2007

Annual Report and Accounts
HSBC France

HSBC

The world's local bank

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 83 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in 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 128 million customers through four customer groups and global businesses: Personal Financial Services (including consumer finance); Commercial Banking; Global Banking and Markets; and Private Banking.

In 2007, HSBC's profit before tax was USD 24,212 million and profit attributable was USD 19,133 million. Total assets were USD 2,354 billion at 31 December 2007.

Geographical distribution of results - Profit before tax:

Year ended 31 December 2007

	USDm	%
Europe	8,595	35.5
Hong Kong	7,339	30.3
Rest of Asia Pacific	6,009	24.8
North America	91	0.4
Latin America	2,178	9.0
Profit before tax	24,212	100.0

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

This reference document was registered with the Autorité des Marchés Financiers on 25 April 2008 in accordance with Article 212-13 of the AMF General Regulation. It may be used in support of a financial transaction when supplemented by a Transaction Note that has received approval from the Autorité des Marchés Financiers.

Annual Report and Accounts 2007

Contents

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

2007 was notable for the migration of HSBC France to the HUB IT system, the acquisition of 50.01 per cent of Erisa and Erisa IARD which were afterwards wholly sold to HSBC Bank plc Paris Branch, the significant acquisition of new customers, in particular in Retail Banking, and the further increase in name recognition associated with the use of the HSBC brand.

HSBC France continued to strengthen its positions in other areas, including Global 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 strength 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. After further campaigns in 2006, it reached 49 per cent in November 2006.

In 2007, after illustrating its openness to the world by advertising in airports, HSBC France reaffirmed its brand philosophy ("taking an open-minded approach to the world involves understanding different points of view") by using a novel medium, i.e. TGV high-speed trains.

For three months starting in late August 2007, the front and rear motor cars of 15 TGV trains on the East, Southeast and Atlantic networks bore the HSBC logo. This "points of view" campaign was rolled out using 30 international, national and local advertisements, tailored to the trains' routes.

To back up this campaign, HSBC France decided to take the brand even further by advertising on two popular forms of urban transport, i.e. buses and trams. Between late September and early November, this initiative took place in five major French cities hosting Rugby World Cup matches, i.e. Marseille, Lyon, Toulouse, Nantes and Paris. Twenty buses in Paris, five in Lyon, four in Marseille and five in Toulouse were entirely wrapped in the HSBC logo, along with a tram in Nantes.

HSBC France's third major campaign in 2007 saw it become the first company to advertise on self-service hire bicycles. In November 2007, HSBC signed an initial one-year advertising partnership with JCDecaux for the launch of Vélô Toulouse.

With these new campaigns, name recognition has been lifted to 59 per cent.

In line with the programme in the strategic plan, retail expansion continued in 2007 with the opening of eleven new branches (with another seven in the first quarter 2008) and seven Premier centres (with another four in January and February 2008).

Following the adoption of the HSBC brand by five of the Group's 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 2007 and the project of a merger of these subsidiaries into one entity, HSBC France, in 2008 was launched.

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 October 2007, it was HSBC France's turn to migrate to it, with success. The objective is to have a single information system for the HSBC platform in France, so that all the branch networks can offer customers the same range of products and services and share the costs of IT system development and production.

Organisational consequences of the strategic plan and regulatory development

Several major regulatory developments, particularly the Markets In Financial Instruments Directive (MIFID) and the Market Abuse Directive, came into effect in 2007. These had substantial implications for all business lines, particularly in terms of IT requirements and operational processes.

MIFID came into force on 1 November 2007, with the aim of creating an integrated financial market allowing all participants to operate using the same rules throughout Europe. MIFID's investor protection requirements tighten the rules of conduct that banks must observe in their relations with customers. The new rules include placing customers into one of three categories (non professional clients, professional clients and eligible counterparties), which provide differing levels of protection. The vast majority of Retail Banking and Private Banking clients have been classified as non professional clients. This category gives the most protection and is therefore the most demanding for the bank. Most of our Global Banking and Markets clients have been classified as professional clients and eligible counterparties. Almost all Asset Management clients have been classified as professional clients.

Our systems and processes for entering into new customer relationships and opening securities accounts have been changed to reflect client categories, including alterations to tools for managing and formalising orders, client profiling and so forth. Documents were sent to clients to inform them of their allocated category together with HSBC Group policy statements on conflict of interest and best execution policy.

Accompanying these changes, we undertook a major training initiative.

Development continued on the regulatory framework required by Basel II. We also made progress with projects aiming to achieve convergence between the group's IT systems, particularly the HUB project.

Further simplification of the structure of HSBC France group

Main changes in the structure of the HSBC France group

In line with the strategy of the HSBC Group to become a major player in life insurance, pension funds and retirement-related services in selected OECD countries and emerging markets, on 26 March 2007 HSBC France acquired 50.01 per cent of the share capital of Erisa and Erisa IARD held by Swiss Life. The transaction amounted to EUR 228.75 million. This integration, combined with the development of an open architecture approach, will enable HSBC to boost insurance distribution through its branch networks.

With a view to optimising HSBC France capital management, 100 per cent of the capital of Erisa and Erisa IARD were subsequently sold to HSBC Bank plc Paris Branch on 20 December 2007.

To further optimise the management of its capital, in June 2007 HSBC France transferred its 13.65 per cent interest in HSBC Private Banking Holdings (Suisse) SA to HSBC Europe (Netherlands) BV. This equity holding had resulted from the structural reorganisation of the HSBC Group's Private Banking business between 2001 and 2005.

Further streamlining of the HSBC France group structure

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

In particular, HSBC France absorbed in 2007 three intermediate holding companies – HSBC Asset Management Holding, Compagnie Financière des Iles du Rhône and Compagnie de Gestion de Patrimoine du CCF – via transfer of assets and liabilities. These companies had been set up to hold respectively the Asset Management, Regional Banking and Private Banking subsidiaries of the group. Since all of these holdings' subsidiaries are now wholly owned by HSBC France, the three holding companies no longer served any purpose.

2007 financial results of the HSBC France group (legal entities)

Under IFRS as adopted by the European Union, the consolidated profit before tax of the HSBC France group (legal entities) was EUR 1,051 million. After tax, profit attributable to shareholders of the group was EUR 975 million.

Total operating income before loan impairment charges and other credit risk provision was up 18 per cent compared with 2006, to EUR 3,089 million. Substantial capital gains were booked on the disposal of non-strategic assets, including the sale of HSBC France's 13.65 per cent stake in HSBC Private Banking Holdings (Suisse) SA to HSBC Europe (Netherlands) BV, and the sale of Euronext shares.

Despite a EUR 52 million increase in net credit risk charges, credit risk was maintained at a low level.

Operating expenses totalled EUR 1,987 million, reflecting the heavy investment needed to develop the bank's activities and upgrade its infrastructure.

Operating profit was EUR 1,050 million.

HSBC France acquired 50.01 per cent of Erisa and Erisa IARD on 26 March 2007, with the intention of transferring these two entities to HSBC Bank plc before 31 December 2007. As a result, in accordance with IFRS, these companies were included in "Assets of disposal groups classified as held for sale" and "Liabilities of disposal groups classified as held for sale", and the earnings from these companies were included in "Net profit of discontinued operations" during the time they were owned by HSBC France. They were sold on 20 December 2007, and only earnings recorded during the period of ownership were included in "Net profit of discontinued operations", an amount of EUR 45 million in 2007.

After appropriation of profit, HSBC France shareholders' equity at year-end amounted to EUR 5.1 billion, and its solvency ratio stood at 9.81 per cent, well above the minimum regulatory capital requirement. The regulatory liquidity ratio was 124 per cent. Further to the significant gain made on the disposal of the participation in HSBC Private Banking Holdings (Suisse) SA, consolidated shareholders' equity was impacted by a deduction from the free reserve to allow a special dividend of EUR 6.54 per share (totalling EUR 495.8 million) decided by shareholders in an extraordinary resolution at the 27 June 2007 General Meeting. A total dividend of EUR 231 million relating to 2007 will be put to shareholders in the 28 May 2008 AGM.

The net profit of HSBC France, the parent company, was EUR 1,357 million in 2007.

Contribution of France to HSBC Group financial results [1]

In 2007, HSBC in France generated profit before tax of EUR 905 million, an increase of 11 per cent.

Revenues grew by 11 per cent (up 4.5 per cent excluding release of PEL/CEL impairment, disposal gains and the integration of Erisa). This growth was achieved against an economic and market background that became difficult from the summer onwards, and reflects strong growth in the various business segments' commercial activity (see below).

On the face of it, the cost of credit risk rose, with a net charge of EUR 52 million. However, the increase was due to an exceptionally low figure in 2006, arising from releases of impairment provisions. The cost of risk remained low, particularly in Retail Banking, with provisions at the level of 0.18 per cent of total outstanding loans.

Operating expenses rose by 11 per cent relative to 2006, to EUR 2,033 million. There are several factors behind this increase, particularly the full consolidation of Erisa from 1 April 2007, and the build-up of business development investments. On an ongoing basis, expenses were up 6.6 per cent.

The reported cost efficiency ratio of 69.5 per cent was stable relative to 2006, and the return on average invested capital was 14.4 per cent.

Business segment results

Personal Financial Services

In 2007, HSBC in France maintained the commercial momentum that had been in place since the November 2005 rebranding. This momentum has arisen through strengthening client contact, an innovation-led approach to marketing products and services, and tailored advice.

As a result of these efforts, we attracted 90,000 new clients across our networks in 2007. As in 2006, development focused on the following areas:

– more than 70 per cent of new clients were in our strategic client segments;

– we increased our presence in the Premier segment;

– we doubled new Student client numbers, through partnerships with 120 business schools;

– we increased new international customer numbers.

In France, HSBC's goal is to be the principal banker for each of its clients, and this strategy resulted in volume growth in excess of the broad market rate. Deposits rose by 8 per cent and loans outstanding by 16 per cent. HSBC France took a more conservative position in the mortgage market. This led to a 32 per cent fall in new mortgage production relative to 2006.

Our efforts to strengthen our position in wealth management continued with an enhanced range of financial products: we launched HSBC Essentiel, two open-architecture contracts (HSBC Stratégie Patrimoine and HSBC Partenaire Patrimoine) and various tax-efficient investment products. HSBC France's success in wealth management resulted in a 11 per cent increase in life insurance assets.

Insurance activities are now included mainly under Personal Financial Services. The HSBC Group has ambitious growth plans in Insurance, and the

1 *The commentary on pages 4 to 6 relates to France's contribution to the HSBC Group under UK GAAP.*
– *The managerial scope changed on 1 January 2007, and now includes the HSBC France group's French activities, including the results of entities legally owned by HSBC France and located outside France (mainly Asset Management activities outside France, CMSL in the UK and HSBC France's branch in Belgium). These entities were previously excluded from the managerial scope, although this change in scope does not have a meaningful impact on 2006 results. It also includes the operating results of HSBC Paris Branch (a branch of HSBC Bank plc) and Erisa, which was acquired in full in 2007 and fully consolidated.*
– *Financial figures are presented according to IFRSs as applied by the HSBC Group.*
– *HSBC France's gain on selling its stake in HSBC Private Banking Holdings (Suisse) SA has been eliminated, since it is an intra-group gain.*

aim is for Insurance to make up 20 per cent of profit before tax. The acquisition of Swiss Life's stakes in Erisa and Erisa IARD formed part of this growth plan. This purchase gave the HSBC Group full ownership of these two companies, which have been renamed HSBC Assurances Vie (France) and HSBC Assurances IARD (France) in 2008.

In 2007, Erisa increased premium income by 9 per cent in a market that contracted by 3 per cent (source: FFSA statistics – January 2008).

However, despite the significant contribution made by Insurance, Personal Financial Services results do not yet reflect our strong commercial performance, partially due to the increasingly competitive market. Revenue growth was also limited by the non-recurrence of a factor that gave a major boost to 2006 revenue, i.e. the mark-to-market gain on home purchase savings options in accordance with IAS 32/39. The apparent increase in credit risk does not reflect a deterioration in credit quality, but rather the particularly low base in 2006. This factor, together with higher expenses arising from investments in developing HSBC's platform in France and the integration of Erisa, had a negative impact on profit before tax.

Commercial Banking

In 2007, we initiated major campaigns to market our services, raise our profile and win new business customers, resulting in a 6 per cent expansion in our client base.

As in 2006, growth in Commercial Banking was driven by synergies with the HSBC Group thanks to its international strength, and with HSBC France's other businesses:

- Continued success of "Club Pays" (in the UK, China and Hong Kong), the roll-out of Global Links and the extension of IBC (International Business Centre) services;
- Marketing developments in conjunction with Global Transaction Banking (CRM tools, client acquisition, advertising);
- HSBC Mid Cap: numerous M&A mandates executed in conjunction with the Global Banking and Markets segment, along with financing transactions;
- Private Banking: increasing success in cross-sells to entrepreneur clients.

The direct banking offering expanded further with the launch of leasing products, the "package intégral" comprehensive service package, international transfers and mutual funds transactions. BIB (Business Internet Banking) customer numbers rose by 10 per cent, and transaction volumes increased.

Growth in the customer base, together with the fact that clients are increasingly using HSBC as their main bank, resulted in faster growth in deposits (22 per cent) and loans outstanding (19 per cent).

However, as in Personal Financial Services, profit before tax was adversely affected by higher costs and an increase in credit impairment charge from a particularly low level in 2006. Commercial Banking revenues rose by 2 per cent, with most of the increase in volumes being offset by the effects of stiff competition. However, the financial crisis in the second half of 2007 caused a tightening in financing conditions, leading to an improvement in margins late in the year.

Global Banking and Markets

The operating environment in the financial sector was affected by the liquidity crisis from the summer onwards. Nevertheless, Global Banking and Markets generated good revenue growth, even without gains realised on disposals of non-strategic equity holdings.

The value of the HSBC Group global network remains evident, and revenues generated in France from major French clients were roughly equal to those achieved outside France.

Global Banking results were strong. There was a 35 per cent increase in revenues from M&A activities, along with growth in structured financing and asset financing, resulting from increased cross-border deal volumes. Credit margins rose in late 2007, while volumes were stable. The unusual situation in late 2007 means that all operations are monitored very carefully.

The three global platforms for capital market products in Paris (structured interest-rate derivatives, equity derivatives and European government bonds) have played a significant part in the HSBC Group's success, and won numerous accolades in 2007:

- HSBC Global Markets was named "Interest Rate Derivatives House of the Year" by The Banker magazine in October 2007;
- and "Rate House of the Year" by mtn-1 (Global MTN Award 2007).

In the Markets business, results were also strong, despite the mixed and turbulent background in 2007. Equity and equity derivatives activities benefited from the extended global coverage of the HSBC Group's equity research.

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

Market volatility had a positive impact on fixed-income revenues. In fixed income and interest-rate derivatives, revenues rose by 49 per cent. Forex activities benefited from capacity provided by the HSBC Group, and saw further growth among French companies. Growth was also driven by greater synergies with Commercial Banking, through Regional Treasury Centres.

HSBC France maintained a cautious stance on balance-sheet liquidity and risk management, through its centralised risk management function.

In Asset Management, after various structural and organisational changes in 2006, development continued in 2007, although market conditions contrasted sharply. Asset Management suffered from the credit crisis and the consolidation in emerging Asian markets, but was supported by strong growth among institutional clients in Europe and increased money-market management activity.

Assets under management rose by 6 per cent to EUR 89 billion. Firm growth among institutional clients offset outflows from corporate clients.

Growth in the Asset Management business is being driven by ongoing synergies with Retail Banking in product distribution, along with the ability of specialist asset management companies Sinopia and Halbis to innovate and create specific products.

As in previous years, synergies between Personal Financial Services and Commercial Banking led to an encouraging level of net new money, despite outflows from private investment mandates. The range of products for personal customers was enhanced with the addition of several funds, including Premier Relaunch Gem Wealth, Multimanager Premium and GIF Climate Change.

There was increased business with European institutional clients, attracted by good levels of absolute return, global macro and emerging markets skills, along with partnerships with major European retail banks to market emerging-market and structured-product funds designed in collaboration with Global Markets. Sinopia successfully launched new funds in Asia and continued to develop in North America.

During the credit crisis, HSBC's aim has been to safeguard the liquidity of its funds for clients at all times.

Private Banking

In 2007, a new front-office organisation was set up, involving structured client segmentation and a move to categorise client relationship managers as either "developers" or "prospectors". Synergies increased in 2007, with Private Banking benefiting from increased business referrals, and also referring more business to other units. Gross new money rose by 11.4 per cent relative to 2006, on the back of new entrepreneur and executive clients referred by Personal Financial Services, Commercial Banking and Global Banking. However, the financial crisis prompted corporate clients to withdraw money from the summer onwards, causing AuM to fall slightly relative to 2006, to EUR 11.7 billion.

Synergies also came into play in terms of enhancing the offering and developing value-added products. This led to a doubling in AuM in structured products such as stock option coverage products, developed in conjunction with the Markets business. Synergies with the Group's other Private Banking entities also increased in a number of areas. For example, AuM in alternative funds launched in partnership with Group Private Banking rose by 70 per cent. There was also a 19.5 per cent increase in loans against assets and a 7 per cent rise in life insurance assets.

Private Banking changed its IT system in 2007, successfully migrating to the Group Private Banking system Bimas.

Once again, Private Banking's performance was recognised with several awards including:

– second place in Mieux Vivre Votre Argent magazine's specialist bank category;

– Patrimoine fund - first place in L'Agefi magazine's Grands Prix de la Gestion d'Actifs.

The product mix benefited from the development of value-added products. Revenues increased by 2 per cent and by 9 per cent excluding capital gains. Combined with a very firm grip on costs, this revenue growth translated into a 5 per cent increase in profit before tax.

Proposed resolutions

The Board of Directors has drawn up the following resolutions to be presented at the Annual General Meeting of Shareholders on 28 May 2008.

In Resolution 1, the Board proposes that the Shareholders, having read the Board's management report, the Auditors' general report and the reports of the Chairman and the Auditors on the practices of the Board and internal control procedures, approve the annual financial statements for the year ended 31 December 2007 as well as the transactions reflected in those statements or summarised in those reports.

Resolution 2 concerns the allocation of the 2007 net profit of EUR 1,357,460,899.67. Considering retained earnings of EUR -3,506,000.00[1] and after the allocation of EUR 277,097.00 to the legal reserve, the profit available for distribution amounts to EUR 1,353,677,802.67. The dividend to be paid to Shareholders would be EUR 3.04 per share, for a total distribution of EUR 230,618,944.80. Therefore, retained earnings would amount to EUR 1,123,058,857,87. As the distributed amount equals the advance dividend decided by the Board on 25 July 2007, there would be no new payment.

Resolution 3 proposes that you approve the consolidated financial statements at 31 December 2007 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 Auditors' report on these agreements.

Resolutions 5 to 8 propose that you renew the directorships of Mr Christophe de Backer, Mr Charles-Henri Filippi, Mr Philippe Houzé and Mr Igor Landau 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 2011.

Powers (Resolution 9)

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.

1 *Due to accounting of impairments on PEL and CEL according to the first application of CNC notice 2006-02 on accounting for home purchase savings plans and accounts.*

Senior Executives

Directors and members of the Executive Committee

Peter Boyles *Chief Executive Officer.*
Age 52. He joined HSBC in 1975 and held various roles in the Middle East, Hong Kong and the Solomon Islands encompassing branch management, trade finance, operations and corporate banking. From 1987 to 1993, he worked in Corporate Banking in Hong Kong, before taking up the role of Senior Manager, Abu Dhabi. After that, he was appointed as Chief Executive Officer in Qatar, and then Deputy Chief Executive Officer in Malaysia. In 2000, he was appointed Senior Corporate Vice-President, Corporate and Transactional Banking for HSBC in France, helping manage the integration of CCF into the Group. Appointed as Group General Manager, he became Group Head of Human Resources in 2006. Since September 2007, he has been Chief Executive Officer of HSBC France.

Christophe de Backer *Deputy Chief Executive Officer, Deputy to the Chief Executive Officer.*
Age 45. He joined HSBC France in 1991 where he held several positions with CCF Securities, becoming Chairman and Chief Executive Officer in 1998. In January 2001, he was appointed Senior Corporate Vice-President in charge of Asset Management and Insurance for HSBC France, thereby becoming Chairman and Chief Executive Officer of HSBC CCF Asset Management Holding. In September 2005, he was appointed as Chairman of the Executive Board of HSBC Private Bank France. Since September 2007, he has been Deputy Chief Executice Officer, Deputy to the Chief Executive Officer in all of his duties.

Gilles Denoyel *Deputy Chief Executive Officer.*
Age 53. In June 1996, he joined HSBC France as Finance Director, having held senior appointments in the French Ministry of Finances. In 1998, he was appointed Senior Corporate Vice-President, Finance. In March 2004, he was appointed Deputy Chief Executive Officer of HSBC France, in charge of finance and support services. In 2006, he was responsible for the Asset Management activities, the Insurance activities and the non-finance support services. Since September 2007, he has been responsible for all risk management and control activities. In this role, he directly supervises the Credit, Legal and Tax, Compliance and Market risks departments. He is also responsible for relations with supervisory and financial market authorities.

Jean Beunardeau *Senior Corporate Vice-President, Head of Global Banking and Markets.*
Age 45. He joined HSBC France in 1997 in Corporate Finance, having previously held senior appointments in the French Civil Service. He was appointed successively in 2004 Head of Corporate Banking , and co-Head of Global Banking and Markets mainly in charge of Corporate and Investment Banking. In 2005, he was appointed Senior Corporate Vice-President. Since September 2007, he has been Head of Global Banking and Markets.


Peter Boyles


Christophe de Backer


Gilles Denoyel


Jean Beunardeau

Philippe Pontet *Chairman Investment Banking.*
Age 65. He joined HSBC France in 2005 as Vice-Chairman of Corporate Finance for Europe at HSBC France. In February 2005, he was appointed Member of HSBC France's Board. At the end of August 2007, he was appointed Member of HSBC's New European Advisory council. Over the last 30 years he has held a number of leading positions in the French banking and industrial sectors, including Chairman and CEO of the banking group, Credit Industriel et Commercial; Chairman and CEO of Framatome; and Chairman of Areva prior to joining HSBC in January 2005. Since September 2007, he has been Chairman Investment Banking.

Other members of the Executive Committee

Jacques-Emmanuel Blanchet	Head of Commercial Banking
Loïc Bonnat	Chief Operating Officer Global Banking and Markets
Caroline Brousse	Head of Asset Management
Catherine Bussery	Head of Compliance
Alain Cadiou	Head of Group Audit France
Johnny Crichton	Head of Credit
Didier Descamps	Head of Global Markets France
Eric Groven	Chief Financial Officer
Matthieu Kiss	Head of Strategy and Organisation
Marc de Lapérouse	Head of Legal and Tax Affairs
Carl Lashua	Regional CIO Continental Europe
Chantal Nedjib	Head of Corporate Communications
Corinne Orémus	Head of Retail Distribution
Daniel Roy	Chairman of the Executive Board of HSBC Private Bank France
Pierre Ruhlmann	Head of Operations
Matthew Paul Smith	Chief Operating Officer
Catherine Vidal	Head of Personal Financial Services
Jean-Pierre Wiedmer	Head of Insurance

Corporate Governance

Composition of the Board of Directors of HSBC France on 1 March 2008

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

Principal Position:
Chairman of the Board of Directors, HSBC France.

Other directorships in the HSBC Group:
Director, HSBC Bank plc. Director, HSBC Private Banking Holdings (Suisse) SA. Directorships expired in 2007: Chief Executive Officer, HSBC France. Chairman of the Supervisory Board, HSBC Private Bank France. Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG.

Other directorships outside of the HSBC Group:
Director, Centre National d'Art et de Culture Georges Pompidou. Chairman, Association des Amis de l'Opéra Comique (since 7 March 2007). Censor, Nexity (since 23 July 2007). Member of the Supervisory Board, Euris (since 2 August 2007). Director, Association des Amis du Festival d'Automne (since 10 October 2007). Director, L'Oréal (since 30 November 2007). Director, France Télécom (since 5 February 2008). Directorship expired in 2008: Director and Member of the Executive Commission, Altadis.

Résumé:
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. Appointed Chairman and Chief Executive Officer on 1 March 2004. Chairman of the Board of Directors of HSBC France since 1 September 2007.

Peter Boyles *Born in 1955* [2]
Holds 1 HSBC France share. First elected: 2007. Term ends: 2009.

Principal Position:
Chief Executive Officer, HSBC France (since 1 September 2007).

Other directorships in the HSBC Group:
Directorship expired in 2007: Chairman, HSBC IM Pension Trust Ltd.

Christophe de Backer *Born in 1962* [2]
Holds 1 HSBC France share. First elected: 2007. Term ends: 2008 [1].

Principal Position:
Deputy CEO, HSBC France (since 1 September 2007).

Other directorships in the HSBC Group:
Chairman of the Supervisory Board, HSBC Private Bank France (since 14 June 2007). Director, HSBC Assurances Vie (France). Director, HSBC Assurances IARD (France) (since 3 July 2007). Director, HSBC Investments (France). Director, Société Marseillaise de Crédit (since 27 September 2007). Director, Sinopia Asset Management (since 30 October 2007). Directorships expired in 2007: Chairman of the Management Board, HSBC Private Bank France. Director, Louvre Gestion.

Gilles Denoyel *Born in 1954* [2]
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:
Vice Chairman, HSBC Assurances Vie (France). Director, HSBC Assurances IARD (France). Director, HSBC Investments (France). Director, HSBC Epargne Entreprise. Director, Sinopia Asset Management. Member of the Supervisory Board, HSBC Private Bank France. Directorships expired in 2007: Chairman, HSBC Investments (France). Chairman, Halbis Capital Management (France). Chairman, HSBC Epargne Entreprise. Chairman, Sinopia Asset Management. Chairman and CEO, HSBC Asset Management Holding. Chairman of SAS, HSBC Investments FCP (France).

Other directorships outside of the HSBC Group:
Director, DCN. Member of the Board and Treasurer, Association Française des Banques. Director, Fonds de Garantie des Dépôts (since June 2007). Chairman, Groupement des Banques Etrangères en France (since April 2007). Member of the Orientation Committee, Euronext. Director, MEDEF (permanent reprentative of HSBC France) (since 5 February 2008).

1 *Director standing for re-election at the Annual General Meeting to be held on 28 May 2008.*
2 *Résumé available on page 8.*

Jean Beunardeau *Born in 1962*[1]
Holds 1 HSBC France share. First elected: 2008. Term ends: 2010.

Principal position:
Senior Corporate Vice-President, Head of Global Banking and Markets, HSBC France.

Other directorships in the HSBC Group:
Chairman, Foncière Elysées (since 29 June 2007). Director, HSBC Epargne Entreprise. Director, Nobel (since 26 December 2007). Director, HSBC Investments (France) (permanent representative of HSBC France). Directorship expired in 2007: Chairman of the Supervisory Board, Foncière Elysées.

Other directorships outside of the HSBC Group:
Director, X-Banque. Director, Amicale des Anciens Elèves de Polytechnique.

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.

Other directorships:
Director, Oberthur Technologies. Manager, Société d'Exploitation et d'Investissements Hôteliers – SEIH. Manager, Paddel. Manager, SCI 4 rue Paul Merwart. Manager, Groupement Foncier Rural des Baumelles. Chairman, Axandra.

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

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

Principal position:
Deputy Head of HSBC Limoges Branch, HSBC France.

Other directorships in the HSBC Group:
Chairman, Institution de Prévoyance Vernet (since 29 June 2007). Member of the Supervisory Board, HSBC France Sécurité Régularité Equilibre Dynamique.

Other directorships outside of the HSBC Group:
Director, AGIRA (since 20 December 2007).

Résumé:
Joined HSBC France in 1981.

Stephen Green *Born in 1948*
Holds 1 HSBC France share. First elected: 2000. Last re-elected: 2007. Term ends: 2011.
Member of the HSBC France Nomination and Remuneration Committee.

Principal position:
Group Chairman, HSBC Holdings plc.

Other directorships[2]*:*
Chairman, British Bankers' Association. Director, Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc. Director, The Institute of International Finance, Inc. Director, British Museum. Director, Confucius Institute for Business, London. Director, China Festival 2008. Member, The Hong Kong Association. Director, China Now Trading Limited (since 19 February 2007). Member, London Business School. Member, The Prime Minister's Business Council for Britain.

Résumé:
British nationality. HSBC Group Treasurer 1992-1998. Executive Director, Corporate Investment Banking and Markets, HSBC Holdings plc 1998-2003. HSBC Group Chief Executive May 2003-May 2006. Chairman, HSBC Bank plc since 1 January 2005. Group Chairman of HSBC Holdings plc since 26 May 2006.

1 *Résumé available on page 8.*
2 *For the most part, appointments held in companies which do not belong to the group in which the Director holds his principal position.*

Corporate Governance (continued)

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

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

Other directorships [2]:
Director, Casino Guichard-Perrachon. Director, Société d'Exploitation du Palais des Congrès de Paris. Member of the Executive Board, MEDEF. Member, Union du Grand Commerce de Centre Ville (UCV). Member, Association Internationale des Grands Magasins. 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.

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

Other directorships:
Director, Sanofi-Aventis. Member of the Supervisory Board, Adidas-Salomon. Member of the Supervisory Board, Allianz AG.

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.

Philippe Pontet *Born in 1942* [3]
Holds 1 HSBC France share. First elected: 2005. Last re-elected: 2007. Term ends: 2011.

Principal position:
Chairman Investment Banking, HSBC France.

Other directorships in the HSBC Group:
Director, Nobel (since 26 December 2007).

Other directorships outside of the HSBC Group:
Directorships expired in 2007: 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, HSBC France.

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:
Director, France Télécom. Chairman of the Supervisory Board, Gimar Finances SCA. Member of the Supervisory Board, Eurazeo. Director, Thomson. Director, Thales as permanent representative of TSA. Censor, Cap Gemini.

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.

1 *Director standing for re-election at the Annual General Meeting to be held on 28 May 2008.*
2 *For the most part, appointments held in companies which do not belong to the group in which the Director holds his principal position.*
3 *Résumé available on page 8.*

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, HSBC Bank plc. Director, Ingenious Media plc. Independent Director and Chairman of the Audit Committee, Silverjet plc. Chairman, British International.

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

Corporate Governance (continued)

Directorships held[1] by the members of the Board of Directors (composition at 1 March 2008)

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	2007	2006	2005	2004	2003
Charles-Henri Filippi Chairman, HSBC France	1998	2008[2]	Directorships in the HSBC Group: Chairman: HSBC France. Director: HSBC Bank plc, HSBC Private Banking Holdings (Suisse) SA. Directorships outside of the HSBC Group: Director: Centre National d'Art et de Culture Georges Pompidou, Association des Amis du Festival d'Automne, L'Oréal. Chairman: Association des Amis de l'Opéra Comique. Censor: Nexity. Member of the Supervisory Board: Euris. Director and Member of the Executive Commission: Altadis.	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: HSBC Trinkaus & 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.
Peter Boyles Chief Executive Officer, HSBC France	2007	2009	Directorships in the HSBC Group: Director and CEO: HSBC France.	–	–	–	–
Christophe de Backer Deputy CEO, HSBC France	2007	2008[2]	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman of the Supervisory Board: HSBC Private Bank France. Director: Erisa, Erisa IARD, HSBC Investments (France), Société Marseillaise de Crédit, Sinopia Asset Management.	–	–	–	–

1 *For the most part, appointments held in companies which do not belong to the group in which the Director holds his principal position.*
2 *Director standing for re-election at the Annual General Meeting to be held on 28 May 2008.*

Director's name Principal position	First elected	Term ends	**2007**	2006	2005	2004	2003
Gilles Denoyel Deputy CEO, HSBC France	2004	2010	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice Chairman: Erisa. Director: Erisa IARD, HSBC Investments (France), HSBC Epargne Entreprise, Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCN, Fonds de Garantie des Dépôts. Chairman: Groupement des Banques Etrangères en France. Member of the Board and Treasurer: Association Française des Banques. Member of the Orientation Committee: Euronext.	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 IARD, 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, Association Française des Banques. Member of the Orientation Committee: Euronext.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Director: Erisa, Erisa IARD, HSBC Asset Management Holding, HSBC Investments (France), Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCN, Association Française des Banques.	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, Association Française des Banques.	–
Evelyn Cesari Director elected by employees	2000	2008	–	–	–	–	–
Paul Dubrule Company Director	1999	2009	Director: Oberthur Technologies. Manager: Société d'Exploitation et d'Investissements Hôteliers – SEIH, Paddel, SCI 4 rue Paul Merwar, Groupement Foncier Rural des Baumelles. Chairman: Axandra.	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.

Corporate Governance (continued)

Director's name Principal position	First elected	Term ends	2007	2006	2005	2004	2003
Stephen Green Group Chairman, HSBC Holdings plc	2000	2011	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, Confucius Institute for Business, London, China Festival 2008, China Now Trading Ltd. Member: London Business School, The Hong Kong Association, The Prime Minister's Business Council for Britain.	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.
Philippe Houzé Chairman of the Management Board, Groupe Galeries Lafayette	1999	2008[1]	Chairman of the Management Board: Groupe Galeries Lafayette. 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), Association Internationale des Grands Magasins, Board of Directors National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.	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.

1 *Director standing for re-election at the Annual General Meeting to be held on 28 May 2008.*

Director's name Principal position	First elected	Term ends	**2007**	2006	2005	2004	2003
Igor Landau Company Director	2002	2008[1]	Director: Sanofi-Aventis. Member of the Supervisory Board: Adidas-Salomon, Allianz AG.	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.
Philippe Pontet Chairman Investment Banking, HSBC France	2005	2011	Directorships in the HSBC Group: Director: HSBC France. Director: Nobel	Directorships in the HSBC Group: Vice Chairman Corporate Finance Europe: HSBC France. Directorships outside of the HSBC Group: Chairman: SOGEPA, SOGEADE Gérance.	Directorships in the HSBC Group: Vice Chairman Corporate Finance Europe: HSBC France. Directorships outside of the HSBC Group: Chairman: SOGEPA, SOGEADE Gérance.	–	–
Philippe Purdy Director elected by employees	2004	2008	–	–	–	–	–
Marcel Roulet Company Director	1996	2009	Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: Thomson, Thales (permanent representative of 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: 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.
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. Independent Director and Chairman of the Audit Committee: Silverjet plc. Director: Ingenious Media plc. Chairman: British International.	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 standing for re-election at the Annual General Meeting to be held on 28 May 2008.*

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, Stephen Green is a Director of HSBC France and Chairman 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 cash component is equal to a percentage of the fixed component. This percentage is comprised between 0 per cent and 250 per cent for the Chairman and the CEO and between 0 per cent and 175 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 Holdings plc shares were granted in 2007 to the Executive Directors. The details are shown in the Share options and shares plans section on pages 171 and 172.

The Executive Directors and Senior Corporate Vice-Presidents of HSBC France have a defined benefits supplementary pension scheme. This plan guarantees members a pre-determined absolute 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, as at 1 September 2007, date of his appointment as Chairman, C-H Filippi had accrued pension rights at HSBC France representing an annual amount of EUR 133,500. HSBC France began to pay this pension from 1 September 2007. In addition, as Group Managing Director of HSBC Holdings plc during several years, seconded to HSBC France as Chairman and CEO, C-H Filippi benefits from a retirement guarantee at the age of 60. At 1 September 2007, the global amount of the guaranteed pension income was EUR 446,210[1], excluding the legal and supplementary pension schemes and the one described above payable by HSBC France.

At 31 December 2007, G Denoyel had accrued pension rights at HSBC France representing 17 per cent of his fixed 2007 salary and 9 per cent of his total 2007 cash remuneration.

At 31 May 2007, date of his retirement as Executive Director, P Careil had accrued pension rights at HSBC France representing an annual amount of EUR 50,609. This pension, indexed on the average increase rate of the French State Pensions, will be paid at the age of 67.

From 1 September 2007, C de Backer began to accrue pension rights at HSBC France. The amount is not significant at this stage.

The provision corresponding to the present value of these HSBC France pension commitments has been fully booked in HSBC France accounts at 31 December 2007, for an amount of EUR 5.2 million.

Peter Boyles, CEO of HSBC France, is not a beneficiary of this defined benefits supplementary pension scheme. As an International Manager he is entitled to a Group Pension Fund.

Finally, the Executive Directors are also provided with a company car.

1 *Indexed on inflation rate 1 April 2007.*

2007 cash remuneration

The amount of direct and indirect cash remuneration received in 2007 by the Chairman, the CEO, the Deputy CEOs and the Senior Corporate Vice-Presidents (7 persons), including those paid by other HSBC Group companies, amounted to EUR 2,149,680 for the fixed component and EUR 4,246,027 for the variable component.

