	Chairman and CEO: Bouygues. Director: TF1, Société de Distribution d'Eau de la Côte d'Ivoire (SODECI), Compagnie Ivoirienne d'Electricité (CIE). Chairman: SCDM.	Chairman and CEO: Bouygues. Director: TF1, Société de Distribution d'Eau de la Côte d'Ivoire (SODECI), Compagnie Ivoirienne d'Electricité (CIE). Chairman: SCDM.	Chairman and CEO: Bouygues. Director: TF1, Actiby, Société de Distribution d'Eau de la Côte d'Ivoire (SODECI), Compagnie Ivoirienne d'Electricité (CIE). Chairman and CEO: SCDM.
Evelyn Cesari Director elected by employees	2000	2008	–	–	–	–	–
Paul Dubrule Founding Co-Chairman, Accor	1999	2009	Founding Co-Chairman: Accor. Director: Oberthur Card Systems. Manager: Société d'Exploitation et d'Investissements Hôteliers – SEIH.	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, Member of the Management Board: Accor.	Founding Co-Chairman, Member of the Management Board: Accor.	Member of the Management Board: Accor.
Maurice Ettori Director elected by employees	2004	2008	–	–	–	–	–

Director's name Principal position	First elected	Term ends	**2006**	2005	2004	2003	2002
Michael Geoghegan Group Chief Executive, HSBC Holdings plc	2004	2008	Group Chief Executive: HSBC Holdings plc. Directorships outside of the HSBC Group: Non-executive Director and Chairman: Young Enterprise.	Executive Director: HSBC Holdings plc. Directorships outside of the HSBC Group: Non-executive Director and Chairman: Young Enterprise	Executive Director: HSBC Holdings plc. Chief Executive Officer: HSBC Bank plc. Directorships outside of the HSBC Group: Non-executive Director: Young Enterprise.	–	–
Stephen Green Group Chairman, HSBC Holdings plc	2000	2007[1]	Group Chairman, HSBC Holdings plc. Directorships outside of the HSBC Group: Chairman: British Bankers' Association. Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., The Institute of International Finance, Inc., British Museum, China Festival 2008, The Hong Kong Association, Confucius Institute for Business, London. Member: London Business School.	Executive Director and Group Chief Executive: HSBC Holdings plc. Directorships outside of the HSBC Group: Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., The Institute of International Finance, Inc. Member: London Business School, British Museum.	Executive Director and Group Chief Executive: HSBC Holdings plc. Directorships outside of the HSBC Group: 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. Directorships outside of the HSBC Group: Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc.	Chairman: HSBC Investment Bank Holdings plc. Executive Director: HSBC Holdings plc. Directorships outside of the HSBC Group: 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, Société Anonymes des Galeries Lafayette	1999	2008	Chairman of the Management Board, Société Anonyme des Galeries Lafayette. Chairman and CEO: Monoprix SA. Director: Casino Guichard Perrachon, Société d'Exploitation du Palais des Congrès de Paris. Member of the Executive Board: MEDEF. Member: Union du Grand Commerce de Centre Ville (UCV), Board of Directors National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.	Chairman of the Management Board: Galeries Lafayette. Chairman and 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 and 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 and CEO: Monoprix SA. Member of the Supervisory Board: Casino Guichard-Perrachon.	Co-Chairman of the Management Board: Galeries Lafayette. Chairman and CEO: Monoprix SA. Member of the Supervisory Board: Casino Guichard-Perrachon.
Jean-Claude Jolain Chairman & CEO, Sagi	1987	2007[2]	Chairman and CEO: Sagi, Ville Service Plus. Director: Unibail Holding. Member of the Supervisory Board: GCE Immobilier (Caisse d'Epargne Group).	Chairman and CEO: Sagi, Ville Service Plus. Director: Unibail.	Chairman and CEO: Sagi, Ville Service Plus. Director: Unibail.	Chairman and CEO: Sagi, Ville Service Plus. Chairman: UESL. Director: Unibail.	Chairman and CEO: Sagi, Ville Service Plus. Chairman: UESL. Director: Unibail, Perexia.

1 *Director re-elected by the Annual General Meeting held on 10 May 2007 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 2010.*
2 *Director retiring by rotation at the Annual General Meeting held on 10 May 2007 and not standing for re-election.*

Corporate Governance (continued)

Director's name Principal position	First elected	Term ends	2006	2005	2004	2003	2002
Igor Landau Company Director	2002	2008	Director: Sanofi-Aventis. Member of the Supervisory Board: Dresdner Bank AG, Adidas-Salomon, Allianz AG, IDI (Institut de Développement Industriel).	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.
Jean-Charles Naouri Chairman & CEO, Casino Guichard-Perrachon	1999	2009	Chairman and CEO: Casino Guichard-Perrachon, Rallye. Chairman: Groupe Euris, association "Promotion des talents". Chairman of the Board: Euris, Finatis. Vice-Chairman: Fondation Euris. Honorary Chairman:Institut d'Expertise et de Prospective de l'École Normale Supérieure. Member of the Supervisory Board: Laurus, Natixis. Associé Commanditaire: Rothschild & Cie Banque. Director: Fimalac. Manager: SCI Penthièvre Seine, SCI Penthièvre Neuilly. Censor: Caisse Nationale des Caisses d'Epargne et de Prévoyance (CNCE). Member of the Advisory Board: Banque de France.	Chairman and 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 and 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.
Philippe Pontet Vice Chairman Corporate Finance Europe, HSBC France	2005	2007[1]	Vice Chairman Corporate Finance Europe: HSBC France. Chairman: SOGEPA, SOGEADE Gérance.	Vice Chairman Corporate Finance Europe: HSBC France. Chairman: SOGEPA, SOGEADE Gérance.	–	–	–

Director's name Principal position	First elected	Term ends	**2006**	2005	2004	2003	2002
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 TSA), France Télécom. Censor: 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. Censor: Pages Jaunes Groupe, 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.
Joyce Semelin Director elected by employees	2004	2008	–	–	–	–	–
Peter Shawyer Company Director	2005	2009	Independent Director and member of the Audit committee : HSBC Bank plc. Director: Ingenious Music VCT 2 plc.	Director : HSBC Bank plc, Ingenious Music VCT 2 plc.	–	–	–

1 *Director re-elected by the Annual General Meeting held on 10 May 2007 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 2010.*

Corporate Governance (continued)

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.

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 for the Charmain and between 0 per cent and 150 per cent for the Deputy CEOs 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 Holding plc shares were granted in 2006 to the Executive Directors. The details are shown in the Share options and shares plans section on page 163 to 165.

The Executive Directors and Senior Corporate Vice-Presidents of HSBC France have a defined benefit supplementary pension scheme. This plan guarantees members a pre-determined absolute supplementary pension income based on their length of service. 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. The Board of Directors decided to revise the basis of these pensions in its 27 February 2007 meeting, and its decision was applied retrospectively from 1 January 2007. On this new basis and at 1 January 2007, C-H Filippi had accrued pension rights at HSBC France representing 20 per cent of his fixed 2006 salary and 6 per cent of his total 2006 remuneration. At the same date, G Denoyel had accrued pension rights at HSBC France representing 14 per cent of his fixed 2006 salary and 8 per cent of his total 2006 remuneration. P Careil had accrued pension rights at HSBC France representing 13 per cent of his fixed 2006 salary and 7 per cent of his total 2006 remuneration. On this new basis, the present value of these supplementary pension commitments would be EUR 4.9 million at 31 December 2006. C-H Filippi has been employed since 29 February 2004 by HSBC Asia Holdings, Group Managing Director of HSBC Holdings plc, 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 2006, the global amount of the guaranteed pension income was EUR 600,000[1], including the legal and supplementary pension schemes and the one described above payable by HSBC France.

Finally, the Executive Directors also have a company car.

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

2006 cash remuneration

The amount of direct and indirect cash remuneration received in 2006 by the Chairman and CEO, the Deputy CEOs and the Senior Corporate Vice-Presidents (7 persons), including those paid by other HSBC Group companies, amounted to EUR 2,429,294 for the fixed component and EUR 5,501,818 for the variable component.

Cash emoluments, including all benefits in kind, paid to each Executive Director in respect of 2006 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*	*2006 Total*	*2005 Total*
Charles-Henri Filippi [2, 3]	620,000	1,280,000	8,725	53,030	1,961,755	1,499,474
Gilles Denoyel	365,000	300,000	-	22,000	687,000	672,000
Patrick Careil	350,000	300,000	2,130	22,000	674,130	654,132

1 *Variable component calculated in respect of 2006 and paid in 2007.*
2 *A part of this remuneration was paid by other HSBC Group companies in respect of his functions within the Group.*
3 *These amounts exclude the part of the variable remuneration which has been paid into the UK pension scheme in exchange for the prior waiver of bonus, i.e. EUR 320,000 in respect of 2006 and EUR 300,000 in respect of 2005.*

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 or renounce them. 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.

Total Directors' fees paid in May 2007 in respect of 2006 amounted to EUR 0.4 million against EUR 0.382 million paid in 2006 in respect of 2005.

Corporate Governance (continued)

Cash remuneration paid to each Director in 2006 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]	EUR51,250	EUR620,000	EUR840,000[2]	EUR8,725	EUR1,519,975
Gilles Denoyel	EUR22,000	EUR365,000	EUR300,000	–	EUR687,000
Patrick Careil	EUR22,000	EUR350,000	EUR280,000	EUR2,130	EUR654,130
Stephen K. Green[3]	–	GBP1,170,000	GBP1,750,000	GBP13,658	GBP2,933,658
Michael F. Geoghegan[3]	–	GBP939,000	–[4]	GBP19,000	GBP958,000
Philippe Pontet[5]	EUR16,500	EUR350,000	EUR250,000	–	EUR616,500
Directors elected by the employees					
Evelyn Césari	EUR22,000				EUR22,000
Maurice Ettori	EUR22,000				EUR22,000
Philippe Purdy[6]	EUR22,000				EUR22,000
Joyce Semelin[6]	EUR22,000				EUR22,000
Independent Directors					
Martin Bouygues	EUR22,000	–	–	–	EUR22,000
Paul Dubrule	EUR32,000	–	–	–	EUR32,000
Philippe Houzé	EUR32,000	–	–	–	EUR32,000
Jean-Claude Jolain	EUR39,500	–	–	–	EUR39,500
Igor Landau	EUR22,000	–	–	–	EUR22,000
Jean-Charles Naouri	EUR22,000	–	–	–	EUR22,000
Marcel Roulet	EUR42,000	–	–	–	EUR42,000
Peter Shawyer[7]	EUR80,000[8]	–	–	–	EUR80,000
Rémi Vermeiren[9]	EUR4,125[10]	–	–	–	EUR4,125

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 300,000.*
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 equal to the amount of GBP1,818,750 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 *Of which EUR 18,000 paid by HSBC France, excluding withholding tax.*
9 *His appointment ended on 17 May 2005.*
10 *Amount excluding withholding tax.*

Auditors’ fees paid in 2006 within the HSBC France group

(in thousands of euros)	KPMG Amount 2006[1]	KPMG Amount 2005[2]	KPMG % 2006	KPMG % 2005	BDO Marque & Gendrot Amount 2006[1]	BDO Marque & Gendrot Amount 2005[2]	BDO Marque & Gendrot % 2006	BDO Marque & Gendrot % 2005	Others Amount 2006[1]	Others Amount 2005[2]	Others % 2006	Others % 2005
Audit												
Statutory audit, certification, examination of parent company and consolidated accounts	**1,824**	2,163	**75%**	58%	**298**	344	**100%**	100%	**238**	527	**100%**	100%
– Issuer	**313**	252	**–**	–	**189**	244	**–**	–	**–**	–	**–**	–
– Fully consolidated subsidiaries	**1,511**	1,911	**–**	–	**109**	100	**–**	–	**238**	527	**–**	–
Related assignments	**592**	1,574	**25%**	42%	**–**	–	**–**	–	**–**	–	**–**	–
– Issuer	**591**	1,435	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
– Fully consolidated subsidiaries	**1**	139	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Sub-total	**2,416**	3,737	**100%**	100%	**298**	344	**100%**	100%	**238**	527	**100%**	100%
Other services												
Legal, tax, social	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Sub-total	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**2,416**	3,737	**100%**	100%	**298**	344	**100%**	100%	**238**	527	**100%**	100%

1 *Amount excluding VAT.*
2 *Inclusive of non-recoverable VAT.*

Chairman's report on corporate governance and internal control procedures

Under the article L. 225-37 of the French Commercial Code created by the August 2003 law on financial security, the Chairman of the Board of Directors of a French "société anonyme" which makes public offerings 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 2006. 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 and in association with the external auditors.

The chapter regarding the Corporate Governance was presented to the Board of Directors and its concerned committees.

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

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 (French association of private companies) and MEDEF (French Companies Association). 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 options or share plans, as employees of the HSBC France group are now awarded HSBC options/shares (on listed shares).

The composition of HSBC France's Board of Directors still complies with the recommendations of the amalgamated report published by AFEP and MEDEF in terms of independent Directors (44 per cent of the directors are independent). 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

Composition of the Board

At 31 December 2006, 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 all criteria defined in the AFEP/MEDEF report, particularly regarding banking relationships. 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 judgment 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 57.3.

There were no changes to the Board's composition in 2006. The AGM on 17 May 2006 renewed the terms of office of Martin Bouygues and Gilles Denoyel for a period of four years.

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 2006, and proposed that the Board vote to re-appoint them, taking into account their skills and their active contribution to the work done by the Board and its Committees.

Following the AGM, the Committee also made a proposal to the Board to renew the mandate of Gilles Denoyel as Deputy CEO of HSBC France for the remainder of his term of office as Director.

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

The Board's work in 2006

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 four times during 2006, with an average attendance rate of 78 per cent compared with 80 per cent in 2005:

- 28 February 2006,
- 17 May 2006,
- 25 July 2006,
- 15 November 2006.

In 2006, 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 2006 in its meeting held on 28 February 2006.

The Board regularly examined the progress of the strategic plan initiated in 2005, comparing initial results with targets and examining the main factors that will ensure its success. It reviewed the group's positions in its main business lines, looking at the retail banking strategy for individual and business customers (meetings of 17 May and 15 November 2006) and the third-party asset management strategy (meeting of 17 May). It was regularly informed of preparations for the migration to a new IT platform.

The Board approved various structural streamlining initiatives. The absorption of Société Parisienne de Participation was decided on 28 February 2006. The restructuring of Charterhouse Management Services Ltd (CMSL), simplifying its UK interests and reducing its capital employed, was decided on 15 November 2006. The Board also discussed plans to open a branch in Algeria.

The Board regularly reviewed the situation regarding credit, market, legal and operational risks. It approved the new permanent control, periodic control and compliance control organisation, in accordance with new French banking regulations (CRBF regulation 97-02 as amended). It examined the annual reports sent to the *Commission Bancaire* (the French Banking Commission), along with follow-up letters and responses following control and audit assignments of the French Banking Commission.

The Board discussed the group's corporate responsibility efforts in its 17 May 2006 meeting.

The work done by the Board committees was regularly documented in detailed reports drawn up by their Chairmen, and was discussed in Board meetings. The Board was kept informed of the progress of work to comply with Basel II regulations (25 July 2006) and the effective implementation of Sarbanes-Oxley (SOX) procedures.

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 and recommendations on the executive remuneration policy and particularly on the remuneration structure;
- making preparations for the Board's examination of corporate governance issues.

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

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

The Committee's work in 2006

The Committee met once in 2006, with an attendance rate of 75 per cent. Its main work was as follows:

- it made proposals to the Board on renewing the terms of office of two Directors in the AGM. Proposals were made to renew the terms of office of Martin Bouygues (Director since May 2002) and Gilles Denoyel (Director and Deputy CEO since March 2004). The Committee also made a proposal to the Board to renew G Denoyel's term of office as deputy CEO for the remainder of his term of office as director.
- it examined the HSBC Group's new policy on share-based remuneration and the application of this policy to the HSBC France group's managers and to HSBC France's executive Directors.
- it made proposals allowing the Board to set, in agreement with HSBC Holdings plc, the remuneration of C-H Filippi, P Careil and G Denoyel, stating the fixed and variable portions of their remuneration and the number of free shares (with and without performance conditions) that are granted to them (see "Executive Directors' remuneration" chapter).
- it approved the Board's internal rules after the inclusion of recommendations resulting from the Board's assessment work, of the Audit Committee's extended duties and responsibilities in compliance with Sarbanes-Oxley obligations, and of rules governing Board members' trading of the HSBC Group's listed securities.

The Chairman of the Committee reported to the Board on its work at the Board meeting of 28 February 2006.

Audit Committee

Composition:

Chairman:

– Marcel Roulet (independent)	Appointed 2003 and 2005 as Chairman

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;
- 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 the 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 2006

The Audit Committee met four times in 2006, and the attendance rate was 100 per cent, as in 2005:

– 24 February 2006;

– 11 May 2006;

– 21 July 2006;

– 10 November 2006.

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 the 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. Furthermore, the Committee's members met twice the external auditors alone before the submission of the half-yearly and annual financial statements to the Board of Directors.

The Committee reviewed the parent company and consolidated financial statements and analysed the impact of changes in scope of consolidation on group earnings. The 2005 consolidated financial statements were presented according to IFRS and UK GAAP, with a distinction drawn between the legal and French managerial scope of consolidation. 2005 parent company financial statements were presented according to French GAAP. The Committee discussed the choices made by the company in drawing up its financial statements with the assistance of the external auditors. The external auditors commented on their management letter in the meeting concerning the closing of the 2005 accounts, and presented their audit on the financial statements for the first half of 2006. This audit also included the preliminary examination ("SOX Dry Run") of Sarbanes-Oxley procedures, particularly the "Final Risk Assessment". For the first year, the Audit Committee looked at Sarbanes-Oxley certificates drawn up twice-yearly as of 28 February 2006 and examined "weaknesses" identified in Sarbanes-Oxley reporting. 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 least it verified the adequacy of provisions for identified risks.

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, the fixing of limits and control instruments in place;

– compliance, legal and litigation risk;

– other risks, including operational and information systems risk. It was regularly informed of IT migration work and of the main phases of the migration. It also examined the IT recovery plan.

It regularly examined internal audit work and reviewed the main audit assignments, particularly those deemed insufficient. It was informed about audit recommendations and progress in implementing them. It approved the 2006 annual audit plan. 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 2006, 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 by the decrees dated 31 March 2005 and 17 June 2005). In its meeting of 24 February 2006, it was informed of the implementation of the internal control system as defined in the amended CRBF 97-02 and of the appointment of permanent, periodic and compliance control officers.

As part of its compliance work, the Committee reviewed quarterly compliance certificates, which state the main procedural violations. It received a progress report on the action plan relating to anti-money laundering systems 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. In its 10 November 2006 meeting, the Board looked at measures to be adopted for the implementation of the MIFID directive (Market In Financial Instruments Directive).

The Committee discussed the audit programme and budget for external auditors' fees for 2006. It discussed the reappointment of the external auditors with a view to formulating a recommendation to the Board.

In its 10 November 2006 meeting, the Committee reviewed the operational risk management system, examining major risks and measuring the related potential for operational losses. It examined the plan of action to reduce major risks. It regularly received a progress report on the implementation of Basel II regulations and work not yet completed.

The Chairman of the Audit Committee reported on the key points of the Committee's work at the Board meetings held on 28 February, 17 May, 25 July and 15 November 2006.

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

Board of Directors' internal rules

The Board of Directors' internal rules were first established in 1996, and were updated in 2001, 2003 and 2005. The latest adjustment was approved by the Board on 28 February 2006. 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 as:

- 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. The Board plans to maintain this procedure in 2007.

On the other hand, the Audit Committee's new members appointed in 2005 made various proposals to improve the way the Committee works.

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.

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 2006

Several major projects had a significant impact on the organisation of internal control in 2006. These included, at the start of the year, the introduction of the system to comply with the French Banking amended regulation 97-02, work allowing compliance with Sarbanes-Oxley and the implementation of the regulatory framework required by Basel II. There was also substantial progress in projects aimed at harmonising the group's IT systems, particularly the HUB project, which is due to be implemented within HSBC France in 2007. These matters will be discussed in more detail below.

General organisation of internal control procedures

Organisation

Following the March 2005 amendment to CRBF regulation 97-02 relating to the internal control of credit institutions and investment companies, HSBC France has significantly strengthened its permanent control system. Periodic control was not affected by the amended regulation, since the HSBC Group audit function is fully independent.

Work started in 2005 was completed in 2006, resulting in a permanent control system based on major risk categories.

Currently, nine risk functions manage their own control systems in their respective risk areas (structural interest rate and liquidity, market, credit, IT, accounting, business continuity planning/physical safety, operations, compliance, legal and tax), and are co-ordinated by the HSBC France's Deputy CEO in charge of central functions.

The control system managed by these functions covers HSBC France and all group entities in France. This ensures proper control of risk at the consolidated level.

In accordance with regulation 97-02 as amended, permanent, periodic and compliance control officers have been appointed within HSBC France and in each of HSBC France's other covered entities. These appointments were reported to the supervisory bodies of the entities concerned and to the French Banking Commission in a letter dated 20 December 2005, updated on 14 December 2006.

The creation of this system has improved documentation of procedures and controls. HSBC France now has a body of procedures applicable to the whole group, including a "framework" circular that describes the system's general organisation, and circulars specific to each risk function. These circulars cover aspects such as risk mapping and the control files or reports that need to be written. To carry out this control work, functions rely on named officers working centrally or within business lines. All of these controls are fully documented and traceable. Documents are held locally at subsidiaries, business lines and departments.

New bodies have been set up to co-ordinate the system, and in particular the group permanent control committee that oversees the system. This committee meets quarterly. Meetings are attended by the Head of permanent control coordination for the group, the nine risk function Heads and representatives of the group's five business lines in France (retail banking, corporate banking, private banking, asset management and insurance). This committee receives information from specialist risk function committees (set up for this purpose in 2006: compliance committee, accounting committee etc.) and pre-existing committees (ALCO Credit, ALCO Balance Sheet/Markets etc.).

In 2006, four permanent control committee meetings were held, in February, April, July and October. These meetings involved:

- a progress report on the implementation of the control system;
- summarised results of control work carried out;
- reports on any incidents and decisions on any corrective measures to be taken.

In 2006, all control systems existing within HSBC France were listed, and work began to streamline the organisations in order to make all these systems more consistent and effective. Systematic comparisons between SOX, operational risk/Basel II and permanent control work was carried out by the teams in charge of these various projects.

Outsourced essential services, within the meaning of regulation 97-02, are now subject to enhanced supervision. A circular from the Group Legal and Tax Department was published in 2005 setting out regulatory requirements in this area. Work is currently being completed to list the services concerned and to ensure that contracts are compliant.

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

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

GSM, regardless of their geographical location, and no dispensation is granted without the specific agreement of the HSBC Group Chairman.

All business activities and types of transaction must be fully documented in manuals or written procedures. For example, the HSBC Group Functional Instruction Manuals (FIMs) 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 (BIMs). Business unit Heads are responsible for updating these manuals 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 past year.

Code of Conduct and Handbook

The Handbook features business ethics rules that apply to all staff, relating to confidentiality, compliance with laws and regulations and professional integrity. In addition to these rules, each business line and activity has a specific code of conduct that collates operational application procedures relating to staff business ethics and compliance with laws and regulations. Staff working in functions regarded as sensitive must confirm in writing that they comply with the applicable code of conduct. Staff are also subject to specific rules governing own-account securities trading (prior authorisation procedure, reporting of securities accounts).

In 2006, as part of the ongoing implementation of the permanent control system, and in accordance with rules introduced into CRBF regulation 97-02 by the order of 31 March 2005, the group supplemented its procedures ensuring compliance with ethical rules, as well as related controls. In addition to the procedures implemented in 2005 relating to the European market abuse directive, special training was given to staff, particularly those with "insider" status.

Accounting control procedures

HSBC France group Finance maintains accounting control manuals featuring procedures and instructions, and distributes them internally. The aim is to ensure the effectiveness and quality of internal controls on the preparation of accounting and financial information throughout the HSBC France group. These procedures take into account internal changes in structure and in responsibilities arising from the reorganisation of networks under the HSBC brand, and the creation of new IT systems. These procedures comply with French accounting standards. In 2006, these procedures were supplemented after the permanent control requirements of amended CRBF regulation 97-02 came into force.

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

Internal circulars

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

Persons responsible for control activities and their role

a Audit Committee

The Audit Committee is key to the HSBC Group's internal control system. Its duties and composition are set out in the section of this report on 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 or the Deputy CEO in charge of permanent controls. 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), headed by HSBC France's Chairman, 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 receives regular information from the internal control organisation, particularly summaries of the permanent control committee's work and information on any frauds or attempted frauds. 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 reviewed by the CACIC.
- The Permanent Control Committee meets quarterly ahead of the HSBC France group's Audit Committee meetings. The committee is chaired by the deputy CEO in charge of

central functions and responsible for co-ordinating the permanent control system. The chairman is assisted by the nine risk functions and by business-line representatives. The committee's purpose is to summarise the permanent control work done by the various risk functions. The Compliance Department is the secretary of the HSBC France group's Permanent Control Committee.

– The Compliance Committee was set up in April 2006. It has two main tasks: to co-ordinate the compliance control system and to report to senior management about how the system is working, any incidents and the corrective measures applied.

– The Operational Risks Committee was set up in late 2003, in accordance with Basel II regulatory requirements. It consists of representatives from senior management and from the main business lines and support functions concerned. It examines the operational risks reported by business lines, initiatives proposed to reduce risks and any losses arising from operational risks.

c Group Audit France (GAF)

GAF carries out HSBC France's audit functions and is the group's periodic control body. It reports directly to the Chairman of HSBC France and covers all business operations, including those of subsidiaries. GAF has 70 staff, and carried out 90 audits in 2006. Due to the large number of branches in the south of France, a team of 11 auditors was established in Marseille 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.

Since 2005, a risk-based audit technique has been adopted. For the banking networks, this involves continuous auditing, based on indicators that measure each branch's potential risk and a model that ranks branches relative to each other. The riskiest branches are audited first.

For the remaining entities (central, finance and IT functions), the approach is based on an assessment of all risk components at each auditable entity. HSBC France has developed these risk assessments as part of a framework determined by the HSBC Group. The HSBC Group has also developed an application that GAF has been using since 2005. GAF's 2006 audit plan was drawn up using the results from this application.

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

The HSBC Group's audit division specialising in the finance sector (Group Financial Services and European Audit or "AUF")[1], based in London, provides global coverage of the whole HSBC Group's capital markets activities as well as its insurance, asset management, accounting, corporate banking and private banking operations. It has had a unit in Paris since 2004, as part of GAF.

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, which 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 are fully implemented. Quarterly reporting tables intended for the Audit Committees and senior management are also drawn up. The aim is to monitor recommendations that have not yet been implemented, with the focus on those relating to major and/or repeated risks. 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. Since 2006, the AIS application means that audited entities can directly report on their progress in implementing audit recommendations. GAF monitors recommendations issued by supervisory authorities. Group Finance is responsible for the quarterly monitoring of the external auditors' recommendations.

d Group Compliance Department

To guarantee the full independence of the compliance function with respect to operational activities, as required by rules introduced into CRBF regulation 97-02 by the order of 31 March 2005, a decision was taken that, as of March 2006, all HSBC France group compliance teams

1 *Group Financial Services and European Audit (AUF) is the new London-based audit unit resulting from a merger between GEA (the audit team previously responsible for the UK and part of Europe) and the former GFA.*

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should report to the central Group Compliance Department. The Chief Compliance Officer is responsible for compliance control at HSBC France, within the meaning of regulation 97-02, and for co-ordinating the HSBC France group's compliance control system. The Group Compliance Department is made up of five units reporting to the Chief Compliance Officer. These consist of four business-line units (Retail Banking and Insurance, Corporate, Investment Banking and Markets, Asset Management and Private Banking) and a central compliance unit in charge of making sure the system is consistent. Group Compliance carries out the following tasks to control non-compliance risks:

- working with the Group Legal and Tax Department to monitor regulatory changes affecting the HSBC France group's activities;
- drawing up the procedures and instructions needed for the practical application of laws and regulations;
- informing and training staff on compliance obligations relating to their activities and responsibilities;
- providing advice to operational officers to help them meet compliance obligations;
- carrying out permanent compliance control work in conjunction with the internal control departments of business lines and subsidiaries; and
- coordinating relations with the regulatory and administrative authorities.

e HSBC France group Finance

HSBC France group Finance is responsible for the proper application of the group's accounting principles and accounting control procedures. It defines the procedures and controls to be applied under the responsibility of each legal entity's accounting department and more particularly accounting and reconciliation procedures designed to verify the existence and validity of balance sheet and income statement accounts. All business units have a finance department that 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 2006, given the wealth of developments in the accounting field, HSBC France group Finance organised several technical seminars on the following themes: regulatory reporting, IFRS, budget procedure, SOX and amended CRBF regulation 97-02.

f Operational Risk Business Coordinators (ORBCs)

Each business unit has its own Operational Risk Business Coordinator (ORBC) who is responsible for coordinating the management of operational risks liable to affect its business and for meeting the new Basel II requirements.

In conjunction with the business Head concerned, they analyse and quantify the risks of loss in terms of: frequency, severity and exposure (exposure also takes account of the risk impact of existing procedures).

The ORBCs are required to document risk exposure at known control points.

One or more 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 must also report operational losses in conjunction with their entity's accountants. Since 2006, the recording and updating of risks and action plans, along with loss reporting, has been managed in an IT application developed by the HSBC Group. Progress with action plans and operating losses reported by business lines are periodically presented to a specific operational risk committee (see risk committees).

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 and its subsidiaries' internal control procedures. In this case, the divisions concerned promptly draw up action plans for their implementation. GAF monitors the implementation of all these recommendations on an annual basis, while HSBC France group Finance carries out quarterly monitoring relating to external Auditors' recommendations. HSBC France group Finance is also involved in centralised reporting to HSBC in London.

Internal control procedures

In 2006, internal control procedures were substantially altered by the introduction of the permanent control system (see above). They were also supplemented by the SOX compliance initiative and by further progress with the Basel II project.

As regards SOX, like all HSBC Group business units, HSBC France has had to review its internal control systems by completing the Review Of Internal Control Framework (RICF) questionnaire, which replaces the former Cadbury questionnaire. The RICF questionnaire meets the requirements of UK and US (Sarbanes-Oxley) regulations on corporate governance. Information provided must be justified by reference to existing documents and include a proposed assessment.

