# 2008

HSBC France Annual Report and Accounts

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 9,500 offices in 86 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 210,000 shareholders in 120 countries and territories.

HSBC provides a comprehensive range of financial services and serves over 100 million individual and business customers through four customer groups and global businesses: Personal Financial Services (including consumer finance); Commercial Banking; Global Banking and Markets; and Private Banking.

In 2008, HSBC's profit before tax was USD 9,307 million and profit attributable to shareholders of the parent company was USD 5,728 million. Total assets were USD 2,527 billion at 31 December 2008.

**Geographical distribution of results – Profit before tax:**

Year ended 31 December 2008

| | USDm | % |
|---|---|---|
| Europe | 10,869 | 116.7 |
| Hong Kong | 5,461 | 58.7 |
| Rest of Asia Pacific | 6,468 | 69.5 |
| North America | (15,528) | (166.8) |
| Latin America | 2,037 | 21.9 |
| Profit before tax | 9,307 | 100.0 |

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

This reference document was registered with the Autorité des Marchés Financiers on 29 April 2009 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 2008

## Contents

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

*The main event of 2008 was the implementation of the HSBC Group strategy, concentrating on core business lines with the sale by HSBC France of its seven regional banking subsidiaries and focusing on target customer segments through the specialisation of the branch network by market (Personal Financial Services and Commercial Banking) following the merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France.*

*HSBC France continued to improve on its position in other areas such as Global Banking and Markets, with continuing robust growth in revenues from French corporates throughout the HSBC Group. The changes to the HSBC France group were based on the quality of its customer franchise and its staff, as well as contributions from the HSBC Group in terms of its international presence, financial strength and technological capacity.*

## HSBC France's development, organisation and systems

### 2010 Development Plan

Following the decision announced earlier this year to sell its seven regional banks to Groupe Banque Populaire, HSBC France reaffirmed its commitment in the development of its retail banking in France, through the presentation on 27 June 2008, of its "*Développement 2010*" business plan.

This plan, which provides continuity with the Strategic Plan unveiled in early 2005, implements the HSBC Group strategy in mature countries, that is to say concentrating on the strategic core customer segments with strong international connectivity.

Thanks to important financial and human investments and to the adoption of new management principles, HSBC France will increase its banking and technological capacities, accelerate its growth and deliver superior performance. The combined impact of the plan and associated investment should lead to improved financial performance in retail banking in France including insurance, within the Group's benchmark range ROE of 15-19 per cent in a normal environment.

Since the implementation of the last strategic plan in 2005, the Global Banking and Markets, Global Asset Management and Private Banking divisions of the HSBC Group in France have already delivered improved results, demonstrating the effectiveness of the Group's strategy. In retail banking, HSBC France is enjoying strong business momentum, which in 2007 and 2008 led to the acceleration of client acquisition in its core customer segments and the strong growth of volumes. By leveraging its ever-growing brand awareness since the November 2005 rebranding and its successful migration to the HSBC IT platform in October 2007, HSBC France intends to capitalise on the Group's positioning as a first class international bank and its financial robustness to increase market share in target segments and regions by 2010.

The new main organisational changes are:

– specialisation of the distribution network to increase expertise and to further improve customer service, by creating dedicated outlets to service core customer segments alongside the branch network:

  • 10 Corporate Banking Centres (CBC) for companies with turn-over of more than EUR 30 million,

  • 52 "*Centre d'Affaires d'Entreprises*" (CAE) for SMEs,

  • 30 HSBC Premier Centres and HSBC Premier facilities in more than 70 locations.

  Following these changes, HSBC's retail network in France will comprise 430 points of sale in 350 locations throughout France;

– a retail banking management structure by customer base – Personal Financial Services and Commercial Banking – to bring management structures nearer to the field;

– developing a range of on-line banking and financial products and services;

– streamlining support and administrative functions with no forced redundancies.

In terms of investment, EUR 350 million will be earmarked for integrating systems, significantly developing alternative banking channels, renovating and specialising the branch network and improving the expertise of commercial staff.

The HSBC France group is assisted by an increasing brand awareness of HSBC in France with 75 per cent on the HSBC Premier[1] targeted segment and more than 90 per cent in the Paris area. Moreover HSBC in France is seen by more than 80 per cent of its clients as the most dynamic bank.