Cash emoluments, including all benefits in kind, paid to each Executive Director in respect of 2007 by HSBC France, the companies it controls and the companies which control it (the HSBC Group):

	Fixed component	*Variable component*[1]	*Benefits in kind*	*Directors' fees*	*2007 Total*	*2006 Total*
Charles-Henri Filippi[2]	EUR546,667	EUR1,069,734	EUR5,819	EUR30,500	EUR1,652,720	EUR1,961,755
Gilles Denoyel	EUR365,000	EUR300,000	EUR1,744	EUR22,000	EUR688,744	EUR687,000
Patrick Careil[3]	EUR145,833	–	EUR888	EUR11,000	EUR157,721	EUR674,130
Peter Boyles[5]	USD227,942	USD1,047,996	–	USD17,000[4]	USD1,292,938	–
Christophe de Backer[5]	EUR133,333	EUR700,000	–	EUR11,000	EUR844,333	–

1 *Variable component calculated in respect of 2007 and paid in 2008.*
2 *A part of this remuneration was paid by other HSBC Group companies in respect of his functions within the Group.*
3 *1 January to 31 May 2007.*
4 *Equivalent to EUR 11,000.*
5 *1 September to 31 December 2007.*

Directors' fees

At the Annual General Meeting of 21 December 2007, the maximum amount of Directors' fees payable each year was fixed at EUR 600,000 against EUR 480,000 since 2005. At its meeting of 17 May 2005, 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.

On 25 July 2007, the Board of Directors decided that the Chairman of the Board of Directors receives an annual flat fee of EUR 122,000.

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 two HSBC France Directors, Messrs Geoghegan and Green, who will not receive Directors' fees in respect of their directorship of HSBC.

Total Directors' fees to be paid in May 2008 in respect of 2007 amount to EUR 0.4 million, as those paid in 2007 in respect of 2006.

Corporate Governance (continued)

Cash remuneration effectively paid to each Director in 2007 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]	EUR53,030	EUR546,667	EUR1,280,000[2]	EUR5,819	EUR1,885,516
Peter Boyles[3]	–	USD227,942	–	–	USD227,942
Christophe de Backer[3]	–	EUR133,333	–	–	EUR133,333
Gilles Denoyel	EUR22,000	EUR365,000	EUR300,000	EUR1,744	EUR688,744
Patrick Careil[4]	EUR22,000	EUR145,833	EUR300,000	EUR888	EUR468,771
Stephen K Green[5]	–	GBP1,250,000	GBP1,750,000	GBP12,457	GBP3,012,457
Michael F Geoghegan[5]	–	GBP1,561,246[6]	GBP1,535,000[7]	GBP61,210	GBP3,157,456
Philippe Pontet	EUR22,000	EUR350,000	EUR400,000	–	EUR772,000
Directors elected by the employees					
Evelyn Cesari	EUR22,000				EUR22,000
Maurice Ettori	EUR22,000				EUR22,000
Philippe Purdy[8]	EUR22,000				EUR22,000
Joyce Semelin[8]	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	EUR32,000	–	–	–	EUR32,000
Igor Landau	EUR22,000	–	–	–	EUR22,000
Jean-Charles Naouri	EUR22,000	–	–	–	EUR22,000
Marcel Roulet	EUR47,000	–	–	–	EUR47,000
Peter Shawyer	EUR77,100[9]	–	–	–	EUR77,100

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 320,000.*
3 *Appointed as a Director on 1 September 2007.*
4 *1 January to 31 May 2007.*
5 *Emoluments shown are those paid by other HSBC Group companies in respect of their executive functions within the Group.*
6 *Of which an executive allowance of GBP 520,413 paid to fund personal pension arrangement.*
7 *In return for the prior waiver of part of his bonus, an employer contribution has been made into a pension arrangement equal to GBP 215,000 which would otherwise have been paid.*
8 *Directors' fees paid to a trade union organisation.*
9 *Of which EUR 27,750 paid by HSBC France, excluding withholding tax.*

Auditors' fees paid in 2007 within the HSBC France group

	KPMG				Léger & Associés				Others			
	Amount		%		Amount		%		Amount		%	
(in thousands of euros)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Audit												
Statutory audit, certification, examination of parent company and consolidated accounts	**2,007**	1,824	**80%**	75%	**308**	298	**100%**	100%	**362**	238	**100%**	100%
– Issuer	**484**	313	**–**	–	**207**	189	**–**	–	**–**	–	**–**	–
– Fully consolidated subsidiaries	**1,523**	1,511	**–**	–	**101**	109	**–**	–	**362**	238	**–**	–
Related assignments	**508**	592	**20%**	25%	**–**	–	**–**	–	**–**	–	**–**	–
– Issuer	**403**	591	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
– Fully consolidated subsidiaries	**105**	1	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Sub-total	**2,515**	2,416	**100%**	100%	**308**	298	**100%**	100%	**362**	238	**100%**	100%
Other services												
Legal, tax, social	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Subtotal	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**2,515**	2,416	**100%**	100%	**308**	298	**100%**	100%	**362**	238	**100%**	100%

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" issuing financial instruments to the public 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 2007. 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 plans, as employees of the HSBC France group are now awarded HSBC shares.

The composition of HSBC France's Board of Directors endeavours to comply with the recommendations of the amalgamated report published by AFEP and MEDEF in terms of independent Directors (one third 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, 2005 and 2008 following various new recommendations on corporate governance, the evolution in compliance rules regarding dealings in HSBC shares and the change in the organisation of General Management powers.

Board of Directors

Composition of the Board

At 31 December 2007, the Board of Directors had 17 members, including:

- the Chairman of the Board of Directors;
- the Chief Executive Officer;
- two Deputy Chief Executive Officers;
- the Chairman Investment Banking;
- the Senior Corporate Vice-President Head of Global Banking and Markets;
- two Directors representing a company which owns 99.9 per cent of HSBC France;
- five 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;
- 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 55.9.

There were several changes to the Board's composition in 2007. The AGM on 10 May 2007 renewed the terms of office of Stephen K Green and Philippe Pontet 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 10 May 2007, 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.

Several co-options of Directors were also decided by the Board of Directors:

- on 25 July 2007, the Board recorded the resignations of Patrick Careil and Jean-Charles Naouri, on 1 and 17 July 2007 respectively. To replace them, it decided, on the recommendation

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

of the Nomination and Remuneration Committee, to co-opt Peter Boyles and Christophe de Backer for the remainder of the term of office of their predecessors, i.e. until 2009 and 2008 respectively;

– on 14 November 2007, the Board recorded the resignation of Martin Bouygues on 1 October 2007. To replace him, it decided, on the recommendation of the Nomination and Remuneration Committee, to co-opt Jean Beunardeau for the remainder of the term of office of his predecessor, i.e. until 2010.

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

The Board's work in 2007

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 2007, with an average attendance rate of 77 per cent compared with 78 per cent in 2006:

– 27 February 2007;

– 10 May 2007;

– 25 July 2007;

– 14 November 2007.

In 2007, 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 2007 in its meeting held on 27 February 2007.

The Board regularly examined the progress of the strategic plan implementation initiated in 2005, comparing with targets. It noted also that the HSBC brand has been gaining ground. It reviewed the group's positions in its main business lines, looking at the retail banking strategy for individual and business customers (meetings of 10 May and 14 November 2007) with the relaunch of the HSBC Premier offer and the creation of Corporate Banking Centres, and the Global Banking and Markets and Asset Management strategy (meeting of 14 May 2007). It was regularly informed of preparations and migration to a new IT platform: HUB.

The Board of Directors met to approve the acquisition of 50.01 per cent stakes in Erisa and Erisa IARD from Swiss Life (meetings of 27 February and 10 May 2007). It then met again with a view to optimising the management of regulatory capital, deciding to transfer 100 per cent of the capital of these two companies to the parent company HSBC Bank plc (Paris Branch) (meeting of 14 November 2007).

The Board of Directors approved a number of structural rationalisation procedures, namely the absorptions by HSBC France of:

– Compagnie de Gestion de Patrimoine du CCF and Compagnie Financière des Iles du Rhône, approved by the Board on 27 February 2007;

– HSBC Asset Management Holding, approved by the Board on 10 May 2007;

– Finanpar 17, approved by the Board on 14 November 2007.

The Board of Directors met to consider the sale of a significant holding in HSBC Private Banking Holdings (Suisse) SA to its majority shareholder HSBC Europe (Netherlands) BV, thus allowing optimisation of the use of regulatory capital (meeting of 10 May 2007).

These rationalisation measures also led the Board of Directors to discuss a policy of distributing a dividend linked to changes in regulatory capital requirements.

The Board regularly reviewed the situation regarding credit, market, legal and operational risks. 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.

In particular, Directors were invited to attend an information and working session on market risk control policies (29 May 2007). The Board of Directors also discussed the consequences of the liquidity crisis that followed the US subprime crisis (meeting of 14 November 2007).

The Board was informed of the group's corporate responsibility efforts.

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 regularly kept informed of the progress of work to comply with Basel II regulations.

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

Changes in the structure of General Management of HSBC France

At its meeting on 24 February 2004, the Board considered the structure of the General Management of the bank and decided that the roles of Chairman and Chief Executive Officer should be held by a single person, Charles-Henri Filippi. He exercised this double role from 1 March 2004, which choice was repeated by the Board at its meeting of 12 May 2004, following the General Meeting of shareholders which renewed C-H Filippi's mandate as a Director.

Following receipt of notification from C-H Filippi that he intended to step down from his role as Chief Executive Officer of HSBC France from 1 September 2007, the Board of Directors decided to separate the functions of Chairman of the Board of Directors and Chief Executive Officer from that date. It also decided that C-H Filippi would continue to act as Chairman of the Board of Directors until the expiry of his mandate as a Director, at the General Meeting of shareholders held in 2008 to approve accounts for the year to 31 December 2007.

On the recommendation of the Nomination and Remuneration Committee, the Board named P Boyles as Chief Executive Officer of HSBC France from 1 September 2007 until the expiry of his mandate as a Director. From the date of his appointment he has been responsible for determining the direction of the bank's activity in his role as the responsible executive under article L. 511-13 of the Monetary and Financial Code.

On the recommendation of P Boyles, the Board appointed C de Backer as Deputy Chief Executive Officer, from 1 September 2007 until the expiry of his mandate as a Director. On the recommendation of P Boyles, the Board also renewed G Denoyel as Deputy Chief Executive Officer, from 1 September 2007 until the expiry of his mandate as a Director.

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

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.

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

The Committee's work in 2007

The Committee met three times in 2007, with an attendance rate of 67 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 S K Green (Director since July 2000) and P Pontet (Director since 2005);

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

- it made proposals to the Board on appointing three new Directors: P Boyles and C de Backer (meeting of 25 July 2007), J Beunardeau (meeting of 14 November 2007), and on changing the structure of General Management (cf. above);
- proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the 2007 remuneration of C-H Filippi, P Careil and G Denoyel, setting out the fixed and variable elements of their remuneration and the number of shares, with or without performance conditions, to be awarded to them (see section "Directors' Remuneration");
- proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the pension that can be received by P Careil as a former Director;
- proposals to allow the Board to approve the financial terms of the departure of C-H Filippi from his post as Chief Executive Officer and of his remuneration as Chairman of the Board of Directors (25 July 2007);
- proposals to allow the Board to approve the terms of the remuneration of P Boyles and C de Backer as new Company Officers from 1 September 2007, in agreement with HSBC Holdings plc.

The Chairman of the Committee reported to the Board on its work at the Board meetings on 27 February and 14 November 2007. As a member of the Committee, S K Green represented him at the Board meeting on 25 July 2007.

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 2007

The Audit Committee met four times in 2007, and the attendance rate was 100 per cent, as in 2006:

– 23 February 2007;

– 4 May 2007;

– 20 July 2007;

– 9 November 2007.

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 the external auditors alone before the submission of the 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 2006 consolidated financial statements were presented according to IFRS, 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 2006 accounts, and presented their audit on the financial statements for the first half of 2007. This audit also included the Sarbanes-Oxley certification procedure which ends with the "4 way meeting", comprising external Auditors, the Chief Financial Officer, the Head of IT systems and Audit. The Audit Committee looked at Sarbanes-Oxley certificates drawn up quarterly and examined "weaknesses" identified in Sarbanes-Oxley reporting. It noted an appreciable decrease in the number of "weaknesses" in 2007. The Committee verified the quarterly reconciliation certificates produced at the request of the HSBC Group, and was informed of issues raised in external auditors' management letters. It also 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. It also discussed the consequences of the banking markets crisis at the meeting of 9 November 2007;

– compliance, legal and litigation risk;

– other risks, including operational and information systems risk. It was regularly informed of preparation work for the HUB migration and of the results of this migration. It also examined the IT recovery plan and the moving plans of the fall-up site.

In 2007, the Audit Committee closely monitored the progress of the Basel II project and of work to ensure compliance with *Commission Bancaire* recommendations. The model validation process is at a very advanced stage, and the system as a whole should be operational within the timeframe set by the regulator. It also regularly examined internal audit work and reviewed the main audit assignments, particularly those deemed insufficient.

It was informed about audit recommendations, progress in implementing them and the creation of a tool to monitor recommendations not yet implemented. It approved the 2007 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 20 July 2007, it conducted a detailed review of the annual internal control report required under the CRBF regulation no. 97-02 amended.

As part of its compliance work, the Committee reviewed quarterly compliance certificates, which state the main procedural violations. It examined the compliance action plan for 2007, which included an update of the non-compliance risk map and the implementation of a warning system to meet the regulation 97-02 requirements. It approved 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 AMF and the French Banking Commission in particular regarding money laundering. In its 20 July 2007 meeting, the Committee looked at the progress of the MIFID project, with a substantial increase in investor protection through a new investment advisory activity. It noted that the implementation of MIFID had gone well, particularly in terms of classifying customers in terms of their ability to assess risks.

The Committee discussed the audit programme and budget for external auditors' fees for 2007. It discussed the appointment of new external auditors to replace BDO Marque et Gendrot who resigned due to its merger with Deloitte, with a view to formulating a recommendation to the Board and proposed the appointment of Léger & associés.

In its 9 November 2007 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.

The Chairman of the Audit Committee reported on the key points of the Committee's work at the Board meetings held on 27 February, 10 May, 25 July and 14 November 2007.

Board of Directors' internal rules

The Board of Directors' internal rules were first established in 1996, and were updated in 2001, 2003, 2005 and 2008. The latest adjustment was submitted to the Board in February 2008 (for approval in May 2008). 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.

The rules also state the terms under which the Chairman of the Board of Directors carries out his functions, and sets out the Chairman's various duties, together with those of the CEO, particularly if the Chairman and CEO roles are split. They also define the procedures for conducting Board meetings and providing information to the Board. The Board's internal rules also precise, 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

The Board implemented the AFEP/MEDEF recommendations on self-assessment, under the responsibility of the Chairman of the Nomination and Remuneration Committee. Recommendations were implemented in the following months. The Board plans to maintain this procedure.

Restrictions on the CEO's powers

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

In this respect, the Board of Directors has delegated from 1 September 2007 its powers to issue bonds to P Boyles (Chief Executive Officer), C de Backer 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 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 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 CEO delegates his powers (see "Authorisation limits and approval procedures").

CHAIRMAN'S REPORT ON INTERNAL CONTROL PROCEDURES

Significant events and regulatory developments in 2007

While 2006 saw the completion and consolidation of several major projects such as Basel II, Sarbanes-Oxley and various permanent control systems required by CRBF 97-02 regulation, the main event in 2007 was the migration of a large part of our IT systems to the HSBC Group's HUB (HSBC Universal Banking) platform. This migration is beneficial for internal control, since input and validation functions are systematically separated in the HUB platform.

General organisation of internal control procedures

Organisation

In 2007, HSBC France has strengthened its permanent control system. 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 coordinated by the HSBC France's Deputy CEO in charge of risks and permanent control.

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

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 in 2007 on 23 July.

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 nine 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 documented and traceable. Documents are held locally at subsidiaries, business lines and departments.

In 2007, the listing of all control systems existing within HSBC France has been continued, and work began to streamline the organisations in order to make all these systems more consistent and effective. Comparisons between SOX, operational risk/Basel II and permanent control work were carried out by the teams in charge of these various projects.

The control system of outsourced essential services, within the meaning of regulation 97-02, are now subject to enhanced supervision. A new circular regarding the control system of outsourced essential services was published setting out the controls to be carried out. Work is currently being completed to list the services concerned and to ensure that contracts are compliant. An initial progress report has been prepared to assess how far each entity complies with this regulation, and to identify which actions still need to be taken.

References of the company

HSBC Group Manuals

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

All business activities and types of transaction must be fully documented in manuals or written procedures. The 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, 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. 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).

The ethical aspects of the Handbook were reviewed in 2007 in view of the European Markets in Financial Instruments Directive (MIFID). Changes to the Handbook will come into force in 2008.

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 one of the key bodies in the HSBC Group's internal control system. Its duties and composition are set out in the section of this report on corporate governance [1].

b *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 CEO of HSBC France and covers all business operations, including those of subsidiaries. GAF has 65 staff, and carried out 85 on-site audits and 49 remote audits in 2007. Due to the large number of branches in the south of France, a team of auditors has been established in Marseille.

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. As in 2006, GAF's audit schedule was prepared using the results of the Risk Calculator tool, which classifies entities according to the extent of their risks.

The HSBC Group's audit division specialising in the finance sector (Group Financial Services and European Audit or AUF), based in London, is still providing control of the whole HSBC Group's capital markets activities as well as its insurance, asset management, accounting, corporate banking and private banking operations. It is still having a unit in Paris, 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.

GAF has a process for reviewing these progress reports and validation reports concerning the implementation of major risk recommendations. The process is supported by a

1 *Cf. page 24.*

tool developed in-house that automatically sends follow-up requests to audited entities if they are late in sending their reports, and that allows accurate monitoring of implementation times. Information on major or repeated risk recommendations, and on recommendations with an implementation lead time of more than nine months, is reported to the audit committees and the Executive Management Committee.

To give greater authority, the CEO 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, thanks to the HSBC Group management tool "Audit Information System" (AIS), 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.

c *Risk Management Meeting*

The Risk Management Meeting (RMM) was set up in October 2007. It meets every month to analyse HSBC France's main risks, discussing a previously agreed agenda. It replaces the Audit, Internal Control and Compliance Committee (CACIC), which used to meet 5 times per year to examine audit reports on major risks and to consider compliance-related issues. The RMM is chaired by the HSBC France's Deputy CEO in charge of risks. Its other members comprise HSBC France's CEO and officers responsible for risk functions and business lines.

d *Compliance Committee*

The Compliance Committee, set up in April 2006, meets quarterly. Chaired by the HSBC France CEO, it consists of the Deputy CEO in charge of risks and Senior Management responsible for business lines. 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.

e *Group Permanent Control Committee*

New bodies have been set up to coordinate the permanent control 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, Global Banking and Markets, Private Banking, Asset Management and Insurance). This committee receives information from specialist risk function committees, some of which were set up for this purpose in 2006, including the Compliance Committee, the Accounting Committee and the Legal and Tax Risks Committee. In 2007, four permanent control committee meetings were held, in February, April, July and October.

f *Operational Risks Committee*

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.

g *Group Compliance Department*

To guarantee the full independence of the compliance function with respect to operational activities, a decision was taken that, from 2006, all compliance teams 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 CRBF 97-02, and for coordinating 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, Global Banking and Markets, Asset Management and Private Banking) and a central compliance unit in charge of making sure the system is consistent.

h *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 2007, given the wealth of developments in the accounting field, HSBC France group Finance organised several technical seminars and information meetings on the following themes: regulatory reporting, IFRS, budget procedure and SOX.

i *Operational Risk Business Coordinators (ORBCs)*
Each business line has its own Operational Risk Business Coordinator (ORBC), who is responsible for coordinating operational risk management work and for meeting the new Basel II requirements. The ORBCs are in charge of listing the operational risks liable to affect their business lines. They work with the operational staff concerned to analyse these risks and quantify them according to three parameters, i.e. frequency, impact and risk exposure.

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' 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 HSBC France group Audit Committee.

j *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

Procedures for controlling compliance with laws and regulations

Compliance functions

Identifying and controlling non-compliance risks
The Compliance Department uses in particular the legal watch work done by the Legal and Tax Department to monitor changes in laws, regulations and case law affecting the activities of HSBC France.

The analysis of non-compliance risks is documented in mappings listing 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, intrinsic risk ratings were applied and residual risk was determined on the basis of a critical analysis of the control system. Following on from this work, a project to harmonise non-compliance risk maps associated with the HSBC France group's various business lines was carried out in 2007.

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 the HSBC France's CEO 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.

Monitoring the system's procedures
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. 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 CEO of the HSBC France group and consists of the Chief Compliance Officer, compliance department Heads, the Deputy CEO in charge of risk, senior managers in charge of business lines and the Head of the 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

The HSBC France group's Legal and Tax Department is responsible for the HSBC France 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 amended on 13 April 2007, and is fully operational.

Credit approval procedures

Credit risk function

Within the HSBC France group, credit risk is managed by the Credit ALCO and by the Credit and Operational Risk Department (DRCO), which is independent of business lines. DRCO reports hierarchically to the Deputy CEO in charge of risk, and functionally to the HSBC Group's Head of Credit.

Credit ALCO, 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 DRCO's 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, which are notified 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.

The HSBC France's CEO holds powers granted by HSBC Holdings plc: EUR 50 million for new loans or loan increases and EUR 100 million for renewals. He has delegated all of his powers to the Deputy CEO in charge of risk who has in turn delegated them to the Head of DRCO. For amounts in excess of these limits, the Head of DRCO refers cases to the HSBC Group Head of Credit for approval.

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

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 on one hand, by the Head of Risk Prevention and Control for networks under the HSBC brand, and on the other hand, 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 Global Banking and Markets, where monitoring is carried out by Credit Support Unit (CSU) – Global Markets. Network supervision tools are uniform (Datamart Crédit).

• Permanent control of lending activities

Under CRBF regulation 97-02, DRCO has set up a system to cover all risks. As part of its duties, DRCO has mapped eight 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.

DRCO is the central unit of the credit function, which has three main sub-functions:

– credit function for HSBC brand networks (HSBC France, HSBC Hervet, HSBC UBP, HSBC Picardie and HSBC de Baecque Beau) managed by DPMR. The Head of DPMR reports hierarchically to the Head of DRCO for supervision activities, and to the General Secretary of Retail Banking for analysis activities. In hierarchical terms, the Head of DPMR is independent of commercial activities;

– credit function for the Global Markets business (Global Banking and Markets), consisting of the CSU-Global Markets team. This function reports hierarchically to the General Secretary of Global Banking and Markets;

– 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.

To ensure that information flows efficiently to all levels, the function's staff organise and carry out controls on the basis of pre-established intervention thresholds for supervision, provisioning, credit powers and so forth.

At the central and local levels, controls rely on dedicated internal controllers, along with staff that also carry out operational activities (credit managers, credit analysts, supervisory analysts).

• Specific control authorities

The role of Credit ALCO has been expanded, and it now has the role of Permanent Credit Risk Control Committee. A quarterly 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.

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. At the same time, it has carried out process-based mapping of risks and controls, which is likely to be completed in 2008 taking into account recent changes, particularly resulting from the implementation of HUB by certain HSBC banks. The mapping must identify the main verifications that will be followed up by second-level controls, carried out by dedicated internal control structures. Transaction risks are reviewed by a permanent control committee that meets quarterly and looks at all information from the Transactions Department, the network and the regional banks. All key Sarbanes-Oxley controls identified in the RICF (Review of Internal Control Framework) Test Plan and the Core Banking Process are integral to this permanent control system. The internal control system has been strengthened in 2007 by the implementation of HUB particularly through the definition of new IT profiles and the systematic separation of inputs and approvals.

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 written rules are in place for the protection, receipt, storage and archiving of contractual and legal documents. Similarly, specific systems govern the holding of cash, securities and safe keys and organise the management and control of access to central buildings and the branch network.

In addition, the HSBC France Major Incident Group Committee, as required by the Business Recovery Plan FIM, was set up in 2006. It is the permanent control body of the Business Continuity Planning function. This committee examines and controls business continuity-related subjects for the whole group, including the regional banks.

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 HSBC France Senior Management, and must comply with global mandates attributed by the HSBC Group to HSBC France. These global mandates are divided by business line by the Market Risk ALCO, 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 Market Risk ALCO and may be amended on an ad hoc basis. 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.

Traded Markets Development & Risk (TMR)

TMR allocates risk limits to various entities within the HSBC Group through the Global Mandate. It 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

Product Control calculates, controls and analyses market risk indicators and results on a day-to-day basis, within HSBC France's Global Banking and Markets support functions. 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

The Parameters 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

The Securities 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.

Market Risk ALCO

The Market Risk ALCO meets every month, and is chaired by the Deputy CEO in charge of risk. Its role is to examine vital issues relating to market risks. Its task is to supervise market risk in a systematic manner, to ensure that appropriate controls exist and to approve the main rules included in the supervision system. Market Risk ALCO features the main business line Heads concerned by these risks, along with Senior Management, the Heads of the business segments directly concerned, the Head of Market Risk and Product Control, the Head of Market Risk Management, the General Secretary of Global Banking and Markets and the Head of Asset and Liability Management (ALM).

Markets Risk ALCO 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.

Structural "interest rate and liquidity" function

Structural interest-rate, liquidity and forex risks are managed centrally by the Balance Sheet Financial Management Department (DGFB). In accordance with CRBF regulation 97-02, DGFB has a map of this function's inherent risks, control procedures and a circular setting out the permanent control organisation.

The authority that supervises these risks is the Balance Sheet ALCO, which meets every month, bringing together the main heads of business lines and support functions concerned by ALM. It examines risk indicators prepared by DGFB and group Finance and analyses all significant changes 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.

Interest-rate risk

DGFB measures and manages structural interest-rate risk for all HSBC France group entities. The measurement tool is mainly based on an information system (financial datawarehouse) into which the various entities feed their data.

Interest-rate risk measurement relies on rules based on behaviour that are reviewed and validated annually by Balance Sheet ALCO. Risk is measured and hedging transactions are carried out centrally by DGFB. 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 Balance Sheet ALCO and HSBC Holdings plc. Control statements are also produced in relation to this reporting.

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

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 HSBC Holdings plc and Balance Sheet ALCO. Financing transactions are carried out by the Treasury Department.

To ensure that liquidity risk measurement systems are closely supervised and to coordinate short-term management, the liquidity steering committee meets every month and consists of those responsible for reporting (HSBC France group Finance) for executing transactions (Treasury) and for supervision (DGFB). It is tasked with managing liquidity ratios, preparing the financing plan and looking into alternative sources of funding.

DGFB carries out supervision based on the various reporting documents submitted to it. It coordinates 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, which agrees limits with HSBC Holdings plc 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 Balance Sheet ALCO. 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. HSBC Holdings plc terms this risk "structural", and it is supervised through exposure and capital adequacy sensitivity indicators calculated by group Finance and DGFB. The analysis of these ratios is presented to Balance Sheet ALCO on a quarterly basis.

Control procedures for financial reporting

Accounting function

Organisation of the 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 IFRS 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 consolidation restatements required to send IFRS 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 Basel I and Basel II, 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 Global Banking and Markets is responsible of the reconciliation of economic and accounting results for this business unit, 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, IFRS 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 interpreter converts the events into journal accounting entries.

The operating systems comprise specialised applications devoted to a particular activity (loans, credit, securities transactions, foreign exchange transactions, etc.). Some transactions, which are not managed by these systems or which are not ordinary events (taxes, provisions, etc.) are 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

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

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 recommendations. 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 requirements of 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 in particular, any variances against budget. The CFO presents the results to the Executive Committee each month and reports to the HSBC France Board of Directors at each Board meeting.

In September 2005, group Finance 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 coordinate all these initiatives in the HSBC France group. Twice-yearly, the CEO and the CFO of HSBC France send 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. This effort continued in 2007.

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.

Procedures for ensuring reliability of data processing

IT function

Responsibility for the IT risk 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, addressed 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, who defines and carries out regular maintenance on the control system. In addition, he 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. Malfunctions identified by control procedures are immediately reported to the IT function's Head of permanent control.

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 (Information Systems Department) Committee, CSAC meetings (Compliance, Security, Audit Committee) and RMM (Risk Management Meeting). Finally, they are reported quarterly to HSBC France's Head of permanent control as part of IT Steering Committee meetings.

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

The Information Systems Department's CSAC assesses the efficiency of internal controls on IT processes, intended to combat material IT risks, every two months. This committee comprises all IT managers and heads of major IT processes.

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, the Information Systems Department has created Architecture Committees and Projects 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 compulsorily a post-implementation review. Flagship IT projects involve project quality planning.

Testing

Testing is conducted throughout the project management process. Testing plans, testing results and anomalies found are stored on a Group IT validation management tool (Quality Center), which makes all validation information available to all staff involved in projects. Each test phase must give rise to a certification: at each stage, a report is signed and validated by the testers, the testers' manager and the person in charge of the subsequent testing phase. For production testing, the validation of the Change Control Committee is required. A signed implementation certificate is required before development can go ahead.

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

System go-live control

The Change Control Committee established by the Information Systems Department has reinforced the change control system. 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. For applications and systems, new versions are implemented and checked by "configuration control tools" specific to each environment.

In addition, back-up procedures ensure the completeness and effectiveness of IT programmes in case of system failure.

In particular, HSBC France has a Disaster Recovery Plan to ensure that the bank's key functions can resume key 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 limited: any non-standard authorisation requires a justified dispensation granted by business lines, with a limited timeframe. Transactions carried out using these special access rights are logged and controlled.

In the event of an incident, "Emergency" accounts are granted on demand to research or production experts, under the supervision of ISD Security. These accounts may be used only once, to carry out repairs. Currently, application-level management is decentralised and handled by business-line departments.

Operations control

Computer equipment is installed in a secured computer centre, with round-the-clock security, under the Security Department's responsibility. All production environment operations are recorded in a log file and reviewed.

IT Back-up Plan

The IT Back-up Plan (IBP) is managed by HSBC France's Information Systems Department (ISD). It aims to provide back-up to infrastructure supporting the IT activities of HSBC France, HSBC UBP and HSBC Picardie in the event of an incident at the Lognes production centre. The IBP of the Global Banking and Markets Division and HSBC Securities (France), on the other hand, is the responsibility of these entities' IT Department. Banking and non-banking subsidiaries with their own IT systems are responsible for implementing their own IBP. The scope of the IBP is reviewed annually with the Executive Management Committee and business lines, to define priorities for the year ahead. There are two types of test per year: functional tests including business-line validations, and technical tests including back-up restore tests, in line with the Statutory Auditors' recommendations. All applications deemed "critical", which must be brought back into service within a week of a serious incident, are now covered by an operational back-up plan. For other applications deemed "vital", whose deadline for being brought back into service is more than one week, a suitable back-up plan will be implemented in 2008.

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

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

Charles-Henri Filippi
Chairman

Paris, 22 February 2008

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 2007

To the shareholders,

In our capacity as Statutory Auditors of HSBC France S.A., and in accordance with Article L.225-235 of French company law (*Code de commerce*), we hereby report on the report prepared by the Chairman of your company in accordance with Article L.225-37 of French company law (*Code de commerce*) for the year ending 31 December 2007.

It is the Chairman's responsibility to describe in his report the preparation and organization of the Board's work and the internal procedures implemented by the company. It is our responsibility to report to you on the information contained in the Chairman's report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information.

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

– obtaining an understanding of the internal control procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report and existing documentation are based;

– obtaining an understanding of the work involved in the preparation of this information and existing documentation;

– determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

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

Paris La Défense and Paris, 23 April 2008

KPMG Audit
A division of KPMG SA
Fabrice Odent
Partner

Léger & Associés
Michel Léger
Partner

Corporate Sustainability

Corporate Sustainability: a central issue for HSBC's growth

"HSBC is committed to the sustainable growth of its business. Our shareholders, customers and employees consider this issue to be very important," stated Simon Martin, Head of Group Sustainability, during the launch of the Global Environmental Efficiency Programme in June 2007. This programme, aimed at reducing the bank's direct impact on the environment, and to which the HSBC Group has allocated USD 90 million over 5 years, is part of a series of announcements by the Group to publicise its commitments and the concrete accomplishments that marked 2007. HSBC has also announced:

- the appointment of Lord Nicholas Stern as Special Adviser on Economic Development and Climate Change to the Group Chairman. As Adviser to the UK Government on the economics of climate change and development, Lord Nicholas Stern acquired acclaim by publishing the widely influential Stern Review on the Economics of Climate Change, which calculates the cost of climate change on the global economy.
- the results of the latest HSBC Climate Confidence Index, the first survey conducted by HSBC to measure the attitudes, commitment and confidence of 1,000 citizens in each of the nine major countries surveyed on climate change, and whether government and corporations are seen as capable of responding to this major challenge. The figures show France to be one of the developed economies most committed to the issue of climate change, as well as the most pessimistic. This reflects the general realisation that a radical change in our lifestyles is necessary;
- the launch of a new philanthropic programme to tackle environmental protection, the HSBC Climate Partnership, to which USD 100 million has been committed over five years. This is a follow-up to the Investing in Nature programme and, among its aims, hopes to become a lever to mobilise HSBC employees.

These commitments have again been acclaimed by Accountability Rating®, which ranked HSBC no. 4 among Fortune Global 100 companies. More recently, HSBC was ranked first in a new report issued by CERES (a network of investors and environmental organisations working jointly with companies to integrate sustainable development into business) on the recognition and climate change governance practices adopted by 40 of the largest international banks.

The Corporate Sustainability Committee, comprised of non-executive directors and independent members, has overseen the Group's sustainability policies and advised the Board, Committees of the Board and executive management since September 2003. This group was formerly referred to as the Corporate Responsibility Committee.

The Group manages corporate sustainability – its direct and indirect environmental impacts, sustainable business development opportunities and the philanthropic and community investment aspects of its business – through the Corporate Sustainability Department, which reports directly to the Group Chairman.

The Group relies on local teams to implement and coordinate corporate sustainability throughout its operations. Regional corporate sustainability teams are in place in Latin America and Asia Pacific, and are being assembled in Europe and North America. In France, efforts in this area are being coordinated by the Corporate Sustainability Committee, chaired by Gilles Denoyel, Deputy CEO of HSBC France. This committee, which meets quarterly, relays the policies defined by the Group and monitors the commitments made by each corporate department in France. Its aims, as defined in the strategic plan, are to integrate Corporate Sustainability into the Group's business units, to encourage and promote diversity among our teams, to implement measures directed at ensuring Group commitments relating to the environment, to define and build clear philanthropic policies and to make Corporate Sustainability central to our corporate culture and an integral part of the corporate identity in France. A team of three people has been tasked with implementation in cooperation with a network of 15 correspondents working in each of the business units impacted: Private Banking, Purchasing, Public Relations, Compliance, Facilities Management, Financial Operations, Human Resources, Operational Lending Risk, Networks, Business and Commercial Banking, Personal Banking, Information Systems, HSBC Investments, HSBC Insurance and the Nobel unit.

The 2007 highlights in France were:

- the launch of the Global Sustainable and Responsible Investment platform by HSBC Investments;
- the introduction of three complementary initiatives in the domain of microfinance in France;
- the signature of a company agreement relating to the four facets of diversity;
- the introduction of employee volunteering schemes.

These are long-term initiatives, like those involving management of:

– risks to the reputation of the company linked to our activities;

– the environmental footprint of our French employees.

HSBC France publishes a detailed description of sustainability initiatives and measures implemented in France, as well as a French translation of the Group's annual Sustainability Report. These documents have been published in this format since 2004.

The launch in Paris of a global Sustainable and Responsible Investment platform by HSBC Investments

On 12 June 2007, HSBC Investments launched a Sustainable and Responsible Investment (SRI) platform to provide its private and institutional customers with cutting-edge expertise and a wide range of investment solutions in the asset classes of international securities, European, Euro and Euro-denominated bonds.

Olivier Gayno, Chief Investment Officer of HSBC Investments (France), supervises the SRI platform, which will increase the management capabilities of the HSBC Group. The platform relies on a dedicated team of eight SRI professionals in Brazil, France, India and the UK. This team examines environmental, social and corporate governance issues impacting corporations and industrial sectors and employs this analysis in supporting the management of USD 2 billion in SRI assets (open funds and dedicated agreements) and the development of SRI products and services the world over.

Through its own SRI research methodology, combining in-house and independent research, the SRI platform is able to promote "best in class", ethical, commitment and "positive screening" investment approaches. HSBC Investment's international network allows us to better understand the needs of local customers and to offer a wide range of investment solutions combining financial performance with social responsibility.

According to Mark McCombe, Global CEO of HSBC Investments, "*The integration of our SRI capabilities into a global platform is an important development project reflecting the growth in customer demand and our desire to create a new business unit in this domain. Our efforts are consistent with the commitment of the HSBC Group to sustainable development and our adoption of the United Nations Principles for Sustainable Development.*"

The selection of France as the location for this global platform for the Group constitutes a recognition of SRI initiatives and expertise that have been developed in Paris over the last few years.