As regards the Basel II project and in accordance with the HSBC Group's decisions reported in the "Basel II Programme Update 10 May 2005", HSBC France must switch to the IRB foundation approach on 1 January 2008 and then to the IRB advanced approach on 1 January 2009. HSBC France has selected the standardised 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 roll-out of the Basel II system within HSBC France started in 2004 with the gradual spread of the rating culture. Tools and procedures were deployed within HSBC France throughout 2004. In November 2006, the HSBC Group submitted its Waiver Application Package (WAP) to the UK's Financial Services Authority (FSA). This package summarises the system used within the Group. At the same time, HSBC France's GAF team reviewed the local contributions of the credit department, ensuring the accuracy of information in the WAP and its consistency with GAF's observations and recommendations in 2005 and June 2006. As part of this work, internal audit assessed the project's progress with respect to the regulatory timetable, along with the rating systems already in place.

Procedures for controlling compliance with laws and regulations

Compliance functions

The Compliance Department uses the legal watch work done by the Group Legal and Tax Department to monitor changes in laws, regulations and case law affecting the activities of HSBC France, to analyse them and to identify how they apply.

The analysis of non-compliance risks and instructions for controlling them are documented in "compliance charters". These list the laws, regulations, professional rules and the HSBC Group internal rules that apply to each business line or activity, and the procedures and controls that ensure compliance with these rules. In 2006, these documents were reviewed and adapted in order to gauge the intrinsic risk level of the various rules, to measure residual risk by carrying out a critical analysis of the control system and to strengthen existing controls if required.

There is a specific examination procedure for risks related to new products and services and significant changes to existing products. This procedure includes systematic prior analysis work by the entities and control functions concerned, including Compliance. The aim is to ensure that all risks arising from new products and services are taken into account and analysed. In addition, new products meeting certain criteria are submitted for prior approval to the Product Examination Committee, which is chaired by HSBC France's Chairman or Deputy CEO in charge of the permanent control, and whose secretary is the Compliance Department. The Compliance Department ensures that the products concerned comply with laws, regulations and internal standards. It also ensures that the Product Examination Committee's requests and decisions are taken into account before the products are launched.

The operational performance of the compliance and incident control system is analysed through recurrent and one-off reporting procedures. Incidents identified through the implementation of compliance obligations are written up by the compliance officer of the entity concerned and is the subject of an exception report that is passed to the appropriate level of the compliance system. Action taken to remedy these incidents is then monitored on a regular basis.

The system's mode of operation and the main identified non-compliance risks are reviewed by dedicated control authorities, consisting of compliance representatives and operational managers.

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As part of the implementation of CRBF regulation 97-02 relating to compliance control, a Compliance Committee was set up in April 2006. The committee is chaired by the Chairman of the HSBC France group or by the Deputy CEO in charge of the permanent control, and consists of the Chief Compliance Officer, compliance department Heads, senior managers in charge of business lines and the Head of the Group Legal and Tax Department. This committee has two roles. It makes decisions relating to the coordination of the compliance control system, and reports to senior management about how the system is working, any incidents and the corrective measures applied.

Within each subsidiary subject to CRBF regulation 97-02, the compliance officer reports on the operational performance of the non-compliance risk control system to the local permanent control committee, chaired by the member of the executive body designated as Head of permanent control. Specialist anti-money-laundering committees exist within each business line and within the banking subsidiaries. The Compliance Department organises and is the secretary for these committees, whose purpose is to deal with any matter related to efforts to combat money-laundering.

Legal and tax function

HSBC France's Group Legal and Tax Department is responsible for HSBC France's group's legal and tax function, and has analysed and mapped this function's risks. These risks are described in 15 legal risk files and 5 tax risk files, which also list the related procedures and controls. These files are adjusted as required by the Group's various entities.

The Legal and Tax Risks Committee, chaired by the Deputy CEO in charge of the permanent control, meets quarterly to ensure that the permanent control system for legal and tax risks remains adequate in the face of changes in laws, regulations and organisations. The Committee also examines the results of controls, along with any incidents and measures taken. It reports on its work to the Group's Permanent Control Committee.

Each Group subsidiary that is directly concerned by CRBF regulation 97-02 draws up a legal permanent control report signed by a lawyer and the Head of permanent control for itself and the companies it controls. These reports highlight any significant subjects revealed by controls, or any control deficiencies. Compliance certificates concerning tax obligations and operational taxes are also prepared twice a year.

At the HSBC France level, the Head of tax prepares a half-yearly compliance certificate concerning tax obligations and operational taxes, while the lawyers in charge of legal risk in the various business lines draw up legal permanent control reports. Together, these reports cover all identified legal risks for all Group entities. On the basis of these reports and certificates, HSBC France's Head of Legal and Tax draws up a half-yearly general report on the function's permanent control. This system was established by a circular on 31 May 2006, and is fully operational.

Control procedures to limit risk of financial loss and fraud

Operational risk function

Each business line has drawn up an inventory of operational risks, based on work previously done in the Basel II operational risk project. Business lines have mapped risks and controls due to be completed in 2007 by process. The mapping must identify the main controls that will be followed up by second-level controls, carried out in particular by dedicated internal control structures. All key Sarbanes-Oxley controls identified in the RICF Test Plan and the Core Banking Process are integral to this permanent control system. An operational risk committee has been set up, and meets half-yearly. It has two roles: it makes decisions relating to the coordination of the operational control system, and reports any incidents and the corrective measures applied. As part of the Strategic Plan, the internal control structures of banks within the HSBC France platform (HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie) have been unified. The internal control system will be strengthened in 2007 by the implementation of HUB. Scheduled controls and authorisation management controls will also be improved.

Security/business continuity planning function

The HSBC France group 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.

In addition, the HSBC France group's GIM (Major Incident Group), as required by the Business Recovey Plan FIM, was set up in 2006. This new entity examines and checks subjects relating to business continuity planning (preparation and updating of business continuity plans, testing, etc.) for the whole group, including regional banks.

Authorisation limits and approval procedures

Credit risk function

Within the HSBC France group, credit risk is managed by the ALCO Credit Committee and by the Credit and Operational Risk Department (DRCO), which is independent of business lines. DRCO reports hierarchically to the senior manager in charge of risk control, and functionally to the HSBC Group's management in London.

ALCO Credit chaired by the HSBC France's Chairman or Deputy CEO in charge of the permanent control, in which senior management takes part, is the main authority in charge of the HSBC France group's credit policy. Its duty is to control DRCOs and the credit function's credit activities, and to define the strategic direction of HSBC France group's policy as part of the HSBC Group's general directives. It is informed by DRCO of the main lending decisions, the state of lending books and the operational performance of the Basel II system it uses to define its lending policy. Once a quarter, the committee meets as a permanent control committee, as required by CRBF regulation 97-02.

Phases of the credit process

- Lending powers

The ability to grant loans is limited to those holding lending powers, who are notified in writing of their powers according to a precise formal procedure. Limits are allocated to individuals by name and not position. There is no lending committee, and decisions are made individually.

HSBC France's Chairman and CEO holds powers granted by HSBC Holdings plc: USD 50 million for new loans or loan increases and USD 100 million for renewals. He has delegated all of his powers to the Head of DRCO. For amounts in excess of these limits, the Head of DRCO refers cases to the London credit department for assistance.

The Head of DRCO has in turn partly delegated his powers, depending on the type of counterparty as determined by its Basel II rating. These powers have mainly been delegated to: DRCO members in charge of lending decisions, the Chairmen of banking subsidiaries and the Heads of delegations within the HSBC France network. The last two groups have sub-delegated part of their powers to their staff.

- Credit documentation, analysis and decisions

A holder of lending powers is able to grant loans in compliance with the HSBC Group and the HSBC France group's lending directives. If the requested loan exceeds his/her lending powers, or falls outside the directives, the decision must be referred to the level above. All credit facilities are subject to periodic review on at least an annual basis, in accordance with French regulations and the HSBC Group standards.

The HSBC France group's lending rules consist of the HSBC Group directives and HSBC France directives and circulars. The central document for HSBC France is the HSBC France group's lending procedures manual.

- Credit monitoring

The quality of the HSBC France group's counterparties is permanently monitored at the portfolio and counterparty level.

DRCO's credit risk prevention team is in charge of this monitoring. It takes direct responsibility for monitoring loans above certain thresholds. Below these thresholds, loans are monitored by the Head of Risk Prevention and Control for networks under the HSBC France brand, and by the credit managers of banking subsidiaries.

As regards lending activities in the Global Markets business, full responsibility for monitoring (with no thresholds) belongs to the general secretariat of Corporate and Investment Banking, where monitoring is carried out by CSU - Markets.

- Permanent control of lending activities

Under regulation 97-02, DRCO has set up a system to cover all risks. As part of its duties, DRCO has mapped seven major families of lending risks and defined the corresponding controls.

- Organisation of the system

The Head of permanent control in the HSBC France group's credit function is the Head of the Credit and Operational Risk Department.

At the local level, the credit function has three main sub-functions:

– credit function for HSBC brand networks (HSBC France, HSBC Hervet, HSBC UBP, HSBC Picardie).

– credit function for the global markets business (Corporate and Investment Banking), consisting of the Credit Support Unit-Global Markets team.

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– credit function for subsidiaries (SMC, Banque de Savoie, Banque Chaix, CCSO, Banque Dupuy, de Parseval, Banque Pelletier, Banque Marze, HSBC Private Bank France, Elysées Factor etc.).

Any incident relating to the credit function must be reported to the function's Head of permanent control.

• Specific control authorities

The role of ALCO Credit has been expanded, and it now has the role of Permanent Credit Risk Control Committee. Once a quarter, an update on the permanent control system's operational performance is presented to this committee.

It is informed of any incidents in the credit function and the corrective measures taken. A summary of this information is presented to the Group Permanent Control Committee.

Market risk function

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

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 by the ALCO Balance Sheet/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/Markets and may be amended on an ad hoc basis. Limits are also subject to one-off overrun authorizations, which are validated by the next committee meeting. Stress scenarios are drawn up and monitored.

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

ALCO Balance Sheet/Markets

ALCO Balance Sheet/Markets meets every month, and is chaired by the HSBC France's Chairman or Deputy CEO in charge of the permanent control. Its secretary is the Head of ALM (Assets and Liabilities Management). Its role is to examine vital 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. ALCO Balance Sheet/Markets features the main business line Heads concerned by these risks, along with Senior Management, the Chief Financial Officer, 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 Head of Market Risk Management, the Corporate and Institutional Banking segment's Chief Operating Officer and the Head of Asset and Liability management, who is the committee's secretary.

ALCO Balance Sheet/Markets meets monthly to examine 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 of market risks, as described above, is carried out by Group Finance Audit and Services (AUF), which is the HSBC Group's unit in charge of the periodic control of worldwide capital markets activities.

Traded Markets Development & Risk (TMR)

The HSBC Group allocates risk limits to various entities through the Global Mandate, and checks usage of these limits.

Market Risk Management (MRM)

MRM closely monitors HSBC France's market risks, defines limits for the ALCO and optimises limit usage on a day-to-day basis. MRM also resolves any overruns.

Product Control

Within HSBC France's corporate banking support functions, Product Control calculates, controls and analyses market risk indicators and results on a day-to-day basis. Product Control's tasks also include daily position valuations, reserve allocation and daily results recording.

The Derivative Models Review Group (DMRG)

DMRG is a specialist independent unit that validates the models developed by the front-office research team to value complex derivatives.

Parameters Committee

This committee is managed by the Head of Market Risk and 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. The main indicators relating to exotic activities 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.

Structural "interest rate and liquidity" function

Structural interest-rate, liquidity and forex risks are managed centrally by the ALM department. In accordance with CRBF regulation 97-02, ALM has mapped this function's inherent risks and supplemented procedures with a circular setting out the permanent control organisation.

The supervisory authority for these risks is ALCO Balance Sheet/Markets, which analyses any significant change in the financial, commercial and regulatory environment relating to these risks. Its task is to supervise balance sheet risks in a systematic manner, to ensure that appropriate controls exist and to approve the main management rules and limits included in the supervision system.

The measurement and supervision system is organised differently according to the type of risk.

Interest-rate risk

ALM measures and manages structural interest-rate risk for all HSBC France group entities. The measurement tool is based on an information system into which the various entities feed their data. The changeover to a single source of information (group financial datawarehouse) started in the second half of 2006 for some entities and will continue throughout 2007.

Interest-rate risk measurement relies on rules based on behavior that are reviewed and validated annually by ALCO Balance Sheet/Markets. Risk is measured and hedging transactions are carried out centrally by ALM. These activities rely on a set of controls on which each entity makes a monthly report. The process for the execution and accounting justification of hedging transactions has been documented, key controls have been identified and certificates drawn up according to Group standards, in accordance with SOX.

Risk supervision relies on a set of indicators and stress scenarios, for which limits are set by ALCO Balance Sheet/Markets and the HSBC Group. Control statements are also produced in relation to this reporting.

Control statements are summarised every quarter. Any incidents and corrective actions are presented to ALCO Balance Sheet/Markets.

Liquidity risk

All entities measure liquidity risk by calculating regulatory indicators. HSBC France group Finance also measures liquidity risk by calculating consolidated indicators at the group level.

Short-term liquidity is managed by each entity, subject to regulatory rules and limits, as well as by the HSBC Group and ALCO Balance Sheet/Markets. Financing transactions are carried out by the Treasury Department.

To ensure that liquidity risk measurement systems are closely supervised and to co-ordinate short-term management, ALCO Balance Sheet/Markets set up a liquidity steering committee in early 2006. This committee consists of those responsible for reporting (HSBC France group Finance) for executing transactions (Treasury) and for supervision (ALM). It is tasked with managing liquidity ratios, preparing the financing plan and looking into alternative sources of funding.

ALM carries out supervision based on the various reporting documents submitted to it. It co-ordinates the work done by the liquidity steering committee and the implementation of the financing plan.

The liquidity steering committee's report, along with liquidity indicators, various cash flow stress scenarios and monitoring reports on financing sources, are presented monthly to ALCO Balance Sheet/Markets, which agrees limits with the HSBC Group that are supplementary to regulatory limits.

Exchange-rate risk

Exchange-rate positions resulting from the banking activity are systematically transferred to the Global Markets Department, which manages exchange-rate risk within limits set by ALCO Balance Sheet/Markets. The process for disposal of foreign-currency earnings is monitored on a monthly basis.

Exchange-rate risk also consists of changes in shareholders' equity resulting from foreign-currency investments not hedged by foreign-currency financing. The HSBC Group terms this risk "structural", and it is supervised through exposure and capital adequacy sensitivity indicators calculated by Group Finance and ALM. The analysis of these ratios is presented to ALCO Balance Sheet/Markets on a quarterly basis.

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Procedures for ensuring reliability of data processing

IT function

The IT function's duty is to ensure the security of IT systems. It has a permanent risk analysis and prevention system and has the resources to identify and control risks.

The system is intended to:

– provide a sufficient level of security, which is periodically reassessed and adjusted;

– ensure the availability of IT back-up procedures to guarantee business continuity;

– store and permanently update IT systems documentation;

– archive data required by external regulations; and

– make IT systems comply with audit trail requirements.

The system involves IT processes that are clearly identified, communicated and documented. Key process and application-level controls to combat risks and meet AICP (availability, integrity, confidentiality and proof) requirements are also identified, addressed and documented.

The officer responsible for permanent control in the HSBC France group's IT function is the Head of IT Systems. He/she defines and carries out regular maintenance on the control system. In addition, he/she identifies the function's major risks and the key controls required to address them. The Head of IT Systems is supported centrally (in HSBC France's IT department) by those in charge of IT processes, and locally (subsidiaries and functions) by local IT officers, who must locate and ensure the application of identified key controls. Identified incidents are reported immediately to them.

The efficiency of control procedures is measured through:

– the annual IT compliance certificate, which assesses in detail each IT department's compliance with regulations and with the group's standards and procedures (GSM chapter 8 and FIM IT);

– reports on periodic tests of the emergency and intrusion plan; and

– quality reporting.

The results of these compliance measures are analysed periodically in internal ISD Committee meetings: management Committee, compliance Committee and IT liaison Committee. Finally, they are reported twice-yearly to HSBC France's Head of permanent control as part of IT Steering Committee meetings, the umbrella Committee for permanent control in the IT risk function. The IT Steering Committee meets at least once every quarter.

Its main objectives are to:

– ratify new project proposals on a "clear choice" basis;

– review the status of ongoing projects and major problems concerning production quality and performance; and

– review the major risks and mitigation plans.

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, the ISD's Head of security and compliance and the ISD's Head of quality.

Acquisition and development of information systems (applications or infrastructure)

A group project management method is used to acquire and develop information systems: RBPM (Risk-Based Project Management). This method requires 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. Project risks are reassessed in these key phases.

In addition, Information Systems has created Clear Choice validation committees, Architecture Committees and IT Validation Committees to ensure that projects comply with business-line requirements, with the HSBC Group IT architecture rules, but most importantly with rules for security and regulatory compliance. All new projects undergo a mandatory post-implementation review. Flagship IT projects involve project quality planning.

Testing

Testing is conducted throughout the project management process. Each test phase must give rise to signed certification validated 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.

System go-live control

HSBC France has a change control system which has been reinforced by the establishment of a Change

Control Committee. This committee is responsible for examining and approving changes prior to implementation and monitoring progress on a monthly basis. A signed implementation certificate is required before development can go ahead. Flagship projects must be validated by the project sponsor in a go/no-go committee meeting.

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 Disaster Recovery Plan to ensure that the bank's key functions can resume operations without delay.

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 also limited to the relevant experts: any non-standard authorisation requires a justified dispensation granted by business lines, with a limited timeframe.

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

Accounting function

Production of financial and accounting information

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

– HSBC France group Finance – Accounting Platform. The Accounting Platform department centralises all HSBC France accounting data in the GL Expert application. The platform produces parent company financial statements on a monthly basis and feeds HSBC France's consolidation package.

– Group Finance – Consolidation. Every month, the Consolidation team collates the reporting packages of all group companies (approximately 100) in the HFM application, produces the French GAAP financial statements and makes the restatements required to convert to IFRS before sending the consolidated financial statements to HSBC Bank plc.

– Group Finance – Financial Control. This department establishes the budget, monitors business-line performance with respect to budget targets and carries out budget controls on operating expenses. It is responsible for analytical accounting by business line. It produces the summary key performance indicators for HSBC France's Senior Management. These consist of the group's consolidated financial results, business-line analyses accompanied by business indicators and commentaries, and various reporting documents requested by the HSBC Group.

– Group Finance – Regulatory Platform. This department is in charge of producing reporting documents and regulatory ratios: 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.

– Group Finance – Standards and Procedures. This department monitors changes in regulations and accounting rules, and applies new rules through accounting plans. It is also responsible for maintaining and adjusting accounting tools.

– Decentralised accounting departments (HSBC France operational departments, HSBC France subsidiaries, HSBC France foreign branches) are responsible for controlling and monitoring one or more accounting centres. They produce monthly reporting documents for group Finance. More specifically, the finance team dedicated to Corporate Investment Banking & Markets (CIBM) checks the correct reconciliation of economic and accounting results for this business unit in collaboration with product control, and handles all accounting and reporting responsibilities.

Most reporting documents are produced monthly and on both a non-consolidated and consolidated basis.

The main accounting principles applicable within the HSBC France group are summarised in the aforementioned procedural manuals and circulars, and are 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.

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

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

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 entered into the accounting system using secure manual data entry tools under sundry transactions. Like the other operating systems, they send events to the accounting interpreter, thereby providing pre-set controls.

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 are carried out. Specific internal training programmes are designed to ensure that users fully understand the new process and its consequences.

HSBC France's subsidiaries have their own accounting systems 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 accounting systems are 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 parent company regulatory requirements for the production of financial information. It also handles IFRS consolidation and reporting to HSBC Bank plc.

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 HFM consolidation software and is used to produce the various French 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 and AUF audit reports and uses them for monitoring the implementation of accounting-related recommenddations. 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 HSBC France group Finance. This control is one of the permanent accounting controls defined as part of HSBC France's compliance with the new requirements of amended CRBF regulation 97-02. Financial reports are submitted to the Chief Financial Officer and Executive Committee of HSBC France 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 the Operational department and subsidiary levels. Operational departments 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 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 2008.

To comply with Sarbanes-Oxley as of 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. To complete this project, the HSBC Group has adopted a risk-based approach supported by strong control procedures.

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 give rise to immediate remedial action. A dedicated team has been set up at HSBC France group Finance to co-ordinate all these initiatives in the HSBC France group. Twice-yearly, the Chairman/CEO and the CFO of HSBC France sends HSBC Bank plc a certificate stating the effectiveness of the financial internal control system and mentioning any weaknesses currently being corrected.

This project to comply with SOX is designed to ensure reliable financial reporting. In 2006, it resulted 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.

GAF is conducting quality reviews and independent tests. The external auditors have conducted 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 to be drawn up at end-2006 by HSBC Holdings plc 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.

The application of the Sarbanes-Oxley Act moved into its operational phase, and the permanent controls specified by the amended CRBF regulation 97-02 were implemented. This led to far-reaching changes and improvements to the culture and organisation of HSBC France's internal control in 2006.

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

Charles-Henri Filippi
Chairman

Paris, 23 February 2007

Corporate Responsibility

Corporate responsibility, a value of the HSBC Group

"Do we have a duty to set an example to society? I believe that all employees have a responsibility to behave in an exemplary fashion. In the same way as we have to take on our responsibilities we must also set a good example", said Stephen Green, Chairman of the HSBC Group, in an interview that appeared in "Corporate Responsibility and Trust: Thoughts from 12 Top Managers", a book published by Mazars in November 2006. This stance reflects the Group's commitment to incorporate, from the outset, a policy of responsibility vis-à-vis all its stakeholders, and in the commitment of the new Chairman to continue that policy, as the guarantee of success in the long term. In 2006, the HSBC Group decided to rename its approach from Corporate Social Responsibility to Corporate Responsibility (CR) to more accurately reflect the scope of issues covered.

At a time when shareholders, financial analysts, customers and the media are increasingly scrutinising business, HSBC has seen its CR strategy recognised and honoured during 2006. For example, HSBC won the first FT Sustainable Bank of the year award in recognition of its leadership in merging social, environmental and business objectives. HSBC also ranked 7th in the Accountability Rating™ of the top 50 companies from the Fortune Global 500®. More recently, HSBC was recognised by the Geneva consultancy Covalence as the top company in the Banks category.

The Group's priorities in this area are guided by the Corporate Responsibility Committee which reports directly to the Group's Board of Directors. Chaired by Lord Butler and made up of non-executive directors and external members, this committee oversees CR activities and commitments including the UN Global Compact, the Global Sullivan Principles, the Wolfsberg Principles, and the Equator Principles of which HSBC has adopted the revised version during 2006.

In France, the Corporate Responsibility Committee coordinates actions in this area. Chaired by Gilles Denoyel, Deputy CEO of HSBC France, the French Committee meets on a quarterly basis and has the task of ensuring implementation of Group policy and follow-up of the commitments undertaken by each division in France. Its goals, which are set out in the strategic plan "Efficiency for Growth", are to better integrate corporate responsibility into the Group's operations, to encourage and promote employee diversity, to adopt measures to give effect to the Group's commitments in relation to the environment, to devise and structure a clear corporate patronage policy, and to make corporate responsibility one of the key elements of the corporate culture and of the brand in France.

In 2006, the Corporate Responsibility trophies were created, rewarding projects submitted by teams from the Group in France and likely to contribute to HSBC France actions in this area.

In order to report on progress made by the Group throughout the world and in France, each year HSBC France publishes a report on corporate responsibility policy which since 2004 has comprised two booklets: the HSBC Group report[1] translated into French, and a detailed description of the measures undertaken in France. The corporate responsibility report for 2006 will follow the same format.

Controlling reputational risk in the conduct of our operations

The Group's existing good governance and compliance functions continue to evolve in line with increasingly complex reputational risks including climate change and globalisation.

Accordingly, in order to ensure the complete independence of the compliance function from the operational activities detailed in the amended Regulation 97-02 of the CRBF (the French Banking and Financial Regulation Committee), all the compliance teams in the HSBC France group have from March 2006 been brought under the Compliance department. Reporting to the deputy CEO responsible for central functions, this division is in charge of coordinating the permanent oversight system of the HSBC France group.

Furthermore, even though it has been an unlisted company since 2000, HSBC France has maintained the same level of standards as before its incorporation into the HSBC Group: HSBC France applies the corporate governance recommendations applicable in France and has kept in step with changes in the regulations and with requirements within the Group.

HSBC is committed to combating climate change and has incorporated management of environmental risk into its lending policies, in addition to standards required by the Equator Principles. In 2006, HSBC issued the Energy Sector Risk Policy the fourth in a series of sector guidelines. The first, published in 2004 was Forest Lands and Forest products, followed by two further guidelines in 2005 on Freshwater Infrastructure

1 *These reports may be obtained from the Corporate Communications of HSBC France.*

and the Chemicals Industry. These guidelines are incorporated into financing procedures in all the countries where the Group operates. Local staff are given training in these new procedures and on these issues.

Carbon: from risk to opportunity

In 2004, HSBC announced its intention to go carbon neutral, an objective that was achieved in 2005. As the first global bank to commit to measure, control and offset all of its energy consumption, HSBC has continued to pursue this objective in 2006. As well as setting an example for its customers, this commitment raises awareness among all the Group's employees throughout the world of the impacts of climate change.

By 2007, HSBC in France has pledged that it will reduce its energy consumption by 2 per cent, water consumption by 9 per cent, waste production by 4 per cent and carbon dioxide production by 1 per cent as compared with 2005 levels.

In addition to continued investment in HSBC's environmental management system and new energy-efficient equipment, achieving the targets will demand increased awareness and vigilance from all staff. To ensure members of staff are kept up to date with information on how they can contribute to our success, HSBC provides regular information about these issues through various internal communications channels.

Thanks to its commitment to going carbon-neutral, the Group has acquired an understanding of carbon finance which it wishes to share with its customers. The Group firmly believes that financial institutions will play a major role in the shift to cleaner energy and aspires to be one of the pioneers of a less carbon-intensive economy. It recognises that as an advisor, lender and investor, it can play a key role in encouraging the businesses and the projects it finances to control their risks and to identify growth opportunities arising from the effort to combat climate change. In 2006, the HSBC Group launched its carbon finance strategy, based on its sector guideline on the energy sector. It emphasizes the potential opportunities represented by renewable energies and clean technologies which pave the way for the transition to a clean society. It focuses on key technologies which are technically and commercially viable (wind, solar, biofuel, clean transport, carbon and methane sequestration, geothermal) giving priority to those countries where the legislative, political and tax environment are favourable.

More results and initiatives from HSBC Investments in the SRI field

The year 2006 witnessed an increased number of initiatives by HSBC Investments in the area of Socially Responsible Investment (SRI).

The HSBC GIF Sustainability Leaders Fund has been added to the SRI range of HSBC Investments, which already comprises an international equities fund HSBC GIF Global Equity SRI, a bonds fund HSBC Euro Obligations Responsables, and a diversified fund HSBC Multimanager Ethique Monde. HSBC GIF Sustainability Leaders is an innovative fund specializing in European companies which are leaders in the field of sustainable development. It was developed in partnership with LEAD, an international organisation that trains decision-makers in issues relating to sustainable development, and achieved a solid performance of 17.1 per cent growth on the year.

In addition, the HSBC Euro Obligations Responsables fund was given an "AA" rating by Novethic. This rating ranks HSBC Investments among the top fund management companies which have SRI expertise in bonds.

At the same time, HSBC Investments has stepped up its participation in national and international discussion forums.

In 2006, HSBC Investments became a member of the United Nations Environment Programme Finance Initiative's Steering Committee and co-chair of the Asset Management Working Group which brings together fifteen asset management companies from around the world that collaborate to understand the various ways environmental, social and governance issues affect investment value and techniques for measuring these impacts.

As well as this international commitment, HSBC Investments has supported in France, as a founding member, the research chair of the association for Finance Durable et Investissement Responsable ("Sustainable Finance and Responsible Investment").

The initiatives undertaken by HSBC Investments in 2006 reflect the policy adopted by the HSBC Group in the area of sustainable development. In the face of growing demand, HSBC Investments has confirmed its intention of positioning itself as one of the key players in the field of SRI investment solutions.

Corporate Responsibility (continued)

HSBC, a responsible and attractive employer

HSBC employs almost 300,000 people working on all the continents and speaking almost 130 languages. It has about 1,000 times that many customers. Together, they illustrate the world's diversity. The dynamism of its human resources is a resource and an asset for the group, which it draws upon and encourages by a pro-active policy in each of the countries in which it operates.

In France, the year 2006 was marked by the recruitment of 1,350 permanent staff, 65 per cent of them at managerial level. Of the 1,000 trainees and students on work experience programmes, half were offered contracts upon the completion of their internship. In 2006, HSBC France was voted 3rd most attractive employer by students of finance and 14th most attractive across all sectors (Classement Universum 2006 – Survey of 7,700 French final-year students in 62 business and engineering schools).

Recruitment and career development policies within HSBC encourage diversity.

We use the Diversity Charter drawn up by the Institut Montaigne as our guide in this area, particularly in relation to discrimination based on cultural and ethnic origin.

The training of the HSBC France group's managers, which is a driver of change, includes a module on corporate responsibility and diversity. This module, which makes use of simulation exercises, quizzes and case-studies, has helped raise the awareness of more than 300 managers of the importance of these issues in the course of their work.

Diversification of the sourcing of job-applicants and participation in recruitment fairs help to give effect to diversification of the group's workforce.

In October 2005, in order to strengthen its commitment in this area, HSBC France signed a patronage agreement with the Paris Institut d'Etudes Politiques (Political Studies Institute), according to which, for a period of five years, HSBC France will fund twenty scholarships for students from secondary schools in *Zone d'Education Prioritaire* (Educational Priority Districts) and will subsidize the *Le Relais* association which provides support for these young people.

In the same context, sixteen senior managers in HSBC France agreed to act as mentors for sixteen final-year students in order to help them define and achieve their career plans in particular through regular one-to-one meetings and discussions.

In terms of equality, an agreement signed in 2003 with the social partners is now translating into a rising proportion of women in senior posts. In 2006, 25 per cent of the members of the Senior Management Committee, 32 per cent of branch managers, and more than 44 per cent of managerial grade staff were women (compared to 36 per cent in the other banks – source: AFB).

Lastly, the integration and encouragement of disabled employment is governed by an agreement entered into with the social partners in 2004, which provides, inter alia, for an increase in the number of employees with disability by 9 per cent by the end of 2006 compared with the 2002 level. And this target is set to be achieved.

A philanthropy policy in favour of education and environment

In 2006, HSBC France donated more than EUR 1 million euros and over 3,000 employee working hours, taken out of working time, to philanthropic activities. The HSBC Group concentrates its community investment in two main areas: education and the environment.