### Further simplification of the structure of the HSBC France group

**Main changes in the structure of the HSBC France group**

After a firm offer of EUR 2,100 million received on 29 February 2008, HSBC France sold on 2 July 2008 to Banque Fédérale des Banques Populaires its seven regional banking subsidiaries (Société Marseillaise de Crédit, Banque de Savoie, Banque Chaix, Banque

1 *Source: Synovate study – December 2008 – sample of 300 people with revenues over EUR 75,000.*

Marze, Banque Dupuy, de Parseval, Banque Pelletier and Crédit Commercial du Sud-Ouest). The offered price represented a multiple of 21 times 2007 net profit and 3.7 times equity at 31 December 2007.

At 31 December 2007, the seven regional banking subsidiaries had 400 branches and employed around 2,950 people.

Before the sale of the regional banking subsidiaries, HSBC France bought on 2 June 2008 nine branches held by Société Marseillaise de Crédit and operating under the HSBC brand which were not included in the offer.

The deal forms part of the HSBC Group strategy in retail banking, which is to focus in the mature markets on activities providing international connectivity across the Group's unique network in 86 countries and territories.

On 31 July 2008, HSBC France merged with four of its subsidiaries – HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie – to form a single legal entity, HSBC France.

These four mergers are in keeping with HSBC France's strategic development plan, following the adoption of the HSBC brand by all five banks in November 2005.

They mark a new phase in the integration of retail banking activities into the HSBC Group in France. The final phase was the migration process onto HUB (HSBC Universal Banking), the HSBC Group's banking IT system, which was carried out for ex-HSBC Hervet and ex-HSBC de Baecque Beau in November 2008.

Through these mergers, HSBC France strengthens in particular its operational and commercial efficiency and simplifies its organisation.

**Further streamlining of the HSBC France group**

The programme to simplify the HSBC France group structures 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. Over the past three years, 50 subsidiaries have been removed from HSBC France organisation chart.

## 2008 financial results

### Impact of the financial crisis and liquidity and funding management policy

2008 saw an unprecedented financial crisis. A number of financial institutions were severely weakened or even declared bankrupt. These events led to a loss of confidence among the various companies in the financial sector and a drying up of intrabank liquidity. Governments around the world implemented bail-out plans for the banking sector, followed by plans to save their national economies. The decline in the stock markets gained pace in the fourth quarter, with major dislocation in the financial markets, creating an extremely high level of volatility. In addition to this financial market turbulence, economic conditions deteriorated even further when the Madoff fraud was revealed.

This exceptional situation had a severe impact on the products and business lines of financial institutions, with a drastic effect on their earnings. The rising cost of liquidity, the "wait-and-see" stance among investors and their seeking refuge in secure products led to a change in the asset mix in savings inflows and impacted associated revenues such as financial fees, with an increase in the cost of risk in the Commercial Banking business relating to the growing number of companies in difficulty.

Capital market activities were impacted by an increase in volatility and in the correlation between equities and indices, the discontinuation of any leveraged financing transactions and a severe slowdown in other corporate and investment banking activities.

For the HSBC France group in 2008, these events resulted in an increase of EUR 164 million in the credit spread on debt securities issued by HSBC France and an increase of EUR 84 million in the mark-to-market value of CDSs in the Global Banking portfolio, as well as an increase of EUR 118 million in liquidity costs. In addition, impairment losses of EUR 119 million were recognised on the available-for-sale security portfolios.

In terms of liquidity and funding management[1], HSBC France maintains a diversified and stable funding base of medium/long term debt, core retail and corporate customer deposits and portfolios of highly liquid assets. HSBC France has adapted its liquidity and funding management policy to stresses of the markets in which it operates and to changes in the group's business activities. In 2008, HSBC France sought to protect its liquidity against a background of market crisis whilst continuing to seek the resources required to develop its business at best possible cost.

Furthermore, to diversify its sources of medium and long-term financing in the currently uncertain climate in the capital markets, HSBC France has decided to set up a Covered Bond programme to optimise the refinancing terms of a portion of its mortgage book. HSBC Covered Bonds (France), a wholly-owned subsidiary of HSBC France, has obtained approval from the *Comité des Etablissements*

1 *See Note 33 to the consolidated financial statements page 127.*

*de Crédit et des Entreprises d'Investissement* (CECEI) to issue covered bonds structured in the form of a medium/long-term EMTN programme, for the sole purpose of refinancing HSBC France's mortgage lending business. No issues took place in 2008 because of market conditions.

At present, HSBC France has not made use of the measures proposed by the French government to enhance the equity of financial organisations. However, like the six other French banks, it holds a 9.43 per cent stake in the *Société de Financement de l'Economie Française* (SFEF), the vehicle set up in 2008 on the government's initiative to support the French economy.