Access to banking services through microfinance

Microfinance is the provision of small-scale financial services such as credit, savings, insurance and remittance products to the unbanked. When approached commercially, it has the potential to be a fully sustainable development activity. Microfinance presents a compelling commercial business opportunity that offers the potential for commercial returns both on capital and ancillary business with an additional social return.

In 2007, HSBC France adopted three initiatives to help micro-entrepreneurs develop their projects:

– partnership with Adie, the Association for the Right to Economic Initiatives, to which HSBC is providing a EUR 1 million credit facility, faciliting micro-entrepreneurs to get in touch with HSBC branches so to give them access to banking services: HSBC will subsequently give the opportunity for staff to volunteer to support Adie initiatives;

– an investment of EUR 1 million in FinanCités, a socially responsible venture capital firm set up by Planet Finance that aims to strengthen the capital base of micro-enterprises in urban underpriviliged neighbourhoods;

– the launch by HSBC Private Bank France of a microfinance fund based in Luxembourg dedicated to promoting microfinance worldwide.

Embracing diversity, the pillar of employer branding and identity

A major aspect of the HSBC Group – 330,000 employees in 83 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa – diversity constitutes clear advantage and a source of energy and creativity which enables the company to anticipate social change around the world.

The dynamic energy of our human resources is a key driver of the company's success, and the Group embraces and supports it through proactive policies in every country where it does business.

It is in this vein that a worldwide survey of employee attitudes was conducted in October 2007. In France, 86 per cent of employees responded to the survey. Of this number, 83 per cent were aware that employees are expected to maintain high ethical standards.

Corporate Sustainability (continued)

Hiring and career development practices within the HSBC Group promote diversity.

In 2007, 1,200 new employees were hired under indefinite-term employment contracts, 70 per cent at the management level. A significant effort was made in training young students with the company welcoming 1,100 trainees and work-study interns. HSBC France was ranked as no. 2 IDEAL™ employer by students majoring in finance and no. 8 overall preferred employer, all sectors combined (the 2007 Universum ranking – a survey of 10,400 French students in their last year of study in 72 business and engineering schools).

The promotion of talent is a priority in the company. In 2007, more than 1,200 professional transfers took place and 80 per cent of those who took part in ITB/CESB professional training were promoted.

Among the first to sign the Diversity Charter, HSBC France has introduced a wide-ranging diversity policy extending to all aspects: social and ethnic origin, professional gender equality, disability and age. In each of these areas, a number of concrete initiatives have been adopted which have yielded significant results.

Indeed, the measures introduced in the area of equal opportunity have resulted in an increasing number of management positions being filled by women. In 2007, 25 per cent of Executive Committee members, 33 per cent of branch managers and more than 45 per cent of managers were women (as compared to 38 per cent for other banks, according to the French Banking Association, AFB).

To strengthen its commitment, HSBC France signed a wide-ranging Diversity charter in which it will anchor its Diversity policies and reinforce its impact on all employees. This charter includes concrete provisions related to:

– ethnic diversity, specifically through improving our hiring practices, such as mobility;

– gender equality and recognising the need for balance between professional and family life;

– disability and the opening up of professional pathways to the company's disabled employees;

– specific attention for the promotion of the experience of older employees.

Support for education, young talent and environmental protection

In 2007, HSBC France contributed more than EUR 1.4 million to sponsorship activities. This sum provided assistance to more than 3,000 children and allowed more than 250 employees to volunteer more than 3,000 hours of their time to programmes sponsored by the Group in France. The HSBC Group concentrates its investment in the community in two main areas: education and environment.

Convinced that the success of the younger generation is the driving force of economic performance, the HSBC Group is committed to promoting equal opportunity and the emergence of young talent.

HSBC France participates in global initiatives such as SIFE, an association that promotes free enterprise to the students of major institutions of learning, and Future First, a five-year (2007-2012), USD 10 million programme aimed at improving the lives of children living in highly precarious circumstances.

HSBC France is also committed to initiatives within the group in France such as the *Fondation HSBC pour l'Education* launched in April 2006 whose aim is to facilitate access to education for children from disadvantaged backgrounds. Since its first call for projects, 31 association and institution-led projects benefit from three kinds of support: financial, human and media. Its commitments via the *Fondation HSBC pour la Photographie* over the last 12 years and the *Académie européenne de musique d'Aix-en-Provence* since 2006 have led it to promote young photographers and musicians, thus helping them gain acclaim as well as a followup.

In the area of environment, 135 employees gave their time to participate in local environmental protection initiatives in 2007, thus participating in one of the objectives of the new global partnership launched by the Group. Dubbed the HSBC Climate Partnership, this five-year partnership has dedicated USD 100 million to combat to the threat of climate change. The HSBC Climate Partnership focuses on rivers, cities, forest protection and engaging colleagues in a range of conservation, research and protection projects.

Managing risks to the reputation of the company linked to our business units

All HSBC's activities involve the measurement, evaluation, acceptance and management of some degree of risk, or combination of risks. The most important risk categories that the Group is exposed to are credit risk (including cross-border country risk), insurance risk, liquidity risk, market risk (including foreign exchange, interest rate and equity price risks), operational risks in various forms, pension risk, residual value risk, reputation risk and sustainability risk (environmental and social risks).

Managing risks reinforces the confidence that the various stakeholders have in our company and consequently, its financial success. A matter of key importance for the Group, protecting our reputation is complicated by the increasing challenges posed by climate change, world demographic change and the emergence of an economy less dependent on oil. Corporate Governance, compliant lending policies and ethics have developed a set of guidelines that come together to allow our company to grow in a serene environment.

The aim of the Compliance department, established in 2001 at HSBC France, is to ensure that the activities of the Group are carried out with integrity and professionalism in compliance with the laws, regulations and good practices in force in France. In this respect, the Compliance Department deals with major issues such as combating money laundering and the financing of terrorism as well as the proper application of the customer's right to information and advice.

The coordination of this activity is ensured by a Compliance Committee chaired by the Deputy CEO of HSBC France and is composed of different members of the Board of Directors responsible for business units within HSBC Group in France. Meeting quarterly, the task of the Committee is to provide stewardship to compliance audit measures and to ensure that areas threatened by non-compliance are identified and addressed through appropriate corrective action.

Over the course of 2007, more than 7,000 employees of HSBC France participated in training sessions devoted to compliance obligations, specifically in the areas of rules of conduct toward customers deriving from the Markets in Financial Instruments Directive (MIFID), which took effect in November 2007, to combat money laundering and the financing of terrorism as well as financial market abuse (insider trading, stock price manipulation).

Moreover, as a corporation unlisted on the stock exchange since 2000, HSBC France maintains the same degree of high standards that were part of its identity before its integration into the HSBC Group. HSBC France enforces corporate governance rules as recommended in France and maintains its compliance with evolving regulations and Group requirements.

HSBC manages sustainability risks in sectors with high environmental or social impacts (forestry, freshwater infrastructure, chemical, energy, mining and metals, and defence-related lending). The sector policies set out internationally accepted standards to be followed when we lend to or invest in companies or projects and these specify areas where involvement is prohibited. These policies have been integrated into financing procedures in every country where the Group does business. Locally, teams receive training in these new procedures and topics.

Managing our environmental footprint in France

In 2005, HSBC was the first major bank – and FTSE 100 company – to become carbon neutral. Being carbon neutral means our worldwide operations contribute zero net carbon dioxide into the atmosphere and reflects our commitment to position ourselves at the forefront of sustainable business practice. To do this we measure and reduce energy consumption across the Group, source renewable energy where possible, and offset any remaining emissions by purchasing high quality verified emission reductions (VERs).

HSBC Group set target reductions for energy, water, waste and carbon dioxide in the period of 2005-2007. These targets were set using 2004 levels for these areas, as well as number of buildings and full time employees. This baseline provides a 'like-for-like' comparison. In line with Group targets, HSBC France set targets to cut its energy consumption by two per cent, water by nine per cent, carbon dioxide by one per cent and waste by four per cent. At the end of 2007, many of these targets were largely surpassed (-12.5 per cent in energy, -26.4 per cent in CO_2 linked to energy consumption and -25.9 per cent for non-recyclable waste) but progress remains to be made in the area of water where, nonetheless, substantial progress was achieved (-2.8 per cent). HSBC France has set new targets for the period 2008-2011.

In addition to the sustained investment by HSBC France in environmental management systems and new equipment yielding better energy efficiency, these objectives were met thanks to awareness and increased vigilance on the part of all employees. In order to ensure that employees are aware of how they can contribute to successfully achieving these objectives, HSBC regularly communicates on these issues via internal communications channels and has created programmes that allow employees to become involved. In 2007, HSBC France launched the "*HSBC agence verte*" ("HSBC Green Branch") contest to mobilise employees. The contest rewards the best initiatives to reduce energy consumption, CO_2 emissions linked to air travel, waste or to instil awareness among customers and employees alike of the challenges of climate change.

Corporate Sustainability (continued)

Appendix NRS 2007 – Environmental section

The following section provides information on the impact of our company's operations on the environment in compliance with Article 2 of decree no. 2002-221 of 20 February 2002 implemented by Article L. 225-102-1 of the Commercial Code.

Water use

HSBC France assigned itself the objective of reducing water use by 9 per cent between 2005 and 2007. To attain this goal, HSBC France adopted more efficient water consumption technology and promoted an awareness campaign aimed at all employees.

In 2007, 246,049 m^3 of water was consumed by the 13,615 present active staff members ("persons") of the HSBC France group, i.e., 18.07 m^3 per person. This consumption was lower in comparison with that of 2006 (see table below).

To achieve this savings, HSBC France enhanced its installations and improved the water metering system in order to warn of any leakages. A special effort was made in 2007 to renovate the restrooms at different bank locations. With each renovation, individual water meters and high-efficiency toilets were installed.

The awareness campaign that was rolled out to HSBC employees in France in 2006 continued throughout 2007 with targeted posters and various communications via different internal communications media.

	2007	2006	2005	2004
Water				
in thousands of m^3 . .	**246**	258	270	259
per person (m^3).	**18.07**	19	20.3	21

Consumption of natural resources

Paper consumption

In 2007, HSBC France continued its efforts to reduce paper use. Several studies were conducted in view of introducing paperless operations, identifying the levers for change and instilling awareness in employees of the necessity of more economical use of paper.

In order to secure the approval process of supplier invoices, in late 2007/early 2008, HSBC France put in place an Electronic Workflow for forwarding scanned invoices between the Payment Centre and the Purchasing Department and the different internal entities within the bank. This initiative saves approximately 35,000 paper invoices generated during a full year, a number expected to reach nearly 60,000 after the merger of HSBC France with its subsidiaries HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie. This amount of paper will no longer be transported by shuttle to the various Paris offices. This operation will partially contribute in reducing the volume of CO_2 released during document transportation.

	2007	2006	2005	2004
Paper purchasing (tonnes).	**2,651**	2,785	2,305	1,993

The volume of paper consumed in 2007 was 2,651 tonnes, representing a 4.8 per cent decline as compared to 2006.

Consumption of office supplies

In 2007, HSBC France continued the effort begun in 2006 consisting of systematising the use of recycled ink cartridges by expanding their use in office printers.

Moreover, a new procedure became effective to limit the growing number of small deliveries of office supplies by instituting a minimum order of EUR 50.

Energy use

HSBC France committed to reducing its energy consumption by 2 per cent between 2005 and 2007 despite a ramp-up in operations that produced a need for additional IT equipment.

Thanks to a large-scale communications effort aimed at our employees and several renovations aiming at improving the energy efficiency of our buildings, HSBC France reduced its energy consumption by nearly 10 per cent (to be precise, 9.9 per cent) and 12.5 per cent in like-for-like terms.

	2007	2006	2005	2004
Energy Consumption (GWh)	**98**	106	111	109

Energy consumption can be broken down as follows:

Electric power consumption

70,714 MWh, i.e. average consumption of 5.19 MWh per person.

Natural gas consumption

12,134 MWh, i.e. average consumption of 0.89 MWh per person.

Fuel consumption

5,712 MWh, i.e. average consumption of 0.42 MWh per person.

HSBC France is striving to diversify the sources of energy for supplying its buildings through the use of renewable energy. For example, solar panels were installed at the Société Marseillaise de Crédit location in Aubagne to generate hot water. More studies are being conducted to limit the use of fossil fuels.

Diagnostics begun in 2005 on all central offices have led to an improvement in building energy consumption, especially thanks to temperature adjustments and the more efficient use of equipment.

An important employee awareness campaign on energy savings using the theme, "*Je sors, j'éteins*" (turn it off when you leave), also contributed to lowering usage.

Discharge of waste into the air, water and soil

Twice a year, HSBC France carries out an estimate of its carbon dioxide emissions as part of the inventory carried out by the HSBC Group worldwide. In 2007, total emissions for HSBC France amounted to 15,428 tonnes.

This figure includes emission linked to the group's business operations, including business travel. In 2007, HSBC France distributed a flyer to encourage employees to take the train instead of using air travel for trips to London. This step led to a 3 per cent decline in air travel, or a CO_2 savings of 14.26 tonnes.

HSBC France had set itself the goal of reducing carbon dioxide emissions linked to energy consumption by 1 per cent at the end on 2007 as compared to 2004. This goal was largely exceeded with a measured decline of 26.4 per cent (excluding transportation).

Sound and odour pollution

Insignificant in our area of operations.

Non-recyclable waste

HSBC France made a commitment to reduce its production of non-recyclable waste by 4 per cent between 2005 and 2007 through better use of recycling and, for paper, a decrease in printed materials.

	2007	2006	2005
Waste production (in tonnes)	**3,284**	3,550	4,403
Waste production per person (in kilograms)	**241**	266	342
Percentage of recycled waste/ total waste	**44%**	40%	32%

The introduction of a multi-service management contract extending to all branches of HSBC France resulted in better identification and better management of waste. The increase in recycling throughout the HSBC network, especially in paper, is a direct consequence.

A contract for the recovery and reprocessing of computer hardware and electronic equipment (PCs, laptop computers, screens, printers, back-up power supplies and miscellaneous computer and electrical devices) was negotiated in early 2006 with a service provider who also distributes computer hardware for HSBC France. This contract covers HSBC France and all its subsidiaries.

In 2007, 46.5 tonnes of computer hardware and electronics were reprocessed by our service provider. Two-thirds of this volume was distributed evenly between CPUs and screens. All this hardware was disassembled and the parts recycled. Given the large number of screens, toxic substances represented more than 20 per cent of the reprocessed materials.

In late 2007, an invitation to bid was launched to induce the service provider to compete against national competitors.

Lastly, office furniture in good condition but slated for replacement was donated where possible to humanitarian organisations such as Handicap International, which was able to furnish its headquarters thanks to our donation of 90 desks. This effort will continue through 2008.

Measures to limit the damage to the ecological balance and protected animal and plant species

As part of its operations, HSBC France, following the HSBC Group's lead, has incorporated the Equator Principles as well as social and environmental criteria in the process of evaluating credit transactions. It has also adopted Group guidelines for the financing of projects in the following sectors: forest and forest products, chemicals, fresh water, mining and energy.

Moreover, the Purchasing Department of HSBC France has been promoting the recycling of office supplies since 2005, such as ink cartridges for office printers. With one of its contractual service providers, recyclable paper cups with wooden stirrers have replaced plastic cups and stirrers in order to reduce the consumption of petroleum-based products by HSBC France. A permanent communiqué in HSBC's colours was installed on the

Corporate Sustainability (continued)

dispensers and paper cups to raise awareness and to develop a reflex of environmental protection and the use of fair trade products. This effort was initiated in close cooperation with the team in charge of coordinating Corporate Sustainability and our service provider, the rollout of which was entirely managed and paid for by our service provider.

With respect to printing and reproduction, HSBC France continues to use paper certified by the FSC (Forest Stewardship Council) an international organisation that certifies sustainable forest management, for some of its publications, specifically the 2006 Guidelines and the 2006 Report on Corporate Responsibility. In 2007, several new printing contracts using FSC paper were signed:

– letterhead stationery contract: approx. 21 million letterheads/year;

– advertising insert contract: approx. 21 million advertising inserts/year;

– digital printing contracts: several "small jobs" but no figure on volume.

Finally, the Purchasing Division has begun the gradual replacement of a portion of the company vehicle fleet with hybrid cars manufactured by Toyota and has ordered several of these vehicles. At the end of 2006, approximately 7 hybrid cars were operated by HSBC France.

At the end of 2007, 26 hybrid vehicles were being operated. This effort will likely be continued in 2008 and may potentially be expanded by new hybrid vehicles that are scheduled to appear on the French market. For each vehicle replaced, the average decline in CO_2 emissions was 44 per cent; fuel consumption also declined.

Steps to ensure compliance of the company's operations with applicable legislation and regulations applicable to the sector

In 2001, at the prompting of the parent company, HSBC France created a Compliance and Ethics Department to provide a consistent and efficient auditing system. This department ensures that the operations of the Group are carried out with integrity and professionalism in compliance with the laws, regulations and standards of good business practice in force in France.

The department monitors the proper application of the duty to tender advice and is in charge of major areas such as combating money laundering and the financing of terrorist networks.

Existence within the company of internal services to manage environmental issues, training and employee communications

HSBC France has had a Corporate Responsibility Committee since 2003. This committee is chaired by the Deputy CEO and its membership includes 16 officers and representatives from HSBC France's key line and operating functions, specifically credit, asset management, human resources, compliance, purchasing, facilities and marketing. The Committee is coordinated by a Delegate who reports to the Board of Directors and the Public Relations Director. The Committee meets quarterly to review actions taken, current issues, the orientations of the HSBC Group policies, and steps to be taken at the local level.

The management of the direct impact of HSBC France on the environment is managed by the Facilities Department through a three-person team. This team is responsible for the carbon inventory in France, relying on the individuals responsible for administrative management of the different entities and branches. It also defines the strategies required to reach established 2011 targets in collaboration with headquarters teams.

With respect to information, HSBC France has created a Group intranet site dedicated to Corporate Sustainability. This site publishes up-to-date news on Corporate Sustainability, information on the values and efforts of the HSBC Group in this domain as well as what is being done by the different business units. The company magazine, "Ressources", also carries a column dedicated to Corporate Sustainability.

In 2007, during Sustainable Development Week, an in-house contest was launched: "*HSBC agence verte*" ("HSBC Green Branch") rewards the best environmental initiatives in the areas of energy, transportation and waste as well as any original ideal focusing on environmental protection.

Moreover, the "Corporate Responsibility Awards" presented in 2007 identified good practice in terms of managing our impact on the environment, such as the installation of intelligent, energy-saving lights at Société Marseillaise de Crédit and the creation of a personal environmental charter for each employee.

Also, training in Corporate Sustainability policies and in diversity at the HSBC Group is integrated as part of the Group's executive training program. This develops strategies and initiatives that can be deployed in the area of managing the direct and indirect impact of Group operations 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 different types 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 information regarding these risks arising from financial instruments are available in the notes to the consolidated financial statements, according to IFRS 7[1].

The management of other risks which are significant to the HSBC France group is discussed below. In compliance with the requirements of CRBF Regulation 97-02, the HSBC France group has 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[2].

Capital management
(audited information except where stated)

Capital measurement and allocation

The Commission Bancaire (CB) is the supervisor of the HSBC France group and, in this capacity, receives information on its capital adequacy and sets minimum capital requirements.

Under the European Union's Banking Consolidation Directive, the CB requires each bank and banking group to maintain an individually prescribed ratio of total capital to risk-weighted assets. Under the EU's Capital Adequacy Directive, the CB allows banks to calculate capital requirements for market risk in the trading book using value at risk techniques.

The HSBC France group's capital resources policy is to maintain its capital base through the diversification of its sources of capital and the efficient allocation of capital. It seeks to maintain at all times a prudent relationship between its total capital, as measured according to the criteria used by the CB for supervisory purposes, and the varied risks of its business.

The HSBC France group's capital is divided into three tiers. Tier 1 capital comprises only core tier 1 capital as no innovative tier 1 securities have been issued by HSBC France group. Core tier 1 capital comprises shareholders' funds and minority interests, after adjusting for items reflected in shareholders' funds which are treated differently for the purposes of capital adequacy (mainly cash flow hedge reserves, reserves arising from revaluation of property and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale). The book values of goodwill and intangible assets are deducted from tier 1 capital. Tier 2 capital comprises qualifying subordinated loan capital, part of the reserves arising from revaluation of property, and part of the unrealised gains arising on the fair valuation of instruments held as available-for-sale. Tier 3 capital includes subordinated loan capital not qualifying for Tier 2 but is very limited. Total capital is calculated by deducting the book values of investments in the capital of banks and insurance companies, and certain regulatory items from the total of tier 1, tier 2 and tier 3 capital.

1 *Cf. Note 34 to the consolidated financial statements pages 116 to 130.*
2 *Cf. pages 27 to 38.*

Risk management (continued)

Regulatory capital position

The table below sets out the analysis of regulatory capital.

Composition of capital

(in millions of euros)	**2007**	2006
Tier 1:		
Shareholders' funds of the parent company	**5,064**	5,406
Minority interests	**31**	19
Less : dividends to be paid to the parent company	**–**	(311)
Less : items treated differently for the purposes of capital adequacy	**(236)**	(397)
Less: goodwill capitalised and intangible assets	**(441)**	(440)
Total qualifying tier 1 capital	**4,418**	4,277
Tier 2:		
Reserves arising from revaluation of property and unrealised gains on available-for-sale securities	**232**	265
Perpetual subordinated loan and term subordinated loan	**272**	777
Total qualifying tier 2 capital	**504**	1,042
Total qualifying tier 3 capital	**–**	2
Investments in other banks and other financial institutions	**(4)**	(1,157)
Other deductions	**–**	–
Total capital	**4,918**	4,164
Total risk-weighted assets *(unaudited)*	**50,142**	43,342
Capital ratios: ***(unaudited)***		
Total capital	**9.8%**	9.6%
Tier 1 capital	**8.8%**	9.9%

The above figures were computed in accordance with the EU Banking Consolidation Directive and the CB Prudential Standards. The group complied with the CB's capital adequacy requirements throughout 2007 and 2006.

Tier 1

The increase of EUR 141 million in tier 1 capital was largely due to retained profits (profit of the year: EUR 978 million and dividend payment: EUR 727 million).

Tier 2

The decrease of EUR 538 million in tier 2 capital was largely due to the early redemption of a EUR 500 million term subordinated loan to the parent company.

Investments in other banks and other financial institutions

The decrease of deductions due to investments in other banks and other financial institutions was due to the sale of HSBC Private Banking Holdings (Suisse) SA and Erisa in 2007 to the parent company.

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.

In general, therefore, it includes the risk linked to the security of information systems, legal risks, environmental risks and compliance risks. However, due to its importance, compliance risk is presented separately from operational risk.

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 an operational risk management team within the Credit and Operational Risk Department, 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.

In 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 this work is submitted to the Audit Committee.

An IT application developed by the HSBC Group was deployed within HSBC France during 2006.

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 Department (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 the 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 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 banking subsidiaries have drawn up their own Business Continuity Plans 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 have been performed on a regular basis to ensure business continuity in the event of a crisis. Recent past and planned future tests include:

- November 2007: test for all high-risk Global Banking and Markets operations: Markets, Asset Management, transactions and information systems;
- in 2007: business operations including among others Asset Management, investment funds, employee savings, factoring, compliance, communication, IT Systems Department, procurement, risk management and lending operations are scheduled for the first half of 2008 for the remaining operations.

Risk management (continued)

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.

Lastly, a business security department set up in 2006, 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 Sustainability policy is described on pages 40 to 46 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. The Compliance Department consists of five departments reporting to the Head of Compliance: four departments specialised by business line (Retail Banking and Insurance; Global 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 coordinating 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;
- identifying the compliance risks associated with the activities conducted by HSBC France;
- 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;
- organising and, in coordination with the internal control departments of the business lines and subsidiaries, carrying out the permanent controls of compliance;
- coordinating relations with regulatory authorities.

Identification and monitoring procedures for compliance risks

The Compliance Department draws among others 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 is documented in maps itemising the legal, regulatory and professional rules and the HSBC Group internal standards that apply to each business line or activity and the procedures and controls implemented to ensure compliance with them. In 2006, HSBC France rated the intrinsic risk levels relating to the various applicable rules and assessed residual risk levels based on a critical analysis of the existing control system. In 2007, it continued this work with a project to harmonise the non-compliance risk maps associated with its various business lines. Non-compliance risks affecting the HSBC France group's activities concern the following areas in particular: efforts to combat money-laundering, terrorist financing and corruption, compliance with codes of conduct relating to customer interests, protection of the integrity and transparency of financial markets, professional secrecy and the protection of personal data, business ethics and the prevention of conflicts of interest.

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 CEO, and for which the Compliance Department serves as the secretariat. The Compliance Department is responsible for ensuring that the products comply with both legal and regulatory requirements and 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 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.

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, a Compliance Committee was set up in April 2006 and is chaired by the 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 risk and control functions (responsible for coordination 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 global 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 2007 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 2007 concerning the HSBC France group.

Financial highlights*

HSBC France group

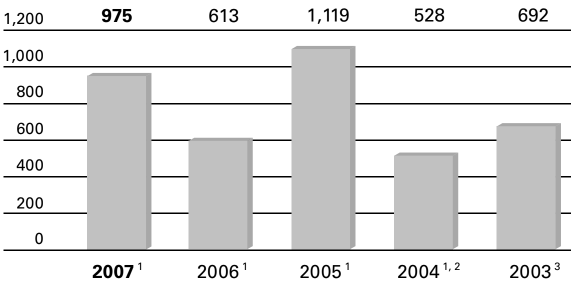
(in millions of euros)	**2007**[1]	2006[1]	2005[1]	2004[1, 2]	2003[3]
Profit on ordinary activities before tax	**1,051**	801	1,240	608	643
Profit attributable to shareholders	**975**	613	1,119	528	692
At year-end					
Shareholders' funds	**5,064**	5,406	5,325	4,168	3,427
Loans and advances to customers and banks	**88,279**	62,855	53,783	49,513	38,441
Customers accounts and deposits by banks	**93,083**	57,336	54,858	52,454	43,474
Total assets	**198,627**	132,847	128,100	87,947	71,191
Number of employees (full-time equivalents)	**14,508**	14,379	13,878	13,908	13,577
Ratios					
Capital ratios					
Total capital	**9.8%**	9.6%	10.1%	8.9%	9.1%
Tier One capital	**8.8%**	9.9%	9.5%	8.8%	8.8%
Cost efficiency ratio	**64.3%**	69.7%	63.4%	76.7%	68.8%

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

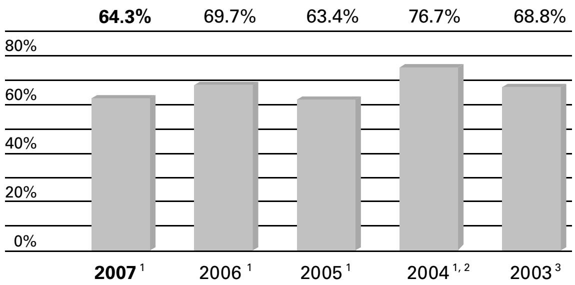
– in 2005: disposals of the Dewaay group, Framlington, Netvalor and subsidiaries of CMSL. The gains before tax made on these disposals amounted to EUR 256 million and explain the high level of the 2005 profit;

– in 2007: disposal of the participation in HSBC Private Banking Holdings (Suisse) SA to HSBC Europe (Netherlands) BV. Acquisition of 50.01 per cent of the share capital of Erisa and Erisa IARD and disposal of these two entities to HSBC Bank plc Paris Branch.

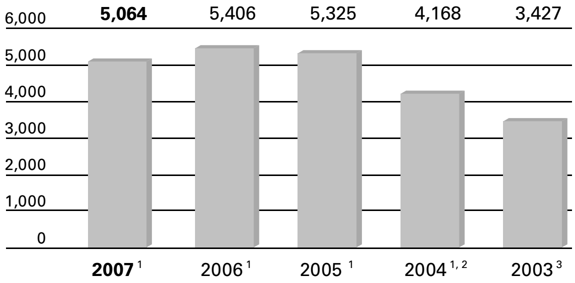
Profit attributable to Shareholders (in millions of euros)



Cost efficiency ratio



Shareholders' funds (in millions of euros)



* *Published consolidated financial information – HSBC France legal perimeter.*
1 *The 2004, 2005, 2006 and 2007 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 2003 financial highlights are French Gaap as reported previously. The profit on ordinary activities before tax and the profit attributable to shareholders for the year 2003 exclude goodwill armortisation.*

Consolidated financial statements

Consolidated income statement for the year ended 31 December 2007

(in millions of euros)	*Notes*	**2007**	2006
Interest income		**3,658**	2,718
Interest expense		**(3,479)**	(2,192)
Net interest income		**179**	526
Fee income		**1,319**	1,213
Fee expense		**(355)**	(322)
Net fee income		**964**	891
Trading income		**1,339**	938
Net income from financial instruments designated at fair value	*4*	**(5)**	(5)
Gains less losses from financial investments	*5*	**538**	156
Dividend income		**12**	33
Other operating income		**62**	75
Net operating income before credit risk provisions		**3,089**	2,614
Loan impairment charges and other credit risk provisions	*34*	**(52)**	(10)
Net operating income		**3,037**	2,604
Employee compensation and benefits	*6*	**(1,201)**	(1,082)
General and administrative expenses		**(707)**	(659)
Depreciation of property, plant and equipment	*19*	**(64)**	(62)
Amortisation of intangible assets and impairment of goodwill	*18*	**(15)**	(20)
Total operating expenses		**(1,987)**	(1,823)
Operating profit		**1,050**	781
Share of profit in associates and joint ventures	*17*	**1**	20
Profit before tax		**1,051**	801
Tax expense	*8*	**(119)**	(189)
Net profit of discontinued operations		**45**	–
Profit for the year		**977**	612
Profit attributable to shareholders	*32*	**975**	613
Profit attributable to minority interests	*32*	**2**	(1)

(in euros)			
Basic earnings per ordinary share	*10*	12.88	8.15
Diluted earnings per ordinary share	*10*	12.71	8.01
Dividend per ordinary share	*10*	9.58	8.10

Consolidated financial statements (continued)

Consolidated balance sheet at 31 December 2007

ASSETS

(in millions of euros)	*Notes*	**2007**	2006
Cash and balances at central banks	33	**4,014**	1,027
Items in the course of collection from other banks	33	**1,369**	2,202
Trading assets	13	**58,114**	37,363
Derivatives	14	**36,556**	20,164
Loans and advances to banks	28	**33,083**	20,836
Loans and advances to customers	28	**55,196**	42,019
Financial investments	15	**4,050**	4,002
Interests in associates and joint ventures	17	**6**	157
Goodwill and intangible assets	18	**450**	461
Property, plant and equipment	19	**639**	722
Other assets	21	**3,722**	2,727
Deferred taxation	24	**27**	3
Prepayments and accrued income		**1,401**	1,164
TOTAL ASSETS	12	**198,627**	132,847

LIABILITIES

(in millions of euros)	*Notes*	**2007**	2006
Liabilities			
Deposits by banks	28	**48,393**	23,930
Customer accounts	28	**44,690**	33,406
Items in the course of transmission to other banks	33	**1,180**	2,054
Trading liabilities	27	**35,964**	25,693
Financial liabilities designated at fair value	22	**336**	273
Derivatives	14	**36,473**	20,826
Debt securities in issue	28	**22,840**	17,063
Retirement benefit liabilities	6	**178**	186
Other liabilities	23	**1,550**	1,529
Current taxation		**14**	281
Accruals and deferred income		**1,572**	1,274
Provisions for liabilities and charges:			
– deferred tax	24	**2**	–
– other provisions	24	**78**	133
Subordinated liabilities	26	**262**	774
TOTAL LIABILITIES		**193,532**	127,422
Equity			
Called-up share capital	31	**380**	378
Share premium account	32	**1,191**	1,164
Other reserves and retained earnings	32	**3,493**	3,864
TOTAL SHAREHOLDERS' EQUITY		**5,064**	5,406
Minority interests	32	**31**	19
TOTAL EQUITY		**5,095**	5,425
TOTAL EQUITY AND LIABILITIES	12	**198,627**	132,847

Consolidated statement of recognised income and expense for the year ended 31 December 2007

(in millions of euros)	**2007**	2006
Available-for-sale investments:		
– valuation gains/(losses) taken to equity	**96**	163
– transferred to income statement on disposal or impairment	**(482)**	(140)
Cash flow hedges:		
– gains/(losses) taken to equity	**(61)**	(204)
– transferred to income statement	**(3)**	(117)
Exchange differences arising on net investments in foreign operations	**(4)**	(2)
Other reserves:		
– gains/(losses) taken to equity	**2**	(3)
– actuarial gains/(losses) on post-employment benefits	**9**	13
	(443)	(290)
Net deferred taxation on items taken directly to equity	**34**	110
Net Profit for the year	**977**	612
Total recognised income and expense for the year	**568**	432
Total recognised income and expense for the year attributable to:		
– Shareholders of the parent company	**566**	433
– Minority interests	**2**	(1)
	568	432

Consolidated financial statements (continued)

Consolidated cash flow statement for the year ended 31 December 2007

(in millions of euros)	*Notes*	**2007**	2006
Cash flows from operating activities			
Profit before tax		**1,051**	801
Net profit on discontinued operations		**45**	–
Adjustments for:			
– non-cash items included in net profit	*33*	**28**	(74)
– change in operating assets	*33*	**(21,798)**	(9,675)
– change in operating liabilities	*33*	**41,898**	9,908
– elimination of exchange differences and transition adjustments		**(35)**	(28)
– net gain/(losses) from investing activities		**(585)**	(156)
– share of profits in associates and joint ventures		**(1)**	(20)
– dividends received from associates		**4**	2
– tax paid		**(171)**	(154)
Net cash from operating activities		**20,436**	604
Cash flows (used in)/from investing activities			
Purchase of financial investments		**(2,234)**	(1,150)
Proceeds from the sale of financial investments		**2,477**	3,431
Purchase of property, plant and equipment		**(61)**	(60)
Proceeds from the sale of property, plant and equipment		**7**	33
Purchase of goodwill and intangible assets		**(17)**	(7)
Net cash outflow from acquisition of and increase in stake of subsidiaries		**–**	–
Net cash inflow from disposal of subsidiaries		**–**	–
Net cash outflow from acquisition of and increase in stake of associates		**(229)**	–
Proceeds from disposal of associates		**29**	28
Net cash (used in)/from investing activities		**(28)**	2,275
Cash flows (used in)/from financing activities			
Issue of ordinary share capital		**23**	36
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		**(503)**	(6)
Dividends paid to shareholders	*9*	**(1,038)**	(412)
Dividends paid to minority interests		**–**	–
Net cash (used in)/from financing activities		**(1,518)**	(382)
Net increase in cash and cash equivalents		**18,890**	2,497
Cash and cash equivalents at 1 January		**19,381**	16,959
Effect of exchange rate changes on cash and cash equivalents		**(60)**	(75)
Cash and cash equivalents at 31 December	*33*	**38,211**	19,381

Consolidated financial statements

Notes to the consolidated financial statements

Consolidated financial statements (continued)

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.

On 1 January 2007, the HSBC France group adopted IFRS 7 and IFRIC 10 "Interim financial reporting and impairment". The application of IFRIC 10 has no significant effect on the consolidation financial statements.

Capital Disclosures under IAS 1 "Presentation of Financial Statements" have been included in the audited section of the Risk Management on pages 47 and 48.

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 (the "group") 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;

1 Basis of preparation *(continued)*

- HSBC France has decision-making powers to obtain the majority of benefits arising from the entity's ordinary activities. These powers include the ability to dissolve the entity, to change its charter or bylaws and to veto proposed changes of the Special purpose entities' (SPE) charter or bylaws. These powers may have been delegated through an autopilot mechanism;
- HSBC France is able to obtain the majority of the benefits from the entity and may therefore be exposed to risks arising from the entity's activities;
- HSBC France retains the majority of the risks related to the entity in order to obtain benefits from its activity.

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).

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

Dividend income

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

Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value comprises all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit and loss. Interest income and expense and dividend income arising on those financial instruments are also included, except for debt securities in issue 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, Global Banking and Markets, and Private Banking. The reporting of financial information by segment required by IAS 14 is disclosed in Note 11.

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.

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.

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 did not hold any "held-to-maturity" investments in 2006 or 2007.

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 impairment charges and other credit risk provisions" for debt instruments and within "Gains less losses from financial investments" for equity instruments.

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 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.

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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 14).

All derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists, and the cash flows are to be settled on the same date and on a net basis.

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 the 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.

2 Principal accounting policies *(continued)*

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 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.

2 Principal accounting policies *(continued)*

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. HSBC France holds certain properties as investments to earn rentals or for capital appreciation, or both. Investment properties are included in the balance sheet at fair value with changes in fair value recognised in the income statement in the period of change. Fair values are determined by independent professional valuers who apply recognised valuation techniques.