HBSC believes strongly that the success of the younger generation is a key driver of economic performance and it is therefore committed to promoting equal opportunity and the emergence of young talent.

With this in mind, the group HSBC in France participates in the worldwide projects directed by the Global Education Trust of the HSBC Group in London, as for example in SIFE, the association for the promotion of enterpreneurship among students of the *grandes écoles* and universities, and in Future First, a USD 10 million five-years programme (2007–2012) to improve the living conditions of children in need.

There are also the Group's own activities in France, such as the HSBC Education Foundation, created in April 2006, which aims to facilitate access to higher education for young people from disadvantaged backgrounds. Since the first call for projects went out, 19 projects run by voluntary groups and institutions have received support of three kinds: financial, human and media-related. Through its commitment to the HSBC Photography Foundation, over 11 years, and to the *Académie Européenne de Musique d'Aix-en-Provence*, since 2006, it has promoted young artists in the field of photography and music by giving them exposure and a platform for their talents.

In the area of environment, ten volunteers for the Investing in Nature programme spent ten days each during 2006 taking part in scientific expeditions identified by the Earthwatch association in all four corners of the world. This programme, which came to an end last December, provided USD 50 milion over five years to 3 associations including Earthwatch in order to raise environmental awareness among employees, to the Botanic Gardens Conservation Institute in order to preserve 20,000 plant species, and to the WWF to help regenerate three of the world's great rivers. In 2007, the HSBC Group will be announcing a new programme in line with its commitment in this field.

Schedule "NRE 2007"– Environmental Section

Report on the impacts of the company's business on the environment pursuant to Article 2 of Decree n° 2002-221 of 20 February 2002 implementing Article L. 225-102-1 of the French Commercial Code.

Water consumption

258,551 m^3 of water were consumed in 2006 for 13,329 present active staff members ("persons") of the HSBC Group in France, which works out at 19 m^3 per person.

This level of consumption represents a drop on the previous year. It reflects the technical improvements that have been put in place over the past two years to reduce water consumption.

An awareness-raising campaign directed at HSBC employees in France was carried out during the Sustainable Development Week by means of a targeted poster campaign and messages sent via the various internal communications channels.

This trend must be maintained in order to achieve the ambitious target that the HSBC group in France has set itself: to reduce its water consumption by 9 per cent by the end of 2007 as compared to 2005.

	2006	2005	2004	2003
Water consumption in thousands of m^3 . .	**259**	270	258	226
Water consumed per person (m^3)	**19**	21	20.3	21

Raw materials consumption

Paper consumption

HSBC in France used 2,785 tonnes of paper, representing an increase of over 20 per cent. This is accounted for by a higher volume of communication and activity arising from the phased implementation of the strategic plan and the change of brand, and by more effective recording of paper consumption.

Measures are currently being taken to reduce paper use: Electronic Document Management, electronic formating of all internal circulars, the phasing out of individual printers, installation of a software application enabling employees to make their leave applications via the intranet, and sending messages to employees encouraging them to reduce print volumes.

	2006	2005	2004	2003
Paper purchased (tonnes)	**2,785**	2,305	1,993	1,956

Energy consumption

Electricity consumption

73,061 MWh, equal to an average consumption of 5.48 MWh per person.

Gas consumption

15,474 MWh, equal to an average consumption of 1.16 MWh per person.

Heating oil consumption:

5,652 MWh, equal to an average consumption of 0.42 MWh per person.

	2006	2005	2004	2003
Energy consumption (GWh)	**106**	111	109	91

Following an increase in 2005, energy consumption has declined, despite a higher level of activity entailing the use of IT equipment.

Technical measures, optimised equipment management and steady outside temperatures have enabled consumption to be reduced in 2006.

HSBC France has continued with energy pre-diagnostics at its central sites. These were carried out during the first quarter of 2006 by a company accredited by ADEME. That study revealed good energy management in the buildings audited and formed the basis for an action plan drawn up to optimise energy efficiency. This activity will be continued in 2007.

HSBC endeavours to diversify the energy supply of its buildings by the use of renewable energy: solar panels have been installed on a site belonging to the Société Marseillaise de Crédit in Aubagne to supply it with hot water. Other studies are underway to limit the use of fossil fuels.

HSBC in France has committed to reducing its energy consumption by 2 per cent by the end of 2007 as compared to 2005.

This target was achieved this year already thanks to the various measures taken in order to reduce consumption and thanks to the favourable weather conditions in the second quarter of 2006.

This result needs to be confirmed in 2007.

Corporate Responsibility (continued)

Emissions to air, water and ground

Twice a year, HSBC in France makes an estimate of its carbon dioxide (CO_2) emissions as part of the Carbon Audit carried out by the HSBC Group worldwide. In 2006, total emissions of HSBC in France came to 16,052 tonnes.

This figure includes emissions relating to the Group's commercial activities, including business travel.

HSBC in France set itself a target of reducing its carbon dioxide emissions by 1 per cent at the end of 2007 as compared to 2005.

Thanks to the measures taken with a view to reducing energy consumption, this target has already been achieved.

Noise and odour pollution

Insignificant in the business carried on.

Waste

HSBC in France has committed to reducing its waste production by 4 per cent by the end of 2007 as compared to 2005 by recycling more and, in the case of paper, by reducing the volume of printed matter.

	2006	2005	2004
Waste production (in tonnes)	**3,550**	4,403	3,677
Waste production per person (in kilograms)	**266**	342	288
Waste recycled as a percentage of total waste	**40%**	32%	33%

The introduction of a multi-services management contract covering all HSBC branches in France has brought about better waste identification and management. The increased use of recycling, particularly of paper, across the whole of the HSBC branch network is a direct consequence of this.

A contract to collect and process computer and electronic equipment (PCs, laptop computers, monitors, printers, power supply units and miscellaneous computer and electronic equipment) was entered into in early 2006 with a service provider who also happens to be the supplier of computer equipment to HSBC France. This contract covers HSBC France and all its subsidiaries.

During 2006 there were 14 equipment collections (mainly monitors and printers) from our Paris sites which yielded a total quantity of 30.3 tonnes. It was possible to reprocess 99 per cent of the items and the principal materials recovered were non-ferrous metals and plastic.

Measures taken to limit damage to the biological equilibrium and to protected animal and plant species

In its business activities, HSBC France, as part of the HSBC Group, has signed up to the Equator Principles and accordingly incorporates social and environmental criteria into the process of appraising financing operations. It has also adopted the guidelines issued by the HSBC Group on project finance in the following sectors: forest land and forest products, chemicals industry, and freshwater. In 2006 a new guideline on the energy sector was added.

Furthermore, the purchasing department of HSBC in France has since 2005 been offering recycled office materials, such as ink cartridges for offices printers, and makes sure that they are recovered by the office supplies distributor. A greater level of awareness of these measures by staff was apparent in 2006.

As far as printing is concerned, HSBC France continued to use paper certified by the FSC (Forest Stewardship Council), a body that labels sustainable management of forests, for its corporate brochures, and in particular for its 2005 Annual Report and the 2005 CR Report.

Finally, the purchasing department has commenced the phased replacement of a section of the company vehicle fleet with a new hybrid Toyota model, four of which have been ordered. It is planned to order a further ten hybrid vehicles in 2007. For each vehicle replaced the average reduction in CO_2 emissions comes to 44 per cent; fuel consumption is also lower.

Measures taken to ensure the company's activities are in compliance with the relevant statutory and regulatory requirements

HSBC France, at the instigation of the parent company, created a Compliance Department in 2001 in order to have a coherent and effective control system in place (cf. the Chairman's Report on page 35). This department ensures that the group's business is conducted with integrity and professionalism and in accordance with all laws, regulations and good business practice standards in force in France. It monitors compliance with reporting obligations and is in charge of important matters such as the fight against money-laundering and the funding of terrorist networks.

Existence within the company of internal environmental management and employee training and information services

HSBC in France has had a CR Committee in place since 2003. This is chaired by the Deputy CEO and is made up of 20 managers and representatives of the main functional and operational departments of HSBC France, including credit, asset management, human resources, compliance, purchasing, property, and marketing. It is coordinated by an officer who reports to the CEO and to the communications department. The committee meets every quarter to consider actions taken, current issues, developments in HSBC Group policy, and measures to be taken locally.

Management of HSBC France's direct impacts on the environment is the responsibility of a two-person team in the property department. This team is in charge of the carbon audit in France and is assisted in this by the administrative management of various entities and subsidiaries. It also devises the strategy required to attain the targets set in conjunction with Group headquarters for 2007.

In terms of information, HSBC in France has created a site devoted to CR on its group intranet. This provides regular updates on CR matters, information on the values and activities of the HSBC Group in this area, and on what has been achieved in the different business areas. The in-house journal "Resources" has a column devoted to CR matters.

In 2006, during Sustainable Development Week, a water awareness campaign was organised. Every part of HSBC France was given "Save Water!" posters to be put up at every water source. These posters are reminders of the target that the Group has set itself to cut down on water consumption by 9 per cent by the end of 2007 as compared to 2005, and the simple steps to be taken to help to achieve that target.

The first "CR trophies", which were awarded in 2006, recognised good practices in terms of controlling our impact on the environment, such as the replacement of water-based conditioning systems with air-to-air conditioning systems by the Société Marseillaise de Crédit, a subsidiary of HSBC France. HSBC France pledged to roll out this measure as soon as possible.

In addition, a training module dealing with the HSBC Group's responsibility and diversity policy has been incorporated into the training programme for the Group's managers. It details the strategy and the actions taken in relation to the direct and indirect impacts of the Group's activities on the environment.

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. In compliance with the new requirements of CRBF Regulation 97-02 as amended, the HSBC France group has significantly strengthened its permanent control system, which is structured according to the major areas of risk. The control systems implemented for the nine risk areas determined to date (structural interest-rate and liquidity risk, market risk, credit risk, information systems, accounting, business continuity plan/physical security, operational risk, compliance risk, legal and tax risk) are described in the Chairman's report on internal control procedures[1].

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. The roles of these two entities are described in the Chairman's report on internal control procedures[1].

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. Every quarter, CORD reports to the Audit Committee and Board of Directors of HSBC France as well as to the Credit Department of the HSBC Group on the situation of the credit portfolios and provides a list of the highest risks and exposures to be watched.

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

Evaluation of counterparty risk

HSBC France still applies the worldwide scoring system defined by HSBC Holdings plc, which is consisted of a minimum of seven grades.

In parallel, as part of the Basel II reform, a risk rating scale based on the borrower's probability of default, with ten grades divided into 22 sub-grades, has been put in place groupwide. The rating methodology uses a wide range of mainly financial data, essentially as factors in assessing counterparty risk. This new approach allows a finer analysis of risks and trends and is a prerequisite for any extension of credit. No credit can be granted to a counterparty without a Basel II rating (excepting customers in categories for which there are no such rating tools). The Basel II rating must be one of the criteria in the lending decision. Despite the growing use of automated risk rating processes, the Basel II rating has no automatic effect on the lending decision. That decision is a human decision, and it must be made on the basis of all the various decision parameters; the Basel II rating is just one of those parameters. If need be, the persons ultimately responsible for loan approvals are required to establish the appropriate rating in each specific case. Risk ratings are reviewed frequently, and any changes are applied immediately. Each rating is recalculated whenever one of its component parameters has changed, and every rating is reviewed at least once a year.

CORD has established a project management team in charge of credit systems development. This team establishes the business requirements of the systems and 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 and CEO of HSBC France has received his lending authorities from HSBC Holdings plc. These authorities are USD 50 million for new deals and USD 100 million for renewals. He has delegated all these authorities to the Head of CORD. All applications above those limits are sent by the Head of CORD to the Credit Department in London for concurrence.

CORD is responsible for credit approvals, risk supervision and credit systems development. The credit approval process is based on a system of designated limits.

1 *Cf. page 31.*

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; and
- 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 supervise the activity of the Head of CORD and the lending business, to set the HSBC France group's credit policy, and to review the risk reports using the Basel II parameters. It is kept informed of the most important lending decisions during the most recent period, along with the main existing commitments and changes in borrower risk profiles with respect to a reference document.

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 31 December 2006***	*Maximum exposure 31 December 2005*
Items in course of collection from other banks	**2,202**	2,110
Trading assets	**32,915**	37,920
– treasury & other similar bills	**23,960**	27,031
– debt securities	**4,262**	4,914
– loans and advances	**4,693**	5,975
Derivatives	**20,164**	18,030
Loans and advances to banks	**20,836**	16,557
Loans and advances to customers	**42,019**	37,226
Financial investments	**1,408**	3,223
– treasury and other similar bills	**1,105**	2,957
– debt securities	**303**	266
Other assets		
– endorsements and acceptances	**9**	19
– other	**2,516**	2,778
Off-balance sheet		
– financial guarantees and other credit related contingent liabilities	**6,648**	7,637
– loan commitments and other credit related commitments	**17,012**	14,762
Total	**145,729**	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.

Risk management (continued)

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

(in millions of euros)	At 31 December 2006 Loans and advances to customers	Loans and advances to banks
Gross loans and advances:		
– not impaired	**41,620**	**20,836**
– impaired	**1,169**	**0**
	42,789	**20,836**

(in millions of euros)	At 31 December 2005 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

Distribution of not impaired loans and advances by facility grade

(in millions of euros)	At 31 December 2006 Loans and advances to customers	Loans and advances to banks
Grade 1 – low risk Grade 2 – satisfactory risk Grade 3 – fair risk	**41,178**	**20,306**
Grade 4 – watch list Grade 5 – sub-standard but not impaired	**442**	**530**
	41,620	**20,836**

(in millions of euros)	At 31 December 2005 Loans and advances to customers	Loans and advances to banks
Grade 1 – low risk Grade 2 – satisfactory risk Grade 3 – fair risk	36,212	16,467
Grade 4 – watch list Grade 5 – sub-standard but not impaired	612	89
	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.

Grades 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.

Grades 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, based on Standard and Poor's ("S&P") ratings or their equivalent:

(in millions of euros)	At 31 December 2006 Treasury bills	Debt securities	Total
AAA	**17,169**	**1,006**	**18,175**
AA – to AA +	**6,723**	**681**	**7,404**
A – to A +	**778**	**740**	**1,518**
Lower than A	**–**	**230**	**230**
Unrated	**395**	**1,908**	**2,303**
Total	**25,065**	**4,565**	**29,630**
Of which issued by:			
— governments	**25,065**	**–**	**25,065**
— corporates	**–**	**4,163**	**4,163**
— others	**–**	**402**	**402**
Total	**25,065**	**4,565**	**29,630**
Of which classified as:			
— available-for-sale securities	**1,105**	**303**	**1,408**
— held for trading	**23,960**	**4,262**	**28,222**
Total	**25,065**	**4,565**	**29,630**

(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
— others	–	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

At 31 December 2006, an amount of EUR 8.1 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 2006 Book value	Amount for which HSBC has a legally enforceable right to offset[1]	Net total credit risk
Derivatives	**20,164**	**(8,112)**	**12,052**

(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. All entities of HSBC France use the same procedures and the same software tool to manage their impairment allowances.

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.

Two types of impairment allowance are in place: individually assessed and collectively assessed. They are discussed in Note 2(f).

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 (Loan Management Units – LMUs) with experience in insolvency and specific market sectors are used.

This expertise enables likely losses on significant individual exposures to be assessed more accurately. Release on individually calculated impairment allowances are recognised whenever the group has reasonable objective evidence that the established estimate of loss has been reduced.

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.

Risk management (continued)

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

(in millions of euros)	**Year to 31 December 2006** *Gross loans and advances to customers*	*Gross loans by industry sector as a % of total Gross loans*
Personal	**262**	**22**
Corporate	**892**	**76**
Financial	**17**	**2**
Total impaired loans and advances to customers	**1,171**	**100**

(in millions of euros)	Year to 31 December 2005 *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 2006		
(in millions of euros)	*Individually assessed*	*Collectively assessed*	*Total*
At 1 January	**(834)**	**(89)**	**(923)**
Utilised provisions reversed	**176**	–	**176**
Release of allowances no longer required	**175**	**20**	**195**
New (allowances)	**(212)**	**(14)**	**(226)**
Unwinding of discount	**6**	–	**6**
Exchange, changes in scope of consolidation and other movements	**4**	**(4)**	–
At 31 December	**(685)**	**(87)**	**(772)**

	Year ended 31 December 2005		
(in millions of euros)	*Individually assessed*	*Collectively assessed*	*Total*
At 1 January	(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 %)	**2006**	2005
Total impairment allowances to gross lending[1]		
Individually assessed impairment allowances	**1.63**	2.47
Collectively assessed impairment allowances	**0.21**	0.26
Specific provision	**–**	–
Total	**1.84**	2.73

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

Impairment on loans and available-for-sale securities and other credit risk provisions (cost of risk)

(in millions of euros)	Year ended 31 December 2006 Total	Year ended 31 December 2005 Total
Individually assessed impairment allowances		
New allowances	**212**	232
(Release) of allowances no longer required	**(175)**	(246)
Recoveries of amounts previously written off	**(16)**	–
	21	(14)
Collectively assessed impairment allowances		
New allowances	**14**	19
(Release) of allowances no longer required	**(20)**	(37)
Recoveries of amounts previously written off	**–**	–
	(6)	(18)
Total charge/(release) for impairment losses	**15**	(32)
– bank	**–**	(3)
– customer	**15**	(29)
Other credit risk provisions	**(6)**	(43)
Impairment on available-for-sale securities[1]	**1**	–
Cost of risk	**10**	(75)[2]
Customer charge for impairment losses as a percentage of closing gross loans and advances	**0.04%**	n/a
Total balances outstanding		
Non-performing loans	**1,669**	1,326
Impairment allowances	**772**	923
Gross loans and advances	**63,625**	54,706
Cover ratio on non-performing loans and advances	**66.04%**	69.6%

1 *In 2005 allowances on available-for-sale equities were not classified in cost of risk.*

2 *A figure into brackets means that the amount of relase of allowances was higher than the one of new allowances.*

Liquidity and funding management

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. HSBC France maintains a diversified and stable funding base of core retail and corporate customer deposits as well as portfolios of highly liquid assets.

That liquidity and funding management process includes:

– monitoring balance sheet liquidity ratios against internal and regulatory requirements;

– projecting cash flows and determining the amount of liquid assets needed to maintain balance;

– maintaining a diverse range of funding sources;

– managing the concentration and profile of debt maturities;

– maintaining debt financing plans;

– monitoring depositors' 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.

Customer demand deposits (current accounts and savings accounts) make up a significant component of the Group's overall financing that has proved stable over the years.

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 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 funded through currency-denominated deposits taken from the Eurocurrency interbank market, from central banks, corporate customers and other financial institutions.

The sources of 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 by the French Banking Commission. Banks are required to submit quarterly returns which present the components of the 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) by liabilities (which include a proportion of customer accounts, 5 per cent of off-balance-sheet commitments and all borrowings and subordinated debts maturing within one month). Banks are required to maintain, at all times, a ratio in excess of 100 per cent. For the year 2006, the HSBC France group's average liquidity ratio was 112.93 per cent.

Risk management (continued)

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 major 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 Balance Sheet and Markets ALCO which ensures that adequate controls exist and sets related policies.

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

Organisation of permanent control of market risk

The process for allocating market limits and the market risk permanent control 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.

Market Risk Management (MRM)

In accordance with the way this function is organised within the HSBC Group, HSBC France has put in place a Market Risk Management (MRM) organisation. This unit is responsible for close monitoring of HSBC France's market risks, setting risk limits for Balance Sheet and Markets ALCO and optimising the day-to-day utilisation of those limits, and resolving any limit crossings identified and reported by Product Control. The Head of MRM France reports hierarchically to the General Secretary–Corporate and functionally to the Head of MRM EMEA, the HSBC Group entity responsible for market risks in the geographic region.

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. 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 HSBC France's Chairman and CEO or Deputy CEO in charge of the permanent control. 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.

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 Chief Financial Officer, 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 Financial Services and European Audit (AUF), which is the HSBC Group's unit in charge among others, of the periodic control of worldwide 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 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.

Market risk assessment tools

Value at Risk
One of the principal tools used by the Group to monitor and limit market risk exposure is VaR (Value-at-Risk). Internal model of HSBC France is used to calculate a 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. An internal model of HSBC France has been validated by the French Banking Commission in 1999 for capital requirements calculations.

HSBC France calculates a VaR based on an assumed holding period of 10 days. To meet an HSBC Group requirement, the equivalent one-day VaR is estimated by dividing the 10-day VaR by the positive square root of 10. Group standards require VaR exposure to be expressed in terms of equivalent one-day VaR. The switch-over to calculated actual one-day VaR is scheduled for January 2007.

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.

Risk management (continued)

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 equivalent one-day VaR on market exposures, taking into account both market trading and structural interest rate risk, amounted to:

(in millions of euros)	*Total*
At 31 December 2006	**5.4**
At 31 December 2005	9.5

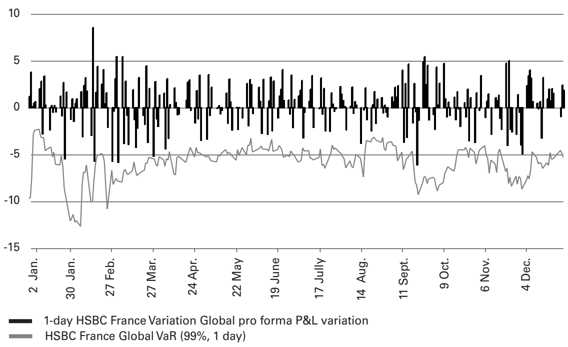
(in millions of euros)	*Average*	*Minimum*	*Maximum*
2006	**6**	**2.4**	**12.9**
2005	13.7	5.6	22.9

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 France group's market positions.

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

Pro forma Back testing January-December 2006
(in millions of euros)



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.

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 2006	**0.21**	**4.82**	**0.97**	**5.11**
At 31 December 2005	0.24	7.59	0.50	7.34
Average				
2006	**0.26**	**6.49**	**0.91**	**5.78**
2005	0.29	11.07	1.17	12.03
Minimum				
2006	**0.10**	**2.75**	**0.12**	**2.36**
2005	0.14	3.60	0.28	4.47
Maximum				
2006	**0.64**	**13.08**	**2.31**	**11.87**
2005	0.47	21.58	3.73	22.39

Positions taken with trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2006	**0.21**	**4.82**	**0.97**	**4.97**
At 31 December 2005	0.24	7.42	0.50	7.17
Average				
2006	**0.26**	**5.59**	**0.91**	**5.45**
2005	0.29	10.71	1.17	11.67
Minimum				
2006	**0.10**	**1.69**	**0.12**	**2.31**
2005	0.14	3.52	0.28	4.39
Maximum				
2006	**0.64**	**10.88**	**2.31**	**10.68**
2005	0.47	20.49	3.73	21.30

Positions taken without trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2006	**–**	**0.15**	**–**	**0.15**
At 31 December 2005	–	0.17	–	0.17
Average				
2006	**–**	**0.33**	**–**	**0.33**
2005	–	0.36	–	0.36
Minimum				
2006	**–**	**0.05**	**–**	**0.05**
2005	–	0.08	–	0.08
Maximum				
2006	**–**	**1.19**	**–**	**1.19**
2005	–	1.09	–	1.09

Risk management (continued)

Capital Adequacy reporting

Internal model allows the daily calculation of Value at Risk for all positions. It has been approved by the French Banking Commission for regulatory capital adequacy calculations. At 31 December 2006, it covered 99 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 breakdown as follows (EUR million):

	31 December 2006		31 December 2005	
	BIS	***CAD***	*BIS*	*CAD*
Internal Model:	**71.6**	**71.6**	117.2	117.2
Foreign exchange risk	**3.4**	**3.9**	3.0	3.0
General interest-rate risk	**93.1**	**93.1**	124.7	124.7
General equities risk	**15.9**	**15.9**	11.2	11.2
Netting effect	**(40.8)**	**(40.8)**	(21.7)	(21.7)
Standard methods:	**62.3**	**62.2**	60.8	60.8
Foreign exchange risk	**0.10**	**0.10**	0.05	0.05
General interest-rate risk	**0.17**	**0.12**	0.12	0.08
Specific interest-rate risk	**59.5**	**59.5**	60.6	60.6
General equities risk	**0.0**	**0.0**	0.0	0.0
Specific equities risk	**2.5**	**2.5**	0.0	0.0
Total	**133.9**	**133.8**	178.0	177.9

Non-trading

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

Structural interest rate risk arises mainly from differences between future returns on assets and future costs of liabilities stemming from variations in interest rates. Analysis of this risk is complex owing to the necessity of making assumptions on such things as borrowers' options to pay off property loans early and depositors' behaviour with regard to balances that by contract are withdrawable on demand, as current accounts. When the observed characteristics of a product are different from its contractual characteristics, those empirical characteristics are evaluated to determine the actual underlying interest rate risk associated with the product. ALCO regularly monitors all such behavioural assumptions and interest rate risk positions, to ensure they comply with risk limits established by the HSBC Group Management Board.

In order to manage this risk optimally, market risk in non-trading activities is measured and managed centrally by the ALM team which defines the rules to transfer this risk to Global Markets. 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 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 exposure

Foreign exchange trading positions arising from banking operations are systematically transferred to the Trading Desk, which manages exchange rate risk according to the limits set by Balance Sheet and Markets ALCO.

There is also an exchange rate risk on equity due to investments in foreign currency that are not hedged by financing in foreign currency. This exposure, which is called "structural", corresponds to net investments in subsidiaries, branches and associates for which the euro is not the functional currency.

HSBC France's investments in foreign subsidiaries are small in amount and financed entirely in the same currency. The structural foreign exchange exposure is consequently limited to the share of these subsidiaries' profits retained in reserves. This exposure and the sensitivity of capital ratios to variation in exchange rates is monitored by Balance Sheet and Markets ALCO.

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. Twelve groups had individual exposures exceeding 10 per cent of net capital at the end of 2006.

Loan loss provisions

At 31 December 2006, loan loss provisions represented 66.04 per cent of the HSBC France group's total doubtful and non-performing exposure.

Liquidity ratio

The HSBC France group's regulatory ratios reflect its good liquidity risk cover. The regulatory liquidity ratio, which measures the potential one-month liquidity gap, averaged 112.93 per cent in 2006.

International solvency ratio (BIS ratio)

The HSBC France group's international solvency ratio (BIS ratio) was 9.61 per cent at 31 December 2006, compared with a minimum requirement of 8 per cent. The group's Tier 1 capital ratio was 9.87 per cent compared with a minimum requirement of 4 per cent.

Under the BIS definition, total HSBC France group capital amounted to EUR 4.2 billion at 31 December 2006, of which EUR 4.3 billion was Tier 1 capital.

The corresponding risk-weighted assets totalled EUR 43.3 billion, broken down as follows:

(in billions of euros)	
Credit risks, not including trading book	40.0
Trading book credit risks	2.3
Market risks	1.0

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 central operational risk management team, each business unit has its own Operational Risk Business Coordinators (ORBC) who, within their entities, coordinate 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 Senior 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 was deployed within HSBC France during 2006.

Risk management (continued)

This application, called GORDON (Group Operational Risk Database Online Network), provides a decentralised way of managing the process of identifying and updating operational risks and reporting losses due to them.

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 meets quarterly 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:
  The HSBC France group is still involved in one legal action taking place in the United States. The management considers the outcome of this legal action will have no material impact on the financial position of the group. There is no other litigation or arbitration proceedings likely to have a material impact on HSBC France's financial position, its activities and results, or consequently on the HSBC France group.

Business Continuity Plan

Business Continuity Plans (PCAs) to deal with the loss or temporary unavailability of a building have been drawn up for all essential business operations conducted by the HSBC France platform (HSBC France, HSBC UBP, HSBC Hervet, HSBC de Baecque Beau and HSBC Picardie) and the financial subsidiaries hosted on the Group's central sites in the Paris region. A pre-equipped fall-back site for all sensitive operations has been set up in Lognes. It is tested on a regular basis.

The regional bank subsidiaries have drawn up their own PCAs for their Head office activities. There are also specific plans to cover business operations conducted in the branch networks against partial unavailability of staff due to floods, health risks and the like. Potential loss of the Lognes site is addressed in the Information Systems Security Plan (PSI).

The business operations given priority in a crisis are market operations, asset management, processing of banking transactions and the non-production IT facilities covered by the PSI.

Tests are performed on a regular basis to ensure business continuity in the event of a crisis. Recent past and planned future tests include:

– November 2006: test for all high-risk CIBM operations: markets, asset management, transactions and information systems;

– December 2006: business operations including asset management, investment funds, employee savings, and factoring;

– tests are scheduled for early 2007 in operations;

– tests were performed during the summer of 2006 for legal, procurement, risk management and lending operations and are scheduled for the first half of 2007 for the remaining operations.

A consultation took place, both with the FBF (French Banking Federation) and internally, to define specific plans that would meet the public authorities' expectations for dealing with other major risks that could affect business continuity, such as floods and pandemics. This effort is due to result in specific business continuity/resumption plans being drawn up during 2007.

Lastly, a business security department has been set up effective 1 January 2006. This department is responsible for crisis management and oversight of the HSBC France group's business continuity plans.

Dependency

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

Environmental risks

The Corporate Responsibility policy is described on pages 44 to 49 of this annual report.

Compliance risks

Compliance risk is the risk of judicial, administrative or disciplinary sanctions, financial loss or damage to reputation associated with failure to comply with provisions of law, regulation, professional rules or codes of conduct applicable to banking and financial activities.

Organisation of compliance control

Within the HSBC France group, the compliance risk control system is directed by the Compliance department. Effective March 2006, all compliance personnel within the HSBC France group report hierarchically to the Compliance department so as to ensure full independence of the compliance function from the operational activities, as required by CRBF Regulation 97-02 as amended. The Compliance department currently consists of five departments reporting to the Head of Compliance: four departments specialised by business line (Branch Networks and Insurance; Corporate, Investment Banking and Markets; Asset Management; Private Banking) and a central compliance department responsible for ensuring that the system is internally consistent.

As part of its role of co-ordinating and leading the compliance control effort, the Compliance department is responsible for:

– monitoring regulatory developments that will have an impact on the activities of the HSBC France group, jointly with the Legal and Tax department;

– preparing and updating the necessary procedures and instructions to achieve compliance in practice with legal and regulatory provisions;

– informing and training employees with regard to the compliance obligations arising from their activities and responsibilities;

– performing an advisory function for operating managers to assist them in meeting compliance obligations;

– identifying the compliance risks associated with the activities conducted by HSBC France;

– organising and, in co-ordination with the internal control departments of the business lines and subsidiaries, carrying out the permanent controls of compliance;

– co-ordinating relations with regulatory and administrative authorities.