In 2009, HSBC France will continue with its policy of renewing debts reaching maturity. In January 2009, an issue was made as part of the EMTN programme for a total amount of EUR 1.5 billion.

---

### Financial results of the HSBC Group in France (legal entities)

The consolidated financial statements of the HSBC France group (legal entities) have been prepared in accordance with IFRS as defined in Note 1 of the consolidated financial statements [1].

The main event of 2008 was the announcement on 29 February of exclusive negotiations with the Banque Populaire Group concerning the sale of regional banking subsidiaries, followed by their effective sale on 2 July 2008. As a result, the following accounting treatment was applied to these subsidiaries in 2008:

– operating income before loan impairment charges and other credit risk provisions for 2008 is based on two months of net operating income before credit risk provisions (January and February 2008) and then four months of profit before tax (March to June 2008), compared with 12 months of net operating income before credit risk provisions in 2007. Net operating income before credit risk provisions also includes the capital gain recognised on 2 July 2008, the date the asset sale became effective;

– other income statement line items are based on full consolidation over two months (January and February 2008) and then no other items as of 1 March 2008, compared with full consolidation over 12 months in 2007.

The HSBC France group generated a profit before tax of EUR 1,744 million and net profit attributable to shareholders of the group of EUR 1,764 million.

Operating income before loan impairment charges and other credit risk provisions was EUR 3,633 million, up nearly 18 per cent relative to 2007. Excluding the impact of the sale of the regional banking subsidiaries, net operating income before credit risk provisions was down 26 per cent.

Loan impairment charges and other credit risk provisions rose to EUR 127 million mainly concentrated in the Commercial Banking business.

Operating expenses decreased by 11 per cent to EUR 1,762 million. This includes in particular discontinuation of the recognition of costs relating to regional banking subsidiaries as of 1 March 2008, as well as costs relating to the retail banking development plan. Excluding the impact of the sale of the regional banking subsidiaries, general operating expenses fell by 3 per cent.

Operating profit was EUR 1,744 million.

In order to optimise HSBC France equity structure against its regulatory ratio, the Extraordinary General Meeting held on 16 September 2008 decided to buy back shares equivalent to a capital reduction of a maximum amount of EUR 43,750,000. On 20 November 2008, the Board of Directors noted that HSBC France had bought back 8,750,000 shares for a total amount of EUR 1.4 billion. Consequently, the Board decided to cancel these shares by an allocation to the capital for EUR 43,750,000 and to the "Issue premium" and "Available Reserves" accounts for EUR 1,356,250,000.

At 31 December 2008, the HSBC France group's regulatory capital base was EUR 4.5 billion, comprising almost entirely Tier 1 capital. The Tier 1 ratio and Core Tier 1 ratio therefore stood at 9.5 per cent, with an overall ratio of 9.6 per cent, reflecting considerable financial strength in a particularly uncertain climate. The liquidity ratio was 111.25 per cent, above the regulatory minimum. HSBC France has not made use of the French government's bail-out plan for the banking sector. Considering the capital reduction, a proposal will be made to shareholders at the Annual General Meeting on 27 May 2009 to allocate distributable income to retained earnings.

In 2008, HSBC France generated net profit of EUR 1,986 million.

1 *Cf. page 64.*

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

HSBC in France generated a profit before tax of EUR 1,853 million in 2008, up 105 per cent compared with 2007. Excluding the effect of the sale of the regional banks, profit before tax was down 60 per cent.

Reported revenues increased by 30 per cent to EUR 3,799 million. Excluding the effect of the sale of the regional banking subsidiaries, revenues were down 14 per cent, demonstrating in spite of everything the resilience of revenues in the various business lines in the current hostile climate.

Against the backdrop of severe deterioration in economic conditions, the cost of risk rose from a very low level in previous years to EUR 127 million. Provisions for Commercial Banking in particular increased in the second half of the year. As a result, the rate of loss on retail banking increased to 44 basis points but nevertheless remained under control.

Reported operating expenses decreased by 11 per cent to EUR 1,819 million. Excluding the impact of the sale of the regional banks, operating expenses fell by 2 per cent, also including investments in the development of the group's business activities.

The reported cost efficiency ratio was 47.5 per cent. Excluding the impact of the sale of the regional banks, the ratio was 80 per cent, affected by the repercussions of the decline in revenues and not yet benefiting from the streamlining measures implemented by the retail banking business with its development plan.