Property, plant and equipment is subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

q *Finance and operating leases*

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Where HSBC France is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in "Loans and advances to banks" or "Loans and advances to customers" as appropriate. Finance income receivable is recognised over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Where HSBC France is a lessee under finance leases, the leased assets are capitalised and included in "Property, plant and equipment" and the corresponding liability to the lessor is included in "Other liabilities". The finance lease and corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised over the periods of the leases based on the interest rates implicit in the leases so as to give a constant rate of interest on the remaining balance of the liability.

2 Principal accounting policies *(continued)*

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 remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

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 the HSBC Group policy, HSBC France uses the option offered by IAS 19 not to defer actuarial gains and losses on the balance sheet and to recognise them directly in reserves, without being recognised in income. Past service costs are recognised immediately to the extent the benefits are vested, and are otherwise recognised on a straight-line basis over the average period until the benefits are vested. The current service costs and any past service costs together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities are charged to operating expenses.

The net defined benefit liability recognised in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of plan assets. Any resulting asset from this is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan. All cumulative actuarial gains and losses on defined benefit plans have been recognised in equity at the date of transition to IFRS.

The cost of providing other post-retirement benefits such as health-care benefits are accounted for on the same basis as defined benefit plans.

Payments to defined contribution plans and state-managed retirement benefit plans, where HSBC France's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as they fall due.

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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.

In 2007, the Group decided that the costs relating to the 2005 stock option plan will not be recharged by HSBC Holdings plc when employees exercise their options. The related charges previously recognised has increased the shareholders' equity.

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 subject 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 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.

2 Principal accounting policies *(continued)*

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 (see 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).

z *Non-current assets held for sale*

The group classifies a non-current asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The asset or disposal group must be available for immediate sale in its present condition and its sale must be highly probable. A sale is highly probable if:

- the appropriate level of management is committed to a plan to sell the asset or disposal group;
- an active plan to locate a buyer and complete the plan has been initiated;
- the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value;
- the sale is expected to be completed within one year from the date of classification; and
- it is unlikely that there will be significant changes to the plan or that the plan will be withdrawn.

When the group classifies an asset or disposal group as held for sale it is measured at the lower of its carrying amount and fair value less costs to sell.

3 Business combination

On 26 March 2007, HSBC France agreed to acquire Swiss Life's 50.01 per cent holding in Erisa and Erisa IARD. The acquisition was completed on 2 July 2007.

Erisa and Erisa IARD, previously 49.99 per cent-owned by HSBC France were accounted for using the equity method in the financial statements of the HSBC France group. In accordance with IFRS 3 and IAS 27, Erisa, Erisa IARD and the entities controlled by Erisa (hereafter "Erisa") had been fully consolidated since 26 March 2007.

On 20 December 2007, HSBC France sold these entities to HSBC Bank plc Paris Branch, realising a EUR 29 million capital gain.

Consolidated financial statements (continued)

3 Business combination *(continued)*

Erisa and Erisa IARD met the IFRS 5 definition of "Discontinued operations". As a consequence, the post-tax profit of these entities have been presented as a single amount on the line item "Net profit of discontinued operations".

Companies acquired (at the date of acquisition):

	% holding	*Business*
Erisa	100	Life insurance
Erisa IARD	100	Non-life insurance

	% group interest		*% group interest*
SCI Erisa Immo1	100.00	HSBC MULTIMANAGER OFF.FCP3DEC	76.24
ERISA DIVERSIFIE N2 FCP	99.98	HSBC HORIZON 2012 A FCP 3DEC	74.38
ERISA ACT.GRANDES VALEURS FCP	99.96	HSBC MULTIMANAGER HARM.FCP3DEC	73.25
ERISA OPPORTUNITES FCP	99.92	HSBC HORIZON 2017 A FCP 3DEC	70.28
HORIZON 2032 A FCP 3DEC	99.89	HSBC HORIZON 2016 A FCP 3DEC	69.54
ELYSEES ECRINS FCP	99.87	HSBC MULTIMANAGER DEF.FCP 3DEC	69.22
CCF OPPORTUNITE JUIN 2008 FCP	99.39	HSBC OBJECTIF 3-6-8 FCP 3DEC	69.20
HSBC MULTIMAN.OPTI SHARPE FCP	99.06	ISOCELE 3-5 ANS FCP 3DEC.	67.38
EURO INNOV.EQUILIBRE.FCP 3DEC	97.56	HSBC HORIZON 2018 A FCP 3DEC	64.77
QUINTISSIMO 2008 FCP	94.83	HSBC EQUILIBRE FCP 3DEC	64.27
VITISSIMO 2010 FCP 3DEC	93.49	SINOPIA AME.INDEX B EUR C.3DEC	63.98
HSBC HORIZON 2009 A FCP 3DEC	92.99	HSBC OBLIG.MONDE C FCP	63.23
HSBC HORIZON 2011 A FCP 3DEC	91.63	CCF GARANTI OCTOBRE 2006 FCP	61.61
HSBC HORIZON 2010 A FCP 3DEC	89.65	HSBC AVANTAGE DYNAMIQUE FCP	57.73
HSBC HORIZON 2014 A FCP 3DEC	82.64	HSBC PRUDENCE FCP 3DEC	56.53
HSBC DYNAMIQUE FCP 3DEC	81.59	HSBC PLUS FCP 3DEC	56.05
HSBC HORIZON 2013 A FCP 3DEC	81.41	CAPISSIMO FCP 3DEC	54.95
HSBC MULTIMANAGER EXPA.FCP3DEC	78.09	HSBC HORIZON 2027 A FCP 3DEC	51.37
EURO INNOVATION FCP 3DEC	77.97	HSBC HORIZON 2022 A FCP 3DEC	50.56
HSBC ACTIONS INTLES FCP 3DEC	77.66	HSBC HORIZON 2023 A FCP 3DEC	50.29

3 Business combination *(continued)*

On the date of acquisition, Erisa's identifiable assets and liabilities were measured at their fair value (in millions of euros):

Assets	
Financial assets designated at fair value	5,773
Derivative financial instruments	37
Financial investments	8,424
Portfolio value	255
Other assets	394
Total assets	**14,883**
Liabilities & equity	
Financial liabilities designated at fair value	54
Derivative financial instruments	11
Amounts due to investors in funds consolidated by HSBC France	983
Insurance liabilities	13,132
Subordinated debt	55
Other liabilities	191
Equity	457
Total liabilities & equity	**14,883**

As required by IFRS 4, insurance liabilities have been maintained at their carrying amount prior to the date of acquisition and the fair value of the portfolios of insurance contracts and investment contracts with discretionary participating features acquired have been recognised at their fair value in the balance sheet. Portfolio value represents the present value of profits and losses arising from future financial flows connected with the portfolio of contracts existing on the date of acquisition.

The cost of the business combination amounted to EUR 228.75 million. This figure does not include any future economic benefits from assets that are not capable of being individually identified and separately recognised.

As required by IFRS 3, any adjustment to the fair values relating to previously held interests of HSBC France is a revaluation and has been accounted for as such. Accordingly, a EUR 81.9 million increase in equity was recognised on 26 March 2007.

4 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)	**2007**	2006
Net income arising on:		
– HSBC France's debt securities in issue and subordinated liabilities [1]	**3**	14
– other financial liabilities designated at fair value	**3**	–
– derivatives managed in conjunction with financial liabilities designated at fair value	**(11)**	(19)
Net income arising on financial instruments designated at fair value	**(5)**	(5)

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 2007, HSBC France recognised a EUR 2.0 million gain on changes in the fair value of these instruments arising from changes in HSBC's own credit risk. (In 2006, a loss of EUR 0.1 million).*

Consolidated financial statements (continued)

5 Net operating income

Net operating income to the year ended 31 December 2007 amounts to EUR 3,037 million and is stated after the following items of income, expense, gains and losses:

(in millions of euros)	2007	2006
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	**787**	692
Fees earned on trust and other fiduciary activities where HSBC France holds or invests assets on behalf of its customers	**447**	415
Gains on sale of subsidiaries, associates and joint ventures	**29**	–
Gains less losses from the financial investments[1]	**538**	156
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	**(3,471)**	(2,184)
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	**(288)**	(275)
Impairment losses on:		
– loans and advances	**(53)**	(15)
– available-for-sale financial investments[2]	**(26)**	(1)

1 *2007: of which gain on disposal of the holding in HSBC Private Banking Holdings (Suisse) SA amounted to EUR 309 million.*
2 *In 2007, impairment charges on equity investments available-for-sale are classified in "Gains less losses from financial investments". In 2006, these impairment charges were classified in "Loan impairment charges and other credit risk provisions".*

6 Employee compensation and benefits

(in millions of euros)	2007	2006
Wages and salaries	**834**	764
Social security costs	**298**	247
Post-employment benefits	**69**	71
	1,201	1,082

The number of people employed by the HSBC France group at the end of the year was as follows:

	2007	2006
Personal Financial Services and Commercial Banking	**9,501**	9,681
Global Banking and Markets	**1,602**	1,554
Asset Management	**583**	577
Private Banking	**332**	333
Insurance[1]	**–**	228
Support Functions & Others	**2,777**	2,528
Total	**14,795**	14,901

1 *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.

6 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 2007, and the 2008 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 31-12-2007							
France	**5.5**	**7**[1]	**2**	**2**	**3**	**–**[2]	**6**
At 31-12-2006							
France	4.5	7[1]	2	2	3	–[2]	6

1 *Expected rate on equities. However expected rate of return on bonds was 4.75 per cent for 2007 and 4.75 per cent for 2006.*
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).*

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)	**2007** ***HSBC France Pension Plan***	2006 *HSBC France Pension Plan*
Equities	**16**	22
Bonds	**52**	82
Property	**–**	–
Other	**25**	1
Fair value of plan assets	**93**	105
Present value of funded obligations	**–**	–
Present value of unfunded obligations	**(235)**	(252)
Defined benefit obligation	**(235)**	(252)
Unrecognised past service cost	**–**	1
Net liability	**(142)**	(146)

Consolidated financial statements (continued)

6 Employee compensation and benefits *(continued)*

Changes in the present value of the defined benefit obligation

(in millions of euros)	**2007** **HSBC France Pension Plan**	2006 HSBC France Pension Plan
At 1 January	**252**	234
Current service cost	**4**	5
Interest cost	**11**	11
Contributions by employees	**–**	–
Actuarial (gains)/losses	**(7)**	(13)
Benefits paid	**(21)**	(22)
Past service cost – vested immediately	**2**	1
Past service cost – unvested benefits	**–**	–
Acquisitions	**–**	–
(Gains)/losses on curtailments	**–**	–
(Gains)/losses on settlements	**(4)**	–
Exchange and other movements	**(2)**	36
At 31 December	**235**	252

Changes in the fair value of plan assets

(in millions of euros)	**2007** **HSBC France Pension Plan**	2006 HSBC France Pension Plan
At 1 January	**105**	69
Expected return	**4**	5
Contributions by the Group	**–**	1
Contributions by employees	**–**	–
Actuarial gain	**(2)**	–
Benefits paid	**(7)**	(7)
Acquisitions	**–**	–
(Gains)/losses on settlements	**(4)**	(1)
Exchange and other movements	**(3)**	38
At 31 December	**93**	105

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

(in millions of euros)	**2007** **HSBC France Pension Plan**	2006 HSBC France Pension Plan
Current service cost	**4**	5
Interest cost	**12**	11
Expected return on plan assets	**(5)**	(5)
Past service cost	**2**	–
(Gains)/losses on curtailments and settlements	**–**	–
Exchange and other movements	**–**	–
Total net expense	**13**	11

6 Employee compensation and benefits *(continued)*

Total net actuarial gains included in the statement of recognised income and expense in 2007 in respect of defined benefit pension plans were EUR 7 million (2006: net actuarial gains of EUR 13 million).

d *Post-employment healthcare benefits plans*

Value recognised in the balance sheet

(in millions of euros)	**2007**	2006
Present value of funded obligations	**–**	–
Present value of unfunded obligations	**(36)**	(40)
Defined benefit obligation	**(36)**	(40)
Unrecognised past service cost	**–**	–
Net liability	**(36)**	(40)

Changes in the present value of the defined benefit obligation

(in millions of euros)	**2007**	2006
At 1 January	**40**	40
Current service costs	**1**	1
Interest costs	**2**	2
Contributions by employees	**–**	–
Actuarial (gains)/losses	**(6)**	(2)
Benefits paid	**(1)**	(1)
Past service cost:	**–**	–
– vested immediately	**–**	–
– unvested benefits	**–**	–
Acquisitions	**–**	–
(Gains)/losses on curtailments	**–**	–
(Gains)/losses on settlements	**–**	–
Exchange and other movements	**–**	–
At 31 December	**36**	40

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

(in millions of euros)	**2007**	2006
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

Consolidated financial statements (continued)

6 Employee compensation and benefits *(continued)*

Total net actuarial gains included in the statement of recognised income and expense in 2007 in respect of post-employment healthcare benefits plans were EUR 6 million (2006: EUR 2 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 2007:

(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	**8**	**(6)**

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)

e *Retirement benefit liabilities*

(in millions of euros)	**2007**	2006
Net liability on defined pension plans (see Note 6 c)	**(142)**	(146)
Net liability on post-employment healthcare benefits plans (see Note 6 d)	**(36)**	(40)
Total	**(178)**	(186)

7 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 the 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 Options Plan was a long-term incentive plan available to certain group employees between 2000 and 2005. The aim of the plan was to align the interests of those higher performing employees to the creation of shareholder value. Options were granted at market value and are normally exercisable between the third and tenth anniversaries of the date of grant, subject to vesting conditions.

7 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.

	2007		2006	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**51,984**		56,284	
Granted in the year	**–**		–	
Exercised in the year	**(2,297)**	**7.49**	(3,247)	8.382
Transferred in the year	**–**		–	
Expired in the year	**(943)**	**8.17**	(1,053)	8.212
Outstanding at 31 December	**48,744**		51,984	

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.

	2007		2006	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Granted in the year	**–**		–	
Forfeited in the year	**(103)**		–	
Outstanding at 31 December	**450**		553	

In 2007, EUR 9.2 million (EUR 22.6 million in 2006) was charged to the income statement in respect of amortisation of 2004 and 2005 plans. This amortisation is based on the fair-value of the share-based payments transactions when contracted and runs over the three-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.

7 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.

	2007	2006
	Number (000)	*Number (000)*
Outstanding at 1 January	**320**	–
Granted in the year	**122**	320
Exercised in the year	**–**	–
Transferred in the year	**–**	–
Expired in the year	**(203)**	–
Outstanding at 31 December	**239**	320

"Achievement Shares" and "Restricted Shares"

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

	2007	2006
	Number (000)	*Number (000)*
Outstanding at 1 January	**1,999**	–
Granted in the year[1]	**3,085**	1,999
Exercised in the year	**–**	–
Transferred in the year	**–**	–
Expired in the year	**(185)**	–
Outstanding at 31 December	**4,899**	1,999

1 *In 2007, "Restricted Shares"; in 2006 "Achievement Shares" and "Restricted Shares".*

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 2007 and so relate to 2007.

In 2007, EUR 30.6 million was charged to the income statement in respect of amortisation of the 2006 and 2007 plans (in 2006, EUR 11.9 million). 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 of the HSBC France group took up a total of 2,940,087 HSBC Holdings plc shares, representing a total capital amount of EUR 32.6 million.

In 2007 the cost of the discount based on the share price at the opening of the offer period amounted to EUR 8.0 million (EUR 8.4 million in 2006).

8 Tax expense

(in millions of euros)	**2007**	2006
Current tax	**103**	174
Deferred tax	**16**	15
Tax expense	**119**	189
Effective tax rate (per cent)	**11.3**	23.6

Analysis of overall tax charges

	2007		2006	
(in millions of euros)	***Amount***	***%***	*Amount*	*%*
Taxation at French corporate tax rate	**362**	**34.43**	276	34.43
Impact of overseas profits in principal locations taxed at different rates	**(1)**	**(0.1)**	(1)	(0.1)
Operations taxed at different tax rate in France	**(156)**	**(14.8)**	(22)	(2.7)
Other items including result for tax Group integration	**(86)**	**(8.2)**	(64)	(8.0)
Overall tax charge	**119**	**11.3**	189.0	23.6

HSBC France and its subsidiary undertakings in France provided for French corporation tax at 34.43 per cent for Short Term (ST) and 1.72[1] per cent for Long Term (LT) (2006: (ST) 34.43 per cent and (LT) 8.26[1] per cent). The rates used for deferred taxes are based on 2008 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.*

9 Dividends paid in 2006 and 2007

	2007		2006	
(in millions of euros)	***EUR per share***	***Amount***	*EUR per share*	*Amount*
Second interim dividend for previous year	**4.10**	**311**	1.45	110
Exceptional dividend	**6.54**	**496**	–	–
First interim dividend for current year	**3.04**	**231**	4.00	302
		1,038		412

Dividends paid in 2007 related to 2006

On 10 May 2007, the shareholders approved the proposal of the Board of Directors voted at its meeting on 27 February 2007 in relation to the distribution of net profit and the payment of a total dividend of EUR 613 million, EUR 8.10 per share. This dividend was paid on 11 May 2007 after the deduction of the interim dividend (EUR 4.00 per share) voted by the Board of Directors at its meeting of 25 July 2006. An amount of EUR 302 million was paid in 2006 and EUR 311 million in 2007.

Dividends related to 2007

On 10 May 2007, the Board of Directors proposed an exceptional dividend of EUR 6.54 per share, which was approved by the shareholders in an Ordinary General Meeting extraordinary convened on 27 June 2007. This dividend was paid on the 75,804,430 shares in issue on that date (including the 121,385 shares resulting from the exercise of options since 1 January 2007 and not yet included in the share capital at that date), making a total payment of EUR 496 million.

This exceptional dividend payment was distributed from retained earnings and was paid on 28 June 2007.

On 25 July 2007, the Board of Directors approved an interim dividend of EUR 3.04 per share. This dividend was paid with respect to the 75,861,495 shares in issue on that date (including the 178,450 shares resulting from the exercise of options since 1 January 2007 and not yet included in the share capital at that date), making a total payment of EUR 231 million.

The interim dividend was paid on 26 July 2007.

The General Meeting, to be held on 28 May 2008, will not approve any further dividend in respect of the 2007 results.

Consolidated financial statements (continued)

10 Earnings and dividends per share

(in euros)	**31 December 2007**	31 December 2006
Basic earnings per share	**12.88**	8.15
Diluted earnings per share	**12.71**	8.01
Dividends per share [1]	**9.58**	8.10

1 *Including an exceptional dividend of EUR 6.54 per share.*

Basic earnings per ordinary share was calculated by dividing the earnings of EUR 975 million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 75,698,434 (full year of 2006: earnings of EUR 613 million and 75,262,320 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 76,705,465 (full year of 2006: 76,550,201 shares).

11 Segment analysis

HSBC France mainly operates in France. HSBC France manages its business through the following customer groups: Personal Financial Services (including Insurance activity at 31 December 2007), Commercial Banking, Global Banking and Markets, Private Banking. Impacts of the acquisition of Erisa and Erisa IARD (at 31 December 2007) and Insurance activity (at 31 December 2006) 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.

11 Segment analysis *(continued)*

(in millions of euros)	**31 December 2007**	31 December 2006 published	31 December 2006 proforma[1]
Net operating income before loan impairment charges and other credit risk provisions			
Personal Financial Services	**957**	889	890
Commercial Banking	**715**	702	701
Global Banking and Markets	**1,131**	917	941
Private Banking	**107**	105	105
Other	**14**	(5)	5
Total France	**2,924**	2,608	2,642
Perimeter differences	**165**	6	(28)
Group reporting differences	**–**	–	–
Total Legal	**3,089**	2,614	2,614
Profit before tax			
Personal Financial Services	**130**	140	158
Commercial Banking	**148**	185	185
Global Banking and Markets	**530**	432	452
Private Banking	**18**	17	17
Other	**79**	13	5
Total France – before goodwill impairment	**905**	787	817
Goodwill impairment	**–**	–	–
Total France	**905**	787	817
Perimeter differences (including disposal groups)	**146**	12	(18)
Group reporting differences	**–**	2	2
Total Legal	**1,051**	801	801
Total Assets			
Personal Financial Services	**15,812**	16,372	
Commercial Banking	**15,325**	13,106	
Global Banking and Markets	**165,865**	101,851	
Private Banking	**1,181**	918	
Other	**444**	600	
	198,627	132,847	
Capital expenditure incurred on property, plant and equipment			
Personal Financial Services	**27**	28	
Commercial Banking	**21**	21	
Global Banking and Markets	**13**	11	
Private Banking	**–**	–	
Other	**–**	–	
	61	60	
Capital expenditure incurred on intangibles			
Personal Financial Services	**5**	3	
Commercial Banking	**4**	3	
Global Banking and Markets	**8**	1	
Private Banking	**–**	10	
Other	**–**	–	
	17	17	

1 *Figures published at 31 December 2006 have been restated following the change into the management perimeter (see footnote 1 page 4).*

Consolidated financial statements (continued)

12 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:

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

	At 31 December 2007							
(in millions of euros)	*Held for Trading*	*Designated at fair value*	*Loans and receivables*	*Available-for-sale securities*	*Financial assets and liabilities at amortised cost*	*Derivatives designated as fair value hedging instruments*	*Derivatives designated as cash flow hedging instruments*	*Total*
Financial Assets								
Cash and balances at central banks					**4,014**			**4,014**
Items in the course of collection from other banks					**1,369**			**1,369**
Trading assets	**58,114**							**58,114**
Financial assets designated at fair value								**–**
Derivatives	**36,325**					**42**	**189**	**36,556**
Loans and advances to banks			**33,083**					**33,083**
Loans and advances to customers			**55,196**					**55,196**
Financial investments				**4,050**				**4,050**
Other assets (including deferred tax)					**3,665**			**3,665**
Total Financial Assets	**94,439**	**–**	**88,279**	**4,050**	**9,048**	**42**	**189**	**196,047**
Total non-financial assets								**2,580**
Total Assets								**198,627**
Financial Liabilities								
Deposits by banks					**48,393**			**48,393**
Customer accounts					**44,690**			**44,690**
Items in the course of transmission to other bank					**1,180**			**1,180**
Trading liabilities	**35,964**							**35,964**
Financial liabilities designated at fair value		**336**						**336**
Derivatives	**36,025**					**80**	**368**	**36,473**
Debt securities in issue					**22,840**			**22,840**
Other liabilities (including current tax)					**1,564**			**1,564**
Subordinated liabilities					**262**			**262**
Total Financial Liabilities	**71,989**	**336**	**–**	**–**	**118,929**	**80**	**368**	**191,702**
Total non-financial liabilities								**6,925**
Total Liabilities								**198,627**

Consolidated financial statements (continued)

12 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*	*Loans and receivables*	*Available-for-sale securities*	*Financial assets and liabilities at amortised cost*	*Derivatives designated as fair value hedging instruments*	*Derivatives designated as cash flow hedging instruments*	*Total*
Financial Assets								
Cash and balances at central banks					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								–
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	–	62,855	4,002	5,959	52	330	130,343
Total non-financial assets								2,504
Total Assets								132,847
Financial 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	–	–	79,037	30	436	125,829
Total non-financial liabilities								7,018
Total Liabilities								132,847

13 Trading assets

(in millions of euros)	**2007**	2006
Trading assets:		
– which may be repledged or resold by counterparties	**28,416**	19,966
– not subject to repledge or resale by counterparties	**29,698**	17,397
	58,114	37,363

(in millions of euros)	**2007**	2006
Treasury and other eligible bills	**30,445**	23,960
Debt securities	**6,456**	4,262
Equity securities	**13,089**	4,448
Loans and advances to banks	**6,251**	3,411
Loans and advances to customers	**1,873**	1,282
	58,114	37,363

The change in the trading asset portfolio is due to the development of the Global Markets business.

14 Derivatives

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

	At 31 December 2007					
	Assets			***Liabilities***		
(in millions of euros)	***Trading***	***Hedging***	***Total***	***Trading***	***Hedging***	***Total***
Exchange rate	**2,368**	**–**	**2,368**	**(2,699)**	**(29)**	**(2,728)**
Interest rate	**27,487**	**231**	**27,718**	**(26,598)**	**(419)**	**(27,017)**
Equities	**6,446**	**–**	**6,446**	**(6,706)**	**–**	**(6,706)**
Credit derivatives	**24**	**–**	**24**	**(22)**	**–**	**(22)**
Commodity and other	**–**	**–**	**–**	**–**	**–**	**–**
Gross total fair values	**36,325**	**231**	**36,556**	**(36,025)**	**(448)**	**(36,473)**
Netting			**–**			**–**
Total			**36,556**			**(36,473)**

	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	17,503	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	–	–	–	–	–	–
Gross total fair values	22,719	381	23,100	(23,296)	(466)	(23,762)
Netting			(2,937)			2,937
Total			20,164			(20,826)

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.

14 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", together with the gains and losses on the hedged items. Changes in the fair values of trading derivatives are inclusive of contractual interest. Changes in the fair value of derivatives managed in conjunction with financial instruments designated at fair value are included in "Net income from financial instruments designated at fair value" inclusive of contractual interest unless the derivatives are managed with debt securities in issue, in which case the contractual interest is shown in interest payable with the interest payable in the issued debt.

14 Derivatives *(continued)*

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

(in millions of euros)	**2007**	2006
Exchange rate	**101,650**	86,780
Interest rate	**2,963,623**	2,725,338
Equities	**122,118**	104,669
Credit derivatives	**2,630**	2,048
Commodity and other	**–**	–
Total	**3,190,021**	2,918,835

The notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The contract amount of credit derivatives of EUR 2,630 million (2006: EUR 2,048 million) above consists of protection bought of EUR 1,985 million (2006: EUR 1,327 million) and protection sold of EUR 645 million (2006: EUR 721 million).

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)	**2007**	2006
Unamortised balance at 1 January	**22**	30
Deferral on new transactions	**80**	45
Recognised in the income statement during the period:		
– amortisation	**(26)**	(15)
– subsequent to observability	**(9)**	(30)
– maturity or termination	**(24)**	(5)
– FX movements and other	**(1)**	(3)
Unamortised balance at 31 December	**42**	22

c *Hedging instruments*

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

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:

	At 31 December 2007		At 31 December 2006	
(in millions of euros)	***Cash flow hedge***	***Fair value hedge***	*Cash flow hedge*	*Fair value hedge*
Exchange rate contracts	**11**	**591**	2	596
Interest rate contracts	**64,196**	**7,641**	55,958	4,404
Equity contracts	**–**	**17**	–	–

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.

14 Derivatives *(continued)*

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.

The fair values of outstanding derivatives designated as fair value hedges at 31 December 2007, were assets of EUR 42 million and liabilities of EUR 80 million (31 December 2006, assets of EUR 52 million and liabilities of EUR 30 million).

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

(in millions of euros)	**2007**	2006
– on hedged instruments	**(61)**	(8)
– on hedged items attributable to the hedged risk	**63**	7

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was a profit of EUR 2 million the year ended 31 December 2007 (a loss of EUR 1 million in the year ended 31 December 2006).

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 refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The 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 2007, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of EUR 189 million and liabilities of EUR 368 million (at 31 December 2006, assets of EUR 330 million and liabilities of EUR 436 million).

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

	31 December 2007			
(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	**12,570**	**16,453**	**8,185**	**–**
Cash outflows from liabilities	**(3,327)**	**(2,996)**	**(2,596)**	**(530)**
Net cash inflows/(outflows)	**9,243**	**13,457**	**5,589**	**(530)**

14 Derivatives *(continued)*

(in millions of euros)	31 December 2006 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

Reconciliation of movements in the cash flow hedge reserve

(in millions of euros)	**2007**	2006
At 1 January	**(74)**	136
Amounts recognised directly in equity during the year	**(62)**	(204)
Amounts removed from equity and included in the income statement for the year	**(3)**	(117)
Deferred taxation	**22**	111
At 31 December	**(117)**	(74)

The amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was a loss of EUR 1 million in the year-ended 31 December 2007 (at 31 December 2006: a loss of EUR 3 million).

d *Embedded derivatives: Home purchase savings*

Home purchase savings accounts (CEL) and plans (PEL) are specific financial instruments established by law 65-554 of 10 July 1965. Within these products, customers build up savings during a certain period and use them to obtain loans during a subsequent period. The latter phase depends on and cannot be separated from the build-up phase.

To recognise derivatives embedded in PEL/CEL home purchase savings products at fair value, HSBC France has developed a model with the following main characteristics:

(i) the main accounting reference is IAS 39, concerning the calculation of fair value with respect to derivative instruments;

(ii) the derivatives under consideration are borrowing and savings options embedded in contracts in force 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 2007, derivatives embedded in home purchase savings products represented a liability of EUR 1 million (at 31 December 2006: a liability of EUR 5 million).

15 Financial investments

(in millions of euros)	**2007**	2006
Financial investments:		
– which may be pledged or resold by counterparties	**754**	1,144
– not subject to repledge or resale by counterparties	**3,296**	2,858
	4,050	4,002

15 Financial investments *(continued)*

(in millions of euros)	**2007** Book value	**2007** Fair value	2006 Book value	2006 Fair value
Treasury and other eligible bills	**952**	**952**	1,105	1,105
– available-for-sale	**952**	**952**	1,105	1,105
– held-to-maturity	**–**	**–**	–	–
Debt securities	**1,312**	**1,312**	303	303
– available-for-sale [1]	**1,312**	**1,312**	303	303
– held-to-maturity	**–**	**–**	–	–
Equity securities [2]	**1,786**	**1,786**	2,594	2,594
– available-for-sale	**1,786**	**1,786**	2,594	2,594
Total financial investments	**4,050**	**4,050**	4,002	4,002

1 *2007: including EUR 612 million of underlying assets in the dynamic money market funds and EUR 356 million of drawn commitments under liquidity facilities.*
2 *Main movements on equity securities:*
– *sales (net book value as at 31 December 2006): HSBC Private Banking Holdings (Suisse) SA for EUR 977 million and Euronext for EUR 132 million;*
– *purchases (net book value as at 31 December 2007): shares of dynamic money market funds for EUR 667 million.*

16 Securitisations and other structured transactions

The group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of the financial assets concerned:

(i) Full derecognition occurs when the group transfers its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks. In addition, full derecognition occurs where, inter alia, the contractual rights to receive the cash flows of the financial assets are retained but a contractual obligation to pay the cash flows to one or more recipients is assumed without material delay.

(ii) Partial derecognition occurs when the group sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of the group's continuing involvement.

The majority of transferred financial assets that do not qualify for derecognition are (i) debt securities held by counterparties as collateral under repurchase agreements or (ii) equity securities lent under securities lending agreements. The following table analyses the carrying amount of financial assets as at 31 December that did not qualify for derecognition during the year and their associated financial liabilities:

(in millions of euros)	**2007** Carrying amount of assets	**2007** Carrying amount of associated liabilities	2006 Carrying amount of assets	2006 Carrying amount of associated liabilities
Nature of transaction				
Repurchase agreements	**30,166**	**30,166**	20,996	20,996
Securities lending agreements	**–**	**–**	–	–
Total	**30,166**	**30,166**	20,996	20,996

17 Interests in associates and joint ventures

a *Principal associates*

At 31 December 2007, after the disposal of Erisa and Erisa IARD, the HSBC France group has no material associated companies.

	At 31 December 2006		
	Country of incorporation	*Interest in capital equity*	*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)	**2007**	2006
Assets	**64**	13,177
Liabilities	**44**	12,820
Revenues	**16**	2,685
Profit/(loss)	**2**	39

b *Interests in joint ventures*

	At 31 December 2007		
	Principal activity	***Interest in equity***	***Capital***
HCM Holdings Ltd	**Holding**	**51%**	**–**

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

Although HSBC France owns more than 50 per cent of the equity capital of HCM Holdings Ltd, the agreement with the other shareholder includes restrictions to the rights of HSBC France as the majority shareholder and indicates joint control over HCM Holdings Ltd by the two shareholders.

Summarised aggregate financial information on joint ventures

(Figures from the local financial statements: 100%)

(in millions of euros)	**2007**	2006
Current assets	**1**	10
Non-current assets	**–**	–
Current liabilities	**–**	–
Non current liabilities	**1**	10
Income	**–**	1
Expenses	**–**	–

Consolidated financial statements (continued)

18 Goodwill and intangible assets

"Goodwill and intangible assets" includes goodwill arising on business combinations and other intangible assets.

a *Goodwill*

(in millions of euros)	2007	2006
Cost		
At 1 January	**429**	420
Additions	**–**	10
Disposals	**–**	–
Exchange translation differences	**–**	(1)
Changes in scope of consolidation and other changes	**–**	–
At 31 December	**429**	429
Accumulated impairment losses		
At 1 January	**(32)**	(32)
Disposals	**–**	–
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**	397

b *Other intangible assets*

The analysis of the movement of intangible assets for the year ended 31 December 2007 is as follows:

(in millions of euros)	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost				
At 1 January 2007	**140**	**47**	**55**	**242**
Additions	**–**	**15**	**2**	**17**
Disposals	**–**	**–**	**–**	**–**
Exchange translation differences	**–**	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**–**	**(9)**	**(19)**	**(28)**
At 31 December 2007	**140**	**53**	**38**	**231**
Accumulated impairment losses				
At 1 January 2007	**(137)**	**(28)**	**(13)**	**(178)**
Charge for the year [1]	**(2)**	**(12)**	**(1)**	**(15)**
Disposals	**–**	**–**	**–**	**–**
Impairment losses	**–**	**–**	**–**	**–**
Reversal of impairment losses	**–**	**–**	**–**	**–**
Exchange translation differences	**–**	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**2**	**9**	**4**	**15**
At 31 December 2007	**(137)**	**(31)**	**(10)**	**(178)**
Net book value at 31 December 2007	**3**	**22**	**28**	**53**

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

18 Goodwill and intangible assets *(continued)*

(in millions of euros)	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost				
At 1 January 2006	140	45	58	243
Additions	–	5	2	7
Disposals	–	–	–	–
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes	–	(3)	(5)	(8)
At 31 December 2006	140	47	55	242
Accumulated impairment losses				
At 1 January 2006	(134)	(18)	(18)	(170)
Charge for the year [1]	(8)	(12)	–	(20)
Disposals	–	–	–	–
Impairment losses	–	–	–	–
Reversal of impairment losses	–	–	–	–
Exchange translation differences	–	–	–	–
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".*

c *Goodwill and intangible assets*

(in millions of euros)	**2007**	2006
Cost		
Goodwill – net book value (see Note 18 a)	**397**	397
Other intangible assets – net book value (see Note 18 b)	**53**	64
	450	461

Consolidated financial statements (continued)

19 Property, plant and equipment

a *Property, plant and equipment*

(in millions of euros)	*Freehold land and buildings*	*Equipment, fixtures and fittings*	*Total*
Cost or fair value			
At 1 January 2007	**507**	**317**	**824**
Additions at cost	**2**	**59**	**61**
Fair value adjustments	**–**	**–**	**–**
Disposals	**(2)**	**(2)**	**(4)**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes[1]	**(49)**	**(48)**	**(97)**
At 31 December 2007	**458**	**326**	**784**
Accumulated depreciation			
At 1 January 2007	**(29)**	**(108)**	**(137)**
Depreciation charge for the year	**(10)**	**(54)**	**(64)**
Disposals	**–**	**1**	**1**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes[1]	**9**	**46**	**55**
At 31 December 2007	**(30)**	**(115)**	**(145)**
Net book value at 31 December 2007	**428**	**211**	**639**

1 *Includes amounts transferred to "Non-current assets held for sale" with net book of value of EUR 42 million.*

(in millions of euros)	*Freehold land and buildings*[1]	*Equipment, fixtures and fittings*	*Total*
Cost or fair value			
At 1 January 2006	518	290	808
Additions at cost	3	57	60
Fair value adjustments	–	–	–
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 *Includes assets 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.*

19 Property, plant and equipment *(continued)*

b *Investment properties*

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

(in millions of euros)	**2007**	2006
Freehold land and buildings Investment properties	**–**	35

As at 1 January 2006 the HSBC France group owned one property which was recognised as investment property. During the year 2007, this property was classified as "Non-current assets held for sale". Investment properties are valued on an open market value basis as at the closing date by professional valuers.