Identification and monitoring procedures for compliance risks

The Compliance department draws on the monitoring performed by the Legal and Tax department to follow legislative and regulatory changes and developments in case law that will have an impact on the HSBC France group, analyse the impact of such changes, and establish procedures for complying with them.

The analysis of compliance risks and the procedures for controlling them are documented in "compliance charts" itemising the legal, regulatory and professional rules and internal HSBC Group standards that apply to each business line or activity and the procedures and controls implemented to ensure compliance with them. In 2006 these documents were revised and adapted for the purpose of assigning a rating to the level of intrinsic risk pertaining to the various rules, characterising the level of residual risk on the basis of a critical analysis of the compliance control system then in place, and, where needed, strengthening the existing controls.

For compliance risks associated with new products and services and significant changes in existing products, a specific review procedure is in place. This procedure calls for due diligence to be performed systematically in advance of launch by the entities and control functions concerned, including the Compliance department, to ensure that all risks occasioned by the new product or service are analysed and taken into account.

New products that meet certain criteria are also subject to prior approval by the Product Review Committee, which is chaired by the HSBC France group's Chairman or Deputy CEO in charge of the permanent control, and for which the Compliance department serves as the secretariat. The Compliance department is responsible for ensuring that the products comply with both legal and regulatory requirements and Group standards and that the Committee's requests and decisions are taken into account before the products are launched.

Operational oversight of the compliance control system and follow-up on any identified discrepancies relies in the first instance on periodic and specific reporting procedures. Quarterly, the Local Compliance Officer (LCO) of each HSBC France group entity prepares a report on legal and regulatory compliance for the activities within the scope of his or her responsibility and sends this report to the Head of compliance for the business line. This report is signed by the LCO and co-signed every six months by the Head of the entity. A consolidated report for the HSBC France group is prepared every quarter on the basis of these reports and is co-signed every six months by the Head of Compliance and the Chairman and CEO of the HSBC France group.

Any identified discrepancies in the implementation of compliance requirements are documented by the LCO of the entity concerned in an exception report that must be made up the Compliance line. The actions taken to remedy the anomaly are then monitored on a regular basis.

Risk management (continued)

Furthermore, specific review committees composed of both Compliance representatives and operating managers review the functioning of the compliance control system and the main identified compliance risks. In implementation of the provisions of CRBF regulation 97-02 relating to Compliance control, the HSBC France group in April 2006 set up a Compliance Committee.

This committee is chaired by the Chairman and CEO of the HSBC France group and includes, in addition to the Head of Compliance and the other Compliance department Heads, the Deputy CEO in charge of central functions (who is responsible for co-ordination of permanent control for the HSBC France group), the senior executives responsible for the business lines and the Head of Legal and Tax department.

The role of this committee is two-fold: to take decisions regarding the direction of the compliance control system, and to inform the Senior Management as to how well the system is working, any discrepancies observed and corrective actions taken to address them.

Within each subsidiary subject to CRBF regulation 97-02, the Compliance Officer reports on the compliance control system to the local permanent control committee, which is chaired by the member of the executive body who has been designated as the subsidiary's permanent control officer. Lastly, there are specialised anti-money-laundering committees in each business line and banking subsidiary, formed for the purpose of reviewing any matter pertaining to prevention of money laundering. The Compliance department organises these committees and serves as secretariat for them.

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 professional liability relating to regulated activities, public liability, banking risks and the fleet cars.

Damage to real-estate and other property, including IT hardware, and the business interruption are insured by a policy taken out in France. This local policy is linked to the global programme taken out by HSBC Holdings plc. Reinstatement value guarantees vary in accordance with types of buildings and activities.

Sums insured, retentions and excesses are:

– in line with insurance market condition, business areas, 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 2006 represented 0.28 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 2006 concerning the HSBC France group.

Financial highlights*

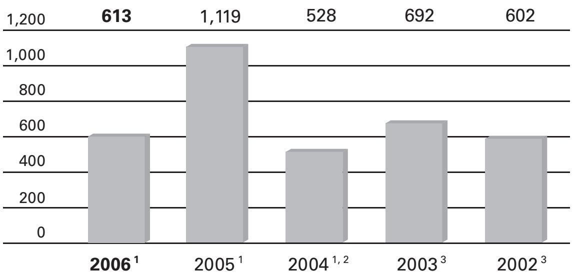
HSBC France group

(in millions of euros)	**2006[1]**	2005[1]	2004[1, 2]	2003[3]	2002
Profit on ordinary activities before tax	**801**	1,240	608	643	770
Profit attributable to shareholders	**613**	1,119	528	692	602
At year-end					
Shareholders' funds	**5,406**	5,325	4,168	3,427	3,259
Loans and advances to customers and banks	**62,855**	53,783	49,513	38,441	38,804
Customers accounts and deposits by banks	**57,336**	54,858	52,454	43,474	41,281
Total assets	**132,847**	128,100	87,947	71,191	66,285
Number of employees (full-time equivalents)	**14,379**	13,878	13,908	13,577	13,797
Ratios					
Capital ratios					
Total capital	**9.6%**	10.1%	8.9%	9.1%	8.6%
Tier One capital	**9.9%**	9.5%	8.8%	8.8%	8.2%
Cost:income ratio	**69.7%**	63.4%	76.7%	68.8%	67.9%

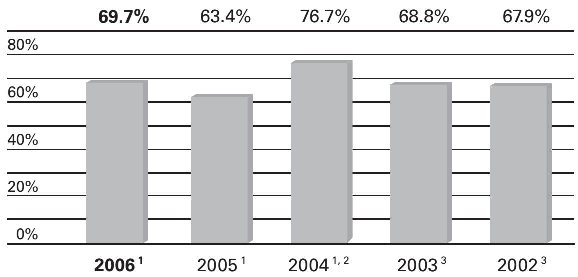
The financial highlights are influenced by changes in the group structure over the past five years. The most significant changes are as follows:

- in 2002: acquisition of HSBC Republic Bank France SA;
- in 2005: disposals of the Dewaay group, Framlington, Netvalor and subsidiaries of CMSL. The gains before tax made on these disposals amounted to EUR 256 million and explain the high level of the 2005 profit.

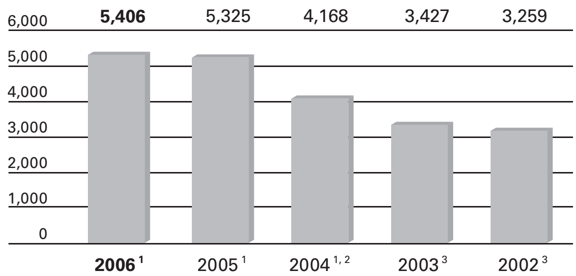
Profit attributable to shareholders (in millions of euros)



Cost:income ratio



Shareholders' funds (in millions of euros)



* *Published consolidated financial information – HSBC France legal perimeter.*
1 *The 2004, 2005 and 2006 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 2002 and 2003 financial highlights are French GAAP as reported previously. The profit on ordinary activities before tax and the profit attribuable to shareholders for the years 2002 and 2003 exclude goodwill amortisation.*

Consolidated financial statements

Consolidated income statement for the year ended 31 December 2006

(in millions of euros)	*Notes*	**2006**	2005
Interest income		**2,718**	2,133
Interest expense		**(2,192)**	(1,389)
Net interest income		**526**	744
Fee income		**1,213**	1,112
Fee expense		**(322)**	(251)
Net fee income		**891**	861
Trading income		**938**	617
Net income from financial instruments designated at fair value	*3*	**(5)**	1
Gains less losses from financial investments		**156**	244
Dividend income		**33**	29
Other operating income		**75**	405[1]
Total operating income before loan impairment (charges)/release and other credit risk provisions		**2,614**	2,901
Loan and other impairment charges and other credit risk provisions		**(10)**	75
Net operating income		**2,604**	2,976
Employee compensation and benefits	*5*	**(1,082)**	(1,094)
General and administrative expenses		**(659)**	(651)
Depreciation of property, plant and equipment	*17*	**(62)**	(65)
Amortisation of intangible assets and impairment of goodwill	*16*	**(20)**	(30)
Total operating expenses		**(1,823)**	(1,840)
Operating profit		**781**	1,136
Share of profit in associates and joint ventures	*15*	**20**	104
Profit before tax		**801**	1,240
Tax expense	*7*	**(189)**	(123)
Profit for the year		**612**	1,117
Attributable to shareholders	*29*	**613**	1,119
Attributable to minority interests	*29*	**(1)**	(2)

(in euros)			
Basic earnings per ordinary share	*9*	**8.15**	14.95
Diluted earnings per ordinary share	*9*	**8.01**	14.62
Dividend per ordinary share	*9*	**8.10**	5.19

1 *In 2005, allowances on available-for-sale investments (impairment) were classified in other operating income.*

Consolidated balance sheet at 31 December 2006

ASSETS

(in millions of euros)	*Notes*	**2006**	2005
Cash and balances at central banks	30	**1,027**	482
Items in the course of collection from other banks	30	**2,202**	2,110
Trading assets	12	**37,363**	41,821
Derivatives	13	**20,164**	18,030
Loans and advances to banks	26	**20,836**	16,557
Loans and advances to customers	26	**42,019**	37,226
Financial investments	14	**4,002**	6,260
Interests in associates and joint ventures	15	**157**	174
Goodwill and intangible assets	16	**461**	461
Property, plant and equipment	17	**722**	733
Other assets	19	**2,727**	3,070
Deferred taxation	22	**3**	19
Prepayments and accrued income		**1,164**	1,157
TOTAL ASSETS	10	**132,847**	128,100

LIABILITIES AND EQUITY

(in millions of euros)	*Notes*	**2006**	2005
Liabilities			
Deposits by banks	26	**23,930**	20,494
Customer accounts	26	**33,406**	34,364
Items in the course of transmission to other banks	30	**2,054**	2,069
Trading liabilities	25	**25,693**	32,182
Financial liabilities designated at fair value	20	**273**	314
Derivatives	13	**20,826**	19,408
Debt securities in issue	26	**17,063**	9,912
Retirement benefit liabilities	5	**186**	202
Other liabilities	21	**1,529**	1,132
Current taxation		**281**	273
Accruals and deferred income		**1,274**	1,342
Provisions for liabilities and charges:			
– deferred tax	22	**–**	111
– other provisions	22	**133**	165
Subordinated liabilities	24	**774**	795
TOTAL LIABILITIES		**127,422**	122,763
Equity			
Called-up share capital	28	**378**	376
Share premium account	29	**1,164**	1,125
Other reserves and retained earnings	29	**3,864**	3,824
TOTAL SHAREHOLDERS' EQUITY		**5,406**	5,325
Minority interests	29	**19**	12
TOTAL EQUITY		**5,425**	5,337
TOTAL EQUITY AND LIABILITIES		**132,847**	128,100

Consolidated financial statements (continued)

Consolidated statement of recognised income and expense for the year ended 31 December 2006

(in millions of euros)	**2006**	2005
Available-for-sale investments:		
– valuation gains/(losses) taken to equity	**163**	335
– transferred to income statement on disposal or impairment	**(140)**	(78)
Cash flow hedges:		
– gains/(losses) taken to equity	**(204)**	81
– transferred to income statement	**(117)**	(269)
Exchange differences arising on net investments in foreign operations	**(2)**	4
Other reserves:		
– gains/(losses) taken to equity	**(3)**	(65)
Actuarial gains/(losses) on post-employment benefits	**13**	(9)
	(290)	(1)
Net deferred taxation on items taken directly to equity	**110**	108
Net Profit for the year	**612**	1,117
Total recognised income and expense for the year	**432**	1,224
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
	432	1,601
Total recognised income and expense for the year attributable to:		
– Shareholders of the parent company	**433**	1,226
– Minority interests	**(1)**	(2)
	432	1,224

Consolidated cash flow statement for the year ended 31 December 2006

(in millions of euros)	*Notes*	**2006**	2005
Cash flows from operating activities			
Profit before tax		**801**	1,240
Adjustments for:			
– non-cash items included in net profit	*30*	**(74)**	13
– change in operating assets	*30*	**(9,675)**	(1,468)
– change in operating liabilities	*30*	**9,908**	(894)
– elimination of exchange differences and transition adjustments		**(28)**	1,248
– net gain from investing activities		**(156)**	(243)
– share of profits in associates and joint ventures		**(20)**	(104)
– dividends received from associates		**2**	63
– tax paid		**(154)**	(160)
Net cash from operating activities		**604**	(305)
Cash flows (used in)/from investing activities			
Purchase of financial investments		**(1,150)**	(2,808)
Proceeds from the sale of financial investments		**3,431**	4,938
Purchase of property, plant and equipment		**(60)**	(74)
Proceeds from the sale of property, plant and equipment		**33**	53
Purchase of intangible assets		**(7)**	(21)
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		**28**	4
Net cash (used in)/from investing activities		**2,275**	2,159
Cash flows (used in)/from financing activities			
Issue of ordinary share capital		**36**	35
Net purchases and sales of own shares for market-making purposes		**–**	–
Increase in non-equity minority interests		**–**	–
Subordinated loan capital issued		**–**	–
Subordinated loan capital repaid		**(6)**	(67)
Dividends paid to shareholders	*8*	**(412)**	(511)
Dividends paid to minority interests		**–**	(1)
Net cash (used in)/from financing activities		**(382)**	(544)
Net increase in cash and cash equivalents		**2,497**	1,310
Cash and cash equivalents at 1 January		**16,959**	15,584
Effect of exchange rate changes on cash and cash equivalents		**(75)**	65
Cash and cash equivalents at 31 December	*30*	**19,381**	16,959

Notes to the consolidated financial statements

1 Basis of preparation

a HSBC France has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as endorsed by the European Union ("EU"). 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.

From 1 January 2006, HSBC France has adopted the "Amendment to IAS 39 and to IFRS 4: Financial Guarantee Contracts" with a retrospective effect. This retrospective adoption had no material impact on the consolidated financial statements.

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

b The HSBC France group's consolidated financial statements consist of the financial statements of HSBC France, its subsidiaries and associates as at 31 December.

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.

1 Basis of preparation *(continued)*

– 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.

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, the valuation of financial instruments, and retirement benefits and share-based payments.

2 Principal accounting policies

a Interest income and expense

Interest income and expense for all interest-bearing financial instruments except those classified as held-for-trading or designated at fair value (other than debt issued by HSBC France and related derivatives) are recognised in "Interest income" and "Interest expense" in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate at inception that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, HSBC France estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by HSBC France that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairment.

b Non-interest income

Fee income

HSBC France earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

– if the income is earned on the execution of a significant act, it is recognised when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement for the acquisition of shares or other securities);

– if the income is earned as services are provided, it is recognised as the services are provided (for example, asset management, portfolio and other management advisory and service fees); 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).

Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for equity securities.

Notes to the consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value comprises all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit and loss. Interest income and expense and dividend income arising on those financial instruments are also included, except for debt securities in issue 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 and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

If the fair value of a financial asset measured at fair value becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset, or it is extinguished.

e Loans and advances to banks and customers

Loans and advances to banks and customers include loans and advances originated by HSBC France, which are not intended to be sold in the short term and have not been classified either as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers and are derecognised when either borrowers repay their obligations, or the loans are sold or written off or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

f Loan impairment

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on loans assessed collectively. Losses expected from future events, no matter how likely, are not recognised.

2 Principal accounting policies *(continued)*

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.

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.

Notes to the consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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.

g Trading assets and trading liabilities

Treasury bills, debt securities, equity shares and short positions in securities which have been acquired or incurred principally for the purpose of selling or repurchasing in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking are classified as held for trading. Such financial assets or financial liabilities are recognised 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.

h Financial instruments designated at fair value

A financial instrument, other than one held for trading, is classified in this category if it meets one or more criteria set out below, and is so designated by management. HSBC France may designate financial instruments at fair value where the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases;
- 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.

i Financial investments

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.

HSBC France does not hold any "held-to-maturity" investments in 2005 or 2006.

Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value. Changes in fair value are recognised in equity in the "Available-for-sale reserve" until the securities are either sold or impaired. On the sale of available-for-sale securities, gains or losses held within equity are recycled through the income statement and classified as "Gains less losses from financial investments".

Interest income is recognised on such securities using the effective interest method, calculated over the asset's expected life. Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are recognised as an adjustment to the effective interest rate. Dividends are recognised in the income statement when the right to receive payment has been established.

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 within "Loan and other impairment charges and other credit risk provisions."

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.

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.

k Derivatives and hedge accounting

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. In the normal course of business, the fair value of a derivative at initial recognition is considered to be the transaction price (i.e. the fair value of the consideration given or received). However, in certain circumstances the fair value of an instrument will be evidenced by comparison with other observable current market transactions in the same instrument (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

Notes to the consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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.

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'.

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.

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

Notes to the consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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 (between 3 and 5 years) 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. 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.

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.

Notes to the consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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

Share-based payments are payments based on shares issued by HSBC Holdings plc. HSBC France employees benefit from the following advantages:

- until 2005, HSBC Holdings plc had awarded share options on HSBC Holdings plc shares;
- in 2006, HSBC France implemented a share plan on HSBC Holdings plc shares;
- employees can subscribe to HSBC Holdings plc shares within the employee share ownership plan.

Share-options plans

The compensation expense to be spread on a straight-line basis 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. 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 plc as and when employees exercise their options. This expense, spread over the vesting period, reduces the increase of shareholders' equity previously recognised.

Share plans

This expense is spread on a straight-line basis over the vesting period with a balancing entry in a liabilities account. The expense value takes into account hypotheses regarding employee departures and performance conditions for the part of the shares submitted to such conditions.

Employee share ownership plan

Employees can subscribe to HSBC Holdings plc shares with a discount and without any vesting period. This advantage is expensed immediately as employee compensation and benefits. The five-year lock-in period is not taken into account in the consideration of the expense.

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

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. 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

2 Principal accounting policies *(continued)*

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

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).

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).

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)	**2006**	2005
Net income arising on:		
– HSBC France's debt securities in issue and subordinated liabilities[1]	**14**	9
– other financial liabilities designated at fair value	**–**	–
– derivatives managed in conjunction with financial liabilities designated at fair value	**(19)**	(8)
Net income arising on financial instruments designated at fair value	**(5)**	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 2006, HSBC France recognised a EUR 0.1 million loss on changes in the fair value of these instruments arising from changes in HSBC's own credit risk. (In 2005, a gain of EUR 0.6 million).*

Notes to the consolidated financial statements (continued)

4 Net operating income

Net operating income for the year ended 31 December 2006 amounts to EUR 2,604 million and is stated after the following items of income, expense, gains and losses:

(in millions of euros)	2006	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	**692**	663
Fees earned on trust and other fiduciary activities where HSBC France holds or invests assets on behalf of its customers	**415**	376
Gains on sale of subsidiaries, associates and joint ventures	**0**	256
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	**(2 184)**	(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	**(275)**	(225)
Impairment losses on:		
– loans and advances	**(15)**	32
– available-for-sale financial investments	**(1)**	(2)

5 Employee compensation and benefits

(in millions of euros)	2006	2005
Wages and salaries	**764**	793
Social security costs	**247**	245
Post-employment benefits	**71**	56
	1,082	1,094

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

	2006	2005
Personal Financial Services and Commercial Banking	**9,681**	9,424
Corporate, Investment Banking and Markets	**1,554**	1,458
Asset Management	**577**	526
Private Banking	**333**	354
Insurance[1]	**228**	224
Support Functions & Others	**2,528**	2,431
TOTAL	**14,901**	14,417

1 *Mainly Erisa employees.*

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.

5 Employee compensation and benefits *(continued)*

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 2006, and the 2007 periodic costs, were:

(in %)	*Discount rate*	*Expected rate of return on plan assets*	*Inflation assumption*	*Rate of increase for pensions in payment and Deferred pension*	*Rate of pay increase*	*Mortality rate*	*Healthcare cost trend rates*
At 31 December 2006							
France	**4.5**	**7** [1]	**2**	**2**	**3**	**–** [2]	**6**
At 31 December 2005							
France	4	7 [1]	2	2	3.5	– [3]	6

1 *Expected rate on equities. However expected rate of return on bonds was 4.75 per cent for 2006 and 4.75 per cent for 2005.*
2 *We used "les tables de mortalité (TV88-90 pour les indemnités de départs à la retraite et les médailles du travail et TGH/TGF05 pour les engagements de retraite)."*
3 *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)."*

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.

c Defined benefit pension plans

Value recognised in the balance sheet

(in millions of euros)	**2006** ***HSBC France Pension Plan***	2005 *HSBC France Pension Plan*
Equities	**22**	11
Bonds	**82**	56
Property	**–**	–
Other	**1**	2
Fair value of plan assets	**105**	69
Present value of funded obligations	**–**	–
Present value of unfunded obligations	**(252)**	(234)
Defined benefit obligation	**(252)**	(234)
Unrecognised past service cost	**1**	3
Net liability	**(146)**	(162)

Notes to the consolidated financial statements (continued)

5 Employee compensation and benefits *(continued)*

Changes in the present value of the defined benefit obligation

(in millions of euros)	**2006** ***HSBC France Pension Plan***	2005 *HSBC France Pension Plan*
At 1 January	**234**	233
Current service cost	**5**	4
Interest cost	**11**	10
Contributions by employees	**–**	–
Actuarial (gains)/losses	**(13)**	12
Benefits paid	**(22)**	(22)
Past service cost – vested immediately	**1**	(3)
Past service cost – unvested benefits	**–**	3
Acquisitions	**–**	–
(Gains)/losses on curtailments	**–**	(3)
(Gains)/losses on settlements	**–**	–
Exchange and other movements	**36**	–
At 31 December	**252**	234

Changes in the fair value of plan assets

(in millions of euros)	**2006** ***HSBC France Pension Plan***	2005 *HSBC France Pension Plan*
At 1 January	**69**	67
Expected return	**5**	3
Contributions by the group	**1**	–
Contributions by employees	**–**	–
Actuarial gain	**–**	4
Benefits paid	**(7)**	(5)
Acquisitions	**–**	–
(Gains)/losses on settlements	**(1)**	–
Exchange and other movements	**38**	–
At 31 December	**105**	69

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

(in millions of euros)	**2006** ***HSBC France Pension Plan***	2005 *HSBC France Pension Plan*
Current service cost	**5**	4
Interest cost	**11**	10
Expected return on plan assets	**(5)**	(3)
Past service cost	**–**	(3)
(Gains)/losses on curtailments and settlements	**–**	(3)
Exchange and other movements	**–**	–
Total net expense	**11**	5

5 Employee compensation and benefits *(continued)*

Total net actuarial gains included in the statement of recognised income and expense in 2006 in respect of defined benefit pension plans were EUR 13 million (2005: net actuarial losses of EUR 9 million).

d Post-employment healthcare benefits plans

Value recognised in the balance sheet

(in millions of euros)	**2006**	2005
Present value of funded obligations	**–**	0
Present value of unfunded obligations	**(40)**	(40)
Defined benefit obligation	**(40)**	(40)
Unrecognised past service cost	**–**	0
Net liability	**(40)**	(40)

Changes in the present value of the defined benefit obligation

(in millions of euros)	**2006**	2005
At 1 January	**40**	33
Current service costs	**1**	1
Interest costs	**2**	2
Contributions by employees	**–**	–
Actuarial (gains)/losses	**(2)**	4
Benefits paid	**(1)**	–
Past service cost:		
– vested immediately	**–**	–
– unvested benefits	**–**	–
Acquisitions	**–**	–
(Gains)/losses on curtailments	**–**	–
(Gains)/losses on settlements	**–**	–
Exchange and other movements	**–**	–
At 31 December	**40**	40

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

(in millions of euros)	**2006**	2005
Current service cost	**1**	1
Interest cost	**2**	2
Expected return on plan assets	**–**	–
Past service cost	**–**	–
(Gains)/losses on curtailments and settlements	**–**	–
Exchange and other movements	**–**	–
Total expense	**3**	3

Notes to the consolidated financial statements (continued)

5 Employee compensation and benefits *(continued)*

Total net actuarial gains recognised in the statement of recognised income and expense in 2006 in respect of post-employment healthcare benefits plans were EUR 2 million (2005: EUR 4 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 2006:

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

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)	**2006**	2005
Net liability on defined pension plans (Note 5 c)	**(146)**	(162)
Net liability on post-employment healthcare benefits plans (Note 5 d)	**(40)**	(40)
TOTAL	**(186)**	(202)

6 Share-based payments

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

In 2005, the HSBC Group significantly revised its share option and share policy to its employees. The new rules of share option and share plans were approved by its Annual General Meeting held in May 2005. These rules include a French sub-plan (Schedule 3 of the general rule) which complies with the legal and 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).

Share Options Plan

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.

6 Share-based payments *(continued)*

Share Options without performance conditions[1]

Share options without performance conditions were granted between 2001 and 2005 to certain Group employees.

	2006		2005	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**56,284**		49,486	
Granted in the year	**0**		7,499	8.370
Exercised in the year	**(3,247)**	**8.382**	(241)	8.350
Transferred in the year	**0**		0	
Expired in the year	**(1,053)**	**8.212**	(460)	8.233
Outstanding at 31 December	**51,984**		56,284	

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.

	2006		2005	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Granted in the year	**0**		523	8.794
Forfeited in the year	**0**		0	
Outstanding at 31 December	**523**		523	

In 2006, EUR 22.6 million (EUR 26.2 million in 2005) was charged to the income statement in respect of amortisation of 2003, 2004 and 2005 plans. This amortisation is based on the fair-value of the share-based payments transactions when contracted and runs over the 3-year vesting period.

Group share plan

The aim of the Group share plan is to recognise individual performance and to retain the most high performing employees.

The shares can be:

– "Performance Shares" submitted to performance conditions,

– "Achievement Shares" and "Restricted Shares" without performance conditions.

"Performance shares"

Vesting of performance shares 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.

6 Share-based payments *(continued)*

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 1st and 7th out of 28), 100 per cent of the performance shares concerned will vest. If HSBC's ranking is 14th, 30 per cent of the performance shares will vest. The vesting proportion increases by 10 per cent for each better ranking between 14th and 7th. 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 per cent of the performance shares concerned will vest if EPS has increased by at least 24 per cent 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 per cent of performance shares will vest if EPS growth reaches 52 per cent 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.

	2006
	Number (000)
Outstanding at 1 January	**0**
Granted in the year	**196**
Exercised in the year	**0**
Transferred in the year	**0**
Expired in the year	**0**
Outstanding at 31 December	**196**

"Achievement Shares" and "Restricted Shares":

These shares definitely vest after a two-year period and according to the rules of the plan.

	2006
	Number (000)
Outstanding at 1 January	**0**
Granted in the year	**1,999**
Exercised in the year	**0**
Transferred in the year	**0**
Expired in the year	**0**
Outstanding at 31 December	**1,999**

All these share 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 in March 2006 and so relate to 2006.

In 2006, EUR 11.9 million was charged to the income statement in respect of amortisation of the 2006 plans.

This amortisation runs over vesting period, it means a three-year period for the Performance Shares and a two-year period for the Achievement and Restricted Shares.

Employee share offering

Each year since 1993, HSBC has made an employee share offering open to current employees. Employees took up a total of 3,035,950 HSBC Holdings plc shares, representing a total capital amount of EUR 35.3 million.

In 2006 the cost of the discount based on the share price at the opening of the offer period amounted to EUR 8.4 million (EUR 9.7 million in 2005).

7 Tax expense

(in millions of euros)	**2006**	2005
Current tax	**174**	195
Deferred tax	**15**	(72)
Tax expense	**189**	123
Effective tax rate (per cent)	**23.6**	9.9

Analysis of overall tax charge

	2006		2005	
(in millions of euros)	***Amount***	*%*	*Amount*	*%*
Taxation at French corporate tax rate	**276**	**34.43**	433	34.93
Impact of overseas profits in principal locations taxed at different rates	**(1)**	**(0.1)**	(6)	(0.5)
Operations taxed at different tax rates in France	**(22)**	**(2.7)**	(37)	(3.0)
Other items including result for tax Group integration	**(64)**	**(8.0)**	(267)	(21.5)
Overall tax charge	**189**	**23.6**	123	9.9

HSBC France and its subsidiary undertakings in France provided for French corporation tax at 34.43 per cent for Short term (ST) and 8.26 [1] per cent for Long term (LT) (2005 : (ST) 34.93 per cent and (LT) 15.72 [1] per cent). The rates used for deferred taxes are based on 2007 tax rates: 34.43 per cent for ST and 1.72 [1] for LT.

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 2005 and 2006

	2006		2005	
(in millions of euros)	***EUR per share***	***Amount***	*EUR per share*	*Amount*
Second interim dividend for previous year	**1.45**	**110**	3.07	230
First interim dividend for current year	**4.00**	**302**	3.74	281
		412		511

Dividends paid in 2006 related to 2005

On 17 May 2006, the shareholders approved the proposal of the Board of Directors voted at its meeting on 28 February 2006 in relation to the distribution of net profit and the payment of a total dividend of EUR 390.5 million, EUR 5.19 per share. This dividend was paid on 18 May 2006 after the deduction of the interim dividend voted by the Board of Directors at its meeting of 26 July 2005. An amount of EUR 280.7 million was paid in 2005 and EUR 109.8 million in 2006.

Notes to the consolidated financial statements (continued)

8 Dividends paid in 2005 and 2006 *(continued)*

Dividends related to 2006

On 25 July 2006, the Board of Directors decided to pay an interim dividend of EUR 4 per share. This dividend was paid with respect to the 75,435,345 shares in issue on that date (including 197,415 shares resulting from the exercise of options since 1 January 2006 and not yet included in the share capital at that date), making a payment of EUR 301.7 million.

The interim dividend was paid on 27 July 2006.

The Board of Directors, at its meeting on 27 February 2007, proposes a final dividend to shareholders. This dividend will be payable on 11 May 2007 with respect to the 75,683,045 shares in issue at 31 December 2006, making a total dividend EUR 613 million for the financial year 2006, i.e. EUR 8.10 per share.

9 Earnings and dividends per share

(in millions of euros)	**31 December 2006**	31 December 2005
Basic earnings per share	**8.15**	14.95
Diluted earnings per share	**8.01**	14.62
Dividend per share	**8.10**	5.19

Basic earnings per ordinary share was calculated by dividing the earnings of EUR 613 million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 75,262,320 (full year of 2005: earnings of EUR 1,119 million and 74,826,025 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 76,550,201 (full year of 2005: 76,559,021 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)	2006	2005
TOTAL OPERATING INCOME BEFORE LOAN IMPAIRMENT CHARGES		
Personal Financial Services	**889**	911
Commercial Banking	**702**	705
Corporate, Investment Banking and Markets	**917**	782
Private Banking	**105**	90
Other	**(5)**	1
TOTAL FRANCE	**2,608**	2,489
Activities outside France	**6**	439
Group reporting differences	**0**	(27)
TOTAL LEGAL	**2,614**	2,901
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX		
Personal Financial Services	**140**	180
Commercial Banking	**185**	218
Corporate, Investment Banking and Markets	**432**	337
Private Banking	**17**	46
Other	**13**	(21)
TOTAL FRANCE – BEFORE GOODWILL IMPAIRMENT	**787**	760
Goodwill Impairment	**–**	–
TOTAL FRANCE	**787**	760
Activities outside France	**12**	487
Group reporting differences	**2**	(7)
TOTAL LEGAL	**801**	1,240
TOTAL ASSETS		
Personal Financial Services	**16,372**	14,675
Commercial Banking	**13,106**	11,140
Corporate, Investment Banking and Markets	**101,851**	100,745
Private Banking	**918**	964
Other	**600**	576
	132,847	128,100
CAPITAL EXPENDITURE INCURRED ON PROPERTY, PLANT AND EQUIPMENT		
Personal Financial Services	**28**	26
Commercial Banking	**21**	21
Corporate, Investment Banking and Markets	**11**	11
Private Banking	**0**	1
Other	**–**	–
	60	59
CAPITAL EXPENDITURE INCURRED ON INTANGIBLES (including goodwill)		
Personal Financial Services	**3**	7
Commercial Banking	**3**	8
Corporate, Investment Banking and Markets	**1**	6
Private Banking	**10**	1
Other	**–**	–
	17	22

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)	At 31 December 2006 Held for Trading	Designated at fair value [1]	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					1,027			**1,027**
Items in the course of collection from other banks					2,202			**2,202**
Trading assets	37,363							**37,363**
Financial assets designated at fair value								**0**
Derivatives	19,782					52	330	**20,164**
Loans and advances to banks			20,836					**20,836**
Loans and advances to customers			42,019					**42,019**
Financial investments				4,002				**4,002**
Other assets (including deferred tax)					2,730			**2,730**
TOTAL FINANCIAL ASSETS	**57,145**	**0**	**62,855**	**4,002**	**5,959**	**52**	**330**	**130,343**
Total non-financial assets								**2,504**
TOTAL ASSETS								**132,847**
LIABILITIES								
Deposits by banks					23,930			**23,930**
Customer accounts					33,406			**33,406**
Items in the course of transmission to other bank					2,054			**2,054**
Trading liabilities	25,693							**25,693**
Financial liabilities designated at fair value		273						**273**
Derivatives	20,360					30	436	**20,826**
Debt securities in issue					17,063			**17,063**
Other liabilities (including current tax)					1,810			**1,810**
Subordinated liabilities					774			**774**
TOTAL FINANCIAL LIABILITIES	**46,053**	**273**	**0**	**0**	**79,037**	**30**	**436**	**125,829**
Total non-financial liabilities								**7,018**
TOTAL LIABILITIES								**132,847**

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)	**2006**	2005
Trading assets:		
– which may be repledged or resold by counterparties	**19,966**	25,748
– not subject to repledge or resale by counterparties	**17,397**	16,073
	37,363	41,821

(in millions of euros)	**2006**	2005
Treasury and other eligible bills	**23,960**	27,031
Debt securities	**4,262**	4,914
Equity securities	**4,448**	3,901
Loans and advances to banks	**3,411**	3,997
Loans and advances to customers	**1,282**	1,978
	37,363	41,821

13 Derivatives

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

	At 31 December 2006					
	Assets			***Liabilities***		
(in millions of euros)	***Trading***	***Hedging***	***Total***	***Trading***	***Hedging***	***Total***
Exchange rate	**1,318**	**–**	**1,318**	**(1,443)**	**(20)**	**(1,463)**
Interest rate	**17,504**	**381**	**17,885**	**(17,353)**	**(441)**	**(17,794)**
Equities	**3,863**	**–**	**3,863**	**(4,461)**	**(5)**	**(4,466)**
Credit derivatives	**34**	**–**	**34**	**(39)**	**–**	**(39)**
Commodity and other	**–**	**–**	**0**	**–**	**–**	**0**
Gross total fair values	**22,719**	**381**	**23,100**	**(23,296)**	**(466)**	**(23,762)**
Netting			**(2,937)**			**2,937**
TOTAL			**20,164**			**(20,826)**

	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	–	–	0	–	–	0
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)

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 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)	**2006**	2005
Exchange rate	**86,780**	96,251
Interest rate	**2,725,338**	2,068,984
Equities	**104,669**	40,211
Credit derivatives	**2,048**	551
Commodity	**–**	–
TOTAL	**2,918,835**	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)	**2006**	2005
Unamortised balance at 1 January	**30**	4
Deferral on new transactions	**45**	38
Recognised in the income statement during the period:		
– amortisation	**(15)**	(6)
– subsequent to observability	**(30)**	–
– maturity or termination	**(5)**	(3)
– FX movements and other	**(3)**	(3)
Unamortised balance at 31 December	**22**	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 2006		At 31 December 2005	
(in millions of euros)	***Cash flow hedge***	***Fair value hedge***	*Cash flow hedge*	*Fair value hedge*
Exchange rate contracts	**2**	**596**	4	108
Interest rate contracts	**55,958**	**4,404**	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 2006, were assets of EUR 52 million and liabilities of EUR 30 million (31 December 2005, 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)	**2006**	2005
Gains/(losses) arising from the change in fair value of fair value hedges:		
– on hedged instruments	**(8)**	(4)
– on hedged items attributable to the hedged risk	**7**	(5)

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was EUR (0.7) million the year ended 31 December 2006 (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 2006, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of EUR 330 million and liabilities of EUR 436 million (at 31 December 2005, 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 is as follows:

	At 31 December 2006			
(in millions of euros)	***3 months or less***	***More than 3 months but less than 1 year***	***Less than 5 years but more than 1 year***	***More than 5 years***
Cash inflows from assets	**8,600**	**5,776**	**5,513**	**293**
Cash outflows from liabilities	**(4,303)**	**(1,460)**	**(430)**	**–**
Net cash inflows/(outflows)	**4,297**	**4,316**	**5,083**	**293**

	At 31 December 2005			
(in millions of euros)	*3 months or less*	*More than 3 months but less than 1 year*	*Less than 5 years but more than 1 year*	*More than 5 years*
Cash inflows from assets	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

13 Derivatives *(continued)*

Reconciliation of movements in the cash flow hedge reserve

(in millions of euros)	**2006**	2005
At 1 January	**136**	257
Amounts recognised directly in equity during the year	**(204)**	81
Amounts removed from equity and included in the income statement for the year	**(117)**	(269)
Deferred taxation	**111**	67
At 31 December	**(74)**	136

The amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was EUR 3 million in the year-ended 31 December 2006 (at 31 December 2005: EUR 2 million).

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);

(iii) inception profit, or an unamortised element thereof, not recognised immediately in the income statement in accordance with the policies presented in Note 2 k.

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 13 million (at 31 December 2005: EUR 5 million) using less favourable assumptions, and an increase in assets of approximately EUR 13 million (at 31 December 2005: 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 2006 was a loss of EUR 124 million (at 31 December 2005: 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 2006:

	Assets		***Liabilities***	
(in %)	***Trading securities purchased***	***Derivatives***	***Trading securities sold***	***Derivatives***
Fair value based on:				
Quoted market prices	**99.73**	**0.01**	**100**	**0.02**
Internal models with significant observable market parameters	**0.27**	**98.39**	**–**	**97.98**
Internal models with significant unobservable market parameters	**–**	**1.60**	**–**	**2.00**
	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 2006, derivatives embedded in home purchase savings products represented a liability of EUR 5.4 million (At 31 December 2005: a liability of EUR 40.7 million).

14 Financial investments

(in millions of euros)	**2006**	2005
Financial investments:		
– which may be pledged or resold by counterparties	**1,144**	2,862
– not subject to repledge or resale by counterparties	**2,858**	3,398
	4,002	6,260

	2006		2005	
(in millions of euros)	***Book value***	***Fair value***	*Book value*	*Fair value*
Treasury and other eligible bills	**1,105**	**1,105**	2,957	2,957
– available-for-sale	**1,105**	**1,105**	2,957	2,957
– held-to-maturity	**–**	**–**	–	–
Debt securities	**303**	**303**	266	266
– available-for-sale	**303**	**303**	266	266
– held-to-maturity	**–**	**–**	–	–
Equity securities	**2,594**	**2,594**	3,037	3,037
– available-for-sale	**2,594**	**2,594**	3,037	3,037
TOTAL FINANCIAL INVESTMENTS	**4,002**	**4,002**	6,260	6,260

15 Interests in associates and joint ventures

a Principal associates

	At 31 December 2006		
	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**

	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 HSBC France and its subsidiaries.

Summarised aggregate financial information on associates

(Figures from the local financial statements: 100%)

(in millions of euros)	**2006**	2005
Assets	**13,177**	11,527
Liabilities	**12,820**	11,201
Revenues	**2,685**	2,472
Profit/(loss) after tax	**39**	1

b Interests in joint ventures

	At 31 December 2006		
	Principal activity	***Interest in equity***	***Capital***
HCM Holdings Limited	**Holding**	**51%**	**–**

	At 31 December 2005		
	Principal activity	*Interest in equity*	*Capital*
HCM Holdings Limited	Holding	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.

Notes to the consolidated financial statements (continued)

15 Interests in associates and joint ventures *(continued)*

Summarised aggregate financial information on joint ventures:

(Figures from the local financial statements: 100%)

(in millions of euros)	**2006**	2005[1]
Current assets	**10**	70
Non-current assets	**–**	–
Current liabilities	**–**	3
Non-current liabilities	**10**	–
Income	**1**	104
Expenses	**–**	9

1 *Disposal of Framlington group on 31 October 2005.*

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)	**2006**	2005
Cost		
At 1 January	**420**	510
Additions	**10**	–
Disposals[1]	**–**	(78)
Exchange translation differences	**(1)**	–
Changes in scope of consolidation and other changes[2]	**–**	(12)
At 31 December	**429**	420
Accumulated impairment losses		
At 1 January	**(32)**	(79)
Disposals[1]	**–**	47
Impairment losses recognised in profit or loss	**–**	–
Changes in scope of consolidation and other changes	**–**	–
At 31 December	**(32)**	(32)
Net book value at 31 December	**397**	388

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 2006 is as follows:

(in millions of euros)	***Internally generated software***	***Purchased software***	***Other***	***Total***
Cost				
At 1 January 2006	**140**	**45**	**58**	**243**
Additions	**–**	**5**	**2**	**7**
Disposals	**–**	**–**	**–**	**0**
Exchange translation differences	**–**	**–**	**–**	**0**
Changes in scope of consolidation and other changes	**–**	**(3)**	**(5)**	**(8)**
At 31 December 2006	**140**	**47**	**55**	**242**

16 Goodwill and intangible assets *(continued)*

(in millions of euros)	***Internally generated software***	***Purchased software***	***Other***	***Total***
Accumulated impairment losses				
At 1 January 2006	**(134)**	**(18)**	**(18)**	**(170)**
Charge for the year [1]	**(8)**	**(12)**		**(20)**
Disposals	**–**	**–**	**–**	**0**
Impairment losses	**–**	**–**	**–**	**0**
Reversal of impairment losses	**–**	**–**	**–**	**0**
Exchange translation differences	**–**	**–**	**–**	**0**
Changes in scope of consolidation and other changes	**5**	**2**	**5**	**12**
At 31 December 2006	**(137)**	**(28)**	**(13)**	**(178)**
Net book value at 31 December 2006	**3**	**19**	**42**	**64**

1 *The amortisation charge for the year is recognised within the income statement under "Amortisation of intangible assets and impairment of goodwill".*

(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 [1]	–	–	–	–
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes	–	34	28	62
At 31 December 2005	140	45	58	243
Accumulated impairment losses				
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".*

c Goodwill and intangible assets

(in millions of euros)	**2006**	2005
Cost		
Goodwill – net book value (Note 16 a)	**397**	388
Other intangible assets – net book value (Note 16 b)	**64**	73
	461	461

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			
At 1 January 2006	**518**	**290**	**808**
Additions at cost	3	57	60
Disposals	(18)	(1)	(19)
Exchange translation differences	–	–	–
Changes in scope of consolidation and other changes	4	(29)	(25)
At 31 December 2006	**507**	**317**	**824**
Accumulated depreciation			
At 1 January 2006	(16)	(86)	(102)
Depreciation charge for the year	(10)	(52)	(62)
Disposals	4	–	4
Exchange translation differences	–	–	–
Changes in scope of consolidation and other changes	(7)	30	23
At 31 December 2006	(29)	(108)	(137)
Net book value at 31 December 2006	**478**	**209**	**687**

1 *Include assets held on finance leases with a net book value of EUR 6.4 million, on which the depreciation charge for the year ended 31 December 2006 was EUR 0.3 million.*

17 Property, plant and equipment *(continued)*

(in millions of euros)	*Freehold land and buildings* [1]	*Equipment, fixtures and fittings*	*Total*
Cost			
At 1 January 2005	545	555	1,100
Additions at cost	1	58	59
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.*

b Investment properties

The composition of the investment properties at fair value in the year was as follows:

(in millions of euros)	**2006**	2005
Freehold land and buildings Investment properties	**35**	27

As at January 1, 2005 HSBC France group owned two properties which were recognised as investment properties. During the year 2005, one of these properties was 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 (2005: EUR 2 million) earned by HSBC France group on its investment properties.

c Property, plant and equipment

(in millions of euros)	**2006**	2005
Property, plant and equipment – net book value (Note 17 a)	**687**	706
Investment properties – net book value (Note 17 b)	**35**	27
	722	733

Notes to the consolidated financial statements (continued)

18 Investments

Consolidated Companies	*Country*	*Consolidation Method **	*Main line of business*	HSBC France group interest **2006**	HSBC France group interest 2005
Retail and Commercial Banking					
Banque Chaix	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%
Banque Marze	France	FC	Bank	**100.0%**	100.0%
Banque Pelletier	France	FC	Bank	**100.0%**	100.0%
Compagnie Financière Ile-du-Rhône (CFIR)	France	FC	Investment company	**100.0%**	100.0%
Compagnie du Delta Rhodanien	France	FC	Holding 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%**	100.0%
Financière d'Uzès	France	EM	Financial company	**34.0%**	34.0%
Hervet Mathurins	France	FC	Holding company	**100.0%**	100.0%
HSBC de Baecque Beau (ex Banque de Baecque Beau)	France	FC	Bank	**100.0%**	100.0%
HSBC Hervet (ex Banque Hervet)	France	FC	Bank	**100.0%**	100.0%
HSBC Picardie (ex Banque de Picardie)	France	FC	Bank	**100.0%**	100.0%
HSBC UBP (ex Union de Banques à Paris)	France	FC	Bank	**100.0%**	100.0%
Massilia Participations Immobilières	France	FC	Holding company	**100.0%**	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 [2]	France	FC	Holding company	**–**	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 Ufipro Recouvrement)	France	FC	Bank	**100.0%**	100.0%
Société Auxiliaire Immobilière	France	FC	Holding company	**100.0%**	100.0%
Sté Immobilière de la Région Rhône-Alpes (SIRRA)	France	FC	Service company	**99.9%**	99.9%
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%
Union pour la gestion et les transactions (UGT)	France	FC	Service company	**100.0%**	100.0%
Vernet Expansion (ex Regroupement CCF1)	France	FC	Investment company	**100.0%**	100.0%
Vernet Rendement 22	France	FC	Financial company	**100.0%**	100.0%
Vernet Rendement 37	France	FC	Financial company	**100.0%**	100.0%

18 Investments *(continued)*

Consolidated Companies	Country	Consolidation Method *	Main line of business	HSBC France group interest 2006	2005
Corporate, Investment Banking and Markets					
AGF Actions Plus	France	FC	Financial company	**100.0%**	–
Beau Soleil Limited Partnership	Hong Kong	FC	Financial company	**85.0%**	–
CCF Charterhouse GmbH	Germany	FC	Financial company	**100.0%**	100.0%
CCF Charterhouse GmbH & Co Asset Leasing KG	Germany	FC	Financial company	**100.0%**	–
DEM 9	France	FC	Financial company	**100.0%**	100.0%
DEM 10	France	FC	Financial company	**100.0%**	100.0%
DEMPAR 1	France	FC	Financial company	**100.0%**	100.0%
DEMPAR 2	France	FC	Financial company	**100.0%**	100.0%
DEMPAR 4	France	FC	Financial company	**100.0%**	100.0%
FDM 1	France	FC	Financial company	**100.0%**	100.0%
FDM 2	France	FC	Financial company	**100.0%**	100.0%
FDM 3	France	FC	Financial company	**100.0%**	100.0%
FDM 4	France	FC	Financial company	**100.0%**	100.0%
FDM 5	France	FC	Financial company	**100.0%**	100.0%
FDM 6	France	FC	Financial company	**100.0%**	100.0%
FDM 7	France	FC	Financial company	**100.0%**	100.0%
FDM 8	France	FC	Financial company	**100.0%**	100.0%
FDM 9	France	FC	Financial company	**100.0%**	100.0%
FDM 10	France	FC	Financial company	**100.0%**	100.0%
Finanpar 2	France	FC	Financial company	**100.0%**	100.0%
Finanpar 5	France	FC	Financial company	**100.0%**	100.0%
Finanpar 6	France	FC	Financial company	**100.0%**	100.0%
Finanpar 7	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%
FCPE Aéro Parts Multi	France	FC	Financial company	**100.0%**	–
France Titrisation	France	EM	Service company	**33.3%**	33.3%
HSBC Financial Products (France) (ex HSBC CCF Financial Product)	France	FC	Financial company	**100.0%**	100.0%
HSBC Leasing (Belgium)	Belgium	FC	Financial company	**100.0%**	–
HSBC Leasing (France) (ex HSBC CCF Leasing)	France	FC	Financial company	**100.0%**	100.0%
HSBC Paris Immo Buro (SCPI)	France	FC	Financial company	**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%
HSBC Securities Services (France) (ex Vernet Valor)	France	FC	Financial company	**100.0%**	100,0%
Immobilière Bauchard	France	FC	Holding company	**100.0%**	100.0%
MOABI	France	FC	Financial 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%
SAF Boabab	France	FC	Financial company	**100.0%**	100.0%
SAS Losange Immobilier	France	FC	Financial company	**100.0%**	100.0%
SAF Chang jiang	France	FC	Financial company	**100.0%**	100.0%
SAF Chang jiang yi	France	FC	Financial company	**100.0%**	–
SAF Chang jiang er	France	FC	Financial company	**100.0%**	–
SAF Chang jiang san	France	FC	Financial company	**100.0%**	–

Notes to the consolidated financial statements (continued)

18 Investments *(continued)*

Consolidated Companies	*Country*	*Consolidation Method **	*Main line of business*	HSBC France group interest **2006**	HSBC France group interest 2005
SAF Chang jiang shi'er (ex SAF Chang jiang si)	France	FC	Financial company	**100.0%**	–
SAF Chang jiang wu	France	FC	Financial company	**100.0%**	–
SAF Chang jiang liu	France	FC	Financial company	**100.0%**	–
SAF Chang jiang qi	France	FC	Financial company	**100.0%**	–
SAF Chang jiang ba	France	FC	Financial company	**100.0%**	–
SAF Chang jiang jiu	France	FC	Financial company	**100.0%**	–
SAF Chang jiang shi	France	FC	Financial company	**100.0%**	–
SAF Chang jiang shiyi	France	FC	Financial company	**100.0%**	–
SAF Huang he	France	FC	Financial company	**100.0%**	100.0%
SAF Zhu jiang	France	FC	Financial company	**100.0%**	100.0%
SAF Palissandre	France	FC	Financial company	**100.0%**	100.0%
Saussaies Haussmann	France	FC	Holding company	**100.0%**	100.0%
SNCB / M6 - 2007A	France	FC	Financial company	**100.0%**	100,0%
SNC Nuku Hiva Bail [1]	France	FC	Financial company	**–**	80.0%
Société Financière et Mobilière (SFM)	France	FC	Financial company	**100.0%**	100.0%
Société Immobilière Malesherbes–Anjou	France	FC	Holding company	**100.0%**	100.0%
Sopingest	France	FC	Financial company	**100.0%**	100.0%
THASOSFIN	France	FC	Financial company	**100.0%**	100.0%
Asset Management and Insurance					
CCF & Partners Asset Management Ltd	United Kingdom	FC	Financial company	**100.0%**	100.0%
EMI Advisory company [2]	Luxembourg	EM	Asset management	**–**	33.3%
Erisa	France	EM	Insurance company	**50.0%**	50.0%
Erisa IARD	France	EM	Insurance company	**50.0%**	50.0%
HSBC FCP (France) (ex HSBC AME France FCP) [5]	France	FC	Financial company	**–**	100,0%
HCM Holdings Ltd (ex Framlington Holdings Ltd)	United Kingdom	Joint control	Financial company	**51.0%**	51.0%
HSBC Investments (France) (ex HSBC Asset Management Europe)	France	FC	Asset management	**100.0%**	100.0%
HSBC Investments FCP France (ex HSBC FCP2 ex FONCAPI SAS)	France	FC	Financial company	**100.0%**	100.0%
Halbis Capital Management (France) (ex HSBC Halbis Partners ex Finanpar18)	France	FC	Asset management	**99.7%**	99.7%
HSBC Asset Management Holding (ex HSBC CCF Asset Management Holding)	France	FC	Financial company	**100.0%**	100.0%
HSBC Epargne Entreprise (France) (ex HSBC CCF Epargne Entreprise)	France	FC	Financial company	**100.0%**	100.0%
Sinopia AM Luxembourg	Luxembourg	FC	Asset management	**100.0%**	100.0%
Sinopia Asset Management	France	FC	Financial company	**100.0%**	100.0%
Sinopia Asset Management Asia (ex Sinopia Greater China Limited)	Hong Kong	FC	Asset management	**100.0%**	100.0%
Sinopia Asset Management (UK) Ltd (ex Sinopia International Limited)	United Kingdom	FC	Service company	**100.0%**	100.0%
Sinopia Danube 2015	France	FC	Financial company	**98.7%**	–
Sinopia Financial Services	France	FC	Financial company	**100.0%**	100.0%
Sinopia HSBC Guarant 2016 US	France	FC	Financial company	**100.0%**	–
Sinopia HSBC Guarant 2021 US	France	FC	Financial company	**100.0%**	–
Sinopia Société de Gestion	France	FC	Service company	**100.0%**	100.0%
Sinopia SpreachCash	France	FC	Financial company	**99.9%**	–
Sinopia TRS 1	France	FC	Financial company	**100.0%**	100.0%
SNC Olivier d'Antibes	France	FC	Financial company	**60.0%**	60.0%

18 Investments *(continued)*

Consolidated Companies	*Country*	*Consolidation Method **	*Main line of business*	HSBC France group interest **2006**	2005
Private Banking					
Byron Equilibre	France	FC	Insurance broker	**99.8%**	96.7%
Compagnie de Gestion du Patrimoine	France	FC	Bank	**100.0%**	100.0%
Delosfin SA	France	FC	Investment company	**99.8%**	96.6%
Eurofin Assurance SA	France	FC	Insurance broker	**99.7%**	96.5%
Eurofin Capital Partners (ECP)	France	FC	Investment company	**99.3%**	96.1%
HSBC Private Bank France (ex : HSBC Bank France SA)	France	FC	Bank	**99.9%**	96.7%
HSBC Republic Assurance SARL	France	FC	Insurance broker	**99.9%**	96.7%
LGI	Luxembourg	FC	Wealth management	**99.9%**	96.7%
Louvre Gestion	France	FC	Financial company	**99.9%**	96.7%
Octogone immobilier	France	FC	Holding company	**99.9%**	96.7%
SCI Triangle d'or	France	FC	Holding company	**99.9%**	96.7%
Société des cadres de la Banque Eurofin [4]	France	FC	Financial company	–	100.0%
Others					
Charterhouse Management Service Limited	United Kingdom	FC	Investment company	**100.0%**	100.0%
Elysées Forêts	France	FC	Service company	**58.3%**	58.2%
Elysées Formation	France	FC	Service company	**100.0%**	100.0%
Enership	France	FC	Investment company	**100.0%**	100.0%
Excofina	France	FC	Investment company	**100.0%**	100.0%
Finanpar 17	France	FC	Investment company	**100.0%**	100.0%
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%**	100.0%
Nobel	France	FC	Investment company	**100.0%**	100.0%
SAGP [4]	France	FC	Investment company	–	100.0%
Serdac	Suisse	FC	Investment company	**100.0%**	100.0%
SGEFF	France	FC	Service company	**100.0%**	100.0%
Société Parisienne de Participations [3] (SPP)	France	FC	Investment company	–	100.0%
Société Française et Suisse (SFS)	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%

* *FC: Full consolidation - EM: Equity Method.*
1 *Deconsolidation in 2006.*
2 *Liquidation in 2006.*
3 *Merger with HSBC France.*
4 *Dissolution in "Compagnie de Gestion de Patrimoine".*
5 *Merger with HSBC Investments.*

Notes to the consolidated financial statements (continued)

18 Investments *(continued)*

Additions	*Year*
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
SAF Chang jiang yi	2006
SAF Chang jiang er	2006
SAF Chang jiang san	2006
SAF Chang jiang shi'er (ex SAF chang jiang si)	2006
SAF Chang jiang wu	2006
SAF Chang jiang liu	2006
SAF Chang jiang qi	2006
SAF Chang jiang ba	2006
SAF Chang jiang jiu	2006
SAF Chang jiang shi	2006
SAF Chang jiang shiyi	2006
Beau Soleil Limited Partnership	2006
HSBC Paris Immo Buro (SCPI)	2006
CCF Charterhouse GmbH & Co Asset Leasing KG	2006
HSBC Leasing Belgium	2006
Sinopia Danube 2015	2006
Sinopia SpreachCash	2006
Sinopia HSBC Guarant 2016 US	2006
Sinopia HSBC Guarant 2021 US	2006
FCP Aéro Parts Multi	2006
AGF Actions Plus	2006

Disposals	*Year*
SCI Baie Ménard	2006
SNC Nuku Hiva Bail	2006
EMI Advisory company	2006
HSBC FCP (France) (ex HSBC AME France FCP)	2006
Société des cadres de la Banque Eurofin	2006
Société Parisienne de Participations (SPP)	2006
SAGP	2006

Merger:

HSBC Investments (France) absorbed HSBC FCP (France) (ex HSBC AME France FCP)

SPP (Société Parisienne de Participations) merged in HSBC France

Change of name:

HSBC Investments (France) (ex HSBC Asset Management Europe)

HSBC Investments FCP (ex HSBC FCP2 ex FONCAPI SAS)

Halbis Capital Management (France) (ex HSBC Halbis Partners ex Finanpar 18)

Sinopia Asset Management (UK) Ltd (ex Sinopia International Limited)

SAF Chang jiang shi'er (ex SAF Chang jiang si)

Liquidation:

SCI Baie Ménard

EMI Advisory company

Dissolution:

"Société des cadres de la Banque Eurofin" dissolved in "Compagnie de Gestion de Patrimoine"

SAGP dissolved in "Compagnie de Gestion de Patrimoine"

Deconsolidation:

SNC Nuku Hiva Bail

19 Other assets

(in millions of euros)	**2006**	2005
Current taxation recoverable	**291**	296
Other accounts	**2,436**	2,774
	2,727	3,070

20 Financial liabilities designated at fair value

(in millions of euros)	**2006**	2005
Deposits by banks	**–**	–
Customer accounts	**54**	–
Debt securities in issue	**206**	300
Subordinated liabilities	**13**	14
	273	314

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2006 was EUR 14.6 million (at 31 December 2005, EUR 9.6 million).

At 31 December 2006, the accumulated amount of the change in fair value attributable to changes in credit risk for the Group was EUR 0.5 million (At 31 December 2005, EUR 0.6 million).

21 Other liabilities

(in millions of euros)	**2006**	2005
Obligations under finance leases	**7**	8
Other liabilities	**1,510**	1,124
Share based payment	**12**	–
	1,529	1,132

22 Provisions

a Deferred taxation

	2006			2005		
(in millions of euros)	***Deferred tax asset***	***Deferred tax liability***	***Total***	*Deferred tax asset*	*Deferred tax liability*	*Total*
Temporary differences:						
– retirement benefits	**45**	**–**	**(45)**	–	(50)	(50)
– assets leased	**(33)**	**–**	**33**	–	35	35
– revaluation of property (including investment properties)	**(66)**	**–**	**66**	–	65	65
– other short-term timing differences	**57**	**–**	**(57)**	19	61	42
	3	**–**	**(3)**	19	111	92

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)	**2006**	2005
Cash flow hedge	**(63)**	71
Available-for-sale reserve	**39**	78
Actuarial losses	**(4)**	(3)

b Other provisions for liabilities and charges

(in millions of euros)	***Provisions***
At 1 January 2006	**165**
Additional provisions/increase in provisions	**23**
Provisions utilised	**(12)**
Amounts reversed	**(39)**
Exchange, changes in scope of consolidation and other movements	**(4)**
At 31 December 2006	**133**

(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

At 31 December 2006, "Other provisions for liabilities and charges" included a provision of EUR 28 million, based on the estimated cost for early retirement and voluntary redundancies under the social plan set up in 2005 as part of the HSBC France strategic plan 2005-2008 (2005: EUR 38 million).