Included within "Other operating income" was rental income of EUR 2 million (2006: EUR 2 million) earned by the HSBC France group on its investment properties.

c *Property, plant and equipment*

(in millions of euros)	**2007**	2006
Property, plant and equipment Goodwill – net book value (see Note 19 a)	**639**	687
Investment properties – net book value (see Note 19 b)	**–**	35
	639	722

Consolidated financial statements (continued)

20 Investments

Consolidated companies	*Country*	*Consolidation method**	*Main line of business*	HSBC France group interest % 2007	% 2006
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 du Delta Rhodanien[3]	France	FC	Holding company	–	100.0
Compagnie Financière Iles du Rhône (CFIR)[4]	France	FC	Investment company	–	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	France	FC	Bank	**100.0**	100.0
HSBC Hervet	France	FC	Bank	**100.0**	100.0
HSBC Picardie	France	FC	Bank	**100.0**	100.0
HSBC UBP	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[3]	France	FC	Financial company	–	99.8
SARL Neuilly Valeurs	France	FC	Investment company	**99.8**	99.8
SCI Château Richard	France	FC	Holding company	**100.0**	100.0
SCI Les Hauts de Malençons	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
SNC Neuilly l'Ecrin	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
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	France	FC	Bank	**100.0**	100.0
Sofimurs[2]	France	FC	Property leasing company	–	100.0
Société Immobilière de la Région Rhône-Alpes (SIRRA)	France	FC	Service company	**100.0**	99.9
Union pour la Gestion et les Transactions (UGT)	France	FC	Service company	**100.0**	100.0
Vernet Expansion	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
Global Banking and Markets					
AGF Actions Plus[6]	France	FC	Financial company	–	100.0
Beau Soleil Limited Partnership	Hong Kong	FC	Financial company	**85.0**	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**	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
Elysées GmbH	Germany	FC	Financial company	**100.0**	100.0
FCPE Aéro Parts Multi	France	FC	Financial company	**100.0**	100.0

* *FC: Full consolidation – EM: Equity Method.*
2 *Merger with HSBC Real Estate Leasing (France).*
3 *Dissolution by universal passing on of property to "Banque Chaix".*
4 *Dissolution by universal passing on of property to "HSBC France".*
6 *Deconsolidation.*

20 Investments *(continued)*

Consolidated companies	*Country*	*Consolidation method**	*Main line of business*	HSBC France group interest % **2007**	% 2006
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
France Titrisation	France	EM	Service company	**33.3**	33.3
HSBC Financial Products (France)	France	FC	Financial company	**100.0**	100.0
HSBC Leasing (Belgique)	Belgium	FC	Financial company	**100.0**	100.0
HSBC Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC Middle East Leasing Partnership	Dubai	FC	Financial company	**85.0**	–
HSBC Paris Immo Buro (SCPI)	France	FC	Holding company	**100.0**	100.0
HSBC Real Estate Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC REIM (France)	France	FC	Service company	**100.0**	100.0
HSBC Securities (France)	France	FC	Financial company	**100.0**	100.0
HSBC Securities Services (France)	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 Saint-Paul	France	FC	Investment company	**100.0**	100.0
Realimo Negociation	France	FC	Service company	**100.0**	100.0
SAF Baiyun	France	FC	Financial company	**100.0**	–
SAF Baobab	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang ba	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang er	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang jiu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang liu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang qi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang san	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi'er	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shiyi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang wu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang yi	France	FC	Financial company	**100.0**	100.0
SAF Guangzhou	France	FC	Financial company	**100.0**	–
SAF Palissandre	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang	France	FC	Financial company	**100.0**	100.0
SAS Losange Immobilier	France	FC	Financial company	**100.0**	100.0
Saussaies Haussmann	France	FC	Holding company	**100.0**	100.0
SNCB / M6-2007A [6]	France	FC	Financial company	**–**	100.0
SNCB / M6-2007B (ex-SAF Huang he) [6]	France	FC	Financial company	**–**	100.0
Société Financière et Mobilière (SFM)	France	FC	Financial company	**100.0**	100.0
Société Immobilière Malesherbes-Anjou	France	FC	Holding company	**100.0**	100.0
Sopingest	France	FC	Financial company	**100.0**	100.0
Thasosfin	France	FC	Financial company	**100.0**	100.0

* *FC: Full consolidation – EM: Equity Method.*
6 *Deconsolidation.*

Consolidated financial statements (continued)

20 Investments *(continued)*

Consolidated companies	*Country*	*Consolidation method**	*Main line of business*	HSBC France group interest % **2007**	HSBC France group interest % 2006
Asset Management					
CCF & Partners Asset Management Ltd	United Kingdom	FC	Financial company	**100.0**	100.0
Global Marco High Risk	France	FC	Financial company	**100.0**	–
Halbis Capital Management (France)	France	FC	Asset management	**100.0**	99.7
HCM Holdings Ltd	United Kingdom	Joint control	Financial company	**51.0**	51.0
HSBC Asset Management Holding [4]	France	FC	Financial company	**–**	100.0
HSBC Epargne Entreprise (France)	France	FC	Financial company	**100.0**	100.0
HSBC Horizon 2007	France	FC	Financial company	**81.0**	–
HSBC Horizon 2008	France	FC	Financial company	**73.0**	–
HSBC Horizon 2034-2036	France	FC	Financial company	**78.0**	–
HSBC Investments (France)	France	FC	Asset management	**100.0**	100.0
HSBC Investments FCP France	France	FC	Financial company	**100.0**	100.0
HSBC Multimanager World Equity	France	FC	Financial company	**100.0**	–
Isère 2010	France	FC	Financial company	**76.0**	–
Moderato 85	France	FC	Financial company	**70.0**	–
Moderato 95	France	FC	Financial company	**89.0**	–
SGF Allegro	France	FC	Financial company	**91.0**	–
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 (UK) Ltd	United Kingdom	FC	Service company	**100.0**	100.0
Sinopia Asset Management Asia	Hong Kong	FC	Asset management	**100.0**	100.0
Sinopia Danube 2015	France	FC	Financial company	**–**	98.7
Sinopia Digit Long Terme	France	FC	Financial company	**80.0**	–
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 SpreadCash	France	FC	Financial company	**99.9**	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
Private Banking					
Byron Equilibre	France	FC	Insurance broker	**99.8**	99.8
Compagnie de Gestion de Patrimoine du CCF [4]	France	FC	Bank	**–**	100.0
Delosfin SA	France	FC	Investment company	**99.9**	99.8
Eurofin Assurance SA	France	FC	Insurance broker	**99.8**	99.7
Eurofin Capital Partners (ECP)	France	FC	Investment company	**100.0**	99.3
HSBC Private Bank France	France	FC	Bank	**100.0**	99.9
HSBC Republic Assurance SARL	France	FC	Insurance broker	**100.0**	99.9
LGI	Luxembourg	FC	Wealth management	**100.0**	99.9
Louvre Gestion	France	FC	Financial company	**100.0**	99.9
Octogone Immobilier	France	FC	Holding company	**100.0**	99.9
SCI Triangle d'Or	France	FC	Holding company	**100.0**	99.9
Insurance					
CAPISSIMO FCP 3DEC [5]	France	FC	Financial company	**–**	–
CCF GARANTI OCTOBRE 2006 FCP [5]	France	FC	Financial company	**–**	–
CCF Opportunité Juin 2008 FCP [5]	France	FC	Financial company	**–**	–
Elysée Ecrins FCP [5]	France	FC	Financial company	**–**	–
Erisa [1, 5]	France	EM	Insurance company	**–**	50.0
ERISA ACTIONS GRANDES VALEURS [5]	France	FC	Financial company	**–**	–
Erisa Diversifié N2 FCP [5]	France	FC	Financial company	**–**	–
Erisa IARD [1, 5]	France	EM	Insurance company	**–**	50.0

* *FC: Full consolidation – EM: Equity Method.*
1 *Interest percentage raised.*
4 *Dissolution by universal passing on of property to "HSBC France".*
5 *Disposal to HSBC Bank plc Paris Branch.*

20 Investments *(continued)*

Consolidated companies	*Country*	*Consolidation method**	*Main line of business*	HSBC France group interest % **2007**	% 2006
Erisa Opportunités FCP[5]	France	FC	Financial company	**–**	–
EURO INNOV.EQUILIBRE.FCP 3DEC[5]	France	FC	Financial company	**–**	–
EURO INNOVATION FCP 3DEC[5]	France	FC	Financial company	**–**	–
HORIZON 2032 A FCP 3DEC[5]	France	FC	Financial company	**–**	–
HSBC Actions Intles FCP 3Dec[5]	France	FC	Financial company	**–**	–
HSBC AVANTAGE DYNAMIQUE FCP[5]	France	FC	Financial company	**–**	–
HSBC DYNAMIQUE FCP 3DEC[5]	France	FC	Financial company	**–**	–
HSBC EQUILIBRE FCP 3DEC[5]	France	FC	Financial company	**–**	–
HSBC EUROPEAN FIX.INCOME. D FCP[5]	France	FC	Financial company	**–**	–
HSBC HORIZON 2009 A FCP 3DEC[5]	France	FC	Financial company	**–**	–
HSBC HORIZON 2010-2012 FCP[5,7]	France	FC	Financial company	**–**	–
HSBC HORIZON 2013-2015 FCP[5,7]	France	FC	Financial company	**–**	–
HSBC HORIZON 2016-2018 FCP[5,7]	France	FC	Financial company	**–**	–
HSBC HORIZON 2022 A FCP 3DEC	France	FC	Financial company	**–**	–
HSBC HORIZON 2023 A FCP 3DEC	France	FC	Financial company	**–**	–
HSBC HORIZON 2027 A FCP 3DEC	France	FC	Financial company	**–**	–
HSBC Multimanager Asia Equity[5]	France	FC	Financial company	**–**	–
HSBC MULTIMANAGER DEF.FCP 3DEC[5]	France	FC	Financial company	**–**	–
HSBC MULTIMANAGER EXPA. FCP3DEC[5]	France	FC	Financial company	**–**	–
HSBC MULTIMANAGER HARM. FCP3DEC[5]	France	FC	Financial company	**–**	–
HSBC MULTIMANAGER OFF.FCP3DEC[5]	France	FC	Financial company	**–**	–
HSBC MULTIMAN.OPTI SHARPE FCP[5]	France	FC	Financial company	**–**	–
HSBC Objectif 3-6-8 FCP 3Dec[5]	France	FC	Financial company	**–**	–
HSBC Oblig Euro Très Long Terme class[5]	France	FC	Financial company	**–**	–
HSBC OBLIG.MONDE C FCP[5]	France	FC	Financial company	**–**	–
HSBC Plus FCP 3Dec[5]	France	FC	Financial company	**–**	–
HSBC PRUDENCE FCP 3DEC[5]	France	FC	Financial company	**–**	–
HSBC Spread ABS[5]	France	FC	Financial company	**–**	–
ISOCELE 3-5 ANS FCP 3DEC[5]	France	FC	Financial company	**–**	–
QUINTISSIMO 2008 FCP[5]	France	FC	Financial company	**–**	–
SCI Erisa Immo 1[5]	France	FC	Financial company	**–**	–
Sinopia AME. Index B EUR C.3Dec[5]	Luxembourg	FC	Financial company	**–**	–
VITISSIMO 2010 FCP 3DEC[5]	France	FC	Financial company	**–**	–
Others					
Charterhouse Management Service Limited	United Kingdom	FC	Investment company	**100.0**	100.0
Elysées Forêts	France	FC	Service company	**75.2**	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
FinanCités	France	EM	Capital Risk company	**25.0**	–
Finanpar 17[4]	France	FC	Investment company	**–**	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
Serdac	Suisse	FC	Investment company	**100.0**	100.0
SGEFF	France	FC	Service company	**100.0**	100.0
Société Française et Suisse (SFS)	France	FC	Investment company	**100.0**	100.0
Value Fund 1	France	FC	Financial company	**81.8**	63.6
Value Fund 2	France	EM	Financial company	**45.4**	18.2

* *FC: Full consolidation – EM: Equity Method.*
4 *Dissolution by universal passing on of property to "HSBC France".*
5 *Disposal to HSBC Bank plc Paris Branch.*
7 *Merger of funds.*

Consolidated financial statements (continued)

20 Investments *(continued)*

Additions	*Year*
AGF Actions Plus	2006
Beau Soleil Limited Partnership	2006
CCF Charterhouse GmbH & Co Asset Leasing KG	2006
FCPE Aéro Parts Multi	2006
HSBC Leasing Belgium	2006
HSBC Paris Immo Buro (SCPI)	2006
SAF Chang jiang ba	2006
SAF Chang jiang er	2006
SAF Chang jiang jiu	2006
SAF Chang jiang liu	2006
SAF Chang jiang qi	2006
SAF Chang jiang san	2006
SAF Chang jiang shi	2006
SAF Chang jiang shi'er	2006
SAF Chang jiang shiyi	2006
SAF Chang jiang wu	2006
SAF Chang jiang yi	2006
Sinopia Danube 2015	2006
Sinopia HSBC Guarant 2016 US	2006
Sinopia HSBC Guarant 2021 US	2006
Sinopia SpreadCash	2006
CAPISSIMO FCP 3DEC	2007
CCF GARANTI OCTOBRE 2006 FCP	2007
CCF Opportunité Juin 2008 FCP	2007
Elysée Ecrins FCP	2007
Erisa Actions Grandes Valeurs FCP	2007
Erisa Diversifié N2 FCP	2007
Erisa Opportunités FCP	2007
EURO INNOV.EQUILIBRE.FCP 3DEC	2007
EURO INNOVATION FCP 3DEC	2007
Financités	2007
Global Marco High Risk	2007
HORIZON 2032 A FCP 3DEC	2007
HSBC Actions Intles FCP 3Dec	2007
HSBC AVANTAGE DYNAMIQUE FCP	2007
HSBC DYNAMIQUE FCP 3DEC	2007
HSBC EQUILIBRE FCP 3DEC	2007

Additions	*Year*
HSBC EUROPEAN FIX.INCOME. D FCP	2007
HSBC Horizon 2007	2007
HSBC Horizon 2008	2007
HSBC HORIZON 2009 A FCP 3DEC	2007
HSBC HORIZON 2010-2012 FCP	2007
HSBC HORIZON 2013-2015 FCP	2007
HSBC HORIZON 2016-2018 FCP	2007
HSBC HORIZON 2022 A FCP 3DEC	2007
HSBC HORIZON 2023 A FCP 3DEC	2007
HSBC HORIZON 2027 A FCP 3DEC	2007
HSBC Horizon 2034-2036	2007
HSBC Middle East Leasing Partnership (Dubai)	2007
HSBC MULTIMAN.OPTI SHARPE FCP	2007
HSBC Multimanager Asia Equity	2007
HSBC MULTIMANAGER DEF.FCP 3DEC	2007
HSBC MULTIMANAGER EXPA.FCP3DEC	2007
HSBC MULTIMANAGER HARM.FCP3DEC	2007
HSBC MULTIMANAGER OFF.FCP3DEC	2007
HSBC Multimanager World Equity	2007
HSBC Objectif 3-6-8 FCP 3Dec	2007
HSBC Oblig Euro Très Long Terme class	2007
HSBC OBLIG.MONDE C FCP	2007
HSBC Plus FCP 3Dec	2007
HSBC PRUDENCE FCP 3DEC	2007
HSBC Spread ABS	2007
Isère 2010	2007
ISOCELE 3-5 ANS FCP 3DEC	2007
Moderato 85	2007
Moderato 95	2007
QUINTISSIMO 2008 FCP	2007
SAF Baiyun	2007
SAF Guangzhou	2007
SCI Erisa Immo 1	2007
SGF Allegro	2007
Sinopia AME. Index B EUR C.3Dec	2007
Sinopia Digit Long Terme	2007
VITISSIMO 2010 FCP 3DEC	2007

20 Investments *(continued)*

Merger:
Sofimurs merged with HSBC Real Estate Leasing (France)

Disposal to HSBC Bank plc Paris Branch: (see Note 3)
CAPISSIMO FCP 3DEC
CCF GARANTI OCTOBRE 2006 FCP
CCF Opportunité Juin 2008 FCP
Elysée Ecrins FCP
Erisa
Erisa Actions Grandes Valeurs FCP
Erisa Diversifié N2 FCP
Erisa IARD
Erisa Opportunités FCP
EURO INNOV.EQUILIBRE.FCP 3DEC
EURO INNOVATION FCP 3DEC
HORIZON 2032 A FCP 3DEC
HSBC Actions Intles FCP 3Dec
HSBC AVANTAGE DYNAMIQUE FCP
HSBC DYNAMIQUE FCP 3DEC
HSBC EQUILIBRE FCP 3DEC
HSBC EUROPEAN FIX.INCOME. D FCP
HSBC HORIZON 2009 A FCP 3DEC
HSBC HORIZON 2010-2012 FCP
HSBC HORIZON 2013-2015 FCP
HSBC HORIZON 2016-2018 FCP
HSBC HORIZON 2022 A FCP 3DEC
HSBC HORIZON 2023 A FCP 3DEC
HSBC HORIZON 2027 A FCP 3DEC
HSBC MULTIMAN.OPTI SHARPE FCP
HSBC Multimanager Asia Equity
HSBC MULTIMANAGER DEF.FCP 3DEC
HSBC MULTIMANAGER EXPA.FCP3DEC
HSBC MULTIMANAGER HARM.FCP3DEC
HSBC MULTIMANAGER OFF.FCP3DEC
HSBC Objectif 3-6-8 FCP 3Dec
HSBC Oblig Euro Très Long Terme class
HSBC OBLIG.MONDE C FCP
HSBC Plus FCP 3Dec
HSBC PRUDENCE FCP 3DEC
HSBC Spread ABS
ISOCELE 3-5 ANS FCP 3DEC
QUINTISSIMO 2008 FCP
SCI Erisa Immo 1
Sinopia AME. Index B EUR C.3Dec
VITISSIMO 2010 FCP 3DEC

Dissolution by universal passing on of property:
Compagnie de Gestion de Patrimoine du CCF
Compagnie du Delta Rhodanien
Compagnie Financière des Iles du Rhône (CFIR)
HSBC Asset Management Holding
Provence Languedoc Finance
Finanpar 17

Deconsolidation:
AGF Actions Plus
SNCB / M6-2007A
SNCB / M6-2007B (ex-SAF Huang He)

Change of name:
SNCB / M6-2007B (ex-SAF Huang He)

Merger of funds:
- HSBC HORIZON 2010-2012 FCP: merger of HSBC HORIZON 2010 FCP, HSBC HORIZON 2011 FCP and HSBC HORIZON 2012 FCP
- HSBC HORIZON 2013-2015 FCP: merger of HSBC HORIZON 2013 FCP, HSBC HORIZON 2014 FCP and HSBC HORIZON 2015 FCP
- HSBC HORIZON 2016-2018 FCP: merger of HSBC HORIZON 2016 FCP, HSBC HORIZON 2017 FCP and HSBC HORIZON 2018 FCP

Consolidated financial statements (continued)

21 Other assets

(in millions of euros)	2007	2006
Current taxation recoverable	99	291
Non-current assets held for sale	84	–
Other accounts	3,539	2,436
	3,722	2,727

Non-current assets held for sale

(in millions of euros)	2007	2006
Property, plant and equipment	42	–
Investment Properties	42	–
Total assets classified as held for sale	84	–

In 2007, the management of HSBC France decided to sell a group of properties. These assets follow the conditions of the IFRS 5 (see Note 2 z) and are classified as "Non-current assets held for sale".

22 Financial liabilities designated at fair value

(in millions of euros)	2007	2006
Deposits by banks	–	–
Customer accounts	166	54
Debt securities in issue	157	206
Subordinated liabilities	13	13
	336	273

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2007 was EUR 8.5 million (at 31 December 2006, EUR 14.1 million).

At 31 December 2007, the accumulated amount of the change in fair value attributable to changes in credit risk for the group was EUR 2.4 million (at 31 December 2006, EUR 0.5 million).

23 Other liabilities

(in millions of euros)	2007	2006
Amounts due to investors in funds consolidated by the group	–	–
Share-based payments	42	12
Obligations under finance leases	–	7
Other liabilities	1,508	1,510
	1,550	1,529

24 Provisions

a *Deferred taxation*

(in millions of euros)	2007 *Deferred tax asset*	2007 *Deferred tax liability*	2007 *Total*	2006 *Deferred tax asset*	2006 *Deferred tax liability*	2006 *Total*
Temporary differences:						
– retirement benefits	**48**	**2**	**(46)**	45	–	(45)
– assets leased	**(28)**	**–**	**28**	(33)	–	33
– revaluation of property (including investment properties)	**(73)**	**–**	**73**	(66)	–	66
– other short-term timing differences	**80**	**–**	**(80)**	57	–	(57)
	27	**2**	**(25)**	3	–	(3)

The main amounts of deferred tax related to items that are charged directly to equity are detailed as follows:

(in millions of euros)	2007	2006
Cash flow hedge	**59**	39
Available-for-sale reserve	**(43)**	(63)
Actuarial losses	**(3)**	(4)

b *Other provisions for liabilities and charges*

(in millions of euros)	***Provisions***
At 1 January 2007	**133**
Additional provisions/increase in provisions	**23**
Provisions utilised	**(26)**
Amounts reversed	**(49)**
Exchange, changes in scope of consolidation and other movements	**(3)**
At 31 December 2007	**78**

(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

At 31 December 2007, "Other provisions for liabilities and charges" included a provision of EUR 15 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 (2006: EUR 28 million).

Consolidated financial statements (continued)

25 Sale and repurchase and settlement accounts

(in millions of euros)	At 31 December 2007	At 31 December 2006
Assets		
Loans and advances to customers include:		
– assets under sale and repurchase agreements	**17,111**	6,562
– settlement accounts	**388**	704
Loans and advances to banks include:		
– assets under sale and repurchase agreements	**31,238**	18,361
– settlement accounts	**2,725**	1,788

(in millions of euros)	At 31 December 2007	At 31 December 2006
Liabilities		
Customer accounts include:		
– liabilities under sale and repurchase agreements	**13,578**	7,471
– settlement accounts	**1,315**	1,192
Deposits by banks include:		
– liabilities under sale and repurchase agreements	**35,904**	14,613
– settlement accounts	**1,876**	1,402

26 Subordinated liabilities

	Book value	
(in millions of euros)	**2007**	2006
Subordinated liabilities:		
– at amortised cost	**262**	774
– designated at fair value	**13**	13
	275	787

Subordinated borrowings of the group:

		Book value	
(in millions of euros)		**2007**	2006
EUR500m *	Floating rate notes maturing 2011 [1]	**–**	500
EUR150m *	Floating rate notes maturing 2014	**150**	150
Yen10bn	Undated subordinated variable rate notes	**66**	70
EUR15m	Floating rate notes maturing 2015	**13**	13
Yen5bn	Undated subordinated variable rate notes	**30**	36
	Other subordinated variable rate notes	**16**	18
		275	787

* *Debt issued to HSBC Bank plc.*
1 *In 2007, HSBC France reimbursed this subordinated borrowing.*

27 Trading liabilities

(in millions of euros)	**2007**	2006
Other liabilities – short positions	**26,204**	20,184
Deposits by banks	**4,100**	2,200
Customer accounts	**3,716**	1,035
Debt securities in issue	**1,944**	2,274
Total	**35,964**	25,693

28 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Control framework

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by a function independent of the risk taker. To this end, ultimate responsibility for the determination of fair values lies with Finance, which reports functionally to the Group Finance Director. Finance establishes the accounting policies and procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of valuation models, independent determination or validation of valuation model inputs, independent determination or validation of any adjustments required outside of the valuation model, and, where possible, independent validation of model outputs. For fair values determined without a valuation model, there is independent price determination or validation. The results of independent validation processes are reported to senior management, and adjustments to the fair values made as appropriate.

Determination of fair value of financial instruments carried at fair value

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, instruments designated at fair value through profit or loss, derivatives, and financial investments classified as available-for-sale (including treasury and other eligible bills, debt securities, and equity securities).

The reliability of the fair value measurement for financial instruments reported on the group's consolidated balance sheet at fair value is assessed according to how the fair values have been determined, as follows:

Quoted market price

Financial instruments with quoted prices for identical instruments in active markets.

Valuation technique using observable inputs

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Valuation technique with significant non-observable inputs

Financial instruments valued using models where one or more significant inputs are not observable.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. For these instruments, the fair value measurement derived is more judgemental. "Not observable" in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would likely occur, but it generally does not mean that there is absolutely no market data available upon which to base a determination of fair value (historical data may, for example, be used). Furthermore, the assessment of hierarchy level is based on the lowest level of input

28 Fair value of financial instruments *(continued)*

that is significant to the fair value of the financial instrument. Consequently, the level of uncertainty in the determination of the unobservable inputs will generally give rise to valuation uncertainty that is less than the fair value itself.

In certain circumstances, the group applies the fair value option to own debt in issue. Where available, the fair value will be based upon quoted prices in an active market for the specific instrument concerned. Where not available, the fair value will either be based upon quoted prices in an inactive market for the specific instrument concerned, or estimated by comparison with quoted prices in an active market for similar instruments. The fair value of these instruments therefore includes the effect of own credit spread. Gains and losses arising from changes in the credit spread of liabilities issued by the group reverse over the contractual life of the debt.

Issued structured notes and certain other hybrid instrument liabilities are included within trading liabilities, and marked at fair value. The credit spread applied to these instruments is derived from the spreads at which the group issues structured notes. These market spreads are significantly tighter than credit spreads observed in vanilla debt or credit default swap markets.

All net positions in non-derivative financial instruments, and all derivative portfolios, are valued at bid or offer as appropriate. Long positions are marked at bid; short positions are marked at offer.

The fair values of large holdings of non-derivative financial instruments are based on a multiple of the value of a single instrument, and do not include block adjustments for the size of the holding.

The valuation models used where quoted market prices are not available incorporate certain assumptions that the group anticipates would be used by a market participant to establish fair value. Where the group anticipates that there are additional considerations not included within the valuation model, adjustments may be adopted outside the model. Examples of such adjustments are:

- credit risk adjustment: an adjustment to reflect the credit worthiness of over-the-counter derivative counterparties.
- market data/model uncertainty: an adjustment to reflect uncertainties in fair values based on uncertain market data inputs (e.g. as a result of illiquidity) or in areas where the choice of valuation model is particularly subjective.
- inception profit (“day 1 P&L reserves”): for financial instruments valued, at inception, on the basis of one or more significant unobservable inputs, the difference between transaction price and model value (as adjusted) at inception is not recognised in the consolidated income statement, but is deferred and included as part of the fair value.

Transaction costs are not included in the fair value calculation. Trade origination costs such as brokerage, fee expense, and post-trade costs are included in operating expenses. The future cost of administering the over-the-counter derivative portfolio is also not included in fair value, but is expensed as incurred.

Loans

Loans are valued from broker quotes and/or market data consensus providers where available. Where unavailable, fair value will be determined based on an appropriate credit spread derived from other market instruments issued by the same or comparable entities.

Debt securities, Treasury and other eligible bills, and Equities

These instruments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or, in the case of certain mortgage-backed securities and unquoted equities, valuation techniques using inputs determined from observable and unobservable market data.

28 Fair value of financial instruments *(continued)*

Derivatives

Over-the-counter (i.e. non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon "no-arbitrage" principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some divergence in practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historic data or other sources.

Private equity

The Group's private equity positions are generally classified as available for sale and are not traded in an active market. In the absence of an active market for the investment, fair value is estimated based upon an analysis of the investee's financial position and results, risk profile, prospects and other factors as well as reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership. The exercise of judgement is required and because of uncertainties inherent in estimating fair value for private equity investments, it is not until realisation of the investment that subjective valuation factors are removed.

The following table provides an analysis of the basis for the valuation of financial assets and financial liabilities measured at fair value in the consolidated financial statements:

(in millions of euros)	*Quoted market price*	Valuation techniques: *using observable inputs*	Valuation techniques: *with significant non-observable inputs*	*Third Party Total*	*Amounts with HSBC entities*	*Total*
At 31 December 2007						
Assets						
Trading assets	**53,886**	**757**	**–**	**54,643**	**3,471**	**58,114**
Financial assets designated at fair value	**–**	**–**	**–**	**–**	**–**	**–**
Derivatives	**2,614**	**21,928**	**742**	**25,284**	**11,272**	**36,556**
Financial investments available-for-sale	**1,894**	**1,977**	**169**	**4,040**	**10**	**4,050**
Liabilities						
Trading liabilities	**31,097**	**1,904**	**–**	**33,001**	**2,963**	**35,964**
Financial liabilities designated at fair value	**–**	**336**	**–**	**336**	**–**	**336**
Derivatives	**2,537**	**20,731**	**798**	**24,066**	**12,407**	**36,473**
At 31 December 2006						
Assets						
Trading assets	35,665	207	–	35,872	1,491	37,363
Financial assets designated at fair value	–	–	–	–	–	–
Derivatives	2,128	11,439	364	13,931	6,233	20,164
Financial investments: available-for-sale	2,712	1,201	75	3,988	14	4,002
Liabilities						
Trading liabilities	22,447	2,276	–	24,723	970	25,693
Financial liabilities designated at fair value	–	273	–	273	–	273
Derivatives	1,882	11,145	526	13,553	7,273	20,826

28 Fair value of financial instruments *(continued)*

Fair value of financial instruments not carried at fair value

The fair values of financial instruments that are not recognised at fair value on the balance sheet are calculated as described below.

The calculation of fair value incorporates the Group's estimate of the amount at which financial assets could be exchanged, or financial liabilities settled, between knowledgeable, willing parties in an arm's length transaction. It does not reflect the economic benefits and costs that the Group expects to flow from the instruments' cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available, so comparisons of fair values between entities may not be meaningful and users are advised to exercise caution when using this data.

The following types of financial instruments are measured at amortised cost unless they are held for trading or designated at fair value through profit or loss. Where assets or liabilities are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the assets or liabilities so hedged includes a fair value adjustment for the hedged risk only. Fair values at the balance sheet date of the assets and liabilities set out below are estimated for the purpose of disclosure as follows:

(i) Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by amount, customer type, currency, facility grade, maturity and coupon rates. In general, contractual cash flows are discounted using the Group's estimate of the discount rate that a market participant would use in valuing instruments with similar maturity, repricing and credit risk characteristics. For maturity buckets where there is no recent price information, a linear trend is assumed between known points.

For loans and deposits, the fair value of the amounts repayable on demand is estimated as the carrying value at the balance sheet date.

The fair value of a loan portfolio reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans.

For impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

(ii) Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that take into consideration either the prices of, or future earnings streams of, equivalent quoted securities.

(iii) Deposits by banks and customer accounts

For the purposes of estimating fair value, deposits by banks and customer accounts are grouped by residual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

(iv) Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

The fair values in this note are stated at a specific date and may be significantly different from the amounts that will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the Group as a going concern.

For all classes of financial instruments, fair value represents the product of the value of a single instrument, multiplied by the number of instruments held. No block discount or premium adjustments are made.

The fair values of intangible assets, such as values placed on portfolios of core deposits, credit card and customer relationships, are not included above because they are not financial instruments.

28 Fair value of financial instruments *(continued)*

The following table lists those financial instruments for which their carrying amount is a reasonable approximation of fair value because, for example, they are short term in nature or reprice to current market rates frequently:

Assets	Liabilities
Cash and balances at central banks	Items in the course of transmission to other banks
Items in the course of collection from other banks	Short-term payables within "Other liabilities"
Short-term receivables within "Other assets"	

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)	**2007** *Carrying value*	**2007** *Fair value*	2006 *Carrying value*	2006 *Fair value*
Assets				
Loans and advances to banks	**33,083**	**33,110**	20,836	20,836
Loans and advances to customers	**55,196**	**54,718**	42,019	41,914
Liabilities				
Deposits by banks	**48,393**	**48,406**	23,930	23,930
Customer accounts	**44,690**	**44,692**	33,406	33,416
Debt securities in issue	**22,840**	**22,840**	17,063	17,192
Subordinated liabilities	**262**	**266**	774	791

29 Maturity analysis of financial assets and liabilities

The following is an analysis of undiscounted cash flows payable under financial liabilities by remaining contractual maturities at the balance sheet date.

Trading liabilities and trading derivatives have been included in the "On demand" time bucket and not by contractual maturity, because trading liabilities are typically held for short periods of time. The undiscounted cash flows on hedging derivative liabilities are classified according to their contractual maturity.

	At 31 December 2007					
(in millions of euros)	***On demand***	***Due within 3 months***	***Due between 3 and 12 months***	***Due between 1 and 5 years***	***Due after 5 years***	***Total***
Deposits by banks	**1,346**	**46,393**	**5,546**	**530**	**1,121**	**54,936**
Customer accounts	**20,078**	**28,154**	**3,915**	**306**	**864**	**53,317**
Trading liabilities	**35,964**	**–**	**–**	**–**	**–**	**35,964**
Financial liabilities designated at fair value	**–**	**–**	**–**	**125**	**289**	**414**
Derivatives	**36,054**	**46**	**37**	**324**	**12**	**36,473**
Debt securities in issue	**–**	**14,246**	**1,697**	**6,607**	**1,992**	**24,542**
Subordinated liabilities	**–**	**–**	**64**	**32**	**187**	**283**
Other financial liabilities	**1,696**	**1,448**	**546**	**242**	**225**	**4,157**
Loan Commitments	**180**	**1,956**	**1,788**	**10,821**	**3,780**	**18,525**
Total	**95,318**	**92,243**	**13,593**	**18,987**	**8,470**	**228,611**

Consolidated financial statements (continued)

29 Maturity analysis of financial assets and liabilities *(continued)*

(in millions of euros)	At 31 December 2006					
	On demand	*Due within 3 months*	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Total*
Deposits by banks	1,420	21,630	2,015	1,881	891	27,837
Customer accounts	18,655	24,453	1,676	960	778	46,522
Trading liabilities	25,693	–	–	–	–	25,693
Financial liabilities designated at fair value	–	43	2	138	177	360
Derivatives	23,321	112	–	362	–	23,795
Debt securities in issue	–	9,682	2,259	4,778	1,886	18,605
Subordinated liabilities	–	–	9	528	272	809
Other financial liabilities	1	3,258	24	8	1	3,292
Loan commitments	204	1,277	743	7,826	6,961	17,011
Total	69,294	60,455	6,728	16,481	10,966	163,924

The following is an analysis of assets and liabilities by remaining contractual maturities at 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.

Contractual maturity is considered to be a reasonable approximation of expected maturity for the assets and liabilities analysed below. However, for items such as demand deposits and overdrafts, the contractual maturities could differ from expected maturities.

Trading assets and liabilities are excluded because they are not held for collection or settlement over the period of contractual maturity.

(in millions of euros)	**At 31 December 2007**		
	Due within one year	***Due after more than one year***	***Total***
Assets			
Financial assets designated at fair value	**–**	**–**	**–**
Loans and advances to banks	**31,367**	**1,716**	**33,083**
Loans and advances to customers	**32,461**	**22,735**	**55,196**
Financial investments	**543**	**3,507**	**4,050**
Other financial assets	**3,585**	**274**	**3,859**
	67,956	**28,232**	**96,188**
Liabilities			
Deposits by banks	**47,577**	**816**	**48,393**
Customer accounts	**43,293**	**1,397**	**44,690**
Financial liabilities designated at fair value	**–**	**336**	**336**
Debt securities in issue	**15,746**	**7,094**	**22,840**
Other financial liabilities	**1,482**	**475**	**1,957**
Subordinated liabilities	**–**	**262**	**262**
	108,098	**10,380**	**118,478**

29 Maturity analysis of financial assets and liabilities *(continued)*

	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	–	–	–
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

30 Assets charged as security for liabilities and collateral accepted as security for assets

Financial assets pledged to secure liabilities are as follows:

(in millions of euros)	**2007**	2006
Treasury bills and other eligible securities	**–**	–
Loans and advances to banks	**–**	–
Loans and advances to customers	**–**	–
Debt securities	**29,730**	20,996
Equity shares	**436**	–
	30,166	20,996

These transactions are conducted under terms that are usual and customary to standard securities lending and repurchase agreements.

Collateral accepted as security for assets

In 2007, the fair value of financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default is EUR 63,088 million.

In 2007, the fair value of financial assets accepted as collateral that have been sold or repledged is EUR 56,609 million. The group is obliged to return these assets.

These transactions are conducted under terms that are usual and customary to standard stock borrowing and lending activities.

Consolidated financial statements (continued)

31 Called-up share capital

The authorised ordinary share capital of HSBC France at 31 December 2007 was EUR 380 million divided into 75,963,895 ordinary shares of EUR 5 each.