23 Sale and repurchase and settlement accounts

(in millions of euros)	**At 31 December 2006**	At 31 December 2005
Assets		
Customer accounts include		
– assets under sale and repurchase agreements	**6,562**	5,824
– settlement accounts	**704**	440
Deposits by banks include		
– assets under sale and repurchase agreements	**18,361**	14,389
– settlement accounts	**1,788**	2,085

23 Sale and repurchase and settlement accounts *(continued)*

(in millions of euros)	At 31 December **2006**	At 31 December 2005
Liabilities		
Customer accounts include		
– liabilities under sale and repurchase agreements	**7,471**	9,444
– settlement accounts	**1,192**	1,467
Deposits by banks include		
– liabilities under sale and repurchase agreements	**14,613**	9,224
– settlement accounts	**1,402**	1,888

24 Subordinated liabilities

	Book value	
(in millions of euros)	**2006**	2005
Subordinated liabilities:		
– at amortised cost	**774**	795
– designated at fair value	**13**	14
	787	809

Subordinated borrowings of the Group:

		Book value	
(in millions of euros)		**2006**	2005
EUR 500m*	Floating rate notes maturing 2011	**500**	500
EUR 150m*	Floating rate notes maturing 2014	**150**	150
Yen 10bn	Undated subordinated variable rate notes	**70**	84
EUR 15m	Floating rate notes maturing 2015	**13**	14
Yen 5bn	Undated subordinated variable rate notes	**36**	42
	Other subordinated variable rate notes	**18**	19
		787	809

* *Debt issued to HSBC Bank plc.*

25 Trading liabilities

(in millions of euros)	**2006**	2005
Financial net short position securities	**20,184**	27,425
Deposits by banks	**2,200**	1,915
Customer accounts	**1,035**	897
Debt securities in issue	**2,274**	1,945
TOTAL	**25,693**	32,182

Notes to the consolidated financial statements (continued)

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)	**2006** *Carrying value*	**2006** *Fair value*	2005 *Carrying value*	2005 *Fair value*
Assets				
Loans and advances to banks	**20,836**	**20,836**	16,557	16,559
Loans and advances to customers	**42,019**	**41,914**	37,226	37,387
Liabilities				
Deposits by banks	**23,930**	**23,930**	20,494	20,494
Customer accounts	**33,406**	**33,416**	34,364	34,393
Debt securities in issue	**17,063**	**17,078**	9,912	10,052
Subordinated liabilities	**774**	**791**	795	806

The methods used to determine fair values for financial instruments for the purpose of measurement and disclosure are set out in Note 2 d. 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 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 2006		
(in millions of euros)	***Due within one year***	***Due after more than one year***	***Total***
Assets			
Financial assets designated at fair value	**–**	**–**	**0**
Loans and advances to banks	**19,903**	**933**	**20,836**
Loans and advances to customers	**20,940**	**21,079**	**42,019**
Financial investments	**367**	**3,635**	**4,002**
Other financial assets	**2,454**	**230**	**2,684**
	43,664	**25,877**	**69,541**
Liabilities			
Deposits by banks	**21,832**	**2,098**	**23,930**
Customer accounts	**31,866**	**1,540**	**33,406**
Financial liabilities designated at fair value	**41**	**232**	**273**
Debt securities in issue	**11,349**	**5,714**	**17,063**
Other financial liabilities	**126**	**388**	**514**
Subordinated liabilities	**2**	**772**	**774**
	65,216	**10,744**	**75,960**

	At 31 December 2005		
(in millions of euros)	*Due within one year*	*Due after more than one year*	*Total*
Assets			
Financial assets designated at fair value	–	–	0
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

Notes to the consolidated financial statements (continued)

28 Called-up share capital

The authorised ordinary share capital of HSBC France at 31 December 2006 was EUR 378 million divided into 75,683,045 ordinary shares of EUR 5 each.

(in millions of euros)	*Number of HSBC France ordinary shares*	*Amount*
At 1 January 2006	**75,237,930**	**376**
Shares issued	**445,115**	**2**
At 31 December 2006	**75,683,045**	**378**
At 1 January 2005	74,802,146	374
Shares issued	435,784	2
At 31 December 2005	75,237,930	376

29 Capital and reserves

	2006											
				Other reserves								
(in millions of euros)	*Called up share capital*	*Share premium*	*Retained earnings*	*Available -for-sale fair value reserve*	*Cash flow hedging reserve*	*Foreign exchange reserve*	*Actuarial gains/(losses) on defined benefit plans*	*Share-based payment reserve*	*Associates and joint ventures*	*Total share-holders' equity*	*Minority interests*	*Total equity*
At 1 January 2006	376	1,125	2,985	553	136	6	(9)	64	89	5,325	12	5,337
New share capital subscribed, net of costs	2	34	–	–	–	–	–	–	–	36	–	36
Profit for the year attributable to shareholders	–	–	593	–	–	–	–	–	20	613	–	613
Dividends to shareholders of the parent company	–	–	(412)	–	–	–	–	–	–	(412)	–	(412)
Actuarial gains/(losses) on defined benefit plans	–	–	–	–	–	–	13	–	–	13	–	13
Fair value gains/(losses) taken to equity	–	–	–	163	(204)	–	–	–	(3)	(44)		(44)
Amounts transferred to the income statement	–	–	–	(140)	(117)	–	–	–	–	(257)	–	(257)
Share-based payment	–	–	–	–	–	–	–	24	–	24	–	24
Tax on items taken directly to or transferred from equity	–	–	–	3	111	–	(4)	–	–	110	–	110
Profit attributable to minority interests	–	–	–	–	–	–	–	–	–	0	(1)	(1)
Dividends to minority interests	–	–	–	–	–	–	–	–	–	0	(1)	(1)
Exchange differences	–	–	–	–	–	(2)	–	–	–	(2)	–	(2)
Increase in minority interest stake and other	–	5	(1)	–	–	–	–	–	(4)	0	9	9
At 31 December 2006	**378**	**1,164**	**3,165**	**579**	**(74)**	**4**	**0**	**88**	**102**	**5,406**	**19**	**5,425**

29 Capital and reserves *(continued)*

	2005											
				Other reserves								
(in millions of euros)	*Called up share capital*	*Share premium*	*Retained earnings*	*Available-for-sale fair value reserve*	*Cash flow hedging reserve*	*Foreign exchange reserve*	*Actuarial gains/(losses) on defined benefit plans*	*Share-based payment reserve*	*Associates and joint ventures*	*Total share-holders' equity*	*Minority interests*	*Total equity*
At 1 January 2005	374	1,093	2,623	–	–	2	–	33	43	4,168	13	4,181
IFRS transition adjustment at 1 January 2005			(200)	320	257					377		377
New share capital subscribed, net of costs	2	32								34		34
Profit for the year attributable to shareholders			1,015						104	1,119		1,119
Dividends to shareholders of the parent company			(511)							(511)		(511)
Actuarial gains/(losses) on defined benefit plans							(9)			(9)		(9)
Fair value gains/(losses) taken to equity				335	81					416		416
Amounts transferred to the income statement				(78)	(269)					(347)		(347)
Share-based payment							31		31		31	
Tax on items taken directly to or transferred from equity				41	67					108		108
Profit attributable to minority interests										0	(2)	(2)
Dividends to minority interests										0	(1)	(1)
Exchange differences				4		4				8		8
Increase in minority interest stake and other			58	(69)					(58)	(69)	2	(67)
At 31 December 2005	376	1,125	2,985	553	136	6	(9)	64	89	5,325	12	5,337

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 2006**	31 December 2005
Depreciation and amortisation	**81**	96
Share based payments	**24**	31
Revaluations on investment property	**(8)**	–
Loan impairment losses	**10**	(75)
Loans written off net of recoveries	**(160)**	(99)
Provisions raised	**(10)**	43
Provisions utilised	**(12)**	(17)
Impairment of financial investments	**1**	1
Accretion of discounts and amortisation of premiums	**0**	33
	(74)	13

Change in operating assets

(in millions of euros)	**31 December 2006**	31 December 2005
Change in prepayments and accrued income	**(8)**	212
Change in net trading securities and net derivatives	**(4,010)**	3,290
Change in loans and advances to banks	**(1,350)**	1,335
Change in loans and advances to customers	**(4,643)**	(5,231)
Change in financial assets designated at fair value	**–**	–
Change in other assets	**336**	(1,074)
	(9,675)	(1,468)

Change in operating liabilities

(in millions of euros)	**31 December 2006**	31 December 2005
Change in accruals and deferred income	**(69)**	(431)
Change in deposits by banks	**3,436**	(493)
Change in customer accounts	**(958)**	2,902
Change in debt securities in issue	**7,151**	(907)
Change in financial liabilities designated at fair value	**(32)**	313
Change in other liabilities	**380**	(2,278)
	9,908	(894)

Cash and cash equivalents comprise

(in millions of euros)	**2006**	2005
Cash and balances at central banks	**1,027**	482
Items in the course of collection from other banks	**2,202**	2,110
Loans and advances to banks of one month or less	**16,962**	14,035
Treasury bills, other bills, certificates of deposit less than three months	**1,244**	2,401
Less: items in the course of transmission to other banks	**(2,054)**	(2,069)
	19,381	16,959

Notes to the consolidated financial statements (continued)

31 Contingent liabilities and contractual commitments

a Contingent liabilities and commitments

(in millions of euros)	31 December 2006	31 December 2005
Contract amounts		
Contingent liabilities		
Acceptances and endorsements	–	–
Guarantees and assets pledged as collateral security	**6,562**	7,551
Other contingent liabilities	**86**	87
	6,648	7,638
Commitments		
Documentary credits and short-term trade-related transactions	**305**	345
Undrawn note issuing and revolving underwriting facilities	**48**	42
Undrawn formal stand-by facilities, credit lines and other commitments to lend:		
– 1 year and under	**4,401**	2,207
– over 1 year	**12,258**	12,168
	17,012	14,762

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.

b Guarantees

The group provides guarantees and similar undertakings on behalf of both third party customers and other entities within the group. These guarantees are generally provided in the normal course of the Group's banking business.The principal types of guarantees provided, and the maximum potential amount of future payments which the Group could be required to make at 31 December were as follows:

(in millions of euros)	At 31 December 2006	At 31 December 2005
Guarantee type		
Acceptances and endorsements [1]	**–**	–
Financial guarantees [2]	**22**	26
Stand-by letters of credit which are financial guarantees [3]	**5**	5
Other direct credit substitutes [4]	**1,252**	1,078
Performance bonds [5]	**11**	12
Bid bonds [5]	**74**	66
Standby letters of credit related to particular transactions [5]	**9**	29
Other transaction-related guarantees [5, 6]	**5,189**	6,335
Other items	**86**	87
TOTAL	**6,648**	7,638

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.*

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: 2006 EUR 79 million (2005: EUR 28 million).*

31 **Contingent liabilities and contractual commitments** *(continued)*

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures.

Approximately 25 per cent 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)	**2006**	2005
Acceptances and endorsements	**–**	–
Other items	**15**	12

32 Finance lease receivables

(in millions of euros)	**2006**	2005
Lease receivables:		
– no later than one year	**222**	86
– later than one year and no later than five years	**925**	398
– later than five years	**1,004**	623
	2,151	1,107

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

The HSBC France group is still involved in one legal action taking place in the United States. The management considers the outcome of this legal action will have no material impact on the financial position of the group. There is no other litigation or arbitration proceedings likely to have 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 HSBC France and the Key Management Personnel of HSBC France, and their connected persons or controlled companies.

Notes to the consolidated financial statements (continued)

34 Related party transactions *(continued)*

(in thousands of euros)	**2006** Number of persons	**2006** Highest balance during the year	**2006** Balance at 31 December	2005 Number of persons	2005 Balance at 31 December[1]
Loans	**8**	**7,930**	**6,563**	8	6,620
Credit cards	**8**	**24**	**15**	8	18
Guarantees	**8**	**17**	**17**	8	17

Compensation to the Key Management Personnel of the Group under IAS 24 is disclosed as follows:

(in thousands of euros)	**2006**	2005[1]
Short-term employee benefits	**228**	178
Post-employment benefits	**244**	218
Long-term benefits	**0**	0
Termination benefits	**0**	0
Share-based payment	**4,320**	2,689
	4,792	3,085

1 *The 2005 figures have been restated to include the Senoir Corporate Vice-Presidents.*

Directors' and other key management personnel shareholdings and options

	31 December 2006	31 December 2005
Number of share options from equity participation plans held by Directors and other key management personnel and their connected persons)	**3,763,299**	3,767,299
Number of shares held by Directors and other key management personnel and their connected persons)	**828,242**[1,2]	269,400[2]

1 *Shares granted but not yet definitely vested by the beneficiaries and subject for a large part to performance conditions.*
2 *The HSBC shares held through the mutual fund invested in HSBC shares and forming part of the group employee share ownership plan are not included.*

The Annual Report also includes a detailed description of Directors' remuneration.

b Transactions with other related parties

Transactions with other related parties of the Group

(in millions of euros)	**2006** Balance at 31 December	2005 Balance at 31 December
Amounts due from joint ventures and associates:		
– subordinated	**28**	28
– unsubordinated	**–**	–
	28	28
Amounts due to joint ventures and associates	**–**	–

34 Related party transactions *(continued)*

Transactions detailed below include amounts due to/from HSBC France and fellow subsidiaries of HSBC Holdings plc.

(in millions of euros)	**31 December 2006**	31 December 2005
Assets		
Trading assets	**1,491**	1,158
Derivatives	**6,233**	3,953
Loans and advances to banks	**1,700**	2,551
Loans and advances to customers	**–**	80
Financial investments	**977**	1,052
Other assets	**1,358**	1,724
Prepayments and accrued income	**8**	6
Liabilities		
Deposits by banks	**7,860**	9,214
Customer accounts	**480**	742
Trading liabilities	**969**	1,051
Derivatives	**7,273**	5,255
Other liabilities	**514**	373
Accruals and deferred income	**58**	47
Subordinated liabilities	**650**	650

(in millions of euros)	**2006**	2005
Income Statement		
Interest income[1]	**108**	95
Interest expense[1]	**402**	173
Fee income	**14**	13
Fee expense	**98**	60
Gains less losses from financial investments	**–**	161
Other operating income	**2**	44
Dividend income	**10**	11
General and administrative expenses	**41**	29

1 *In 2006, including interests on trading assets and trading liabilities: EUR 53 million.*

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 2006 financial statements.

Parent company financial statements

Balance sheet 2006-2005-2004

The annual financial statements of HSBC France, as at 31 December 2006, were audited and gave rise to an unqualified opinion with emphasis of matter regarding the first application of CRC regulation 2005-03 on the accounting treatment of credit risk, and the correction of the error on accounting presentation of the derivatives.

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.

ASSETS

(in thousands of euros)	**2006**	2005	2004
Cash and balances at central banks	**745,328**	224,678	368,790
Treasury bills and other eligible bills	**25,091,827**	29,622,142	18,595,948
Loans and advances to banks	**25,930,126**	24,267,302	17,521,738
Loans and advances to customers	**48,133,345**	42,263,528	24,328,587
Debt securities	**4,224,904**	5,809,340	4,629,949
Equity shares	**2,332**	88,794	590,731
Other participating interests and long-term securities	**1,369,984**	1,380,091	1,034,869
Interests in associates	**3,730,146**	3,072,604	2,768,613
Intangible fixed assets	**52,297**	57,627	70,505
Tangible fixed assets	**322,271**	318,344	322,009
Other assets	**7,728,532**	7,643,643	5,320,372
Prepayments and accrued income	**22,510,394**	1,092,891	742,359
TOTAL ASSETS	**139,841,486**	115,840,984	76,294,470
Memorandum items			
Financing commitments	**16,205,692**	13,983,286	11,691,070
Guarantees and endorsements	**6,438,299**	7,113,933	7,439,683
Securities commitments	**2,760,052**	3,335,635	5,574,709
Financial instruments and other (notional principal)	**2,900,921,743**	2,272,382,009	1,350,191,614

LIABILITIES

(in thousands of euros)	2006 *Before appropriation*	2006 *After appropriation*[1]	2005 *After appropriation*	2004 *After appropriation*
Deposits by banks	**30,872,787**	**30,872,787**	28,650,250	24,379,861
Customer accounts	**34,590,383**	**34,590,383**	33,852,874	18,789,922
Debt securities in issue	**19,602,233**	**19,602,233**	12,306,903	10,741,017
Other liabilities	**26,832,541**	**27,143,833**	34,729,103	17,165,686
Accruals and deferred income	**23,191,323**	**23,191,323**	1,812,088	1,277,699
Provisions for liabilities and charges	**373,916**	**373,916**	274,084	220,083
Reserve for general banking risks				
Subordinated liabilities	**778,553**	**778,553**	790,554	857,950
Called up share capital	**378,415**	**378,415**	376,190	374,011
Share premium account	**1,164,372**	**1,164,372**	1,125,028	1,092,515
Reserves	**1,884,292**	**1,705,625**	1,884,351	955,138
Special tax-allowable reserves	**40,046**	**40,046**	39,559	40,619
Retained earnings				399,969
Net profit for the year	**434,366**			
Interim dividend	**(301,741)**			
TOTAL LIABILITIES	**139,841,486**	**139,841,486**	115,840,984	76,294,470
Memorandum items				
Financing commitments	**395,070**	**395,070**	499,708	367,944
Guarantees and endorsements	**5,542,331**	**5,542,331**	3,181,953	2,774,251
Securities commitments	**2,466,576**	**2,466,576**	2,771,872	6,209,255

1 *Proposed appropriation.*

Parent company financial statements (continued)

Profit and loss accounts 2006-2005-2004

(in thousands of euros)	**31.12.2006**	31.12.2005	31.12.2004
Income / (charges)			
Interest and similar income	**2,891,139**	1,881,242	1,855,719
Interest and similar expense	**(2,906,563)**	(1,706,353)	(1,348,065)
Income from equity shares	**311,088**	811,487	419,400
Fees and commissions received	**563,620**	524,852	506,400
Fees and commissions paid	**(193,689)**	(158,074)	(144,423)
Dealing profits	**693,986**	501,291	114,260
Gains or losses on available-for-sale securities	**31,731**	(3,205)	20,112
Other operating income	**32,334**	85,390	60,510
Other operating expense	**(16,008)**	(8,606)	(24,646)
Net operating income	**1,407,638**	1,928,024	1,459,266
General operating expenses	**(1,012,283)**	(973,307)	(893,929)
Depreciation and amortisation	**(50,759)**	(63,321)	(84,575)
Operating profit before provisions	**344,596**	891,396	480,763
Provisions for bad and doubtful debts	**(24,621)**	34,366	30,396
Operating profit after provisions	**319,975**	925,762	511,159
Gains or losses on disposals	**107,978**	(18,298)	47,629
Profit on ordinary activities before tax	**427,953**	907,464	558,788
Exceptional items	**(1,296)**	1,111	
Corporation tax	**8,194**	26,032	77,540
Net recovery from the reserve for general banking risks	**(485)**	1,062	15,983
Net attributable profit	**434,366**	935,669	652,311

Statement of reported net profit and movements in shareholders' funds and the reserve for general banking risks

(in thousands of euros)	**31.12.2006**	31.12.2005	31.12.2004
Net profit for the year			
– Total	**434,365.5**	935,668.5	652,311.4
– Per share (in euros) [1]	**5.74**	12.44	8.72
Movements in shareholders' funds and the reserve for general banking risks (after appropriation of 2005 and 2004 net profit and proposed appropriation for 2006 net profit)			
– Change in revaluation difference	**(57.0)**	(690.6)	806.2
– Transfer to reserves and change in retained earnings	**(178,669.0)**	545,185.0	187,042.1
– Change in revaluation reserve and special tax-allowable reserves	**487.0**	(1,748.5)	2,310.5
– New shares issued upon exercise of stock options	**36,533.0**	34,692.5	31,157.1
– 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		(14,562.0)	
– Merger premium [3]	**5,036.0**		
Change in shareholders' funds	**(136,670.0)**	562,876.4	138,558.4
Per share (in euros) [1]	**(1.8)**	7.5	1.8
Proposed dividend			
– Gross	**613,032.7**	390,484.8	465,269.3
– per share (in euros) [1, 2]	**8.10**	5.19	6.22

1 *Number of shares outstanding at year end (excluding own shares held) : 75,683,045 in 2006; 75,237,930 in 2005; 74,802,146 in 2004.*
2 *Based on the weighted average number of shares outstanding (excluding own shares held), dividend per share amounts for EUR 8.15 in 2006 (75,262,320), EUR 5.22 in 2005 (74,826,025), for EUR 6.26 in 2004 (74,374,838 shares).*
3 *Arising on merger of Société Parisienne de Participations in 2006.*

Parent company financial statements (continued)

Appropriation of net profit

(Article 295 of Decree n° 67-236, 23 March 1967)

(in thousands of euros)	31.12.2006	31.12.2005	31.12.2004
Sums available for distribution			
– Retained earnings	**0**	399,969	220,984
– RGBR and pension provisions	**0**	0	(3,070)
– Exit tax	**0**	4,987	(4,987)
– Discounting cash flows impact	**0**	(14,562)	
Sub-total	**0**	390,394	212,927
– Net profit for the year	**434,366**	935,669	652,311
TOTAL (A)	**434,366**	1,326,063	865,238
Appropriation of income			
– Dividends	**613,033**	390,484	465,269
– Legal reserve	**137**		
– Free reserve	**(178,804)**	935,579	
TOTAL (B)	**434,366**	1,326,063	465,269
Retained earnings (A - B)	**0**	0	399,969

Five-year highlights

(Articles 133 and 148 of the decree of 23 March 1967 on commercial companies)

(in thousands of euros)	**2006**	2005	2004	2003	2002
Share capital at year-end					
Called-up share capital	**378,415** [2]	376,190 [2]	374,011 [2]	371,750 [2]	370,585 [1, 2]
Number of issued shares	**75,683,045**	75,237,930	74,802,146	74,350,066	74,117,066
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)	**30,470,306**	32,661,166	–	–	–
Gross operating income (after compensation of Financial Instruments)	–	–	3,762,736	3,076,321	3,727,332
Profit before tax, depreciation and provisions	**515,192**	1,044,550	633,771	633,284	729,661
Profit after tax, depreciation and provisions	**434,366**	935,669	652,311	466,637	620,213
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**7.2**	14.3	9.1	9.3	10.0
Profit after tax, depreciation and provisions	**5.7**	12.4	8.7	6.3	8.4
Dividend paid per ordinary share, eligible as of 1 January	**8.10**	5.19	6.22	6.25	7.25
Employees (France)					
Number of employees [3]	**8,500**	7,749	7,344	6,997	6,742
Average number of employees (excluding employees available) [4]	**7,763**	7,197	6,879	6,614	6,326
Salaries and wages	**389,163**	341,642	330,246	288,738	269,528
Employee benefits	**167,936**	149,569	139,943	123,398	112,008
Payroll and other taxes	**49,134**	43,680	40,643	34,711	30,923
Incentive schemes and/or employee profit-sharing plan [5]	**21,380**	15,883	23,210	19,619	22,396

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 4,501 executives and 3,262 non executives in 2006; of which 4,113 executives and 3,084 non executives in 2005 ; of which 3,824 executives and 3,055 non executives in 2004.*
5 *Based on previous year's profits.*

Parent company financial statements (continued)

List of equity shares and debt securities held at 31 December 2006 (excluding trading securities)

Held-to maturity, available-for-sale and portfolio activity securities

(in thousands of euros)

A – Held-to-maturity securities	**94,618**
Debt securities	**94,618**
Treasury bills and other eligible bills	0
Other public sector securities	20,103
Money market instruments	
Negotiable certificates of deposit	
Negotiable medium-term notes	
Bonds and similar	73,962
Accrued interest	553
B – Available-for-sale and portfolio activity securities	**1,222,181**
Debt securities	**1,219,849**
Treasury bills and other eligible bills	283,163
Other public sector securities	807,409
Money market instruments	0
Commercial paper	12,987
Negotiable certificates of deposit	0
Negotiable medium-term notes	0
Asset-backed securities	426
Bonds and similar	96,023
Negotiable medium-term notes issued by banks	
Accrued interest	19,841
Equity shares	**2,332**
Equity shares and similar	2,317
Mutual fund units	15
TOTAL HELD-TO-MATURITY, AVAILABLE-FOR-SALE AND PORTFOLIO ACTIVITY SECURITIES	**1,316,799**

List of equity shares and debt securities held at 31 December 2006 (continued)

Interests in associates, other participating interests and long-term securities

(in thousands of euros)

A – Other participating interests and long-term securities	**1,369,984**
Securities listed on a recognised French exchange	5,330
Unlisted French securities	353,389
Foreign securities listed on a recognised French exchange	0
Foreign securities listed elsewhere	26,320
Unlisted foreign securities	984,913
Accrued income	32
B – Interests in associates	**3,730,104**
Listed French securities	–
Unlisted French securities	2,660,628
Listed foreign securities	–
Unlisted foreign securities	1,069,476
Accrued income	–
TOTAL INTERESTS IN ASSOCIATES, OTHER PARTICIPATING INTERESTS AND LONG-TERM SECURITIES	**5,100,088**

Parent company financial statements (continued)

Parent company financial statements interests in subsidiaries and associates at 31 December 2006

(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	EUR268,208	99.97
Elysées factor 103, avenue des Champs-Elysées - 75008 Paris (France)	Finance company	EUR3,800	EUR5,431	100.00
Crédit Commercial du Sud-Ouest 17, Allée James Watt - Parc Chemin-Long 33700 Mérignac (France)	Bank	EUR12,078	EUR42,874	99.84
Société Française et Suisse 64, rue Galilée - 75008 Paris (France)	Investment company	EUR599	EUR12,936	100.00
Banque de Savoie 6, Bd du Théâtre - 73000 Chambéry (France)	Bank	EUR6,853	EUR38,747	99.96
HSBC Picardie 3, rue de la Sous-Préfecture - 60200 Compiègne (France)	Bank	EUR6,007	EUR16,911	100.00
HSBC UBP 22, place de la Madeleine - 75008 Paris (France)	Bank	EUR52,941	EUR45,344	99.45
HSBC Asset Management Holding 4, place de la Pyramide - 92800 Puteaux (France)	Investment company	EUR41,305	EUR94,172	100.00
HSBC Private Bank France 117, avenue des Champs-Elysées - 75008 Paris (France)	Bank	EUR42,834	EUR124,793	97.27
Nobel 64, rue Galilée - 75008 Paris (France)	Investment company	EUR128,468	EUR209,776	100.00
SAF Palissandre 64, rue Galilée - 75008 Paris (France)	Finance company	EUR500,037	EUR0	100.00
HSBC Leasing (France) 39, rue Bassano - 75008 Paris (France)	Finance company	EUR206,260	EUR(32,714)	100.00
Société Financière et Mobilière 103, avenue des Champs-Elysées - 75008 Paris (France)	Finance company	EUR40,000	EUR63,220	100.00

1 *Loans, advances and guarantees granted outside the framework of normal banking business.*
2 *Net operating income in the case of banks.*

Book value of securities held: Cost	Book value of securities held: 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
EUR528,936	EUR528,936	–	–	EUR246,010	EUR62,787	EUR31,039	–
EUR5,236	EUR5,236	–	–	EUR11,323	EUR620	–	–
EUR16,601	EUR16,601	–	–	EUR58,522	EUR12,536	EUR12,480	–
EUR60,384	EUR13,548	–	–	EUR662	EUR119	–	–
EUR28,707	EUR28,707	–	–	EUR48,725	EUR13,768	EUR12,843	–
EUR18,939	EUR18,939	–	–	EUR20,357	EUR6,219	EUR5,526	–
EUR109,856	EUR109,856	–	–	EUR137,138	EUR47,745	EUR21,718	–
EUR127,509	EUR127,509	–	–	EUR33,321	EUR31,088	–	–
EUR425,019	EUR425,019	–	–	EUR72,200	EUR6,301	EUR18,299	–
EUR207,648	EUR207,648	–	–	EUR58,703	EUR32,923	EUR80,293	–
EUR500,037	EUR500,037	–	–	EUR14,502	EUR9,563	–	–
EUR206,256	EUR206,256	–	–	EUR65,776	EUR(4,821)	–	–
EUR84,053	EUR84,053	–	–	EUR11,985	EUR3,696	–	–

Parent company financial statements (continued)

Parent company financial statements interests in subsidiaries and associates at 31 December 2006 (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%)				
HSBC Financial Products (France) 103, avenue des Champs-Elysées - 75008 Paris (France)	Finance company	EUR30,108	EUR(12,009)	58.25
Cie Financière des Iles du Rhône 64, rue Galilée - 75008 Paris (France)	Investment company	EUR15,494	EUR205,045	99.49
Cie de Gestion du Patrimoine 15, rue Vernet - 75008 Paris (France)	Finance company	EUR20,099	EUR4,169	100.00
Foncière Elysées S.A. 103, avenue des Champs-Elysées - 75008 Paris (France)	Property company	EUR14,043	EUR19,572	99.99
HSBC Securities (France) 103, avenue des Champs-Elysées - 75008 Paris (France)	Finance company	EUR12,626	EUR29,284	100.00
Vernet Expansion 14, rue Vernet - 75008 Paris (France)	Investment company	EUR6,956	EUR(684)	100.00
Société Immobilière Malesherbes Anjou 103, avenue des Champs-Elysées - 75008 Paris (France)	Property company	EUR13,412	EUR14,096	100.00
Charterhouse Management Services Ltd 8, Canada Square - London (England)	Investment company	GBP328,357	GBP6,458	100.00
HSBC Real Estate 15, rue Vernet - 75008 Paris (France)	Finance company	EUR29,547	EUR9,148	75.38

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
EUR29,212	EUR29,212	–	–	EUR357,200	EUR17,870	–	–
EUR119,108	EUR119,108	–	–	EUR108,451	EUR105,117	EUR49,748	–
EUR22,336	EUR22,336	–	–	EUR530	EUR1,664	–	–
EUR44,476	EUR44,476	–	–	EUR11,825	EUR11,269	–	–
EUR55,988	EUR55,988	–	–	EUR17,282	EUR5,090	–	–
EUR7,019	EUR6,463	–	–	–	EUR553	–	–
EUR49,386	EUR49,386	–	–	EUR19,253	EUR4,870	–	–
EUR495,647	EUR495,647	–	–	nd	GBP281,120	–	–
EUR22,270	EUR22,270	–	–	EUR69,173	EUR3,096	–	–

Parent company financial statements (continued)

Parent company financial statements interests in subsidiaries and associates at 31 December 2006 (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	EUR196,301	33.85
Erisa I.A.R.D. 15 rue Vernet - 75008 Paris (France)	Insurance company	EUR7,500	EUR(1,184)	49.98
HSBC Private Banking Holdings (Suisse) SA 1, place Longemalle - Genève (Switzerland)	Finance company	CHF1,363,330	CHF2,078,281	13.65
Banian Invesments U.K. 22, Grenville Street, St Helier, Jersey JE4 8PX, Channel Islands		GBP900,000	GBP1,315	19.00
V.E.A. Limited Ground Floor, Lancaster Court, Forest Lane St Peter Port, Guernsey		GBP355,250	GBP983	19.00
Lafarge Finance Limited Seaton House, 17 Seaton Place, St Helier - Jersey		GBP240,000	GBP160,000	16,67
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 PR	Book value of securities held: Net 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	–	–	EUR1,875,977	EUR38,282	EUR2,843	–
EUR3,727	EUR3,095	–	–	EUR21,749	EUR489	–	–
EUR572,402	EUR572,402	–	–	CHF270,633	CHF390,526	EUR9,584	–
GBP446,761	GBP446,761	–	–	GBP41,786	GBP41,791	GBP13,697	–
GBP297,543	GBP297,543	–	–	GBP9,411	GBP9,481	GBP9,053	–
GBP297,800	GBP297,800	–	–	nd	GBP3,850	GBP9,078	–
EUR66	EUR66	–	–	–	–	1	–
EUR1,818	EUR1,427	–	–	–	–	–	–
EUR51,222	EUR3,803	–	–	–	–	EUR2,229	–
EUR272,040	EUR270,116	–	–	–	–	EUR15,010	–

Group structure and summary of business activities of HSBC France's principal subsidiaries

HSBC France group's main subsidiaries at 31 December 2006

Retail banking

Paris region	HSBC de Baecque Beau (99.9%) HSBC Hervet (99.9%) HSBC Picardie (100%) HSBC UBP (100%)
Southeast France	Banque Chaix (100%) Banque Marze (99.9%) Banque Dupuy, de Parseval (100%) Société Marseillaise de Crédit (100%)
Other	Banque Pelletier (100%) Banque de Savoie (99.9%) Crédit Commercial du Sud-Ouest (100%) Elysées Factor (100%)

Corporate, investment banking & markets

Property	Foncière Elysées SA (100%) HSBC Real Estate Leasing (France) (100%) Immobilière Bauchart (100%) Réalimo Négociations (100%) SAS Saussaies Haussmann (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 Investments FCP (France) (100%) Halbis Capital Management (France) (100%) Sinopia Asset Management (100%) Sinopia Financial Services (100%) Sinopia Société de Gestion (100%) HSBC Epargne Entreprise (100%) HSBC REIM (France) (99.8%) 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 Asset Management (UK) Ltd (100%)

Private banking

France	HSBC Private Bank France (99.9%) Louvre Gestion (99.9%)
Outside France	LGI (99.9%)

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)

Retail and Commercial Banking
(in thousands of euros)

	Total assets		Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
HSBC Hervet	**2,986,069**	2,878,448	**285,014**	253,451	**62,787**	63,089	**99.97**	98.4
HSBC de Baecque Beau	**1,074,549**	1,015,178	**47,207**	41,438	**17,662**	11,514	**99.9**	98.3
HSBC UBP	**2,213,009**	1,932,653	**98,285**	99,230	**47,745**	25,684	**100.0**	100.0
HSBC Picardie	**422,402**	339,148	**22,918**	22,745	**6,249**	5,699	**100.0**	100.0
Crédit Commercial du Sud-Ouest	**896,556**	808,314	**67,490**	67,453	**12,536**	13,000	**100.0**	100.0
Société Marseillaise de Crédit	**3,376,265**	3,208,619	**245,848**	245,842	**73,695**	76,097	**100.0**	100.0

HSBC Hervet

HSBC Hervet, a component of the HSBC France platform since 8 November 2005, operates a network of 79 branches in Greater Paris and the Centre region. It is developing mainly a retail banking business among individual and business customers. Despite a notable improvement in its operating performance in retail banking, net banking income declined by 2.7% to EUR 171.2 million owing to margin erosion and aggressive risk control. Good cost control led to a significant drop in expenses, producing 5.7% growth in gross operating income to EUR 72.5 million and improving the cost:income ratio to 57.6%. The allowance for credit losses was an income item (net release of EUR 2.1 million), but in smaller proportions than in 2005, and profit after tax was nearly unchanged (–0.5%) at EUR 62.8 million.

HSBC de Baecque Beau

HSBC de Baecque Beau is a branchless bank in Paris that operates a retail banking business for individual and business customers. It joined the HSBC France platform on 8 November 2005. Net banking income was EUR 46.9 million, up 10.7% on strong business growth. Good cost control drove expenses down –9.4%, producing a remarkable 53% rise in gross operating income to EUR 20.9 million and lowering the cost:income ratio to 55.4%. As in 2005, the risk allowance line item contributed modestly to net income. Profit after tax was EUR 17.7 million, up 53.4%.

HSBC UBP

In 2006, HSBC UBP continued its policy of controlling its operational and credit risks and building up its business in its target segments, in line with the strategic plan of the HSBC Group in France. At the same time, organisational and IT systems changes were made as part of the unification of the group's branch networks under the HSBC name. On the strength of a vigorous sales effort, loans and advances to customers were up 13.4% at year-end and deposits rose by 6.6%. Despite this business growth, margin erosion and risk control held net banking income to EUR 137 million, a decrease of 5%. However, gross operating income rose by 16% to EUR 55.9 million owing to the steep decline in expenses. The cost:income ratio (59.2%) improved significantly. The allowance for credit losses was an income item (net release of EUR 5.4 million), and profit after tax increased by 85.9%.

HSBC Picardie

HSBC Picardie, a retail bank with 16 branches, migrated in 2005 to the Group's HUB platform and has been operating under the HSBC brand name since November 2005. Brisk business activity in 2006 was reflected in rises of 30.4% in loans and advances outstanding and 6.8% in deposit balances. This was not quite enough to offset the effect of eroding margins, and both net banking income (EUR 20.3 million) and gross operating income (EUR 7.3 million) were down slightly compared with 2005. Effective risk control policy resulted in net release of allowances and 9.6% growth in profit after tax.

Crédit Commercial du Sud-Ouest

Net banking income decreased by 1.7% in 2006. Strong production of amortising loans and a significant increase in loans outstanding were not sufficient to offset the decline in returns on demand deposits, which depressed value added on capital. Fee and commission income increased by 4.4%.

Good control of operating expenses held the decrease in gross operating income to 10%. Operating income was down 10%. The allowance for credit losses remained under control and was less than in 2005. Net profit was EUR 12.5 million compared with EUR 13 million in 2005, a drop of 3.8%.

Société Marseillaise de Crédit

In 2006, fund inflows increased by 7.5%. Customer deposits reached EUR 2,871 million, with a sizeable 8.35% rise in demand deposits. Inflows to investment vehicles continued to expand, with 7.4% growth in amounts outstanding in mutual funds and 11.5% growth in life insurance. Loan production grew by 56.5%. Credit outstandings to customers increased by 25.7% to EUR 2,032 million despite a continuing decline in short-term lending. Net banking income was up 5.0% to EUR 210.4 million on an 0.8% rise in value added on capital, a 13% increase in fee and commission income to EUR 78.28 million (banking: up 10.2%, financial: up 19.7%) and completion of EUR 3 million of investment transactions. General expenses amounted to EUR 124.5 million, up 2.5% from EUR 121.5 million in 2005. Gross operating income was EUR 85.9 million, up 8.9%. Again in 2006, the risk allowance line item made a positive contribution to income (EUR 7.02 million), but a much smaller one than in previous years. Including EUR 8.4 million of gains on disposal of assets and EUR 2.6 million of release of impairment on equity investments, profit on ordinary activities before tax amounted to EUR 103.9 million. Profit after tax, at EUR 73.7 million, was down 3.2% from 2005. At 31 December 2006, Société Marseillaise de Crédit had a liquidity ratio of 119% and cost:income ratio of 59%. In one of the highlights of 2006, the company successfully implemented all of the development actions in its "Croissance Sud 2008" strategic plan.

* *Comprising share capital + reserves + FRBG.*

Retail and Commercial Banking (continued)
(in thousands of euros)

	Total assets 2006	Total assets 2005	Shareholders' funds* 2006	Shareholders' funds* 2005	Attributable net profit 2006	Attributable net profit 2005	HSBC France group's percentage holding 2006	HSBC France group's percentage holding 2005
Banque de Savoie	**948,221**	905,297	**45,600**	50,556	**13,768**	13,813	**100.0**	100.0

Banque de Savoie achieved excellent business performance in 2006. Deposits increased by 6.5% to EUR 752 million on strong growth in demand deposits, which rose by 9.2%. Strong loan production, mainly in purchase loans and medium/long-term business loans, raised credit outstandings to EUR 547.9 million, up 10%. The number of new customers increased by 6.8%, and life insurance production rose steeply to EUR 63 million, up 39.1%. With this fine business performance, Banque de Savoie was able to improve its profitability and bolster its capital structure. Net banking income rose by 1.5% to EUR 48.75 million as value added on capital held up well and fee and commission income was maintained at a satisfactory level. Cost control kept expenses right in line with budget, and gross operating income advanced 0.9% to EUR 20.98 million. The cost:income ratio, a measure of operating performance, held stable at a satisfactory 56.9%. The impairment allowance remained small, at just 0.21% of credit outstandings. Profit after tax was EUR 13.77 million, down 3.3%. Banque de Savoie will pursue its development in 2007 by emphasising customer convenience and quality of service.

Its heavy involvement in winter sports and leisure pursuits puts it in a prime position to benefit from the economic development of its region.

	Total assets 2006	Total assets 2005	Shareholders' funds* 2006	Shareholders' funds* 2005	Attributable net profit 2006	Attributable net profit 2005	HSBC France group's percentage holding 2006	HSBC France group's percentage holding 2005
Banque Chaix	**1,244,351**	1,166,164	**68,630**	68,139	**25,514**	25,892	**100.0**	100.0

Credit outstandings increased by 9.3% to EUR 647 million. Loan production was EUR 201 million, up 18.4%. Total deposits posted a 4.7% increase to EUR 1,035.3 million. Demand deposits rose by 5.7%. Savings and investment inflows, up 4.5% to EUR 2,030 million, likewise increased. Value added amounted to EUR 49.98 million, down 7.5%.

Fee and commission income grew by 6.7% to EUR 25.52 million. Banking fees and commissions were up 4.9% to EUR 16.1 million. Net banking income came to EUR 79.5 million, down 0.5%. Operating expenses before impairment charges were EUR 41.9 million. Allowances for impairment were down 50.9% to EUR 1.47 million. Profit after tax on a non-consolidated basis was EUR 25.51 million, down 1.5% from EUR 25.89 million in 2005. The cost:income ratio deteriorated slightly to 52.5%, from 50.7% in 2005.

	Total assets 2006	Total assets 2005	Shareholders' funds* 2006	Shareholders' funds* 2005	Attributable net profit 2006	Attributable net profit 2005	HSBC France group's percentage holding 2006	HSBC France group's percentage holding 2005
Banque Marze	**204,781**	181,741	**9,802**	8,855	**3,879**	3,147	**100.0**	100.0

Inflows of funds at Banque Marze increased by 6.9%. Demand deposit balances were up 4.4% (although balances of non-business customers showed no increase on the year), while balances rose by 8.1% in special time deposits and by 14.6% in life insurance products. Credit outstandings increased by 12% on strong growth in medium/long-term loans, up 18.3%. Despite this business growth, and even though fee and commission income increased by 21.7%, net banking income fell by 1% as value added on capital declined by 6.9%. Including capital gains, profit after tax was up 13.6% to EUR 3.4 million.

	Total assets 2006	Total assets 2005	Shareholders' funds* 2006	Shareholders' funds* 2005	Attributable net profit 2006	Attributable net profit 2005	HSBC France group's percentage holding 2006	HSBC France group's percentage holding 2005
Banque Pelletier	**334,603**	251,641	**13,095**	12,805	**2,911**	3,481	**100.0**	100.0

Banque Pelletier, headquartered in Dax, is developing its business in the southern part of Aquitaine. 2006 brought a significant increase in credit outstandings, up 34%. Deposits were up 13% on increases in both demand and special time deposit balances. Value added on capital was hit by margin erosion (-1.8%), but this was offset by the continuing advance in fee and commission income (up 12.8%), and net banking income posted a modest 1.9% rise.

	Total assets 2006	Total assets 2005	Shareholders' funds* 2006	Shareholders' funds* 2005	Attributable net profit 2006	Attributable net profit 2005	HSBC France group's percentage holding 2006	HSBC France group's percentage holding 2005
Banque Dupuy de Parseval	**731,271**	604,750	**30,612**	25,450	**11,326**	10,321	**100.0**	100.0

For Banque Dupuy, de Parseval, 2006 brought a pick-up in the pace of business growth compared with 2005. Total inflows of funds increased by 9.9%, credit outstandings by 15.8%, and total funds under management by 11.5%. Net banking income was up 5.2%, value added on capital up 5.9%, and fee and commission income up 4.4%. Operating expenses, including development and branch network expansion costs, were up 3.5%. The allowance for impairment remained under control at 0.5% of credit outstandings. Profit after tax increased by 9.7% to EUR 11.3 million.

	Total assets 2006	Total assets 2005	Shareholders' funds* 2006	Shareholders' funds* 2005	Attributable net profit 2006	Attributable net profit 2005	HSBC France group's percentage holding 2006	HSBC France group's percentage holding 2005
Elysées Factor	**247,869**	205,823	**9,354**	8,006	**302**	1,348	**100.0**	100.0

Elysées Factor, a wholly owned member of the HSBC Group since 2005, achieved 5% business growth in 2006, with net revenue of EUR 1,100 million (amount of invoiced receivables purchased). Net banking income increased by 3.5% to EUR 11.3 million, and the pre-tax contribution to group earnings was EUR 1.8 million.

In 2006, Elysées Factor conducted a sweeping overhaul of its operating and sales processes as part of an ambitious business plan. This re-engineering extended to its production IT systems and its range of products and involved reinforcing its marketing and sales capabilities and implementing new methods and procedures for risk management.

* *Comprising share capital + reserves + FRBG.*

Group structure and summary of business activities of HSBC France's principal subsidiaries (continued)

Corporate and Investment Banking and Markets

(in thousands of euros)

	Total assets		Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
HSBC Securities (France)	**124,425**	137,375	**41,910**	42,824	**5,539**	(914)	**100.0**	100.0

Following the discontinuation in late 2005 of its business in selling equity securities to institutional investors, this company's main activity is executing the Group's "retail" orders in France. As a shareholder in Euronext, HSBC Securities (France) benefited from the exceptional dividend paid by Euronext in 2006.

	Total assets		Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
HSBC Financial Products (France)	**11,524,545**	6,679,118	**18,100**	19,293	**17,870**	(1,192)	**100.0**	100.0

The company is fully integrated in terms of both its own business and its support of Global Markets activities in France. In 2006, it continued its development of a global equity derivatives production platform for the HSBC Group. The range of products and underlying assets was developed and the sales force was expanded. The success of this unit's strategy is demonstrated by its strong earnings growth.

	Total assets		Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
Foncière Elysées SA	**46,160**	37,070	**44,884**	33,615	**11,268**	(1,642)	**100.0**	100.0

In 2006, Foncière Elysées made a profit of EUR 11 million after dividends resulting from the sale of its property assets in 2005. Foncière Elysées's subsidiaries continued their activities in (i) developing property lease financing business among large corporate customers, and (ii) developing discretionary management of real estate assets with the raising of EUR 85 million in equity funds by SCPI Elysées Pierre, a property investment company managed by Foncière Elysées's wholly owned subsidiary HSBC REIM.

	Total assets		Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
HSBC Real Estate Leasing (France)	**663,155**	581,488	**38,694**	36,229	**3,096**	2,466	**100.0**	100.0

This subsidiary's business is providing lease financing of real estate assets to corporate customers of the Group. Its earnings have grown steadily since it went into operation in 2000. The lease financing production in respect of 2006 amounted to EUR 126 million.

Asset Management and Private Banking

	Total assets		Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
HSBC Investments (France)	**148,231**	111,799	**99,031**	73,071	**45,565**	26,953	**100.0**	100.0

2006 was a year of further restructuring of the HSBC Group's Asset Management business. The business is organised around HSBC Investments (France), which brings together all the sales forces covering France and continental Europe except for Germany, Austria and the countries of eastern Europe, as well as core asset management activities such as regular money-market and multi-manager fund management; Halbis Capital Management, the specialist in high-value-added active fundamental management; and Sinopia Asset Management, the specialist in quantitative management for the HSBC Group.

The new organisation was put in place against a backdrop of strong growth in business and earnings and large inflows of funds, especially in emerging-market equities, a business in which the HSBC Group is one of the leaders at the top of the worldwide league tables. 2006 was also notable for the landing of several large institutional mandates, notably in fixed income, and for good sales performance of the HSBC Multimanager product line, reflecting the group's openness to the investment expertise of outside asset managers. In the areas of socially responsible investing, HSBC Investments signed the Responsible Investment Principles (RIP), became a member of the Steering Committee and leader of the Performance Commission of the UNEP Finance Initiative and co-chair of the Asset Management Working Group, which brings together some fifteen asset management companies from around the world to review and develop socially responsible investment vehicles. Assets of funds managed and distributed by HSBC Investments (France) amounted to EUR 65.3 billion at year-end 2006, an increase of 10.6% from EUR 59.1 billion on a comparable basis at year-end 2005.

	Total assets		Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
Halbis Capital Management (France)	**61,860**	–	**24,277**	–	**7,406**	–	**99.7**	–

Halbis Capital Management, the HSBC Group's specialist in active fundamental management with high value added, was incorporated as a subsidiary in 2006. In France, Halbis also reorganised the Europe Fixed Income unit. This unit now consists of two teams working in close collaboration, one specialised in credit, the other specialised in duration and yield curve strategies. The new organisation is consistent with Halbis's overall strategy, which calls for decentralised decision-making and small teams of performance-driven specialists with P&L responsibility.

At 31 December, assets under management amounted to EUR 18.8 billion, an increase of 31% on the year. Growth was particularly strong in equity funds, up 25% to EUR 4.4 billion; investment-grade euro zone debt securities, up 35% to EUR 5.9 billion; and dynamically managed money-market funds, up 85% to EUR 3.8 billion.

At year-end, 71% of multi-class funds and 53% of European equity funds were ranked in the top two quartiles of their Micropal category for performance over one year. This fine performance brought Halbis recognition and several industry awards. HSBC GIF Euro High Yield Bond took third prize in Agefi's Grands Prix for asset management, and HSBC Middle Cap Euro won third prize in the Grands Prix for mutual funds awarded by Figaro and Journal des Finances.

* *Comprising share capital + reserves + FRBG.*

Asset Management and Private Banking (continued)
(in thousands of euros)

	Total assets		Shareholders' funds*		Attributable net profit		HSBC France group's percentage holding	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Sinopia	**80,057**	63,146	**31,659**	37,982	**27,113**	5,262	**100.0**	100.0

Sinopia is the HSBC Group's worldwide specialist in quantitative management. In 2006, Sinopia established an asset management subsidiary in London to cover the United Kingdom and the Middle East, thereby expanding its international coverage beyond its existing footprint in Europe and Asia-Pacific.

The company continued to put money into research: among other initiatives, Sinopia set up a partnership with the University of Cambridge. Sinopia also invested in its risk management capabilities, enabling it to provide value-added expertise to institutional investor clients in particular.

In terms of investment strategies, Sinopia broadened and diversified what it offers:

- expansion of emerging-market offerings. At year-end 2006, Sinopia had over EUR 1 billion under management in these markets, notably via active strategies for the BRIC countries and other segments, and was developing guaranteed investment solutions for these markets.
- successful launch of second-generation absolute return products. Sinopia brought to market multi-driver strategies with products such as Global Macro and Multi Fixed Income.
- continued market success of inflation-indexed fixed income strategies. Sinopia is positioned as a leading player in this asset class.
- extension of the Predictime strategy (stock-picking among euro-zone issues based on earnings momentum) to the US, UK and Japanese equity markets.

At 31 December 2006, assets under management by Sinopia stood at EUR 32.5 billion, compared with EUR 21.5 billion at year-end 2005.

Erisa	**13,138,994**	11,491,495	**311,302**	318,092	**38,282**	648	**50.0**	50.0

Premium income net of reinsurance was up 9% to EUR 1.88 billion. With the success of HSBC Evolution Patrimoine and favourable stock market performance, assets under management rose by 14% to EUR 12.4 billion at 31 December 2006, versus EUR 10.9 billion one year earlier. Profit after tax was EUR 38.3 million.

HSBC Epargne Entreprise	**77,722**	84,851	**19,373**	19,259	**(742)**	2,144	**100.0**	100.0

HSBC Epargne Entreprise (HEE), a wholly owned subsidiary of the HSBC Group, is in daily contact with 11,000 employer companies and manages 700,000 individual accounts. The employee investment funds (FCPEs) that HEE offers are managed by HSBC Investments (France) and stood at EUR 4.0 billion at 31 December 2006, putting the group in seventh place among companies managing employee savings plans. HEE products and services are offered through the distribution network of the HSBC Group in France (including the regional banks) and by partner networks (Swiss Life and Caixa Bank). The offering covers the needs of employer companies of all sizes, large and small.

HSBC Private Bank France	**1,317,309**	1,029,307	**167,927**	172,398	**6,301**	13,115	**99.9**	95.1

The reorganisation of the company was finalised in 2006. Business development proceeded both in Paris and in the regions, with expansion to the fast-growing Lyon area in 2006 and establishment of offices in Marseille and Bordeaux. Outstandings at year-end amounted to EUR 13.4 billion.

Development of synergies with HSBC France continued in 2006. At the same time, the company's private bankers carried out a major segmentation project to refocus the business on the target customer segment. The private bank product offering was also made stronger in 2006.

Louvre Gestion, the Asset Management subsidiary of HSBC Private Bank France, selects and manages EUR 7.6 billion in assets. Again in 2006, it won recognition for outstanding performance and finished the year with 60% of assets under management in the top two quartiles. It laid foundations for future growth by creating new products such as Alpha Bond Plus, a bond fund based on an innovative approach to seeking portfolio alpha.

Own investments

SFS	**44,809**	45,080	**13,535**	209	**119**	13,326	**100.0**	100.0

During 2005, SFS absorbed CCF Change, a Group company which had discontinued its foreign exchange activities. 2006 results were affected by various transactions connected with this discontinuation. On the other hand, the valuation of SFS's investment portfolio rose significantly, doubling the level of unrealised capital gains.

Nobel	**410,734**	490,534	**305,321**	295,705	**32,923**	89,908	**100.0**	100.0

Nobel, the group's holding company for proprietary equity investments, follows an investment strategy split between mid-cap listed stocks and private equity funds. On the side, Nobel takes minority stakes, typically in mid-cap stocks with little or no following by investment analysts, using a fundamental value approach with a true medium-term investment horizon. Nobel is run by an independent management team of seven investment professionals.

Nobel's performance in the past ten years has produced an annual internal rate of return of over 26% without the use of leverage. After very significant gains in 2005 made on the disposal of historical participations in the Louvre group-Taittinger, Nobel had in 2006 gross operating income of EUR 48.7 million, and its portfolio continued to outperform the comparable market indices.

These results confirm the merit of Nobel's highly selective investment approach featuring stakes in a limited number of listed companies and selected private equity funds.

* *Comprising share capital + reserves + FRBG.*

Investment policy

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.

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.

2006

- Acquisition of minority interests in HSBC Private Bank France by HSBC France.
Cost: EUR 31.3 million.

- Disposal by HSBC France of its participation in Aurel Leven.
Proceeds: EUR 1.3 million.

- Disposal by HSBC France of its participation in Schneider.
Proceeds: EUR 24.5 million.

- Disposal by HSBC France of its participation in Lafarge.
Proceeds: EUR 86.5 million.

- Partial disposal by HSBC France of its participation in Altadis.
Proceeds: EUR 22.3 million.

- Acquisition by HSBC France of 2 per cent of MTS spa.
Cost: EUR 4.9 million.

- Investment by SAF Palissandre in a Partnership set up by Deutsche Bank.
Amount: EUR 500 million.

Other legal documents relating to the Annual General Meeting of Shareholders

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

Article L. 225-38 of the French Commercial Code requires that any agreement entered into directly or indirectly between a company and one of its Directors or 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 2006

Three new agreements subject to the provisions of Article L. 225-38 of the French Commercial Code and to the approval of HSBC France's Board of Directors were entered into in 2006:

– Group Software Agreement

HSBC Holdings plc, HSBC France and other companies of the HSBC Group have entered into a contract formalising their agreement to share the development costs of systems and software from which they all benefit. Under this contract, the participating companies authorise HSBC Holdings plc to make expenditures for systems development and apportion the costs to each of the participants under the terms set forth in the agreement.

This new agreement replaces the previous Group System Agreement with HSBC Holdings plc, and the OPSCO Development Agreement with HSBC Bank plc, which has ended. Stephen Green and Charles-Henri Filippi, who are Directors of both HSBC Holdings plc and HSBC France, did not take part in the vote on this agreement at the Board meeting of 28 February 2006.

– Pooling of support functions, integration of branch networks and provision of services by HSBC France

Under the strategic plan, the operational integration of the HSBC France, HSBC UBP, HSBC Hervet, HSBC Picardie and HSBC de Baecque Beau branch networks includes pooling of certain of these entities' support functions within HSBC France. This integration and pooling is achieved by setting up mixed teams of staff seconded from each of the legal entities to HSBC France. The staff costs of the subsidiaries' employees seconded to HSBC France to provide these support services will be invoiced to HSBC France at cost, and HSBC France will not invoice the subsidiaries for the services provided. The decision not to bill for these services was ratified by the Tax Department on 12 January 2006. The provision of the services will be treated for tax purposes as a grant of subsidy. This agreement was approved by the Board of Directors at its meeting on 28 February 2006.

– Service agreement with HSBC Insurance Holdings

A service agreement concerning insurance services rendered by the HSBC Group has been submitted to the Board of Directors of HSBC France. The billing for these services would have to meet the customary terms and conditions for cross-billing of intragroup services, in particular as to margin rates. This agreement was approved by the Board at its meeting on 15 November 2006.

Agreements entered into in prior years and still in force and effect during 2006

Three agreements 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 2006. 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.

Two agreements entered into during 2003 also remained in full force and effect during 2006:

– The agreement with HSBC Bank plc for use of the Opsco system, software developed by HSBC Bank plc for forex and derivative products, remained in effect until 20 December 2006;

– The agreement entered into in 2003 with HSBC UBP, HSBC Hervet, and HSBC de Baecque Beau remained in effect in 2006 for referrals of business and other services in the area of corporate advisory services.

The agreement entered into in 2005 with HSBC Holdings plc and HSBC Bank plc regarding services provided by their central departments, also remained in full force and effect during 2006.

Statutory Auditors' report on the consolidated financial statements

For the year ended 31 December 2006

To the shareholders,

Accordingly to 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 2006.

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.

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, of the financial position of the group as at 31 December 2006 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 2-f to the accounts, your company provides for impairments in order to cover the risks incurred by its activities. As part of our assessment of the significant accounting estimates performed by the group at its year-end accounts closing process, we have reviewed and tested the procedures implemented by Management for identifying and assessing these risks as well as to determine the amount of depreciations considered necessary.

As mentioned in the note 2-d to the accounts, your company accounts for and values its financial instruments in accordance with applicable accounting principles and, for some of them, using internal models. We have reviewed the control environment relating to the control of models, to the determination of the parameters used as well as to the assessment of associated risks.

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, 23 April 2007

KPMG Audit
A division 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 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 2006

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 Chairman of your company in accordance with article L. 225-37 of the Commercial Code for the year ended 31 December 2006.

It is for the Chairman 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 Chairman'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 Chairman'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 Chairman of the Board's report, prepared in accordance with article L. 225-37 of the Commercial Code.

Paris La Défense and Paris, 23 April 2007

KPMG Audit
A division of KPMG SA
Fabrice Odent
Partner

BDO Marque & Gendrot
Joël Assayah
Partner

Year ended 31 December 2006

To the shareholders,

In our capacity as statutory auditors of your Company, we hereby present to you our report on the regulated agreements.

I - Agreements and commitments entered into by the Company in 2006

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 R225-31 of the Commercial Code, 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 Software agreement

- Directors concerned by the agreement: HSBC Holdings plc, company which controls HSBC Bank plc, direct shareholder of over 10 per cent of the voting stock of HSBC France.
- Purpose under the terms of this agreement, the involved subsidiaries which benefit from IT developments agree with the share of the development costs. They also authorise HSBC Holdings plc to engage IT development expenses. This agreement will replace the "Opsco Development Agreement" signed with HSBC Bank plc. This agreement was authorised by the Board of Directors on 28 February 2006 and signed on 20 December 2006.
- Terms: the allocation of costs is set for each group application. Invoiced costs relate to:

  – time spent by staff directly allocated to development projects and costs that they incur in these projects;

  – any project-related internal and external costs (use of external suppliers);

  – indirect costs related to the use of equipment in implementing the various projects.
- Financial impact: the developments recorded in the books in 2006 represented charges of USD 15.9 million. This amount also includes the charges invoiced under the Opsco Agreement (see below).

Pooling of support functions, integration of branch networks and provision of services by HSBC France

- Directors concerned by the agreement: HSBC Bank plc, direct shareholder of over 10 per cent of the voting stock of HSBC France and also controlling HSBC UBP, HSBC Hervet, HSBC Picardie and HSBC de Baecque Beau.
- Purpose: the operational integration of the HSBC France HSBC UBP, HSBC Hervet, HSBC Picardie and HSBC de Baecque Beau branch networks includes pooling of certain of these entities' support functions within HSBC France. This decision led to the setting up of mixed teams of staff seconded from each of the legal entities to HSBC France.
- Terms: the staff costs of the subsidiaries' employees are invoiced to HSBC France at cost and HSBC France does not invoice the subsidiaries for the services provided. The provision of the services will be treated for tax purposes as a grant of subsidy. This agreement has been authorised by the Board of Directors on 28 February 2006.
- Financial impact: the invoices recorded in the books represented charges of EUR 14.5 million in 2006.

Other legal documents relating to the Annual General Meeting of Shareholders (continued)

Service agreement with HSBC Insurance Holdings Limited

- Directors concerned by the agreement: HSBC Holdings plc, which controls HSBC France and HSBC Insurance Holdings.
- Purpose: under the terms of this agreement, HSBC Insurance Holdings Limited will provide an Insurance Advisory service to the different entities of the Group, including HSBC France. This agreement has been authorised by the Board of Directors on 15 November 2006.
- Terms: the agreement is in the process of being finalised.
- Financial impact: this agreement had no financial impact in 2006.

II - Continuing agreements and commitments which were entered into in prior years

In addition, in accordance with the Commercial Code, we were informed that the following agreements, which were entered into in prior years, have continued during the year.

With HSBC Holdings plc

- Services provided by central departments of HSBC Holdings plc are invoiced to HSBC France with respect to the agreement settled in 2005. The invoices represented a change of GBP 4.3 million in 2006.

With HSBC Bank plc

- Services provided by central departments of HSBC Bank plc are invoiced to HSBC France with respect to the agreement settled in 2005. The invoices recorded as charges amounted to GBP 590 thousand in 2006.
- Service level agreement for all market activities of the HSBC France group with respect to the agreement settled in 2003. This agreement had no financial impact in 2006.
- Agreement settled in 2003 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. This agreement was replaced by the Group Software agreement (see above). The charges recorded according to this agreement and to the Group Software agreement represented USD 15.9 million in 2006.