	Number of HSBC France ordinary shares	*Amount (in millions of euros)*
At 1 January 2007	**75,683,045**	**378**
Shares issued	**280,850**	**2**
At 31 December 2007	**75,963,895**	**380**
At 1 January 2006	75,237,930	376
Shares issued	445,115	2
At 31 December 2006	75,683,045	378

32 Capital and reserves

(in millions of euros)	Called up share capital	Share premium	Retained earnings	Net profit of discontinued operations	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	Erisa acquisition	Total share-holders' equity	Minority interests	Total equity
	2007													
					Other reserves									
At 1 January 2007	**378**	**1,164**	**3,165**		**579**	**(74)**	**4**		**88**	**102**		**5,406**	**19**	**5,425**
New share capital subscribed, net of costs	**2**	**21**										**23**	**11**	**34**
Profit for the year attributable to shareholders			**929**	**45**						**1**		**975**		**975**
Dividends to shareholders of the parent company			**(1,038)**									**(1,038)**		**(1,038)**
Actuarial gains/(losses) on defined benefit plans								**9**				**9**		**9**
Fair value gains/(losses) taken to equity					**96**	**(61)**						**35**		**35**
Amounts transferred to the income statement					**(482)**	**(3)**						**(485)**		**(485)**
Share-based payment									**11**			**11**		**11**
Tax on items taken directly to or transferred from equity					**15**	**22**		**(3)**				**34**		**34**
Profit attributable to minority interests													**2**	**2**
Dividends to minority interests														**–**
Exchange differences							**(4)**					**(4)**		**(4)**
Erisa revaluation											**82**	**82**		**82**
Other		**6**	**(10)**		**3**	**(1)**			**18**	**(99)**	**99**	**16**	**(1)**	**15**
At 31 December 2007	**380**	**1,191**	**3,046**	**45**	**211**	**(117)**	**–**	**6**	**117**	**4**	**181**	**5,064**	**31**	**5,095**

32 Capital and reserves *(continued)*

(in millions of euros)	2006											
				Other reserves								
	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											(1)	(1)
Dividends to minority interests											(1)	(1)
Exchange differences						(2)				(2)		(2)
Increase in minority interest stake and other		5	(1)						(4)		9	9
At 31 December 2006	378	1,164	3,165	579	(74)	4	–	88	102	5,406	19	5,425

33 Reconciliation of profit before tax to net cash flow from operating activities

Non-cash items included in income

(in millions of euros)	**31 December 2007**	31 December 2006
Depreciation and amortisation	**79**	81
Share based payments	**11**	24
Revaluations on investment property	**(7)**	(8)
Loan impairment losses	**52**	10
Loans written off net of recoveries	**(82)**	(160)
Provisions raised	**(26)**	(10)
Provisions utilised	**(26)**	(12)
Impairment of financial investments	**26**	1
Accretion of discounts and amortisation of premiums	**1**	–
	28	(74)

Change in operating assets

(in millions of euros)	**31 December 2007**	31 December 2006
Change in prepayments and accrued income	**(237)**	(8)
Change in net trading securities and net derivatives	**(11,270)**	(4,010)
Change in loans and advances to banks	**3,870**	(1,350)
Change in loans and advances to customers	**(13,144)**	(4,643)
Change in financial assets designated at fair value	**–**	–
Change in other assets	**(1,017)**	336
	(21,798)	(9,675)

Change in operating liabilities

(in millions of euros)	**31 December 2007**	31 December 2006
Change in accruals and deferred income	**298**	(69)
Change in deposits by banks	**24,463**	3,436
Change in customer accounts	**11,284**	(958)
Change in debt securities in issue	**5,777**	7,151
Change in financial liabilities designated at fair value	**63**	(32)
Change in other liabilities	**13**	380
	41,898	9,908

Cash and cash equivalents comprise

(in millions of euros)	**31 December 2007**	31 December 2006
Cash and balances at central banks	**4,014**	1,027
Items in the course of collection from other banks	**1,369**	2,202
Loans and advances to banks of one month or less	**33,079**	16,962
Treasury bills, other bills and certificates of deposit less than three months	**929**	1,244
Less: cash accounts (liabilities)	**(1,180)**	(2,054)
	38,211	19,381

34 Risk management

All the 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. The management of these risks is discussed below. Market risk includes foreign exchange, interest rate and equity price risk. In addition, risk also arises from transactions with special purpose entities, both on- and off-balance sheet, and other types of off-balance sheet arrangement, including financial guarantees, letters of credit and commitments to lend.

The management of other risks that are significant to the group is discussed in the the Risk management section on pages 47 to 51.

In compliance with the new requirements of CRBF Regulation 97-02 as amended, the HSBC France group has 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 Department (DRCO). DRCO reports directly to Senior Management and is completely independent from the operational units that present applications for credit facilities. The role of this entity is described in the Chairman's report on internal control procedures[2].

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending, trade finance, treasury and leasing business. The HSBC Group has standards, policies and procedures dedicated to monitoring and managing risk from all such activities.

HSBC Holdings plc is responsible for the formulation of high-level credit risk policies and provides high-level centralised oversight and management of credit risk for its subsidiaries worldwide. In addition, its responsibilities include:

– controlling exposures to sovereign entities, banks and other financial institutions. HSBC's credit and settlement risk limits to counterparties in these sectors are approved and managed by Group Credit Risk, to optimise the use of credit availability and avoid excessive risk concentration;

– monitoring intra-Group exposures to ensure they are maintained within regulatory limits;

– controlling cross-border exposures, through the imposition of country limits with sub limits by maturity and type of business. Country limits are determined by taking into account economic and political factors, and applying local business knowledge. Transactions with countries deemed to be higher risk are considered on a case by case basis.

Maximum exposure to credit risk

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

The following table presents the maximum exposure to credit risk of balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements unless such credit enhancements meets offsetting requirements as set out in Note 2 m.

1 *See pages 27 to 38.*
2 *See pages 31 to 32.*

34 Risk management *(continued)*

(in millions of euros)	***Maximum exposure 31 December 2007***	*Maximum exposure 31 December 2006*
Items in course of collection from other banks	**1,369**	2,202
Trading assets	**45,025**	32,915
– treasury and other similar bills	**30,445**	23,960
– debt securities	**6,456**	4,262
– loans and advances	**8,124**	4,693
Derivatives	**36,556**	20,164
Loans and advances to banks	**33,083**	20,836
Loans and advances to customers	**55,196**	42,019
Financial investments	**2,264**	1,408
– treasury and other similar bills	**952**	1,105
– debt securities	**1,312**	303
Other assets	**3,629**	2,525
Off-balance sheet		
– financial guarantees and other credit related contingent liabilities	**6,873**	6,648
– loan commitments and other credit related commitments	**20,326**	17,012
Total	**204,321**	145,729

Guarantees received and other credit risk enhancements

Loans and advances

The Group entities are required to implement guidelines on the acceptability of specific classes of guarantees received or credit risk mitigation, and determine valuation parameters. Such parameters are expected to be conservative, reviewed regularly and be supported by empirical evidence. Security structures and legal covenants are subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with local market practice.

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

The principal collateral types are as follows:

- in the personal sector, mortgages over residential properties;
- in the commercial and industrial sector, charges over business assets such as premises, stock and debtors;
- in the commercial real estate sector, charges over the properties being financed;
- in the financial sector, charges over financial instruments such as debt securities and equities in support of trading facilities; and
- credit derivatives are also used to manage credit risk in the group's loan portfolio.

The group does not disclose the fair value of collateral held as security or other credit enhancements on loans and advances past due but not impaired or on individually assessed impaired loans and advances, as it is not practicable to do so.

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.

34 Risk management *(continued)*

The ISDA Master Agreement is the group's preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other pre agreed termination events occur. It is common, and the group's preferred practice, for the parties to execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the group's investment banking and markets transactions on any single day. Settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated through being effected via assured payment systems, or on a delivery versus payment basis.

The group provides a diverse range of financial services principally in France. Its portfolio of financial instruments with credit risk is highly diversified with no exposures to individual industries or economic groupings totalling more than 10 per cent of consolidated total assets, except as follows:

– the majority of the group's exposure to credit risk is concentrated in France. Within France, the group's credit risk is diversified over a wide range of industrial and economic groupings; and

– the group's position as part of a major international banking group means that it has a significant concentration of exposure to banking counterparties. The majority of credit risk to the banking industry at 31 December 2007 and 31 December 2006 was concentrated in Europe.

There are no special collateral requirements relating to industrial concentrations, with the exception of exposures to the property sector. The majority of exposures to the property and construction industry and the residential mortgage market are secured on the underlying property.

There is no exposure to US subprime.

Credit quality

Loans and advances

	At 31 December 2007		At 31 December 2006	
(in millions of euros)	***Loans and advances to customers***	***Loans and advances to banks***	*Loans and advances to customers*	*Loans and advances to banks*
Gross loans and advances:				
– not impaired	**54,666**	**33,083**	41,620	20,306
– impairment	**1,268**	**–**	1,169	530
	55,934	**33,083**	42,789	20,836

Distribution of loans and advances by facility grade

The credit quality of the portfolio of loans and advances can be assessed by reference to the Group's legacy credit risk rating system which provides risk grades for unimpaired exposures on the basis of a "composite" assessment of probability of default and risk mitigation. The following information is based on that system:

	At 31 December 2007		At 31 December 2006	
(in millions of euros)	***Loans and advances to customers***	***Loans and advances to banks***	*Loans and advances to customers*	*Loans and advances to banks*
1 -3 satisfactory risk	**54,041**	**33,083**	41,178	20,306
4 - watch list	**254**	**–**	103	530
5 - sub standard but not impaired	**371**	**–**	339	–
Total	**54,666**	**33,083**	41,620	20,836

The group does not disclose neither the amount of loans and advances past due but not impaired nor the past due ageing analysis on loans and advances past due but not impaired.

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 valuation ratios, and other retail accounts which are maintained within product guidelines.

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

Grades 4 and 5 include facilities that require varying degrees of special attention and all retail exposures that are progressively between 30 and 90 days past due.

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

Loans and advances which are individually assessed for impairment are identified on an individual basis, and classified as grades 6 or 7 when they are impaired.

This historical seven grade risk rating system is being phased out and superseded by a more sophisticated and granular methodology based on the probability of default and loss estimates calculated in accordance with the Basel II Framework. This is now in use throughout the group for the credit assessment of individually significant customers. Within the group's retail portfolios, risk is assessed and managed using a wide range of risk and pricing models, and while the quality of retail assets has been reported by reference to the group's legacy risk rating scale described above, it will in future be based on the probability of default and expected loss parameters applied to homogenous segments of retail portfolios.

Other securities

Debt securities and other bills by rating agency designation

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

	At 31 December 2007			At 31 December 2006		
(in millions of euros)	***Treasury bills***	***Debt securities***	***Total***	*Treasury bills*	*Debt securities*	*Total*
AAA	**20,429**	**1,483**	**21,912**	17,169	1,006	18,175
AA- to AA+	**9,676**	**823**	**10,499**	6,723	681	7,404
A- to A+	**1,223**	**870**	**2,093**	778	740	1,518
Lower than A-	**–**	**31**	**31**	–	230	230
Unrated	**69**	**4,561**	**4,630**	395	1,908	2,303
Total	**31,397**	**7,768**	**39,165**	25,065	4,565	29,630
Of which issued by:						
governments	**31,397**	**–**	**31,397**	25,065	–	25,065
corporates	**–**	**7,130**	**7,130**	–	4,163	4,163
other	**–**	**638**	**638**	–	402	402
Total	**31,397**	**7,768**	**39,165**	25,065	4,565	29,630
Of which available-for-sale securities	**952**	**1,312**	**2,264**	1,105	303	1,408
held for trading	**30,445**	**6,456**	**36,901**	23,960	4,262	28,222
Total	**31,397**	**7,768**	**39,165**	25,065	4,565	29,630

Netting of assets and liabilities

At 31 December 2007, an amount of EUR 26 billion of financial assets (at 31 December 2006: EUR 13 billion) 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.

Consolidated financial statements (continued)

34 Risk management *(continued)*

(in millions of euros)	At 31 December 2007 Book Value	Amount for which HSBC has a legally enforceable right to offset[1]	Net total credit risk	At 31 December 2006 Book Value	Amount for which HSBC has a legally enforceable right to offset[1]	Net total credit risk
Derivatives	**36,556**	**(26,245)**	**10,311**	20,164	(12,726)	(7,438)

1 *Against financial liabilities with the same counterparties.*

Impairment assessment

Management regularly evaluates the adequacy of the established allowances for impaired loans by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

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

Impaired loans

Individually impaired loans by industry sector

(in millions of euros)	At 31 December 2007 Gross loans and advances to customers	Gross loans by industry sector as a % of total gross loans	At 31 December 2006 Gross loans and advances to customers	Gross loans by industry sector as a % of total gross loans
Personal	**354**	**28**	262	22
Corporate	**894**	**70**	892	76
Financial	**20**	**2**	17	2
Total impaired loans and advances to customers	**1,268**	**100**	1,171	100

Impairment allowances

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

Movement in allowance accounts for total loans and advances

(in millions of euros)	Year ended 31 December 2007 Individually assessed	Collectively assessed	Total
At 1 January	**(685)**	**(87)**	**(772)**
Amounts written off	**92**	**–**	**92**
Release of allowances no longer required	**152**	**11**	**163**
Charge to income statement	**(208)**	**(17)**	**(225)**
Exchange and other movements	**5**	**–**	**5**
At 31 December	**(644)**	**(93)**	**(737)**

34 Risk management *(continued)*

(in millions of euros)	Year ended 31 December 2006 *Individually assessed*	*Collectively assessed*	*Total*
At 1 January	(834)	(89)	(923)
Amounts written off	176	–	176
Release of allowances no longer required	175	20	195
Charge to income statement	(212)	(14)	(226)
Unwinding of discount	6	–	6
Exchange and other movements	4	(4)	–
At 31 December	(685)	(87)	(772)

Impairment allowances against loans and advances to customers

(in %)	**31 December 2007**	31 December 2006
Total impairment allowances to gross lending[1]:		
– individually assessed impairment allowances	**1.60**	1.63
– collectively assessed impairment allowances	**0.23**	0.21
– specific provision	**–**	–
Total	**1.83**	1.84

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

Impairment on loans and available-for-sale securities and other credit risk provisions

(in millions of euros)	**Year ended 31 December 2007**	Year ended 31 December 2006
Individually assessed impairment allowances		
New allowances	**208**	212
Release of allowances no longer required	**(152)**	(175)
Recoveries of amounts previously written off	**(10)**	(16)
	46	21
Collectively assessed impairment allowances		
New allowances	**17**	14
Release of allowances no longer required	**(11)**	(20)
Recoveries of amounts previously written off	**–**	–
	6	(6)
Total charge for impairment losses:	**52**	15
– banks	**–**	–
– customers	**52**	15
Other credit risk provisions	**–**	(6)
Impairment charges on debt security investments available-for-sale[1]	**–**	1
Loan impairment charges and other credit risk provisions	**52**	10
Customer charge for impairment losses as a percentage of closing gross loans and advances	**0.09%**	0.04%
Balances outstanding		
Non-performing loans	**1,268**	1,169
Impairment allowances	**737**	772
Gross loans and advances	**89,017**	63,625
Total allowances cover as a percentage of non-performing loans and advances	**58.12%**	66.04%

1 *In 2007, impairment charges on equity investments available-for-sale are classified in "Gains less losses from financial investments". In 2006, these impairment charges were classified in "Loan impairment charges and other credit risk provisions".*

34 Risk management *(continued)*

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, portfolios of highly liquid assets, debt instruments and certificates of deposit.

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.

In 2007, HSBC France continued with its balanced strategy aiming to raise the resources needed to develop its business activities at the lowest cost. As part of this strategy, HSBC France and KfW Förderbank (KfW promotional bank) signed their first agreement for a global loan of EUR 400 million to finance the purchase or construction of private homes in France.

HSBC France 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 2007, the average liquidity ratio of HSBC France was 116.06 per cent on an individual basis.

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.

34 Risk management *(continued)*

Market risk management

The objective of the Group's market risk monitoring is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with its status as a major provider of financial products and services.

Market risk 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 ALCO Committees (ALCO Balance Sheet and ALCO Market Risk) which ensure that adequate controls exist and set 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 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 of Global Banking and Markets 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). Since March 2005, the unit has been part of the Global Banking and Markets 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 and Product Control, and is made up of members of the DMRG, Product Control, MRM 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.

Consolidated financial statements (continued)

34 Risk management *(continued)*

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 concentration risk on securities and to book illiquidity provisions as necessary.

Markets ALCO

The Markets ALCO meets every month, and is chaired by the Deputy CEO in charge of the permanent control. Its role is to examine key issues relating to market risks.

Its task is to supervise market risks in a systematic manner, to ensure that appropriate controls exist and to approve the main rules included in the supervision system.

The Markets ALCO consists of Senior Management, the Heads of the business segments directly concerned, the Head of Market Risk and Product Control, the Head of Market Risk Management, the Global Banking and Markets General Secretary and the Head of Balance Sheet Financial Management.

The 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 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 again by the French Banking Commission in 2007 for capital requirements calculations. Since January 2007, HSBC France has been calculating a one-day VaR.

Although a useful guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

34 Risk management *(continued)*

– the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and

– VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

HSBC France recognises these limitations by supplementing its VaR limits by sensitivity limit structures. Additionally, stress testing scenarios are applied, both on individual portfolios and on HSBC France's consolidated positions. Stress scenarios are defined by a group of specialists in Paris (market Heads, controllers) in accordance with Group rules and practices.

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

(in millions of euros)	*Total*
At 31 December 2007	**9.53**
At 31 December 2006	5.40

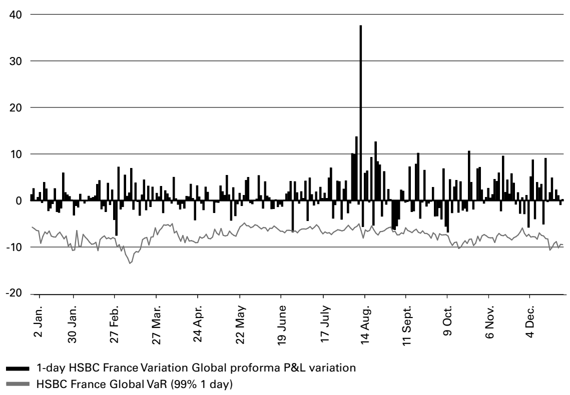
(in millions of euros)	*Average*	*Minimum*	*Maximum*
2007	**7.6**	**4.9**	**13.6**
2006	6.0	2.4	12.9

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 recorded result, in absolute terms, is lower than the calculated one day-VaR in 99 per cent of cases.

Pro forma back testing January-December 2007
(in millions of euros)



Consolidated financial statements (continued)

34 Risk management *(continued)*

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 2007	**0.40**	**10.56**	**5.94**	**10.70**
At 31 December 2006	0.21	4.82	0.97	5.11
Average				
2007	**0.30**	**8.27**	**2.96**	**8.04**
2006	0.26	6.49	0.91	5.78
Minimum				
2007	**0.11**	**4.40**	**0.74**	**4.96**
2006	0.10	2.75	0.12	2.36
Maximum				
2007	**0.66**	**12.46**	**6.54**	**13.70**
2006	0.64	13.08	2.31	11.87

34 Risk management *(continued)*

Positions taken with trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2007	**0.40**	**8.47**	**5.94**	**8.15**
At 31 December 2006	0.21	4.82	0.97	4.97
Average				
2007	**0.30**	**7.42**	**2.96**	**6.46**
2006	0.26	5.59	0.91	5.45
Minimum				
2007	**0.11**	**4.38**	**0.74**	**4.87**
2006	0.10	1.69	0.12	2.31
Maximum				
2007	**0.66**	**12.38**	**6.54**	**10.08**
2006	0.64	10.88	2.31	10.68

Positions taken without trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2007	**–**	**2.55**	**–**	**2.55**
At 31 December 2006	–	0.15	–	0.15
Average				
2007	**–**	**1.58**	**–**	**1.58**
2006	–	0.33	–	0.33
Minimum				
2007	**–**	**0.09**	**–**	**0.09**
2006	–	0.05	–	0.05
Maximum				
2007	**–**	**3.61**	**–**	**3.61**
2006	–	1.19	–	1.19

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 2007, 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.

Consolidated financial statements (continued)

34 Risk management *(continued)*

Capital requirements with respect to market risks breakdown as follows:

(in millions of euros)	**31 December 2007** *BIS*	**31 December 2007** *CAD*	31 December 2006 *BIS*	31 December 2006 *CAD*
Internal Model:	**92.0**	**92.0**	**71.6**	**71.6**
Foreign exchange risk	**5.4**	**5.4**	3.4	3.9
General interest rate risk	**91.6**	**91.6**	93.1	93.1
General equities risk	**39.2**	**39.2**	15.9	15.9
Netting effect	**(44.2)**	**(44.2)**	(40.8)	(40.8)
Standard methods:	**87.1**	**87.1**	**62.3**	**62.2**
Foreign exchange risk	**0.15**	**0.15**	0.10	0.10
General interest rate risk	**0.11**	**0.08**	0.17	0.12
Specific interest rate risk	**75.68**	**75.68**	59.5	59.5
General equities risk	**0.0**	**0.0**	0.0	0.0
Specific equities risk	**11.2**	**11.2**	2.5	2.5
Total	**179.1**	**179.1**	**133.9**	**133.8**

Structural interest rate management

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

Structural interest rate risk arises mainly from the variations in 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 necessary, the observed characteristics different from contractual characteristics are evaluated to determine the actual underlying interest rate risk associated with the product. ALCO Balance Sheet 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 Balance Sheet Financial Management Department (DGFB) 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.

The net exposure is managed through the use of derivatives 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 and ALCO Balance Sheet.

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. The structural foreign exchange exposure is mainly linked to these subsidiaries' profits retained in reserves. This exposure and the sensitivity of capital ratios to variation in exchange rates is monitored by and ALCO Balance Sheet.

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 eight times net capital. Eight groups had individual exposures exceeding 10 per cent of net capital at the end of 2007.

Loan loss provisions

At 31 December 2007, loan loss provisions represented 58.12 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 116.06 per cent in 2007 on an individual basis.

International solvency ratio (BIS ratio)

The HSBC France group's international solvency ratio (BIS ratio) was 9.81 per cent at 31 December 2007, compared with a minimum requirement of 8 per cent. The group's Tier 1 capital ratio was 8.81 per cent compared with a minimum requirement of 4 per cent.

Under the BIS definition, total HSBC France group capital amounted to EUR 4.92 billion at 31 December 2007, of which EUR 4.42 billion was Tier 1 capital.

The corresponding risk-weighted assets totalled EUR 50.14 billion, broken down as follows:

(in billions of euros)	
Credit risks, not including trading book	45.7
Trading book credit risks	3.03
Market risks	1.41

Special Purpose Entities

The group enters into certain transactions with customers in the ordinary course of business which involve the establishment of Special Purpose Entities (SPEs) some of which have been included in the group's consolidated balance sheet.

Where transactions involve the use of SPEs these are authorised centrally upon establishment to ensure appropriate purpose and governance. The activities of SPEs administered by the group are closely monitored by Senior Management. The use of SPEs is not a significant part of the group's activities and the group is not reliant on the use of SPEs for any material part of its business operations or profitability.

Vehicles sponsored by the group

The group re-assesses the required consolidation accounting tests whenever there is a change in the substance of a relationship between the group and an SPE for example, when there is a change in the group's involvement or there is a change in the governing rules, contractual arrangements or capital structure of the SPE.

Money market funds

The group has established and manages a number of money market funds which provide customers with tailored investment opportunities. These funds have narrow and well-defined objectives and typically the group does not aim to have any holdings in the SPEs of sufficient size to represent the majority of the risks and rewards of ownership.

Since July 2007, French dynamic money market funds have experienced high redemption requests caused by the investors' lack of confidence in funds which could contain exposure to subprime assets.

In the third quarter of 2007, the group acquired underlying assets and shares in two of its dynamic money market funds of EUR 1.2 billion and EUR 590 million respectively to fund asset redemptions. No additional shares were acquired in the fourth quarter. The group's aggregate holding in these funds at 31 December 2007 was EUR 667 million. The total AUM of these two funds at 31 December 2007 was EUR 2.1 billion. These funds were not consolidated by the group at 31 December 2007 because the acquisition of additional shares in these funds did not expose the group to the majority of risks and rewards of ownership.

Asset finance transactions

HSBC France's Asset and Structured Finance (ASF) business specialises in leasing and arranging finance for aircraft and other physical assets, which it is customary to ring-fence through the use of SPEs, and in structured loans and deposits where SPEs introduce cost efficiencies. HSBC France consolidates these SPEs where the substance of the relationship indicates that HSBC France controls the SPE.

35 Contingent liabilities and contractual commitments

(in millions of euros)	***31 December 2007***	*31 December 2006*
Contract amounts		
Contingent liabilities		
Acceptances and endorsements	**–**	–
Guarantees and assets pledged as collateral security	**6,779**	6,562
Other contingent liabilities	**94**	86
	6,873	6,648
Commitments		
Documentary credits and short-term trade-related transactions	**328**	305
Undrawn note issuing and revolving underwriting facilities	**26**	48
Undrawn formal stand-by facilities, credit lines and other commitments to lend:		
– 1 year and under	**5,363**	4,401
– over 1 year	**14,609**	12,258
	20,326	17,012

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.

35 Contingent liabilities and contractual commitments *(continued)*

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 2007**	At 31 December 2006
Guarantee type		
Acceptances and endorsements [1]	**–**	–
Financial guarantees [2]	**18**	22
Stand-by letters of credit which are financial guarantees [3]	**1,115**	5
Other direct credit substitutes [4]	**268**	1,252
Performance bonds [5]	**1,481**	11
Bid bonds [5]	**142**	74
Stand-by letters of credit related to particular transactions [5]	**50**	9
Other transaction-related guarantees [5, 6]	**3,705**	5,189
Other items	**94**	86
Total	**6,873**	6,648

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 fulfil 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: 2007 EUR 175 million (2006: EUR 79 million).*

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

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)	**2007**	2006
Acceptances and endorsements	**–**	–
Other items	**7**	15

Consolidated financial statements (continued)

36 Lease commitments

Finance lease commitments

(in millions of euros)	2007 Total future minimum payments	2007 Interest charges	2007 Present value	2006 Total future minimum payments	2006 Interest charges	2006 Present value
No later than one year	**1**	**–**	**1**	1	–	1
Later than one year and no later than five years	**2**	**(1)**	**1**	3	(1)	2
Later than five years	**–**	**–**	**–**	–	–	–
	3	**(1)**	**2**	4	(1)	3

There is no future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2007.

Finance lease receivables

(in millions of euros)	2007 Total future minimum payments	2007 Unearned finance income	2007 Present value	2006 Total future minimum payments	2006 Unearned interest income	2006 Present value
Lease receivables:						
– no later than one year	**285**	**(51)**	**234**	257	(35)	222
– later than one year and no later than five years	**1,140**	**(249)**	**891**	1,135	(209)	926
– later than five years	**1,365**	**(363)**	**1,002**	1,379	(376)	1,003
	2,790	**(663)**	**2,127**	2,771	(620)	2,151

At 31 December 2007, unguaranteed residual values of EUR 116 million (2006: EUR 115 million) had been accrued, and there is no accumulated allowance for uncollectible minimum lease payments receivable.

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.

37 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.

38 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.

38 Related party transactions *(continued)*

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.

	2007			2006		
	Number of persons	***Highest balance during the year***[1]	***Balance at 31 December (in millions of euros)***	*Number of persons*	*Highest balance during the year*[1]	*Balance at 31 December (in thousands of euros)*
Loans	**7**	**7,892**	**7,279**	8	7,930	6,563
Credit cards	**7**	**89**	**43**	8	24	15
Guarantees	**7**	**17**	**17**	8	17	17

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

(in thousands of euros)	**2007**	2006
Short-term employee benefits	**239**	228
Post-employment benefits	**254**	244
Long-term benefits	**1**	–
Termination fees	**75**	–
Share-based payment	**4,343**	4,320
	4,912	4,792

Directors' and other key management personnel shareholdings and options

	31 December 2007	31 December 2006
Number of share options from equity participation plans held by Directors and other key management personnel (and their connected persons)	**3,230,437**[3]	3,763,299
Number of share held by Directors and other key management personnel (and their connected persons)	**1,378,695**[2,3]	828,242[1,2]

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.*
3 *The number of Directors and other key management personnel is reduced to 7 persons compared to 8 persons at the end of 2006 (2 persons have left and 1 person is new).*

The Annual Report also includes a detailed description of Directors' remuneration (see pages 18 to 19 and 171 to 172).

b *Transactions with other related parties*

Transactions with other related parties of the Group

(in millions of euros)	**2007 Balance at 31 December**	2006 Balance at 31 December
Amounts due from joint ventures and associates:		
– subordinated	**–**	28
– unsubordinated	**–**	–
	–	28
Amounts due to joint ventures and associates	**–**	–

Consolidated financial statements (continued)

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

(in millions of euros)	**31 December 2007**	31 December 2006
Assets		
Trading assets	**3,457**	1,491
Derivatives	**11,343**	6,233
Loans and advances to banks	**6,037**	1,700
Loans and advances to customers	**41**	–
Financial investments	**129**	977
Other assets	**2,335**	1,358
Prepayments and accrued income	**98**	8
Liabilities		
Deposits by banks	**31,372**	7,860
Customer accounts	**589**	480
Trading liabilities	**2,962**	969
Derivatives	**12,426**	7,273
Other liabilities	**275**	514
Accruals and deferred income	**101**	58
Subordinated liabilities	**150**	650
Income Statement		
Interest income[1]	**301**	108
Interest expense[1]	**737**	402
Fee income	**145**	14
Fee expense	**117**	98
Gains less losses from financial investments	**60**	–
Other operating income	**2**	2
Dividend income	**–**	10
General and administrative expenses	**40**	41

1 *In 2007, including interests on trading assets and trading liabilities: EUR 115 million (2006: EUR 53 million).*

39 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 2007 financial statements.

On 29 February 2008, HSBC France, a wholly-owned subsidiary of the bank, received a firm offer from Banque Fédérale des Banques Populaires of EUR 2.1 billion for its seven French regional banking subsidiaries. On the basis of this offer, HSBC France has entered into exclusive discussions with Banque Fédérale des Banques Populaires. HSBC France will now commence consultations with representatives of the relevant employee representative bodies before making any final decision. Any transaction will be subject to regulatory approvals in France.

At 31 December 2007, the aggregate total assets attributable to the seven French regional banking subsidiaries were EUR 8.4 billion, and they generated net profits after tax of EUR 100 million for the year ended 31 December 2007.

Statutory Auditors' report on the consolidated financial statements

For the year ended 31 December 2007

To the shareholders,

Following our appointment as statutory auditors by your Annual General Meetings, we have audited the accompanying consolidated financial statements of HSBC France S.A. for the year ended 31 December 2007.

The consolidated financial statements have been approved by the Board of Directors. 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 2007 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 depreciations 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 the 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 value its financial instruments in accordance with applicable accounting principles and, for some of them, used 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 2008

KPMG Audit
A division of KPMG SA
Fabrice Odent
Partner

Léger & Associés
Michel Léger
Partner

Information on the parent company financial statements

The annual financial statements of HSBC France, as at 31 December 2007, were audited and gave rise to an unqualified opinion with emphasis of matter regarding the first application of CNC notice 2006-02 on accounting for home purchase savings plans and accounts.

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.

Balance sheets 2007-2006-2005

ASSETS

(in thousands of euros)	**2007**	2006	2005
Cash and balances at central banks	**4,292,739**	745,328	224,678
Treasury bills and other eligible bills	**31,796,857**	25,091,827	29,622,142
Loans and advances to banks	**43,284,929**	25,930,126	24,267,302
Loans and advances to customers	**61,214,168**	48,133,345	42,263,528
Debt securities	**7,524,035**	4,224,904	5,809,340
Equity shares	**520,254**	2,332	88,794
Other participating interests and long-term securities	**1,049,640**	1,369,984	1,380,091
Interests in related parties	**2,743,877**	3,730,146	3,072,604
Intangible fixed assets	**47,349**	52,297	57,627
Tangible fixed assets	**323,783**	322,271	318,344
Other assets	**10,084,356**	7,728,532	7,643,643
Prepayments and accrued income	**31,489,894**	22,510,394	1,092,891
TOTAL ASSETS	**194,371,881**	139,841,486	115,840,984
Memorandum items			
Financing commitments	**19,552,694**	16,205,692	13,983,286
Guarantees and endorsements	**6,524,504**	6,438,299	7,113,933
Securities commitments (other commitments received)	**2,621,065**	2,760,052	3,335,635

LIABILITIES

	2007		2006	2005
(in thousands of euros)	***Before appropriation***	***After appropriation***[1]	*After appropriation*	*After appropriation*
Deposits by banks	**59,421,892**	**59,421,892**	30,872,787	28,650,250
Customer accounts	**41,969,604**	**41,969,604**	34,590,383	33,852,874
Debt securities in issue	**24,993,802**	**24,993,802**	19,602,233	12,306,903
Other liabilities	**31,170,756**	**31,170,756**	27,143,833	34,729,103
Accruals and deferred income	**32,226,638**	**32,226,638**	23,191,323	1,812,088
Provisions for liabilities and charges	**370,846**	**370,846**	373,916	274,084
Subordinated liabilities	**272,843**	**272,843**	778,553	790,554
Called up share capital	**379,819**	**379,819**	378,415	376,190
Share premium account	**1,190,817**	**1,190,817**	1,164,372	1,125,028
Reserves	**1,209,830**	**1,210,107**	1,705,625	1,884,351
Special tax-allowable reserves	**41,699**	**41,699**	40,046	39,559
Retained earnings	**(3,506)**	**1,123,058**	–	–
Net profit of the year	**1,357,460**	–	–	–
Interim dividend	**(230,619)**	–	–	–
TOTAL LIABILITIES	**194,371,881**	**194,371,881**	139,841,486	115,840,984
Memorandum items				
Financing commitments	**509,162**	**509,162**	395,070	499,708
Guarantees and endorsements	**6,604,895**	**6,604,895**	5,542,331	3,181,953
Securities commitments	**2,796,874**	**2,796,874**	2,466,576	2,771,872

1 *Proposed appropriation.*

Profit and loss accounts 2007-2006-2005

(in thousands of euros)	**31.12.2007**	31.12.2006	31.12.2005
Income/(Expenses)			
Interest and similar income	**4,166,094**	2,891,139	1,881,242
Interest and similar expenses	**(4,228,756)**	(2,906,563)	(1,706,353)
Income from equity shares	**368,341**	311,088	811,487
Fees and commissions received	**611,619**	563,620	524,852
Fees and commissions paid	**(176,979)**	(193,689)	(158,074)
Dealing profits	**794,416**	693,986	501,291
Gains or losses on available-for-sale securities	**1,254**	31,731	(3,205)
Other operating income	**13,905**	32,334	85,390
Other operating expenses	**(10,464)**	(16,008)	(8,606)
Net operating income	**1,539,430**	1,407,638	1,928,024
General operating expenses	**(1,128,916)**	(1,012,283)	(973,307)
Depreciation and amortisation	**(51,148)**	(50,759)	(63,321)
Operating profit before provisions	**359,366**	344,596	891,396
Provisions for non performing debts	**(6,623)**	(24,621)	34,366
Operating profit after provisions	**352,743**	319,975	925,762
Gains or losses on disposals on fixed asset investments	**956,720**	107,978	(18,298)
Profit on ordinary activities before tax	**1,309,463**	427,953	907,464
Exceptional items	–	(1,296)	1,111
Income tax	**49,648**	8,194	26,032
Net recovery from regulatory provisions	**(1,651)**	(485)	1,062
Net attributable profit	**1,357,460**	434,366	935,669

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

(in thousands of euros)	**31.12.2007**	31.12.2006	31.12.2005
Net profit for the year			
– Total	**1,357,459.3**	434,365.5	935,668.5
– Per share (in euros) [1, 2]	**17.87**	5.74	12.44
Movements in shareholders' funds and the reserve for general banking risks (after appropriation of 2006 and 2005 net profit and proposed appropriation for 2007 net profit)			
– Change in revaluation difference	**(33.0)**	(57.0)	(690.6)
– Transfer to reserves and change in retained earnings		(178,669.0)	545,185.0
– Exceptional dividend paid from free reserves	**(495,761.0)**	–	–
– Change in revaluation reserve and special tax-allowable reserves	**1,653.0**	487.0	(1,748.5)
– New shares issued upon exercise of stock options	**21,913.0**	36,533.0	34,692.5
– Merger premium [3]	**5,936.0**	5,036.0	–
– Transition adjustment in respect of accounting for PEL and CEL provisions	**(3,506.0)**	–	–
– Transition adjustment in respect of discounting cash flows	**–**	–	(14,562.0)
Change in shareholders' funds	**(469,798.0)**	(136,670.0)	562,876.4
– Per share (in euros) [1, 2]	**(6.2)**	(1.8)	7.5
Proposed dividend			
– Gross	**230,618.9**	613,032.7	390,484.8
– Per share (in euros) [1, 2]	**3.04**	8.10	5.19

1 *Number of shares outstanding at year end (excluding own shares held): 75,963,895 in 2007; 75,683,045 in 2006; 75,237,930 in 2005.*
2 *Based on the weighted average number of shares outstanding (excluding own shares held), dividend per share amounts to EUR 3.05 in 2007 (75,698,434 shares), EUR 8,15 in 2006 (75,262,320 shares) and EUR 5.22 in 2005 (74,826,025).*
3 *Arising on merger of HSBC Asset Management Holding, Finanpar 17, Compagnie de Gestion de Patrimoine du CCF and Compagnie Financière des Iles du Rhône in 2007 and of Société Parisienne de Participations in 2006.*

Information on the parent company financial statements (continued)

Appropriation of net profit

(Article 295 of the decree no. 67-236 of 23 March 1967 on commercial companies)

(in thousands of euros)	**31.12.2007**	31.12.2006	31.12.2005
Sums available for distribution			
– Retained earnings	**–**	–	399,969
– Transition adjustment in respect of accounting for PEL and CEL provisions	**(3,506)** [1]	–	–
– Exit tax	**–**	–	4,987
– Discounting cash flows impact	**–**	–	(14,562)
Subtotal	**(3,506)**	–	390,394
– Net profit for the year	**1,357,460**	434,366	935,669
TOTAL (A)	**1,353,954**	434,366	1,326,063
Appropriation of income			
– Dividends	**230,619**	613,033	390,484
– Legal reserve	**277**	137	–
– Free reserve	**–**	(178,804)	935,579
TOTAL (B)	**230,896**	434,366	1,326,063
Retained earnings (A - B)	**1,123,058**	–	–

1 *First accounting of impairments on PEL and CEL.*

Five-year highlights

(Articles 133, 148 of the decree no. 67-236 of 23 March 1967 on commercial companies)

(in thousands of euros)	**2007**	2006	2005	2004	2003
Share capital at year end					
Called up share capital [1]	**379,819**	378,415	376,190	374,011	371,750
Number of issued shares	**75,963,895**	75,683,045	75,237,930	74,802,146	74,350,066
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)	**150,090,552**	30,470,306	32,661,166	–	–
Gross operating income (after compensation of Financial Instruments)	**–**	–	–	3,762,736	3,076,321
Profit before tax, depreciation and provisions	**1,347,356**	515,192	1,044,550	633,771	633,284
Profit after tax, depreciation and provisions	**1,357,460**	434,366	935,669	652,311	466,637
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**18.3**	7.2	14.3	9.1	9.3
Profit after tax, depreciation and provisions	**17.7**	5.7	12.4	8.7	6.3
Dividend paid per ordinary share, eligible as of 1 January	**3.04**	8.10	5.19	6.22	6.25
Employees (France)					
Number of employees [2]	**8,789**	8,500	7,749	7,344	6,997
Average number of employees (excluding employees available) [3]	**8,103**	7,763	7,197	6,879	6,614
Salaries and wages	**455,722**	389,163	341,642	330,246	288,738
Employee benefits	**206,607**	167,936	149,569	139,943	123,398
Payroll and other taxes	**46,694**	49,134	43,680	40,643	34,711
Incentive schemes and/or employee profit-sharing plan [4]	**25,728**	21,380	15,883	23,210	19,619

1 *Capital increases pursuant to the exercise of share options.*
2 *Banking status' employees, registered as at 31 December of each year.*
3 *Of which 4,894 executives and 3,209 non-executives in 2007; 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; of which 3,497 executives and 3,117 non-executives in 2003.*
4 *Based on previous year's profits.*

List of equity shares and debt securities held at 31 December 2007 (excluding trading securities)

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

(in thousands of euros)

A – Held-to-maturity securities	**190,640**
Debt securities	**190,640**
Treasury bills and other eligible bills	20,063
Other public sector securities	–
Money market instruments	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Bonds and similar	169,186
Accrued interest	1,391
B – Available-for-sale and portfolio activity securities	**2,586,213**
Debt securities	**2,065,959**
Treasury bills and other eligible bills	286,440
Other public sector securities	647,275
Money market instruments	–
Commercial paper	–
Negotiable certificates of deposit	77,378
Negotiable medium-term notes	–
Asset-backed securities	356,189
Bonds and similar	667,314
Negotiable medium-term notes issued by banks	–
Accrued interest	31,363
Equity shares	**520,254**
Equity shares and similar	4,929
Mutual fund units	515,325
TOTAL HELD-TO-MATURITY, AVAILABLE-FOR-SALE AND PORTFOLIO ACTIVITY SECURITIES	**2,776,853**

Interests in related parties, other participating interests and long-term securities

(in thousands of euros)

A – Other participating interests and long-term securities	**1,049,640**
Securities listed on a recognised French exchange	1,847
Unlisted French securities	334,095
Foreign securities listed on a recognised French exchange	–
Foreign securities listed elsewhere	26,007
Unlisted foreign securities	687,100
Accrued income	591
B – Interests in related parties	**2,743,877**
Listed French securities	–
Unlisted French securities	2,702,721
Listed foreign securities	–
Unlisted foreign securities	41,156
Accrued income	–
TOTAL INTERESTS IN RELATED PARTIES, OTHER PARTICIPATING INTERESTS AND LONG-TERM SECURITIES	**3,793,517**

Information on the parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2007

(Articles 247 and 295 of the decree no. 67-236 of 23 March 1967 on commercial companies)

(in thousands of currency units)	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	EUR330,515	99.97
Elysées Factor 103, avenue des Champs-Elysées - 75008 Paris (France)	Financial company	EUR3,800	EUR5,733	100.00
Crédit Commercial du Sud-Ouest 17, allée James Watt - Parc Chemin-Long 33700 Mérignac (France)	Bank	EUR12,078	EUR43,164	99.84
Société Francaise et Suisse 64, rue Galilée - 75008 Paris (France)	Investment company	EUR599	EUR13,055	100.00
Banque de Savoie 6, bd du Théâtre - 73000 Chambéry (France)	Bank	EUR6,853	EUR41,575	99.96
HSBC Picardie 3, rue de la Sous-Préfecture - 60200 Compiègne (France)	Bank	EUR6,007	EUR16,832	100.00
HSBC UBP 22, place de la Madeleine - 75008 Paris (France)	Bank	EUR52,941	EUR59,621	99.99
Banque Chaix 43, cours Jean Jaurès - 84000 Avignon (France)	Bank	EUR16,000	EUR52,804	100.00
Banque Dupuy, de Parseval 10, rue du Général de Gaulle - 34203 Sète Cedex (France)	Bank	EUR10,000	EUR26,060	60.00
Banque Pelletier Angle de la rue des Fusillés et du cours Julia Augusta 40100 Dax (France)	Bank	EUR12,376	EUR1,694	99.98
Société Marseillaise de Crédit 75, rue Paradis - 13006 Marseille (France)	Bank	EUR16,000	EUR229,311	100.00
HSBC Epargne Entreprise 15, rue Vernet - 75008 Paris (France)	Financial company	EUR16,000	EUR2,510	100.00
HSBC Investments (France) 4, place de la Pyramide, La Défense 9 92800 Puteaux (France)	Asset management	EUR6,460	EUR44,038	91.31

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		Loans and advances granted by HSBC France[1]	Guarantees given by HSBC France[1]	Prior-year sales[2]	Prior-year net profit or loss	Dividends received by HSBC France in the last financial year	Comments
Cost	Net						
EUR528,936	EUR528,936	–	–	EUR155,052	EUR42,279	–	–
EUR5,236	EUR5,236	–	–	EUR13,257	EUR168	–	–
EUR16,601	EUR16,601	–	–	EUR56,243	EUR7,144	EUR11,981	–
EUR60,384	EUR13,657	–	–	EUR367	EUR3,199	–	–
EUR28,707	EUR28,707	–	–	EUR44,406	EUR10,849	EUR10,703	–
EUR18,939	EUR18,939	–	–	EUR18,373	EUR3,450	EUR6,247	–
EUR110,199	EUR110,199	–	–	EUR131,150	EUR32,289	EUR33,086	–
EUR38,422	EUR38,422	–	–	EUR76,948	EUR19,530	EUR25,000	–
EUR10,347	EUR10,347	–	–	EUR37,847	EUR7,049	EUR3,735	–
EUR23,529	EUR23,529	–	–	EUR15,430	EUR3,261	EUR1,900	–
EUR73,632	EUR73,632	–	–	EUR200,724	EUR55,176	EUR73,690	–
EUR15,148	EUR15,148	–	–	EUR15,092	EUR70,427	–	–
EUR51,500	EUR51,500	–	–	EUR111,480	EUR45,289	EUR39,534	–

Information on the parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2007 (continued)

(Articles 247 and 295 of the decree no. 67-236 of 23 March 1967 on commercial companies)

(in thousands of currency units)

	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%) (continued)				
HSBC Securities (France) .... 103, avenue des Champs-Elysées - 75008 Paris (France)	Financial company	EUR12,626	EUR34,822	100.00
Sinopia Asset Management .... 4, place de la Pyramide, La Défense 9 - 92800 Puteaux (France)	Financial company	EUR3,387	EUR403	100.00
HSBC Private Bank France .... 117, avenue des Champs-Elysées - 75008 Paris (France)	Bank	EUR42,958	EUR128,923	100.00
Nobel .... 1, avenue Franklin Roosevelt - 75008 Paris (France)	Investment company	EUR128,468	EUR213,001	100.00
SAF Palissandre .... 64, rue Galilée - 75008 Paris (France)	Financial company	EUR500,037	EUR3,062	100.00
HSBC Leasing (France) .... 39, rue Bassano - 75008 Paris (France)	Financial company	EUR281,760	EUR46,791	100.00
Société Financière et Mobilière .... 103, avenue des Champs-Elysées - 75008 Paris (France)	Financial company	EUR40,000	EUR56,416	100.00
HSBC Financial Products (France) .... 103, avenue des Champs Elysées - 75008 Paris (France)	Financial company	EUR30,108	EUR5,861	58.25
Foncière Elysées S.A. .... 103, avenue des Champs-Elysées - 75008 Paris (France)	Holding company	EUR14,043	EUR19,569	99.99
Vernet Expansion .... 14, rue Vernet - 75008 Paris (France)	Investment company	EUR8,456	EUR(678)	100.00
Société Immobilière Malesherbes Anjou .... 103, avenue des Champs-Elysées - 75008 Paris (France)	Holding company	EUR13,412	EUR18,965	100.00
Charterhouse Management Services Ltd .... 8 Canada Square, London E14 5HQ (United Kingdom)	Investment company	GBP25,000	GBP20,030	100.00
HSBC Real Estate Leasing (France) .... 15, rue Vernet - 75008 Paris (France)	Financial company	EUR38,255	EUR9,853	58.22

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		Loans and advances granted by HSBC France[1]	Guarantees given by HSBC France[1]	Prior-year sales[2]	Prior-year net profit or loss	Dividends received by HSBC France in the last financial year	Comments
Cost	Net						
EUR55,988	EUR55,988	–	–	EUR5,155	EUR69,184	–	–
EUR51,483	EUR51,483	–	–	EUR48,103	EUR14,042	EUR31,368	–
EUR439,166	EUR439,166	–	–	EUR87,823	EUR22,192	EUR2,976	–
EUR207,648	EUR207,648	–	–	EUR73,750	EUR35,342	EUR32,117	–
EUR500,037	EUR500,037	–	–	EUR33,082	EUR21,760	EUR6,500	–
EUR281,756	EUR281,756	–	–	EUR(9,457)	EUR4,413	–	–
EUR84,053	EUR84,053	–	–	EUR12,137	EUR13,433	EUR10,500	–
EUR29,212	EUR29,212	–	–	EUR94,175	EUR7,951	–	–
EUR44,476	EUR35,762	–	–	EUR3,129	EUR2,527	EUR11,270	–
EUR8,519	EUR8,519	–	–	EUR14	EUR28	–	–
EUR49,385	EUR49,385	–	–	EUR20,063	EUR4,364	–	–
EUR34,090	EUR34,090	–	–	nd	GBP(1,405)	–	–
EUR22,270	EUR22,270	–	–	EUR105,647	EUR7,689	EUR2,338	–

Information on the parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2007 (continued)

(Articles 247 and 295 of the decree no. 67-236 of 23 March 1967 on commercial companies)

(in thousands of currency units)

	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				
2 – Associated companies (10-50%)				
CCF & Partners Asset Management Ltd 8 Canada Square, London E14 5HQ (United Kingdom)	Financial company	GBP5,000	GBP5,651	14.71
Banian Investments UK Ltd 22, Grenville Street, St Helier, Jersey JE4 8PX, Channel Islands (United Kingdom)		GBP900,000*	GBP1,315*	19.00
V.E.A. Limited Ground Floor, Lancaster Court, Forest Lane, St Peter Port, Guernsey (United Kingdom)		GBP355,250*	GBP983*	19.00
Lafarge Finance Limited Seaton House, 17 Seaton Place, St Helier, Jersey (United Kingdom)		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 – Related party companies not included in paragraph 2				
a) French companies (aggregated)	–	–	–	*
b) Foreign companies (aggregated)	–	–	–	–

** 2006 figures (2007 figures non available).*
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		Loans and advances granted by HSBC France[1]	Guarantees given by HSBC France[1]	Prior-year sales[2]	Prior-year net profit or loss	Dividends received by HSBC France in the last financial year	Comments
Cost	Net						
EUR5,775	EUR5,775	–	–	GBP1,620	GBP(5,403)	GBP633	–
EUR409,082	EUR409,082	–	–	GBP41,786*	GBP41,791*	GBP13,725	–
EUR272,448	EUR272,448	–	–	GBP9,411*	GBP9,481*	GBP9,181	–
EUR272,721	EUR272,721	–	–	nd	GBP3,850*	GBP9,000	–
EUR2,051	EUR2,034	–	–	–	–	–	–
EUR1,820	EUR1,291	–	–	–	–	–	–
EUR1,007	EUR292	–	–	–	–	–	–
EUR0	EUR0	–	–	–	–	–	–

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

HSBC France group's main subsidiaries at 31 December 2007

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 (100%) 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%)

Global Banking and Markets

Real Estate	Foncière Elysées SA (100%) HSBC Real Estate Leasing (France) (100%) HSBC REIM (France) (100%) Immobilière Bauchart (100%) Réalimo Négociations (100%) SAS Saussaies Haussmann (100%)
Structured financing and Global Banking	Société Financière et Mobilière (100%) Neuilly Saint Paul (100%) HSBC Leasing (France) (100%) HSBC Leasing (Belgium) (100%) CCF Charterhouse GmbH (100%) France Titrisation (33%)
Markets	HSBC Securities (France) (100%) HSBC Financial Products (France) (100%) Financière d'Uzès (34%)
Other	HSBC Securities Services (France) (100%)

– *Stated percentages indicate the group's percentage of control.*
– *The subsidiaries are classified in the area where they principally operate.*

Asset Management

France	HSBC Investments (France) (100%) Halbis Capital Management (France) (100%) HSBC Investments FCP (France) (100%) Sinopia Asset Management (100%) Sinopia Financial Services (100%) Sinopia Société de Gestion (100%) HSBC Epargne Entreprise (100%)
Outside France	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 business activities of HSBC France's principal subsidiaries (continued)

Retail and Commercial Banking
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
HSBC Hervet	**3,195,632**	2,986,069	**347,320**	285,014	**42,279**	62,787	**99.97**	99.97

HSBC Hervet has been part of the HSBC France platform since November 2005, and operates a network of 78 branches in Greater Paris and the Centre region. It is focused on retail banking for individual and business customers. Despite a significant improvement in retail banking operating performance, net operating income declined by 9.4% to EUR 155.1 million as a result of margin erosion. Expenses were well under control and fell by 1.3%. Effective risk control allowed a net release from provisions of EUR 1.0 million. Profit after tax was EUR 42.3 million.

HSBC de Baecque Beau	**1,120,403**	1,074,549	**64,838**	47,207	**16,773**	17,662	**99.92**	99.91

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 in November 2005. Net operating income was EUR 53.5 million in 2007, up 14.1% on strong business growth. Expenses rose by only 3.4%, and this led to a sharp 27.4% increase in operating profit (EUR 26.6 million) and a further improvement in the cost efficiency ratio to 50.2%. The allowance for credit losses totalled EUR 1.6 million. Profit after tax was EUR 16.8 million, down 5.0%.

HSBC UBP	**2,472,945**	2,213,009	**112,562**	98,285	**32,289**	47,745	**100.0**	100.0

In 2007, 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 France group. 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 brand. On the strength of a vigorous sales effort, loans and advances to customers were up 11.2% at year-end and deposits rose by 12.9%. Despite this business growth, margin erosion and the risk control policy held net operating income to EUR 133 million, a decrease of 2.8%. Operating profit was down 8.8% at EUR 50.9 million. The allowance for credit losses was limited to EUR 0.9 million. Profit after tax was EUR 32.3 million.

HSBC Picardie	**500,584**	422,402	**23,063**	23,208	**3,450**	6,249	**100.0**	100.0

HSBC Picardie, a retail bank with 16 branches, migrated to the Group's HUB platform in 2005 and has been operating under the HSBC brand since November 2005. Brisk business activity in 2007 was reflected by an 8.7% rise in loans and advances outstanding and a 4.1% increase in deposit balances. This was not quite enough to offset the effect of margin erosion, and both net operating income (EUR 18.4 million) and operating profit before provisions (EUR 5.9 million) were down slightly compared with 2006. The allowance for credit losses was limited to EUR 1.0 million through effective risk management. Profit after tax was EUR 3.4 million.

Crédit Commercial du Sud-Ouest	**972,259**	896,556	**55,242**	54,954	**7,144**	12,536	**100.0**	100.0

Net operating income fell by 3.8% in 2007 as a result of lower returns on demand deposits. This was partly offset by very strong commercial activity, resulting in deposits rising by 6.2% and loans outstanding by 15.6%, while fee and commission income increased by 4.2%. One of the major events in 2007 was the start of a major IT migration project, which will continue in 2008. General operating expenses rose by 15.8% including the cost of the migration, and only 3.4% without it. Operating profit fell by 39.9%, or by 13.2% excluding migration costs. The allowance for credit losses remained under control and was less than in 2006. Profit after tax was EUR 7.1 million, down from EUR 12.5 million in 2006. Excluding non-recurring factors, profit after tax fell by 12.9%.

Société Marseillaise de Crédit	**3,510,813**	3,376,265	**245,848**	245,311	**55,176**	73,695	**100.0**	100.0

In 2007, fund inflows increased by 5.9%. Average demand deposits rose by 8.5%, with a 5.8% increase for personal customers and 12% for companies. Higher interest rates made time deposits more attractive, and average time deposits increased by 60% to EUR 330 million. Inflows into investment vehicles continued to rise, with 3.5% growth in amounts outstanding in mutual funds and 13.1% growth in life insurance. Net new money in life insurance was down 0.4% at EUR 266 million, of which 32.2% was invested in unit-linked products versus 23.3% the previous year. Average credit outstandings were up 21%, with a 7.6% rise for short-term lending and 23.3% for medium-term lending. Although business levels were firm, net banking income fell by 4.6% to EUR 200.7 million. This was caused by a 11.1% drop in value added to EUR 117.8 million, partly offset by a 5.8% rise in fee and commission income to EUR 82.9 million (life insurance fees +11.5% and transfer fees +12%). The year-on-year comparison suffered from the completion of EUR 3 million of investment transactions in 2006 and, most importantly, the delayed impact of rate cuts, which was estimated at around EUR 12.5 million in 2007. Stripping out these factors to isolate the bank's "commercial growth", net operating income was up 4%. General operating expenses came in down 1.9% at EUR 126.9 million. Gross operating income was EUR 73.8 million, down from EUR 85.9 million in 2006. Once again, there was a release from risk allowances, contributing EUR 5.9 million to earnings. Disposal gains were lower in 2007 than in 2006, and profit after tax fell by 25.1% to EUR 55.2 million. At 31 December 2007, Société Marseillaise de Crédit had a liquidity ratio of 119% and a strong cost efficiency ratio of 63.2%. During the year, SMC continued to implement initiatives to win new customers as part of its Croissance Sud strategic plan. This resulted in 10,222 new customers in target segments, in line with the bank's objectives, and business volumes from companies rose by 11%. Internet services continued to make significant progress, with penetration rising to 43% among personal customers and 37% among companies.

* *Comprising share capital + reserves + FRBG.*

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

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Banque de Savoie	**1,018,234**	951,602	**48,428**	45,600	**10,849**	13,768	**99.9**	99.9
Banque Chaix	**1,314,977**	1,244,351	**68,804**	68,630	**19,530**	25,514	**100.0**	100.0
Banque Marze	**211,087**	204,781	**9,849**	9,802	**2,215**	3,879	**100.0**	100.0
Banque Pelletier	**434,741**	334,603	**14,070**	13,095	**3,261**	2,911	**100.0**	100.0
Banque Dupuy, de Parseval	**885,558**	731,271	**35,713**	30,612	**7,049**	11,326	**100.0**	100.0
Elysées Factor	**291,311**	247,869	**9,656**	9,354	**168**	302	**100.0**	100.0

Banque de Savoie

A mixed year in 2007. Banque de Savoie put in a good commercial performance in 2007, against a tough background caused by a particularly difficult winter season. Deposits rose by 7.5% to EUR 812.6 million. This was driven mainly by a sharp increase in interest-paying deposits, in line with rising short-term interest rates. Loan production remained firm, and loans outstanding increased by 5.2% to EUR 577.7 million. In life insurance, net new money remained strong at EUR 51.9 million. Despite this robust performance, net operating income fell by 8.9% to EUR 44.4 million. Although fee and commission income was excellent, rising by 6.2%, value added fell substantially as a result of two main factors: weak deposit growth resulting from a poor winter season, followed by particularly adverse returns from asset-liability management in 2007. Moreover, value added had been boosted in 2006 by an exceptional EUR 1.6 million gain on mutual fund disposals. The bank maintained a firm grip on expenses, in line with the budget, and operating profit came in at EUR 16.1 million, although this represents a significant decline relative to 2006. The cost efficiency ratio was 63.7%. The allowance for credit losses remained small, at just 0.2% of credit outstandings. Profit after tax was EUR 10.9 million. In 2008, we intend to regain strong momentum in winning high-quality customers. This effort will be greatly helped by our professionalism, responsiveness and constant desire to give our customers a warm welcome and the right advice, together with our in-depth knowledge of the winter sports business.

Banque Chaix

There was a sharp acceleration in commercial activity again in 2007. New customer numbers rose by 17%, and the percentage of customers equiped rose by 22% relative to 2006. Loans outstanding increased by 11.3% to EUR 719.7 million. Loan production in 2007 was EUR 232 million, up 14.6%. Total deposits posted a 9.2% increase to EUR 1,130.7 million. Demand deposits rose by 4.3%. Savings and investment inflows increased favourably by 6.0% to EUR 2,151 million. Assets under management totalled EUR 2,872.4 million, up 7.3% on 2006. Value added fell by 2.2% to EUR 48.9 million. Fee and commission income rose by 8% to EUR 27.6 million, versus EUR 25.5 million in 2006. Banking fees and commissions were up 11.3% at EUR 17.8 million. Net operating income came to EUR 77.0 million, down 3.5%. Operating expenses before impairment charges were EUR 42.5 million. Net additions to reserves totalled EUR 4.1 million, including net additions for customer risks of EUR 2.5 million. Profit after tax on a non-consolidated basis was EUR 20.9 million, down 18% from EUR 25.5 million in 2006. The cost efficiency ratio deteriorated slightly to 55.3%, from 52.5% in 2006.

Banque Marze

The growth in commercial activity seen in 2006 accelerated throughout 2007. Total customer deposits rose by 8.2% to EUR 181.1 million. Demand deposits rose by 7.8%. Loans distributed to customers increased by 10.6% to EUR 147.9 million. Assets under management posted a 7.8% increase to EUR 450.7 million. Value added fell by 26.9% to EUR 6.6 million. Excluding items that gave an exceptional boost to value added in 2006, the decline was 8.8%. Fee and commission income increased by 10.2%. General operating expenses came in down 1.9% at EUR 6.3 million. Net operating income came to EUR 10.8 million, down 16.4%. Net allowances to customer reserves declined by 14.7% to EUR 0.9 million. Profit after tax fell by 37.5% to EUR 2.2 million. The cost efficiency ratio was 57.7%, versus 49.1% in 2006.

Banque Pelletier

Banque Pelletier, headquartered in Dax, operates in the southern part of Aquitaine. Further development offset negative interest rate movements and resulted in a 1.6% increase in net operating income to EUR 15.4 million. In addition, firm control over general operating expenses and risks led to a 12% increase in profit after tax to EUR 3.3 million.

Banque Dupuy, de Parseval

Banque Dupuy, de Parseval achieved firm business growth in 2007. Total inflows of funds increased by 7.8%, credit outstandings by 20%, and total funds under management by 13%. However, net operating income was lower than in 2006. The main cause of this was the decline in value added, mainly resulting from the non-recurrence of exceptional gains realised on the securities portfolio in 2006. Fee and commission income rose by 5.7%. General operating expenses remained under control, rising by 1.7%. Profit after tax was EUR 7 million.

Elysées Factor

Elysées Factor, a wholly owned member of the HSBC Group since 2005, achieved 20% business growth in 2007, with net revenue of EUR 1,320 million (amount of invoiced receivables purchased). Net operating income increased by 17.5% to EUR 13.2 million, and the pre-tax contribution to group earnings was EUR 0.3 million. In 2007, Elysées Factor continued for a second year to overhaul its operational and commercial activities as part of an ambitious business plan. This initiative included a revamp of IT operating systems and the product range, a move to strengthen sales teams, the reorganisation of the Customer Department and the introduction of new risk management methods and procedures.

* *Comprising share capital + reserves + FRBG.*

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

Global Banking and Markets
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
HSBC Securities (France)	**454,234**	124,425	**47,448**	41,910	**69,416**	5,539	**100.0**	100.0
	The sharp increase in total assets was caused by settlement accounts for market transactions carried out on behalf of Financial Products. Profit for the year includes the capital gain on the sale of Euronext shares (available-for-sale securities).							
HSBC Financial Products (France)	**23,488,506**	11,524,545	**35,969**	18,100	**7,951**	17,870	**100.0**	100.0
	Business in 2007 was seriously affected by the financial crisis in the second half of the year. HSBC Financial Products (France) revenues saw very strong year-on-year growth in the first half. However, progress in the second half was sharply reduced as a result of the crisis and its impact on customer business levels in equity products. HSBC Financial Products (France) 2007 profits were also affected by the high level of day-one and bid/offer provisions. Despite that, HSBC Financial Products (France) continued to invest in IT throughout 2007 to support its business development.							
Foncière Elysées SA	**36,910**	45,826	**33,613**	33,615	**2,527**	11,268	**100.0**	100.0
	In 2007, Foncière Elysées posted a profit of EUR 2.5 million, consisting of dividends paid by its two main subsidiaries: HSBC Real Estate Leasing (property leasing) and HSBC REIM (third-party property asset management). Foncière Elysées' subsidiaries continued their development in 2007. HSBC Real Estate Leasing merged with Sofimurs—former property leasing subsidiary of HSBC Hervet—in order to combine the Group's French property leasing activities within a single platform. HSBC REIM continued to collect new money through SCPI Elysées Pierre, totalling EUR 74 million.							
HSBC Real Estate Leasing (France)	**816,255**	661,877	**48,108**	38,694	**7,689**	3,096	**100.0**	100.0
	In 2007, this specialist property leasing subsidiary merged with HSBC Hervet subsidiary Sofimurs, which carried out the same activity for the network. The Group's property leasing activities have therefore been combined into a single platform, allowing it to optimise its development. Lease financing production in respect of 2007 amounted to EUR 121 million.							

Asset Management
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
HSBC Investments (France)	**155,132**	148,231	**53,026**	53,466	**45,287**	45,565	**100.0**	100.0
	Sustained business development with European institutional clients in 2007 in a very difficult market environment. Assets under management and under distribution amount EUR 73.4 billion at the end of the year, increasing by 11.5% compared to EUR 65.8 billion end of 2006. The credit market crisis impacted strongly business development with large European corporate clients who withdrew from enhanced cash funds and slowed down their investments in regular money market funds. More generally, European intermediary clients withdrew from Asian emerging equity funds due to the rising risk aversion. In charge of business development in Continental Europe for HSBC Group Asset Management (ex Germany, Austria and Eastern European countries), HSBC Investments (France) extended its geographical coverage in 2007 and opened two new branches in Sweden and Spain.							
Halbis Capital Management (France)	**62,622**	61,860	**19,361**	18,067	**9,469**	7,406	**100.0**	99.7
	2007 was a contrasted year for the French entity of Halbis, the active fundamental asset manager of the HSBC Group. At the end of 2007, assets under management amount EUR 14.6 billion, decreasing by 23% compared to EUR 18.8 billion at the end of 2006. The short term fund management activity has been strongly impacted by the credit market crisis and more particularly HSBC Eotop (net flows EUR -3.3 billion). Strong innovation during the year with the launches of new "absolute return" strategies (Global Macro and Go Alpha). Business development of the Euro zone equity (large, small-mid caps) and multi-asset expertises was successful thanks to outstanding track-records, resulting in positive net flows by institutional and intermediary clients.							
Sinopia Asset Management	**63,798**	80,057	**27,404**	31,659	**14,042**	27,113	**100.0**	100.0
	At the end of 2007, global assets under management are stable, reaching EUR 31.5 billion compared to EUR 32.5 billion at the end of 2006. 2007 main highlights are the increasing coverage of large international institutional clients (in Canada, the Netherlands, Nordics, Asia) and the consolidation of absolute return strategies assets. Asset management activities were dominated by a strong repositioning on global thematic equities (launches of HSBC Global Power & Resources, HGIF Climate Change et HGIF Emerging Wealth) and the good resistance of both active and passive quantitative strategies.							

** Comprising share capital + reserves + FRBG.*

Asset Management (continued)
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
HSBC Epargne Entreprise	**133,835**	81,045	**18,510**	19,373	**70,427**	(862)	**100.0**	100.0

HSBC Epargne Entreprise, a wholly owned subsidiary of the HSBC Group, is in daily contact with 12,000 employer companies and manages 700,000 individual accounts. The employee savings mutual funds that it offers are managed by HSBC Investments (France) and had assets under management of EUR 4.1 billion at 31 December 2007. This puts the Group in eighth place among employee savings managers. The 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.

Private Banking
(in thousands of euros)

HSBC Private Bank France	**1,276,002**	1,317,309	**171,881**	167,927	**22,192**	6,301	**99.9**	99.9

Outstandings at year-end amounted to EUR 11.7 billion. Gross new money was underpinned by synergies with HSBC's other operations in France, in both Paris and the regions. International co-operation within the Group also increased substantially. In terms of products:
– structured products and alternative funds launched in partnership with the HSBC Group were particularly successful;
– growth in loans secured on business assets and insurance continued at a rapid pace;
– strong mutual fund performance was rewarded with a number of acknowledgements, including second place in *Mieux Vivre votre Argent*'s specialist bank category and first place for the Patrimoine fund in the equity category of the AGEFI *Grands Prix de la Gestion d'Actifs* awards.

Revenue growth was firm, and together with an excellent grip on costs, this drove a strong increase in earnings.

Own investments
(in thousands of euros)

SFS	**46,134**	43,851	**13,654**	13,535	**3,200**	119	**100.0**	100.0

SFS realised a significant capital gain on the disposal of its stake in HSBC Asset Management Holding, allowing it to report full-year net profit of EUR 3.2 million. The disappointing performance of the financial markets in the second half of 2007 had a negative impact on certain unrealised capital gains in its investment portfolio.

Nobel	**397,060**	410,734	**341,469**	305,321	**35,342**	32,923	**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. Regarding listed stocks, Nobel takes minority stakes, typically in mid-cap stocks with little or no following by investment analysts, using a value fundamental 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. Nobel generated operating profit of EUR 46.7 million in 2007. 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.

Other subsidiary of the HSBC Group in France
(in thousands of euros)

Erisa	**14,519,848**	13,138,994	**368,748**	311,302	**40,508**	38,282	**100.0** [1]	50.0

Premium income gross of reinsurance was up 8.6% to EUR 2.1 billion. Technical reserves rose by 10.2% to EUR 13.7 billion (26% unit-linked). Total net profit was EUR 40.5 million, up 5.8% relative to 2006.

* *Comprising share capital + reserves + FRBG.*
1 *100% held by HSBC Bank plc Paris Branch since 20 December 2007.*

Investment policy

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 by HSBC CCF Asset Management Holding of HSBC Multimanager subsidiaries to HSBC Multimanager Ltd.
  Disposal: EUR 12.2 million.
- Disposal of 40 per cent of CCF group'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 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 in 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.
  Cost: EUR 500 million.

2007

- Acquisition by HSBC France of 50.01 per cent of Erisa and Erisa IARD to Swiss Life.
  Cost: EUR 228.75 million.
- Disposal by HSBC France of 100 per cent of Erisa and Erisa IARD to HSBC Bank plc Paris Branch.
  Proceeds: EUR 528 million.
- Disposal by HSBC France of 13.65 per cent of HSBC Private Banking Holdings (Suisse) SA to HSBC Europe (Netherlands) BV.
  Proceeds: EUR 1,020 million.
- Disposal by HSBC France of 5.2 per cent of Infrastructure Leasing & Financial Services Limited (India).
  Proceeds: EUR 27.6 million.
- Disposal by HSBC Private Bank France of 3 per cent of Canal+ Réunion.
  Proceeds: EUR 2.7 million.
- Acquisition by HSBC France of 25 per cent of FinanCités.
  Cost: EUR 0.55 million.
- Subscription by HSBC France to capital increase of Vernet Expansion to allow Forepar to repurchase Elysées Forêts shares from clients.
  Cost: EUR 1.5 million.
- Subscription by HSBC France to capital increase of HSBC Leasing (France).
  Cost: EUR 75.5 million.
- Disposal by HSBC France and HSBC Securities (France) SA of 1.2 per cent of Euronext.
  Proceeds: EUR 134.7 million.
- Capital decrease of Charterhouse Management Services Limited.
  Proceeds: EUR 444.5 million.
- Capital decrease of CCF & Partners Asset Management Limited.
  Proceeds: EUR 40.6 million.

Other legal documents relating to the Annual General Meeting to be held on 28 May 2008

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 2007

An agreement 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 was entered into in 2007:

– Agreement between Group Audit France and Group Audit UK

  An agreement between HSBC Bank plc and HSBC France sets out the terms of Group Financial Services & European Audit's involvement in internal audits in some of the HSBC France group's business areas, in particular the scope of audits and how they are conducted (annual programme, information sharing and monitoring to ensure that recommendations are implemented). This agreement will not give rise to any invoices.

  S K Green, Chairman of HSBC Bank plc and a Director of HSBC France, and C-H Filippi, a Director of HSBC Bank plc and Chairman of HSBC France, did not take part in the vote on this agreement at the Board meeting of 27 February 2007.

An agreement 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 was renewed in 2007.

– Use of the HSBC brand

  The agreement between HSBC Holdings plc and HSBC France giving HSBC France and its subsidiaries free use of the HSBC brand has been renewed. The Board of Directors noted this renewal in its 27 February 2007 meeting.

Agreements entered into in prior years and still in force and effect during 2007

Three agreements entered into in 2001 by HSBC France and its direct 99.99 per cent shareholder, HSBC Bank plc Paris Branch, remained in full force and effect during 2007. These were a pooling of resources agreement designed to provide the parties with various services relating to their activities at cost, an agreement for the provision of services covering various activities and a group tax relief agreement.

The agreement entered into in 2003 with HSBC Bank Bank plc regarding the invoicing of services covering market activities of the HSBC France group, remained in full force and effect during 2007.

The agreement entered into in 2003 with HSBC UBP, HSBC Hervet, and HSBC de Baecque Beau remained in effect in 2007 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 2007.

The "Group Software" agreement entered into in 2006 with HSBC Holdings plc, HSBC France and other companies of the HSBC Group, remained in full force and effect during 2007 regarding the share of the IT development expenses engaged by the HSBC Group.

The agreement entered into in 2006 between HSBC France and HSBC UBP, HSBC Hervet, HSBC Picardie and HSBC de Baecque Beau regarding the integration of branch networks and the pooling of support functions remained in full force and effect during 2007.

The service agreement entered into in 2006 between HSBC Insurance Holdings and HSBC France concerning insurance intra-Group services, remained in full force and effect during 2007.

Statutory auditors' report on regulated agreements and commitments

Year ended 31 December 2007

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 2007

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 and commitments exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements of which we were notified. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of article 92 of 23 March 1967 Decree, to evaluate the benefits arising from these agreements prior to their approval.

We conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

Agreement between Group Audit France and Group Audit UK

– Directors or companies concerned by the agreement: HSBC Bank plc, shareholder of over 10 per cent of the voting stock of HSBC France.

– Purpose of this agreement: further a request of Commission Bancaire, this agreement entered into between HSBC France and HSBC Bank plc sets out the terms of Group Financial Services & European Audit's involvement in internal audits in some of the HSBC France group's business areas. It sets out the scope of audits and how they are conducted (annual programme, information sharing and monitoring to ensure that recommendations are implemented). This agreement was authorised by the Board of Directors on 27 February 2007.

– Terms and conditions of the agreement: this agreement will not give rise to any invoices.

Agreement regarding the HSBC brand

– Directors or companies concerned by the agreement: HSBC Holdings plc, holding more than 10 per cent of the voting stock of HSBC France.

– Purpose of this agreement: the renewal of the agreement giving HSBC France and its subsidiaries regarding the use of the HSBC brand has been noted by the Board of Directors on 27 February 2007.

– Terms and conditions of the agreement: this agreement gives free use of the HSBC brand.