With HSBC Bank plc Paris Branch

Three agreements have been entered into during 2001 by HSBC France and HSBC Bank plc Paris Branch also remained in full force and effect during 2006.

- 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, credit risk management, and euro zone management.
- 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. With respect to these two agreements, the income recorded amounted to EUR 285 thousand in 2006.
- 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 tax income recorded amounted to EUR 77 million.

With HSBC UBP, HSBC Hervet, and HSBC de Baecque Beau
Three agreements have been entered into during 2003 by HSBC France and its subsidiaries HSBC UBP, HSBC Hervet, and HSBC de Baecque Beau and remained in full force and effect during 2006.

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 instalment of loans and 50 per cent of the interest margin on the 12 first month 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 instalment.

Paris La Défense and Paris, 23 April 2007

KPMG Audit
A division of KPMG SA
Fabrice Odent
Partner

BDO Marque & Gendrot
Joël Assayah
Partner

Annual General Meeting of 10 May 2007 – Proposed resolutions

Ordinary business

First resolution

Having heard and considered the report of the Directors, the Statutory Auditors' report on the financial statements for the year ended 31 December 2006, and the Chairman's and the Statutory 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

The Annual General Meeting, after the allocation of EUR 136,672.00 to the legal reserve from the year's profit of EUR 434,365,566.36, notes the existence of a profit available for distribution amounting to EUR 434,228,894.36.

Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby approve the distribution of a dividend of EUR 8.10 per share, totalling EUR 613,032,664.50 for the 75,683,045 shares in the capital, by:

Allocation of the total net profit for the year	EUR 434,228,894.36
Deduction from free reserve	EUR 178,803,770.14

The dividend will be paid on 11 May 2007, after deduction of the interim dividend of EUR 4 per share voted by the Board of Directors at its meeting of 25 July 2006 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 decide that the dividend may be paid, at the choice of the Board of Directors, either entirely in cash or in cash or shares of HSBC Private Banking Holdings (Suisse) SA. In the latter case, each shareholder would have the option of taking payment in cash or in kind. For the purposes of this distribution, each share of HSBC Private Banking Holdings (Suisse) SA would be valued at its fair market value of EUR 5,375.16

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
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 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 the report of the Statutory Auditors regarding the consolidated statements for the year ended 31 December 2006, 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.

Fourth resolution

Having heard and considered the Statutory Auditors' report on regulated agreements governed by Article L. 225-38 of the French Commercial Code, 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.

Fifth resolution

Voting under the quorum and majority conditions required to transact ordinary business, the shareholders duly note that Mr Jean-Claude Jolain, who is retiring by rotation, is not standing for re-election.

Sixth resolution

Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby re-elect Mr Stephen Green, 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 2010.

Seventh resolution

Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby re-elect Mr Philippe Pontet, 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 2010.

Eighth 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 duly note the resignation of BDO Marque & Gendrot as Statutory Auditors and of Mr Patrick Giffaux as alternate, and hereby appoint:

– Léger & associés as Statutory Auditors,

– Mr François Allain as alternate,

in their place for the remainder of their predecessor's term of office, that is for a period of five years until the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2011.

Special business

Ninth 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 authorise the Board of Directors to increase the share capital on one or more occasions at the time or times it deems appropriate up to a maximum amount of one hundred and twenty million euros, it being stipulated that this sum does not include capital increases made in respect of scrip dividend payments or upon exercise of stock options by employees.

Should the Board of Directors decide to use this authority, it may implement the capital increase at its discretion either by capitalising earnings, reserves or share premiums by means of an increase in the nominal value of existing shares or by means of a bonus issue of new shares identical in all respects to the existing shares, or by issuing new shares for cash or against good cash claims and due, with pre-emptive rights in favour of existing shareholders, or by a combination of both procedures either successively or simultaneously.

In the event of a capital increase by issuing new shares for cash, the Board of Directors is specifically authorised to:

1. give those shareholders who applied for a greater number of shares than their entitlement as of right preference over any securities not taken up under the shareholders' pre-emptive rights, scaled back in the event that applications exceed the number of shares available;
2. limit the capital increase to the amount of applications received, provided that such amount represents at least three quarters of the initial proposed capital increase.

The shareholders hereby empower the Board of Directors to complete the capital increase or increases, if it deems appropriate, to fix the terms and conditions thereof and notably the issue price of the shares, the dividend entitlement date, which may be retrospective, and the opening and closing dates for applications, to officially record the capital increase and alter the articles of association accordingly, and, more generally, to take all measures and fulfil all formalities required to complete the operation.

This authority is valid for a period of 26 months with effect from the date of this meeting. It cancels and supersedes the authority granted at the Annual General Meeting held on 17 May 2005.

Tenth resolution

Having heard and considered the report of the Directors and the special report of the Auditors, and in accordance with the provisions of Article L.225-129-6, indents 1 and 2 of the Commercial Code, the shareholders hereby authorise the Board of Directors to increase the share capital, in one or several steps at its sole discretion, by issuing shares to be subscribed in cash reserved for participants in the company's employee share ownership plan in accordance with the provisions of Article L.443-5 of the Labour Code.

The shareholders set the maximum increase in the share capital at ten million euro (EUR 10,000,000.00).

The shareholders expressly renounce their pre-emptive subscription right with respect to new shares issued for the benefit of participants in the company's employee share ownership plan.

This authority shall extend for two years from the date of this general meeting.

The shareholders grant full powers to the Board of Directors to decide all terms and conditions of the issuance transactions to be made, in particular the issue price of the new shares. The shareholders also grant the Board full powers to recognise the capital increase or increases effected under this authority, to amend the articles of association accordingly and generally to do what is necessary.

Eleventh 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 the requirements of Decree n° 2006-1566 of 11 December 2006, which amended Decree n° 67-236 of 23 March 1967 on commercial companies.

Shareholders therefore decide to make the following amendments to article 22 of the articles of association:

– Article 22: Access - quorum - majority

  The first paragraph of this article is amended as follows:

  "Every shareholder, regardless of the number of shares that he owns, has the right to attend the general meetings and participate in the deliberations thereof, personally or by proxy, once his shares are fully paid and have been registered in his name not later than midnight, Paris time, of the third business day preceding the general meeting. However, the person responsible for convening the general meeting may choose to reduce this time limit if he deems it useful to do so."

Twelfth 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 French Commercial Code. The company is a credit institution and authorised bank, and as such is also governed by the French Monetary and Financial Code.

Term

The company's term ends on 30 June 2043, unless previously wound up or extended.

Corporate 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 Financial 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 from:

HSBC France - 103, avenue des Champs-Elysées - 75419 Paris Cedex 08 - France

Financial year

From 1 January to 31 December.

Distribution of profits

A minimum of 5 per cent of the net profit for the year, less any prior year losses, is transferred to the legal reserve until such time as it has reached one tenth of the company's share capital and at any time after that should it fall back below the minimum requirement.

The balance, plus any retained earnings, less any sums which the shareholders deem expedient to transfer to new or existing reserves or to retained earnings, comprises the profit available for distribution among the shareholders.

However, except in the event of a reduction of the company's share capital, no distribution may be made if total shareholders' funds are or would as a result become lower than the amount of the company's share capital plus any non-distributable reserves.

By way of derogation to the provisions of this article, sums may be transferred to a special employee profit-sharing reserve, as provided for by law.

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 banking, 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 2006, the share capital amounted to EUR 378,415,225 divided into 75,683,045 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

The renewal of this authority for the same amount until 10 July 2009 was approved by the Annual General Meeting held on 10 May 2007.

Information on HSBC France and its share capital (continued)

Movements in share capital

	2006			2005		
	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	**75,237,930**	**376,189,650**	**—**	74,802,146	374,010,730	—
Exercise of share options [1]	**445,115**	**2,225,575**	**34,307,829.70**	435,784	2,178,920	32,513,604.12
Reduction of share capital by cancellation of own shares held	**—**	**—**	**—**	—	—	—
At 31 December	**75,683,045**	**378,415,225**	**—**	75,237,930	376,189,650	—

1 *Of which:*

44,500 shares issued at EUR 35.52
96,000 shares issued at EUR 37.05
93,090 shares issued at EUR 73.48
91,900 shares issued at EUR 81.71
119,625 shares issued at EUR 142.50

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			2003			2002		
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
74,350,066	371,750,330	—	74,117,066	370,585,330	—	75,409,701	377,048,505	—
452,080	2,260,400	28,896,678.34	233,000	1,165,000	12,818,145	229,066	1,145,330	7,700,064.02
—	—	—	—	—	—	1,521,701	7,608,505	247,428,582.60
74,802,146	374,010,730	—	74,350,066	371,750,330	—	74,117,066	370,585,330	—

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:

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

2002:

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

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 31.12.2006	Expiry date
1996	696,000	FRF 233	EUR 35.52	0	2006
1997	715,000	FRF 243	EUR 37.05	66,000	2007
1998	728,000	FRF 482	EUR 73.48	192,154	2008
1999	909,000	FRF 536	EUR 81.71	383,602	2009
2000	909,000	–	EUR 142.50	646,125	2010

The maximum number of HSBC France shares that may be issued pursuant to the exercise of share options is 1,287,881, 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 2006

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

	2006	2005	2004	2003	2002
Number of shares at 31 December	**75,683,045**	75,237,930	74,802,146	74,350,066	74,117,066
Average number of shares outstanding during the year	**75,262,320**	74,826,025	74,374,838	74,129,833	74,928,199
EPS[1]	**EUR8.14**	EUR14.95	EUR9.80	EUR8.46	EUR7.50
Net dividend	**EUR8.10**	EUR5.19	EUR6.22	EUR6.25	EUR7.25
Dividend + tax credit	**–**	–	–	EUR9.375	EUR10.875
Payout[2]	**100%**	34.9%	63.8%	74.1%	95.6%

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 10 May 2007, the Board proposed a net dividend of EUR 8.10 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 French Commercial Code inserted by the Law no. 2001-420 (the "New Economic Regulations" Act).

Employees at 31 December

Number of staff members

	2006	2005	2004	2003	2002
Total HSBC France group	**14,901**	14,417	14,387	14,157	14,382
HSBC France	**8,503**	7,752	7,346	6,994	6,771
Subsidiaries and branches	**6,398**	6,665	7,041	7,163	7,308

Full time equivalents

	2006	2005	2004	2003	2002
Total HSBC France group	**14,379**	13,878	13,908	13,577	13,797
HSBC France	**8,204**	7,494	7,104	6,754	6,669
Subsidiaries and branches	**6,175**	6,384	6,804	6,823	7,128

2005/2006 employment report for HSBC France, parent company of the group

The comments given below are based on actual staff numbers as above.

HSBC France's headcount continued to increase significantly in 2006.

2006 headcount: 8,503, an increase of 9.7 per cent or 751 employees on 2005. This increase is particularly significant regarding the number of employees with management status which rose by 11.1 per cent in 2006 (compared to 7.7 per cent in 2005).

New employees (excluding Group mobility): 1,596 in 2006, of which 1,036 new permanent employees, 560 contract staff, including 171 young people on work placements.

Departures: 845. Resignations accounted for 31.4 per cent of total departures in 2005.

Further rise in percentage of management staff and women managers.

The proportion of management staff increased from 57.8 per cent at the end of 2005 to 58.5 per cent at the end of 2006. The number of women managers also increased and 44.1 per cent of HSBC France's management staff are women (42.7 per cent in 2005).

At 31 December 2006, 722 employees worked part time under the flexible working agreements signed by HSBC France, representing 8.5 per cent of the staff.

In 2006, HSBC France employed 240 disabled workers.

Employees, remuneration, share offering and incentive schemes (continued)

Employee relations and collective bargaining agreements

- Annual negotiation on pay at HSBC France;
- 2006 labour representation rights at HSBC France;
- Travel time for professional training at HSBC France;
- Agreement to terminate the incentive profit-sharing agreement of HSBC France;
- Statutory profit-sharing agreement for employees of the HSBC France platform;
- Incentive profit-sharing agreement for employees of the HSBC France platform;
- Amendment No 6 to HSBC France's employee savings scheme;
- Agreement relating to the introduction of night working within the IT Department;
- Agreement relating to the organisation of work within the IT Department as part of the HUB C2 project;
- Agreement relating to the terms of office of members of HSBC France local works councils and employee representatives;
- Paris pre-election protocol agreement;
- Amendment No 7 to HSBC France's employee savings scheme;
- Agreement on allocation of seats on the HSBC France central works council;
- Agreement relating to recognition and consequences of the existence of an economic and social unit (ESU) made up of all banks under the HSBC brand name;
- Agreement on allocation of seats on the central works council of the HSBC France ESU;
- Agreement on election rules for members of the ESU central works council and certain special operating procedures of that body;
- Amendment No 1 to the agreement on travel time for professional training;
- Agreement relating to implementation of the industry-wide agreement of 25 February 2005 on occupational pensions in banking.

Pay

In 2006, the pay agreement with the Economic and Social Unit comprising HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie provided for:

- minimum increases for employees with a basic salary of less than EUR 40,000;
- collective increases for employees with basic salary of more than EUR 40,000 (excepting employees with exempt status);
- performance-related increases awarded on merit;
- bonuses for achieving or exceeding individual qualitative and quantitative targets;

– a budget for individual pay increases in the following situations:
  – to favour equitable treatment of men and women;
  – for employees having taken long-term maternity, paternity or parent education leave;
  – to review the situation of employees who have not had an individual increase in their salary in the last three years.

Training

In 2006, HSBC France provided over 204,000 hours of training for more than 6,700 trainees.

The support training programmes for the Strategic Plan were finished during the year:

– training of Retail Banking sales staff in charge of Premier and professional customer groups (360 trainees);

– sales training for the mass-market customer group (240 trainees);

Two training courses were set up to meet skill priorities of the branch network:

– "customer satisfaction", for customer contact staff (166 trainees);

– "collective investment funds", to round out the financial training of investment advisers (234 trainees).

Twenty-five training paths alternating between theoretical training and practical application in bank branches were planned to accommodate new branch network employees and young recruits.

Again in 2006, regulatory training courses were given on prevention of money laundering, in the form of a tutored online apprenticeship, and on insurance products, for employees needing to obtain a professional licence (125 trainees).

For the corporate banking market, training sessions in credit and risk assessment continued to be given.

The Operations Department completed its "Working together for customer satisfaction" sessions for all staff units.

A new management training curriculum stemming from internal Group methods was adapted for use in France. A broad range of courses are offered, from fundamentals to sales management to management of other managers.

Language training continued to be given, with new offerings including some in the regions.

Overtime, temporary staff and sub-contracting

There was an increase in the number of hours overtime in 2006. 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 2006.

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.

Employees, remuneration, share offering and incentive schemes (continued)

Absenteeism

The maternity leaves increased in 2006. 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 2.3 million.

The amount of subsidy paid to the mutual insurance fund increased by 4.3 per cent to EUR 1 million.

HSBC France devoted more than EUR 7 million 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.

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 own personal funds up to the maximum permitted by law.

For 2006, the key terms and conditions were as follows:

- Offer period: 5 to 25 October 2006.
- Offer price: the offer prices were calculated by applying a 20 per cent discount to the average HSBC Holdings plc share price during the twenty trading sessions preceding 28 September 2006, the date on which the Remuneration Committee of HSBC Holdings plc decided to make the offering.
- Investment options: two investment options, which could not be combined, were put to employees:
  - Option 1: to buy up to EUR 5,000 of HSBC shares at a 20 per cent discount, through profit-sharing and incentive plans and possibly a personal contribution. The share price for Option 1 was EUR 11.3921.
  - Option 2: to buy up to EUR 25,000 of HSBC shares at a 10 per cent discount, solely through a personal contribution. The share price for Option 2 was EUR 12.8161.
- Maximum contribution: the total number of HSBC shares subscribed by HSBC France group employees must not exceed 3,300,000. If applications exceeded this amount, the contributions on own personal funds were scaled down, although a minimum contribution of EUR 10,000 was guaranteed.

Employees took up a total of 3,035,950 HSBC Holdings plc shares, representing a total capital amount of EUR 35.3 million.

Incentive schemes

A profit-sharing agreement and an incentive agreement were signed on 21 June 2006 regarding the HSBC France platform (HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie) for a term of three years covering 2006, 2007 and 2008.

Profit-sharing agreement

The HSBC France platform's profit-sharing entitlement is calculated using the alternative method to the standard method applicable under ordinary law. This method is: profit-sharing is equal to 6 per cent of the contribution made by HSBC France platform's activities in France, determined as restated operating profit before provisions less various provisions and a theoretical tax charge.

Under the alternative method, the profit-sharing entitlement may not exceed 5 per cent of the reported net profit less 5 per cent of shareholders' funds.

In addition, the profit-sharing entitlement may not exceed 7.5 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 platform's incentive payments are calculated on the basis of the restated operating profit, the restated net operating income and the cost:income ratio.

The formula is intended to distribute a percentage of restated operating profit before provisions and a percentage of the increase in restated net operating income. The incentive payment may be increased by up to 20 per cent using a multiplier based on the improvement in the cost: income ratio.

As stated above for profit-sharing, the profit-sharing and incentive scheme entitlement is limited to 7.5 per cent of total gross payroll costs used as the basis for social security contributions, as defined in the annual wage declaration.

"Diversifié Responsable et Solidaire" investment fund

An amendment to HSBC France's employee savings plan introduced in 2006 a new investment vehicle called "HSBC EE Diversifié Responsable et Solidaire". Around 10 per cent of the fund is invested in the money market, 45 per cent in bonds and 45 per cent in equities. It is managed according to criteria of social responsibility and solidarity.

Top-up payments

In addition to existing top-ups for investment vehicles in HSBC France's employee savings plan, a specific additional top-up is proposed for payments into the HSBC EE Diversifié Responsable et Solidaire fund, taking the maximum top-up for the employee savings plan from EUR 1,680 to EUR 1,790.

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.

Employees, remuneration, share offering and incentive schemes (continued)

CCF Options awarded:

Date of Annual General Meeting authority	13.05.1992	7.05.1997	7.05.1997	7.05.1997	7.05.1997
Date of Board meeting	9.05.1996	7.05.1997	29.04.1998	7.04.1999	12.04.2000
Total number of options awarded	696,000	715,000	728,000	909,000	909,000
of which: number of options awarded to members of the Management Committee	297,000	305,000	321,000	312,000	161,000*
Total number of beneficiaries	125	127	199	331	502
Number of Management Committee beneficiaries	29	29	31	29	10*
First exercise date	9.05.1998	7.06.2000	7.06.2000	7.06.2000	1.01.2002
Expiry date	9.05.2006	7.05.2007	29.04.2008	7.04.2009	12.04.2010
Exercise price	FRF233 (EUR35.52)	FRF243 (EUR37.05)	FRF482 (EUR73.48)	EUR81.71	EUR142.50**
Discount to average quoted share price	5%	5%	5%	5%	5%
Number of options exercised at 31 December 2006	684,000	629,000	518,346	513,398	220,375
Number of options lapsed	12,000	20,000	17,500	12,000	42,500
Number of options outstanding	0	66,000	192,154	383,602	646,125

* *Executive Committee.*
** *Discount to HSBC offer price of EUR150 per share.*

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; and

– 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 sets 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 the 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 under performance conditions detailed below;

– "Achievement Shares"and "Restricted Shares" awarded 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" 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 1st and 7th out of 28), 100 per cent of the performance shares concerned will vest. If HSBC's ranking is 14th, 30 per cent of the performance shares will vest. The vesting proportion increases by 10 per cent for each better ranking between 14th and 7th. 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 per cent of the performance shares concerned will vest if EPS has increased by at least 24 per cent 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 per cent of performance shares will vest if EPS growth reaches 52 per cent 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 cannot 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 in March 2006 and so relate to 2006.

Employees, remuneration, share offering and incentive schemes (continued)

Special report

HSBC France

Information required under the "New Economic Regulations" Act on share options awarded in 2006

Since its integration into the HSBC Group in July 2000, CCF has ceased to award CCF options to employees and Executive Directors of the CCF group. Since then and until 2005, HSBC Holdings plc share options had been awarded to employees and Executive Directors.

From 2006, the general policy of the HSBC Group is to award shares instead of share options (see above).

HSBC Holdings plc shares awarded in 2006 in respect of 2005

– Shares subject to performance conditions

	Face value of the shares awarded [1] in EUR	Expected value of the shares awarded [1,2] in EUR	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 other Senior Executives	1,931,819	850,000	9.84665	21.03.2006	21.03.2009

1 *Including the shares awarded by other Group companies.*
2 *After applying the performance conditions.*

– Shares without performance conditions

	Face value of the shares awarded [1] in EUR	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 *Including the shares awarded by other Group companies.*

HSBC Holdings plc shares awarded in 2007 in respect of 2006

From 2007, only Charles-Henri Filippi, Chairman and CEO of HSBC France, is awarded shares subject to performance conditions as a member of the HSBC Group Management Board. The other Senior Executives are awarded shares without performance conditions.

- Shares subject to performance conditions

	Face value of the shares awarded in EUR	Expected value of the shares awarded [1] in EUR	Award price GBP/share	Date of award	Vesting date
C-H Filippi	1,600,000	704,000	8.936358	05.03.2007	05.03.2010

1 *After applying the performance conditions.*

– Shares without performance conditions

	Face value of the shares awarded [1] in EUR	Award price GBP/share	Date of award	Vesting date
Value of the shares without performance conditions awarded to Executive Directors G Denoyel	470,000	8.936358	05.03.2007	05.03.2009
Total value of the 10 highest awards of shares (employees or former employees)	8,657,861	8.936358	05.03.2007	05.03.2009

1 *The shares awarded by other Group companies are included.*

Information on options exercised in 2006

CCF options

	Options exercised	Exercise price EUR/share	Date of award	Expiry date
Options exercised by an Executive Director in 2006 C-H Filippi	1,000	81.71	7.04.1999	7.04.2009
Total 10 highest options exercises (employees or former employees)	213,500	35.52 to 142.50 (average price: 72.04)	1996 to 2000	2006 to 2010

HSBC Holdings plc options

	Options exercised	Exercise price GBP /share	Date of award	Expiry date
Total 10 highest options exercises (employees or former employees of the HSBC France group)	800,000	6.91 to 8.712 (average price: 8.497)	2001 to 2003	2011 to 2013

Employees, remuneration, share offering and incentive schemes (continued)

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.

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 plc shares on the basis of a parity of 1.83, fixed on 1 October 2003.

No Executive Directors of HSBC Private Bank France exercised any HSBC Private Bank France options during 2006.

	Options exercised	Exercise price EUR per share	Date of award	Expiry date
Total options exercised by 10 employees	144,459	10.84 to 22.22 (average price: 16.73)	1999 to 2002	2009 to 2012

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 2006, the date of the last audited and published financial statements.

The main post-balance sheet events are :

HSBC will take control of French insurance joint venture

On 27 March 2007, HSBC France has agreed with Swiss Life to acquire on July 2007 the remaining 50.01 per cent of life insurer Erisa and property and casualty insurer Erisa IARD that it does not already own from Swiss Life for a consideration of EUR 228.75 million. The transaction is subject to regulatory approvals.

This transaction is consistent with the aim to be a market leader in life, pensions, investments and retirement services in selected OECD and emerging markets. The goal globally is to double the contribution to the HSBC Group made by insurance by building on, and joining up, our base of insurance and retirement businesses while leveraging HSBC's brand.

In line with the shareholders' agreement, this change of ownership was agreed with the Swiss Life group in order to ensure Erisa's full integration into HSBC. This will help the HSBC France group expand the distribution of insurance products through its branch network. And, of course, it intends to continue and develop the mutually beneficial, longstanding commercial agreements with Swiss Life.

Recent developments and outlook (continued)

Outlook

The major objectives of the HSBC Group in France in 2007 is to continue developing its activities with the support of the HSBC brand and differentiating itself increasingly.

Following the 2005 rebranding and the 2006 sharp increase in brand awareness, the Group intends to continue improving the notoriety of the HSBC brand in France.

The HSBC France group will also maintain its progress in customer service and intends to increase the physical coverage of strategic customers by a third before 2009. After the creation of the UK Country Club in November 2006, the creation of the Asian Country Club is planned in April 2007 in order to make it easier for French companies to set up and/or develop abroad and vice versa. Thanks to the HSBC Group's international strength, the HSBC France group is able to propose specific international services for Retail banking and Corporate clients.

The insurance business is the subject of an ambitious development plan. At the level of the HSBC Group, the long-term objective is for insurance to account for 20 per cent of pre-tax profit; at HSBC France, the objective is to double insurance revenue by 2010. By setting up an Insurance business line, HSBC France will be able to develop an open architecture model for offering its customers a full range of insurance products (life and non-life).

The investments in technology will continue to be maintained. In particular HSBC France planned to migrate at the end of 2007 to HUB, one of the HSBC Group's main IT platforms.

In 2007, the HSBC Group will maintain its Corporate responsibility efforts in France. In particular, the HSBC France group intends to be more implicated in microfinance. It will also encourage its employees to be involved as volunteers in projects supported by the *Fondation HSBC pour l'Education*.

Persons responsible for the registration document and for auditing the financial statements

Responsible person for the Registration Document

M. 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 145 of this document.

Paris, 9 May 2007

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	2012
BDO Marque & Gendrot[1] Represented by Joël Assayah 23, rue de Cronstadt 75015 Paris	2005	2006	2012
Alternates			
Gérard Gaultry 1, cours Valmy 92923 Paris la Défense Cedex	2001	2006	2012
Patrick Giffaux[1] 25, quai Carnot 92210 Saint-Cloud	2005	2006	2012

1 *Following the resignations of BDO Marque & Gendrot from its function of incumbent Statutory Auditor and of Patrick Giffaux from his function of alternate Statutory Auditor, the Annual General Meeting held on 10 May 2007 appointed:*
– Léger & associés, incumbent Statutory Auditor,
– Mr François Allain, alternate Statutory Auditor,
for the remainder of their predecessor's term of office.

Cross-reference table

The following information is provided for reference :

– Consolidated financial statements for the year ended 31 December 2005 and the Statutory Auditors' report on the consolidated financial statements, presented on pages 60-126 and 154 of the Annual Report and Accounts filed with the AMF on 16 June 2006 under reference number D06-0588 ;

– 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 D05-0952 ;

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.*

Network of offices

HSBC NETWORK IN FRANCE

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103, avenue des Champs-Elysées
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Web: www.hsbc.fr

HSBC Hervet
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18000 Bourges
Telephone: 33 1 57 66 50 00

HSBC de Baecque Beau
Subsidiary HSBC Hervet
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75440 Paris Cedex 09
Telephone: 33 1 44 94 42 42
Facsimile: 33 1 44 94 42 00

HSBC Picardie
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Facsimile: 33 3 44 38 73 21

HSBC UBP
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92729 Nanterre Cedex
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HSBC FRANCE SUBSIDIARIES

RETAIL BANKING AND DISTRIBUTION

Banque Chaix
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43, cours Jean-Jaurès
BP 353
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Facsimile: 33 4 90 14 99 99
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Banque Dupuy, de Parseval
47 branches
10, rue du Général de Gaulle
BP 168
34200 Sète
Telephone: 33 4 67 46 29 30
Facsimile: 33 4 67 74 14 77
e-mail: contact@bdp.fr
Web: www.bdp.fr

Banque Marze
10 branches
BP 76
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07205 Aubenas Cedex
Telephone: 33 4 75 87 49 10
Facsimile: 33 4 75 87 49 11
Web: www.banque-marze.fr

Banque Pelletier
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BP 384
Cours Julia Augusta
40108 Dax Cedex
Telephone: 33 5 58 56 88 70
Facsimile: 33 5 58 56 88 80
e-mail: dircom@banque-pelletier.fr

Banque de Savoie
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73001 Chambéry Cedex
Telephone: 33 4 79 33 93 10
Facsimile: 33 4 79 33 94 83
e-mail: info@banque-de-savoie

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BP 30112
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Telephone: 33 5 56 13 72 72
Facsimile: 33 5 56 13 72 79
e-mail: info@ccso.fr

Société Marseillaise de Crédit
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PRIVATE BANKING

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Network of offices (continued)

HSBC GROUP INTERNATIONAL NETWORK*

Around 10,000 offices in 82 countries and territories

EUROPE	OFFICES
Armenia	4
Belgium	3
Channel Islands	36
Cyprus	2
Czech Republic	11
France	822
Germany	12
Greece	27
Hungary	11
Ireland	13
Isle of Man	8
Italy	4
Luxembourg	4
Malta	54
Monaco	2
Netherlands	1
Poland	16
Russia	2
Slovakia	3
Spain	2
Sweden	4
Switzerland	10
Turkey	198
United Kingdom	1,668

ASIA-PACIFIC	
Australia	35
Bangladesh	9
Brunei Darussalam	12
China	69
Cook Islands	1
Hong Kong Special Administrative Region	340
India	69
Indonesia	14
Japan	5
Kazakhstan	1
Korea, Republic of	14
Macau Special Administrative Region	6
Malaysia	45
Maldives	1
New Zealand	8
Pakistan	5
Philippines	25
Singapore	23
Sri Lanka	12
Taiwan	16
Thailand	1
Vietnam	4

AMERICAS	OFFICES
Argentina	248
Bahamas	8
Bermuda	17
Brazil	1,725
British Virgin Islands	1
Canada	329
Cayman Islands	6
Chile	3
Colombia	31
Costa Rica	40
El Salvador	62
Honduras	74
Mexico	1,623
Nicaragua	1
Panama	78
Peru	1
United States of America	1,920
Uruguay	5
Venezuela	1

MIDDLE EAST AND AFRICA	
Algeria	1
Bahrain	7
Egypt	34
Iran	1
Iraq	13
Israel	4
Jordan	2
Kuwait	1
Lebanon	6
Lybia	2
Mauritius	12
Oman	6
Palestinian Autonomous Area	1
Qatar	6
Saudi Arabia	74
South Africa	4
United Arab Emirates	16

** At 5 March 2007.*
Associated companies are included in the network of offices.

Published by Corporate Communications, HSBC France, Paris.

Cover designed by Addison Corporate Marketing Limited, London; text pages designed by Group Public Affairs, The Hongkong and Shanghai Banking Corporation Limited, Hong Kong.

Produced by Franklin Partners, Paris, France.

Printed by Imprimerie Dridé, Neuilly-sur-Marne, France, on Revive Special Silk paper using vegetable oil-based inks. Made in Spain, the paper comprises 60% virgin fibre, 30% de-inked post-consumer waste and 10% mill broke. Pulps used are elemental chlorine-free.

The FSC logo identifies products which contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council.

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BV-COC-050601
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