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 charge of GBP 5.7 million in 2007.

– According to the "Group Software" contract entered into in 2006 between HSBC Holdings plc and HSBC France and other Group companies, the expenses engaged by the Group regarding IT development are invoiced. 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.

– The developments recorded in the books in 2007 represented charges of USD 17.7 million.

Other legal documents relating to the Annual General Meeting to be held on 28 May 2008 (continued)

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 535 thousand in 2007.

– Service level agreement for all market activities of the HSBC France group with respect to the agreement settled in 2003. The invoices represented a charge of GBP 329 thousand in 2007.

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 2007:

– 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 1.7 million in 2007.

– 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 75.7 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 2007.

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.

These agreements did not give rise to any payment of commission in 2007.

With HSBC UBP, HSBC Hervet, HSBC Picardie and HSBC de Baecque Beau

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. According to these agreement entered into in 2006, the staff costs of the subsidiaries' employees are invoiced to HSBC France at cost while HSBC France does not invoice the subsidiaries for the services provided, which is treated for tax purposes as a grant of subsidy. The invoices recorded in the books represented charges of EUR 21.2 million in 2007. Regarding income, the HSBC France staff seconded invoiced to these subsidiaries amounted to EUR 14.0 million. The services which were not invoiced to these subsidiaries and which were treated for tax purposes as a grant of subsidy by HSBC France, amounted to EUR 39.5 million.

With HSBC Insurance Holdings Limited

Under the terms of this agreement which has been in the process of being finalized since the end of 2006, HSBC Insurance Holdings Limited invoiced an Insurance Advisory service to the different entities of the Group, including HSBC France. This agreement had no financial impact in 2007.

Paris La Défense and Paris, 23 April 2008

KPMG Audit
A division of KPMG SA
Fabrice Odent
Partner

Léger & Associés
Michel Léger
Partner

Other legal documents relating to the Annual General Meeting to be held on 28 May 2008 (continued)

Proposed resolutions to the Annual General Meeting

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 2007, and the Chairman's and the Statutory Auditors' reports on corporate governance and internal control, 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, considering retained earnings of EUR -3,506,000.00 and the year's profit of EUR 1,357,460,899.67 and after the allocation of EUR 277,097.00 to the legal reserve, notes the existence of a profit available for distribution amounting to EUR 1,353,677,802.67, as follows:

Dividend	EUR 230,618,944.80
Retained earnings	EUR 1,123,058,857.87

According to the decision of the Board of Directors on 25 July 2007, an advance dividend amounting to EUR 3.04 per share has already been paid to the 75,861,495 shares issued at that date, for a total amount of EUR 230,618,944.80.

As this advance dividend equals to the total amount of the dividend, no new payment will be made.

This dividend is not eligible for the tax deduction referred to in Article 158 paragraph 3.2 of the General Tax Code.

The shareholders duly note that dividends paid in respect of the three previous financial years were as follows:

Year	Net dividend per share
2004	EUR6.22
2005	EUR5.19
2006	EUR8.10

Dividends paid in respect of the three previous years are not eligible for the 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 2007, 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, the shareholders hereby approve the agreements described therein under the conditions referred to in Article L. 225-40 of said Code.

Fifth resolution

The shareholders hereby re-elect Mr Christophe de Backer, 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 2011.

Sixth resolution

The shareholders hereby re-elect Mr Charles-Henri Filippi, 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 2011.

Seventh resolution

The shareholders hereby re-elect Mr Philippe Houzé, 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 2011.

Eighth resolution

The shareholders hereby re-elect Mr Igor Landau, 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 2011.

Ninth 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
Shares are obligatorily registered. They result in registration on an individual account pursuant to the conditions and according to the methods stipulated by the legal and regulatory provisions in force.

Voting rights
Each fully paid up share entitles the holder to one vote.

Transfer of shares
The transfer of shares takes place by way of a transfer from one account to another.

There are no restrictions on disposals of shares or negotiable securities giving access to the share capital in cases of inheritance or liquidation of matrimonial property, or on disposals to a spouse, descendant or ascendant.

Similarly, there are no restrictions on disposals of shares to natural or legal persons appointed as directors, subject to the number of shares provided by Article 11 of these Articles of Association.

Any other disposals or transfers of shares or negotiable securities giving access to the capital, including between shareholders, whether free of charge or for valuable consideration, whether the said disposals or transfers take place by way of donation, exchange, disposal, capital contribution,

Information on HSBC France and its share capital (continued)

merger, demerger, partial asset transfer, distribution following the liquidation of a shareholding company, universal asset transfer from a company, realisation of a security, or by way of compulsory or voluntary public tender, and whether they relate only to legal or beneficial ownership, shall be subject to the approval of the Board of Directors according to the conditions described below.

The transferor's request for approval, which must be served on the Company, shall state the name, forenames, profession and address of the transferee, or the company name and registered office in the case of a company, the number of shares or negotiable securities giving access to the capital of which the disposal or transfer is envisaged, the price offered or an estimate of the value of the shares or negotiable securities giving access to the capital. This request for approval must be countersigned by the transferee.

Approval will be given in the form of a notice, or will be deemed to have been given, in the absence of a reply within three months of the date of the request for approval.

The approval decision will be taken by the Board of Directors, by a majority of the directors present or represented. The transferor shall be entitled to vote, if he is a director. The decision will not be justified, and in the event of a refusal, shall never give rise to any claim.

If the proposed transferee is approved, the transfer will be completed in favour of the transferee upon presentation of the supporting documents, which must be supplied within one month of service of the decision of the Board of Directors, failing which a fresh approval will be required.

If the Company does not approve the proposed transferee, the transferor will have a period of eight days from the date of service of the refusal to notify the Board whether or not he abandons his proposal.

If the transferor does not expressly abandon his proposal under the conditions set out above, the Board of Directors shall be obliged within a period of three months from the date of service of the refusal, to arrange for the purchase of the shares or negotiable securities giving access to the capital, by a shareholder, a third party, or, with the transferor's consent, by the Company, with a view to a reduction of the capital.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by shareholders or third parties, the Board of Directors shall inform the transferor of the names, forenames, profession and address of the purchasers, or of the company name and registered office in the case of a company. The sale price shall be fixed by agreement between the purchasers and the transferor.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by the Company, the Board of Directors must first ask for the transferor's consent. The transferor must give his answer within eight days of receiving this request.

In the absence of agreement between the parties, the price of the shares and negotiable securities giving access to the capital shall be determined by an expert valuation, under the conditions provided by Article 1843-4 of the Civil Code.

If, upon the expiry of a period of three months, the purchase has not been completed, approval shall be deemed to have been given. However, this period may be extended by the courts on an application by the Company.

The transferor may, at any time, and at the latest within a period of eight days of determination of the price by the expert, abandon the disposal of his shares or negotiable securities giving access to the capital.

Disposals to the purchaser or purchasers nominated by the Board of Directors shall be completed by means of a transfer order signed by the Chairman of the Board of Directors, who shall serve it on the transferor within eight days of its date, with an invitation to attend the registered office to receive the sale price, which shall not bear interest.

All notices, requests, answers, opinions, waivers, information and consents provided for by this Article shall be validly given if sent by extrajudicial instrument or by registered letter with proof of receipt requested.

When an expert is used to determine the price of the shares or negotiable securities giving access to the share capital under the conditions provided by Article 1843-4 of the Civil Code, the expert's fees shall be paid in equal shares by the assignor and assignee.

This approval clause, which is the purpose of this Article, also applies to disposals of allocation rights in the event of capital increases by way of incorporation of reserves, profits or issue premiums, and disposals of subscription rights in respect of capital increases in cash or individual waivers of subscription rights in favour of named individuals. In these cases, the rules governing approval and the buyback conditions shall apply to the securities subscribed, and the time given to the Board of Directors to notify the third party subscriber whether it accepts him as a shareholder shall be three months from the date of final completion of the capital increase. In the event of a buyback, the price shall be equal to the value of the new shares or negotiable securities giving access to the capital determined under the conditions provided by Article 1843-4 of the Civil Code.

Custodian and financial service

HSBC France.

History of the company

1894: the Banque Suisse et Française (BSF) is founded. It will become the Crédit Commercial de France.

1965: first CCF advertising campaign.

CCF keeps growing, particularly on an international level. Its presence outside of France is strengthened with the opening of branches, subsidiaries and 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, 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 2007, the share capital amounted to EUR 379,819,475 divided into 75,963,895 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	10 May 2007
Expiry date	10 July 2009
Maximum nominal amount	EUR120 million
Used amount	EUR0 million

Information on HSBC France and its share capital (continued)

Movements in share capital

	2007			2006		
	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	**75,683,045**	**378,415,225**	**—**	75,237,930	376,189,650	—
Exercise of share options [1]	**280,850**	**1,404,250**	**20,508,296.50**	445,115	2,225,575	34,307,829.70
Reduction of share capital by cancellation of own shares held	**—**	**—**	**—**	—	—	—
At 31 December	**75,963,895**	**379,819,475**	**—**	75,683,045	378,415,225	—

1 *Of which:*

2007:
66,000 shares issued at EUR 37.05
91,775 shares issued at EUR 73.48
79,200 shares issued at EUR 81.71
43,875 shares issued at EUR 142.50

2006:
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

2005			2004			2003		
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
74,802,146	374,010,730	—	74,350,066	371,750,330	—	74,117,066	370,585,330	—
435,784	2,178,920	32,513 604.12	452,080	2,260,400	28,896,678.34	233,000	1,165,000	12,818,145
—	—	—	—	—	—	—	—	—
75,237,930	376,189,650	—	74,802,146	374,010,730	—	74,350,066	371,750,330	—

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

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

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

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 31.12.2007	Expiry date
1997	715,000	FRF243	EUR37.05	0	2007
1998	728,000	FRF482	EUR73.48	100,379	2008
1999	909,000	FRF536	EUR81.71	304,402	2009
2000	909,000	—	EUR142.50	602,250	2010

The maximum number of HSBC France shares that may be issued pursuant to the exercise of share options is 1,007,031, 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 2007

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

	2007	2006	2005	2004	2003
Number of shares at 31 December	**75,963,895**	75,683,045	75,237,930	74,802,146	74,350,066
Average number of shares outstanding during the year	**75,698,434**	75,262,320	74,826,025	74,374,838	74,129,833
EPS [1]	**EUR12.88**	EUR8.14	EUR14.95	EUR9.80	EUR8.46
Net dividend	**EUR3.04**	EUR8.10	EUR5.19	EUR6.22	EUR6.25
Exceptional dividend	**EUR6.54**	—	—	—	—
Dividend + tax credit	**—**	—	—	—	EUR9.375
Payout [2]	**74.4%**	100%	34.9%	63.8%	74.1%

1 *Calculated on the weighted average number of shares outstanding after deducting own shares held.*
2 *Dividend paid as a percentage of reported earnings.*

At the Annual General Meeting to be held on 28 May 2008, the Board will propose a net dividend of EUR 3.04 per EUR 5 nominal share. As the proposed amount equals the advance dividend decided by the Board on 25 July 2007, there would be no new payment.

Dividends which are not claimed within five years of the payment date lapse and become the property of the French Treasury.

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

	2007	2006	2005	2004	2003
Total HSBC France group	**14,795**	14,901	14,417	14,387	14,157
HSBC France	**8,789**	8,503	7,752	7,346	6,994
Subsidiaries and branches	**6,006**	6,398	6,665	7,041	7,163

Full time equivalents

	2007	2006	2005	2004	2003
Total HSBC France group	**14,279**	14,379	13,878	13,908	13,577
HSBC France	**8,486**	8,204	7,494	7,104	6,754
Subsidiaries and branches	**5,793**	6,175	6,384	6,804	6,823

2006/2007 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 in 2007.

2007 headcount: 8,789, an increase of 3.4 per cent or 286 employees on 2006. The main increase was among employees with management status, whose numbers rose by 7.5 per cent in 2007 (compared to 11.1 per cent in 2006).

New employees (excluding Group mobility): 1,458 in 2007, of which 1,034 new permanent employees and 424 contract staff, including 117 young people on work placements.

Departures: 1,185. Resignations accounted for 32.8 per cent of total departures in 2007.

The workforce composition trends seen in previous years continued, with management staff making up a higher proportion of the workforce, and women making up a higher proportion of managers.

The proportion of management staff increased from 58.5 per cent at the end of 2006 to 61.2 per cent at the end of 2007. The number of women managers also increased and 45.2 per cent of HSBC France's management staff are now women (44.1 per cent in 2006).

At 31 December 2007, 785 employees worked part-time under the flexible working agreements signed by HSBC France, representing 8.9 per cent of the staff.

HSBC France employed 240 staff with disabilities at the end of 2007.

Employees, remuneration, share offering and incentive schemes (continued)

Employee relations and collective bargaining agreements

- Annual negotiation on pay for the HSBC France platform;
- Labour representation rights agreement for the HSBC France platform;
- Agreement on the collective organisation of days off in lieu of overtime for the HSBC France platform;
- Agreement relating to the organisation of work within the IT Department as part of the HUB C2 project;
- Agreement on changes to the management and operational rules of the "time savings account" system as part of the exceptional HUB arrangements;
- Agreement relating to implementation of the industry-wide agreement of 25 February 2005 on occupational pensions in banking;
- Amendments to the 2006 incentive and profit-sharing agreement;
- Agreement establishing a new occupational benefits system for the HSBC France platform.

Pay

In 2007, 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:

- a minimum pay increase for all employees (excluding employees with exempt status);
- a collective bonus for all employees (excluding 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.

Training

In 2007, training efforts focused on the company's new IT application, known as HUB.

However, business-specific training continued as well.

In the network, Premier advisors received training in sales and the Lacpomac method, as part of the international launch of the Premier offering.

Customer advisors received training in wealth management, covering areas including asset management, estate planning and non-trading property companies.

For company advisors, the emphasis was on financial analysis and credit risk.

Employees changing jobs within the network received 24 training sessions, over 12-20 days, as part of work-study programmes.

Classroom-based and e-learning training was provided on the Markets in Financial Instruments directive (MIFID) for all sales staff.

In the operations department, training was also given on SEPA (Single European Payment Area), supplementing the final sessions of staff briefings relating to customer satisfaction.

A comprehensive management training structure is now in place, and training was offered to managers at all levels in Paris, and some managers in London.

English-language courses continued, and the range of teaching methods was expanded.

New arrivals attend training sessions that present the HSBC Group and deal with security and money laundering issues.

Overtime, temporary staff and sub-contracting

In 2007, the number of hours of overtime worked increased by 6 per cent. Hours declared under the exceptional work agreement increased by 59 per cent, mainly due to work relating to the HUB changeover.

IT development and migration work continued in 2007, leading to a similar level of sub-contracting to that seen 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.

Absenteeism

Maternity leave increased by 5 per cent in 2007. Absences caused by sickness and occupational accidents were stable relative to 2006.

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 3.0 million.

The amount of subsidy paid to the mutual insurance fund increased by 5.9 per cent to over EUR 1 million.

HSBC France devoted more than EUR 7.5 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 France group ("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, an annual employee share offering has been made to employees.

HSBC France employees with at least three months' service have 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 2007, the key terms and conditions were as follows:

– Offer period: 15 June to 6 July 2007.

– Offer price: the offer price was based on the average HSBC Holdings plc share price during the twenty London Stock Exchange trading sessions preceding 23 May 2007, the date on which the Remuneration Committee of HSBC Holdings plc decided to make the offering.

Employees, remuneration, share offering and incentive schemes (continued)

- 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 10.9675.
  - 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 12.3385.
- Maximum investment: the limit on the total number of HSBC shares subscribed by the HSBC France group employees was 3,300,000 in 2007. If applications exceeded this amount, contributions through own personal funds were to be scaled down, although a minimum contribution of EUR 10,000 was guaranteed.

Employees took up a total of 2,940,087 HSBC Holdings plc shares, representing a total contribution of EUR 32.6 million.

Incentive schemes

A profit-sharing agreement and an incentive agreement were signed on 21 June 2006 covering the HSBC France platform (HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie) for a term of three years (2006, 2007 and 2008).

Profit-sharing agreement

The HSBC France platform's profit-sharing entitlement is calculated using an alternative method rather than the standard method applicable under ordinary law. This method is as follows: 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 reported net profit less 5 per cent of shareholders' funds.

In addition, the profit-sharing and incentive scheme 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 restated operating profit, restated net operating income and the cost efficiency 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 efficiency ratio.

As stated above, 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

In 2006, an amendment to HSBC France's employee savings plan introduced 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.

CCF Options awarded:

Date of Annual General Meeting authority	7.05.1997	7.05.1997	7.05.1997	7.05.1997
Date of Board meeting	7.05.1997	29.04.1998	7.04.1999	12.04.2000
Total number of options awarded	715,000	728,000	909,000	909,000
of which: number of options awarded to members of the Management Committee	305,000	321,000	312,000	161,000*
Total number of beneficiaries	127	199	331	502
Number of Management Committee beneficiaries	29	31	29	10*
First exercise date	7.06.2000	7.06.2000	7.06.2000	1.01.2002
Expiry date	7.05.2007	29.04.2008	7.04.2009	12.04.2010
Exercise price	FRF243 (EUR37.05)	FRF482 (EUR73.48)	EUR81.71	EUR142.50**
Discount to average quoted share price	5%	5%	5%	5%
Number of options exercised at 31 December 2007	695,000	610,121	592,598	264,250
Number of options lapsed	20,000	17,500	12,000	42,500
Number of options outstanding	0	100,379	304,402	602,250

* *Executive Committee.*
** *Discount to HSBC offer price of EUR 150 per share.*

Employees, remuneration, share offering and incentive schemes (continued)

Key regulations governing share option plans

The regulations governing all share option plans still in force and effect were approved by the Board of Directors at its meeting of 7 May 1997.

However, under these regulations, option holders were entitled to exercise all their outstanding share options during the period of HSBC's public offer for CCF in 2000, with the exception of those awarded in 2000, which were not exercisable before the close of the offer. In view of the adverse tax effects–for both beneficiaries and CCF–that would have resulted from a breach of the lock-up period required under Article 163 bis-C of the French General Tax Code, HSBC offered option holders the benefit of a liquidity contract in the CCF shares issued upon exercise of their options during the offer period, subject to two undertakings:

- not to sell the CCF shares issued upon exercise of their options on terms likely to incur a tax or social security cost to CCF; 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 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 HSBC ordinary shares determined using the ratio applicable to the offer, adjusted for any changes in the share capital of either HSBC or CCF.

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 since then 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 tax regulations applicable in France.

In 2005, the HSBC Group significantly revised its share option and share policy to its employees and adopted the HSBC Share Plan, which was approved by its Annual General Meeting held in May 2005. These rules include a French sub-plan (Schedule 3 of the general rule) which complies with the legal and tax regulations applicable in France. This plan comprises Performance share awards, Restricted share awards and Achievement share awards. The aim of the HSBC Share Plan is to align the interests of executives to the creation of shareholder value and recognise individual performance and potential. Awards are also made under this plan for recruitment and retention purposes. From 2006, the general policy of the HSBC Group is to award shares instead of share options (except in case of specific legal and tax 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 options used to be awarded each year in late April or at the beginning of May. The shares are awarded in March after the announcement of annual results.

Special report

HSBC France

Information required under the "New Economic Regulations" Act on share options awarded in 2007

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 2007 in respect of 2006

In 2007, only Charles-Henri Filippi, Chairman and CEO of HSBC France at that time, was awarded shares subject to performance conditions as a member of the HSBC Group Management Board. The other Senior Executives were awarded shares without performance conditions.

– Shares subject to performance conditions [1]

	Face value of the shares awarded in EUR	Expected value of the shares awarded [2] in EUR	Award price GBP/share	Date of award	Vesting date
Value of the shares awarded to Executive Directors					
C-H Filippi	1,600,000	704,000	8.936358	05.03.2007	05.03.2010

1 *See above pages 170 and 171.*
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 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.*

Employees, remuneration, share offering and incentive schemes (continued)

HSBC Holdings plc shares awarded in 2008 in respect of 2007

From 2008, only Group General Managers will be awarded shares with performance conditions. Following changes to the structure of HSBC France's Executive Management in 2007, Executive Directors no longer receive shares with performance conditions.

All HSBC France Executive Directors now receive shares without performance conditions, otherwise known as "Restricted Shares".

— Shares without performance conditions

	Face value of the shares awarded	Award price GBP/share	Date of award	Vesting date
Value of the shares awarded to Executive Directors				
P Boyles	USD948,000	7.848143	03.03.2008	03.03.2010
C de Backer	EUR1,040,000	7.848143	03.03.2008	03.03.2010
G Denoyel	EUR470,000	7.848143	03.03.2008	03.03.2010
Total value of the 10 highest awards of shares (employees or former employees)	EUR8,223,305	7.848143	03.03.2008	03.03.2010

Information on options exercised in 2007

CCF options

	Options exercised	Exercise price EUR/share	Date of award	Expiry date
Options exercised by Executive Directors				
C-H Filippi	19,000	81.71	07.04.1999	07.04.2009
G Denoyel	10,000	81.71	07.04.1999	07.04.2009
Total 10 highest options exercises (employees or former employees)	90,500	37.05 to 142.50 (average price: 78.44)	1997 to 2000	2007 to 2010

HSBC Holdings plc options

	Options exercised	Exercise price GBP/share	Date of award	Expiry date
Options exercised by an Executive Director				
P Careil	120,000	6.91	2003	2013
Total 10 highest options exercises (employees or former employees of the HSBC France group)	446,000	6.91 to 8.712 (average price: 7.72)	2001 to 2003	2011 to 2013

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 the 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 HSBC Holdings plc ordinary 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 in 2007.

	Options exercised	Exercise price EUR per share	Date of award	Expiry date
Total options exercised by 10 employees	61,880	10.84 to 22.22 (average price: 16.41)	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 2007, the date of the last audited and published financial statements.

The main post-balance sheet events are:

HSBC receives firm offer for regional subsidiaries in France

On 29 February 2008, HSBC France, a wholly-owned subsidiary of HSBC Holdings plc ("HSBC"), has received a firm cash offer of EUR 2,100 million for its seven French regional banking subsidiaries (the "Regional Banks") from Banque Fédérale des Banques Populaires.

On the basis of this offer, HSBC France has entered into exclusive discussions with Banque Fédérale des Banques Populaires. Groupe Banque Populaire is a French based universal multi-brand mutual banking group. Banque Fédérale des Banques Populaires is the central body of the Groupe Banque Populaire which coordinates the activities of its members.

The Regional Banks of HSBC France are: Société Marseillaise de Crédit; Banque de Savoie; Banque Chaix; Banque Marze; Banque Dupuy, de Parseval; Banque Pelletier; and Crédit Commercial du Sud-Ouest.

HSBC-branded branches in France, which are concentrated in France's major urban centres and provide strong coverage of the Greater Paris area and HSBC's Global Banking and Markets, Private Banking, Commercial Banking, Asset Management and Insurance activities are unaffected by the offer.

As at 31 December 2007, under IFRS accounts, the aggregate total assets attributable to the Regional Banks were EUR 8,380 million with shareholders' equity of EUR 564 million. In the year ended 31 December 2007, the Regional Banks generated net profits after tax of EUR 100 million. The Regional Banks have 400 branches (excluding nine HSBC-branded branches which are not included in the offer) and employ some 2,950 people. The Regional Banks account for under 40 per cent of HSBC's personal customers in France and, in 2007, generated less than 20 per cent of the pre-tax profits of HSBC France.

The proposed price represents a multiple of 21.0 times 2007 earnings after tax and a multiple of 3.7 times the shareholders' equity as at 31 December 2007.

HSBC France will consult with representatives of the relevant employee representative bodies before making any final decision. Any transaction will be subject to regulatory approvals in France. Completion would occur within six months.

HSBC Global Banking and Markets and Goldman Sachs International are acting as financial advisers to HSBC.

With HSBC Premier positioned as a prestige brand, HSBC France is targeting nearly 40 per cent growth in HSBC Premier customers in France by 2010

Five years after launching the HSBC Premier concept in France and having rolled out the product worldwide (37 countries in 5 continents), HSBC is building a real commercial branding strategy around HSBC Premier, to help strengthen its market share amongst mass affluent customers in France.

HSBC in France has already a considerable head start as one third of the 600,000 customers who have chosen HSBC in France are Premier customers, representing nearly 10 per cent of the whole Group's HSBC Premier customer base. HSBC in France is now targeting growth of 12 per cent per year in this customer base through to 2010.

Outlook

A major objective of the HSBC Group in France in 2008 is to continue developing its activities with the support of the HSBC brand and differentiating itself increasingly. Following the 2005 rebranding and the 2006 and 2007 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. In particular the new HSBC Premier offer, launched in France at the beginning of 2008, will be supported by advertising campaigns. In order to strengthen its position on the Commercial Banking market, HSBC France will also launch in the first half of 2008 ten Corporate Banking Centres both in Paris and in the regions.

The Insurance business is the subject of an ambitious development plan, launched in 2007. 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. Erisa and Erisa IARD became HSBC Assurances Vie (France) and HSBC Assurances IARD (France) respectively on 7 January 2008. Since then all the Insurance products are "HSBC Assurances" branded.

According to the press release of 29 February 2008, HSBC France and Banque Fédérale des Banques Populaires have entered into exclusive discussions regarding the HSBC France regional subsidiaries for a six months period. Furthermore, SMC has planned to sell to HSBC France its eight branches operating under the HSBC brand since 2006.

The investments in technology will continue to be maintained. In fact a major 2008 project is the merger of HSBC France banking subsidiaries operating under the HSBC brand (HSBC Hervet, HSBC de Baecque Beau, HSBC Picardie and HSBC UBP) with HSBC France. The legal merger planned to take place in Summer 2008 will be followed by operational mergers, i.e. banking, IT, commercial…, in the last quarter of 2008 for HSBC Hervet and HSBC de Baecque Beau and in the first half of 2009 for HSBC UBP and HSBC Picardie.

In 2008, the HSBC Group will maintain its Corporate responsibility efforts in France. In particular, the HSBC France group intends to 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

Mr. Peter Boyles, Chief Executive Officer.

Statement by the responsible person for the Registration Document

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

To the best of my knowledge, the financial statements have been prepared in line with the relevant accounting standards and give a true and fair view of assets and liabilities, financial position and results of operations of the company and of all the entities included in the consolidation, and the report on activities on pages 2 to 6 presents a faithful reflection of the business evolution, the results and the financial position of the company and of all the entities included in the consolidation, as well as a description of the principal risks and principal uncertainties affecting them.

I have obtained a completion letter from the Company's Statutory Auditors in which they confirm that they have verified the information presented in this document on the financial position and the financial statements, and also that they have read this entire document.

The Statutory Auditors have issued reports on the financial information presented in this document, available on page 135 of this document regarding the consolidated financial statements, and on page 136 regarding the parent company financial statements, which contain remarks.

Paris, 24 April 2008

CEO, Peter Boyles

Responsible persons for auditing the financial statements

	Date first appointed	Date re-appointed	Date term ends
Incumbents			
KPMG[1] Represented by Fabrice Odent 1, cours Valmy 92923 Paris La Défense Cedex	2001	2006	2012
Léger & Associés[2, 3] Represented by Michel Léger 52, rue La Boétie 75008 Paris	2007	–	2012
Alternates			
Gérard Gaultry[1] 1, cours Valmy 92923 Paris La Défense Cedex	2001	2006	2012
François Allain[1,3] 2, rue Hélène-Boucher 78286 Guyancourt Cedex	2007	–	2012

1 *Member of the Compagnie Régionale des Commissaires aux Comptes of Versailles.*
2 *Member of the Compagnie Régionale des Commissaires aux Comptes of Paris.*
3 *Appointed by the General Meeting held on 10 May 2007 following the resignations of BDO Marque & Gendrot from its function of incumbent Statutory Auditor and of Patrick Giffaux from its function of alternate Statutory Auditor, due to the merger of BDO Marque & Gendrot with Deloitte.*

Cross-reference table

This cross-reference table refers to the main headings required by the European Regulation 809/2004 (Annex XI) implementing the directive known as “Prospectus”.

Cross-reference table (continued)

According to Article 28 of the European Regulation 809/2004, are included by reference in this Registration Document, the consolidated financial statements for the year ended 31 December 2006 and the Statutory Auditors' report on the financial consolidated statements, presented on pages 66-121 and 145 of the Annual Report and Accounts 2006 filed with the AMF on 10 May 2007 under reference number D07-0438.

This Registration Document includes the annual financial report:

These documents are available on the website www.hsbc.fr and on the AMF's website www.amf-france.org.

Network of offices

HSBC NETWORK IN FRANCE

HSBC France
246 branches
103, avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40
Facsimile: 33 1 40 70 70 09
Web: www.hsbc.fr

HSBC Hervet
78 branches
1, place de la Préfecture
18000 Bourges
Telephone: 33 1 57 66 50 00

HSBC de Baecque Beau
Subsidiary of HSBC Hervet
1 branch
3, rue des Mathurins
75440 Paris Cedex 09
Telephone: 33 1 44 94 42 42
Facsimile: 33 1 44 94 42 00

HSBC Picardie
16 branches
3, rue de la Sous-Préfecture
60200 Compiègne
Telephone: 33 3 44 38 73 00
Facsimile: 33 3 44 38 73 21

HSBC UBP
58 branches
22, place de la Madeleine
75008 Paris
Telephone: 33 1 57 66 60 00

HSBC FRANCE SUBSIDIARIES

RETAIL BANKING AND DISTRIBUTION

Banque Chaix
68 branches
43, cours Jean Jaurès
BP 353
84027 Avignon Cedex 1
Telephone: 33 4 90 27 27 27
Facsimile: 33 4 90 14 99 99
Web: www.banquechaix.fr

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
11 branches
BP 76
Avenue de Roqua
07205 Aubenas Cedex
Telephone: 33 4 75 87 49 10
Facsimile: 33 4 75 87 49 11
Web: www.banque-marze.fr

Banque Pelletier
13 branches
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
58 branches
BP 109
6, boulevard du Théâtre
73001 Chambéry Cedex
Telephone: 33 4 79 33 93 10
Facsimile: 33 4 79 33 94 83
e-mail: info@banque-de-savoie

Crédit Commercial du Sud-Ouest
57 branches
BP 30112
Parc Chemin Long
17, allée James-Watt
33704 Mérignac Cedex
Telephone: 33 5 56 13 72 72
Facsimile: 33 5 56 13 72 79
e-mail: info@ccso.fr

Société Marseillaise de Crédit
156 branches
75, rue Paradis
13006 Marseille
Telephone: 33 4 91 13 33 33
Facsimile: 33 4 91 13 55 15
Web: www.smc.fr

Elysées Factor
103, avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 41 11 74 20
Facsimile: 33 1 47 90 72 20

GLOBAL BANKING AND MARKETS

HSBC Securities (France) SA
103, avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 56 52 44 00
Facsimile: 33 1 56 52 44 10

HSBC Securities Services (France)
Immeuble Ile-de-France
4, place de la Pyramide
La Défense 9
92800 Paris La Défense
Telephone: 33 1 41 02 48 73
Facsimile: 33 1 41 02 67 34

ASSET MANAGEMENT

HSBC Investments (France)
Immeuble Ile-de-France
4, place de la Pyramide
La Défense 9
92800 Paris La Défense
Telephone: 33 1 41 02 46 85
Facsimile: 33 1 41 02 48 50

Halbis Capital Management (France)
Immeuble Ile-de-France
4 place de la Pyramide
La Défense 9
92800 Paris La Défense
Telephone: 33 1 41 02 46 86

Sinopia Asset Management
Immeuble Ile-de-France
4, place de la Pyramide
La Défense 9
92800 Paris La Défense
Telephone: 33 1 41 02 52 00
Facsimile: 33 1 41 02 52 20

HSBC Epargne Entreprise (France)
15, rue Vernet
75008 Paris
Telephone: 33 1 40 70 24 27
Facsimile: 33 1 41 02 45 67

Service Epargne Entreprises (S2E)
Subsidiary of HSBC Epargne Entreprise (France)
32, rue du Champ de Tir
44300 Nantes
Telephone: 33 2 51 85 59 88
Facsimile: 33 2 51 85 66 66

PRIVATE BANKING

HSBC Private Bank France
117, avenue des Champs-Elysées
75386 Paris Cedex 08
Telephone: 33 1 49 52 22 00
Facsimile: 33 1 49 52 22 09

OTHER OFFICES OF THE HSBC FRANCE GROUP

HONG KONG
Sinopia Asset Management (Asia-Pacific) Limited
Level 22, HSBC Main Building
1 Queen's Road Central, Hong Kong
Telephone: 85 02 2284 1600
Facsimile: 85 02 2284 1601

ITALY
HSBC Investments (France)
Piazzeta Bossi, 1, 20121 Milan
Telephone: 39 02 72 437 496
Facsimile: 39 02 72 437 490

LUXEMBOURG
LGI
Subsidiary of HSBC Private Bank France
17, boulevard Roosevelt
L-2450 Luxembourg
Telephone: 352 22 38 33 1
Facsimile: 352 22 38 34
e-mail: lgi@e-lgi.com

SPAIN
HSBC Investments (France)
Plazza Pablo Ruiz Picasso, 1
Torre Picasso, 28020 Madrid
Telephone: 34 91 456 6970
Fax: 34 91 456 6111

SWEDEN
HSBC Investments (France)
Birger Jarlsgatan 25
SE-111 45 Stockholm
Telephone: 46 8 4545435
Fax: 46 8 4545451

UNITED KINGDOM
Sinopia Asset Management (UK) Limited
78 St. James's Street, London SW1A 1EJ
Telephone: 44 20 7991 8888
Facsimile: 44 20 7024 1999

OTHER OFFICES OF THE HSBC GROUP IN FRANCE

HSBC Bank plc Paris Branch
15, rue Vernet, 75008 Paris
Telephone: 33 1 40 70 70 40
Facsimile: 33 1 58 13 96 48

HSBC Assurances Vie (France)[1]
Immeuble Ile-de-France
4, place de la Pyramide
La Défense 9
92009 Paris La Défense
Telephone: 33 1 41 02 40 40
Facsimile: 33 1 41 02 49 84

HSBC Assurances IARD (France)[2]
Immeuble Ile-de-France
4, place de la Pyramide
La Défense 9
92009 Paris La Défense
Telephone: 33 1 41 02 40 32
Facsimile: 33 1 41 02 89 84

1 *New name of Erisa since 7 January 2008. 100% held by HSBC Bank plc Paris Branch since 20 December 2007.*
2 *New name of Erisa IARD since 7 January 2008. 100% held by HSBC Bank plc Paris Branch since 20 December 2007.*

Network of offices (continued)

HSBC INTERNATIONAL NETWORK*

Services are provided by around 10,000 offices in 83 countries and territories:

EUROPE	OFFICES
Armenia	8
Belgium	3
Channel Islands	35
Cyprus	2
Czech Republic	10
France	833
Germany	13
Greece	27
Hungary	11
Ireland	12
Isle of Man	8
Italy	4
Luxembourg	4
Malta	48
Monaco	2
Netherlands	1
Poland	17
Russia	5
Slovakia	4
Spain	2
Sweden	3
Switzerland	18
Turkey	242
United Kingdom	1,678

ASIA-PACIFIC	
Australia	35
Bangladesh	9
Brunei Darussalam	12
China	103
Cook Islands	1
Hong Kong Special Administrative Region	345
India	70
Indonesia	14
Japan	7
Kazakhstan	1
Korea, Republic of	15
Macau Special Administrative Region	6
Malaysia	48
Maldives	1
New Zealand	10
Pakistan	9
Philippines	28
Singapore	26
Sri Lanka	15
Taiwan	19
Thailand	1
Vietnam	4

AMERICAS	OFFICES
Argentina	248
Bahamas	8
Bermuda	16
Brazil	1,722
British Virgin Islands	3
Canada	313
Cayman Islands	15
Chile	2
Colombia	35
Costa Rica	40
El Salvador	68
Honduras	84
Mexico	1,625
Nicaragua	3
Panama	83
Paraguay	6
Peru	11
United States of America	1,651
Uruguay	5
Venezuela	1

MIDDLE EAST AND AFRICA	
Algeria	1
Bahrain	6
Egypt	54
Iran	1
Iraq	13
Israel	4
Jordan	3
Kuwait	1
Lebanon	6
Libya	2
Mauritius	12
Oman	6
Palestinian Autonomous Area	1
Qatar	6
Saudi Arabia	79
South Africa	5
United Arab Emirates	18

* *At 3 March 2008.*
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 Communications (Asia), 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-consummer 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.

FSC
Mixed Sources
BV-COC-050601
© 1996 Forest Stewardship Council A.C.

Photography:
Peter Boyles: Serge Picard, Agence VU
Others: Ambroise Tézenas/olivier-ripoll.com

HSBC France
103, avenue des Champs-Elysées, 75419 Paris Cedex 08, France
Telephone: (33 1) 40 70 70 40 Facsimile: (33 1) 40 70 70 09
Web: www.hsbc.fr