## Business segments results

### Personal Financial Services

HSBC's commercial results in France in 2008 attest to the success of its strategy of attracting targeted customers in strategic business segments, with net growth in the customer base of 5.5 per cent and net growth in Premier customers of 12 per cent. HSBC's Premier customers in France make up around 10 per cent of the HSBC Group's Premier customers. This has been coupled with strong growth in volumes, exceeding that of the market, with a 10 per cent increase in deposits, a 7.5 per cent increase in loans and a 4 per cent increase in new production of life insurance, compared with growth of 3 per cent[2] and 5 per cent[2] and a fall of 11 per cent[3] respectively for the market as a whole. Sales and marketing efforts in retail banking were based on a marketing plan rolled out over the year, with a large-scale HSBC Premier media campaign and intensive direct marketing campaigns.

New products were developed to meet new customer expectations. The range of wealth management products was enhanced with guaranteed capital mutual funds (HSBC Monde, HSBC 3-6-8, HSBC Revenus Garantis and Duo Garanti) and a life insurance policy (guaranteed rate over rolling 12 months). To support the strategy of attracting customer deposits, the HSBC résA (pre-reservation of Livret A savings accounts) and HSBC Compte Epargne Direct savings account were launched.

Within the framework of the "Development Plan", the reorganisation of HSBC France's network and management structure was initiated at the end of 2008 with the aim of better meeting the needs of its various customer segments.

On 1 January 2008, Erisa and Erisa Iard became HSBC Assurances Vie (France) and HSBC Assurances Iard (France). The sale of the regional banks led to a slight decline in inflows. Investments were made in training advisors and improving information system in order to facilitate new premiums, resulting in an increase in inflows (see above). In addition, the launch of an Insurance campaign, offering a unit-linked product involving a bond issued by HSBC France eligible for life insurance policies, limited the decline in inflows into unit-linked products representing 24 per cent of new premiums compared with the average of 12 per cent for all bancassurers.

However, HSBC France's commercial development, with growth in outstandings and banking fees reflecting customer gains over the last few years, only partly made up for the ongoing impact of the rising cost of liquidity and the decline in financial commissions relating to the stock market downturn. Despite a continuing very low cost of risk and tight control of costs, this decline impacted profit before tax in Personal Financial Services, which fell by 26 per cent excluding the regional banks.

1 *The commentary on pages 5 to 7 relates to France's contribution to the HSBC Group results.*
– *The managerial scope changed on 1 January 2007 and includes since then:*
  - *the HSBC France group, including the results of entities legally owned by HSBC France and located outside France (mainly Asset Management activities outside France and CMSL in the UK), i.e. the global legal perimeter, and the HSBC Bank plc branch in Paris, which holds HSBC Assurances Vie (France) and HSBC Assurances Iard (France) since December 2007, and excluding the funding costs linked to the acquisition debt accounted by HSBC Paris Branch;*
  - *the results of the regional banking subsidiaries accounted on full consolidation over January and February 2008 and, from 1 March to 30 June 2008, on the basis of the profit before tax included in the net operating income. 2007 results of these subsidiaries were based on full integration over the year;*
  - *the dynamic money market funds held over 50 per cent by the HSBC Group consolidated since the first quarter of 2008.*

– *Financial figures are presented according to IFRSs as applied by the HSBC Group.*

2 *Source: Banque de France – December 2008.*

3 *Source: FFSA – December 2008.*

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

## Commercial Banking

As with Personal Financial Services, the strategy of acquiring strategic customers paid off, with net growth in the commercial customer base of 6 per cent, growth among companies with international connections (43 per cent of customers have international requirements), double the level of international recommendations and the development of partnerships with professional organisations (doctors, architects, lawyers etc.). HSBC France is also the main bank of 38 per cent of its SME customers[1]. A new network organisation was established to support the growth of the Commercial Banking business, with the creation of 10 Corporate Banking Centres (CBCs) and 52 "*Centre d'Affaires Entreprises*" (CAEs).

These successes were also accompanied by strong volume growth, exceeding that of the market. Deposits rose by 17 per cent and loans by 12 per cent, compared with market growth of 8 per cent and 7 per cent respectively [2].

The Commercial Banking offering is centred around international activities, underpinned by the HSBC Group's global presence. Within this framework, the "Club Pays" scheme was extended to include Brazil and Canada. Factoring also saw strong growth, with a 22 per cent increase in revenues for Invoice Finance via HSBC Factoring (France).

Commercial Banking revenues increased by 7 per cent excluding the regional banks due to growth in volumes and in banking fees, as a result of business growth, and in the widening of the lending margin. However, revenues were impacted by the cost of liquidity. Profit before tax fell by 6 per cent excluding the regional banks due to the increase in risk relating to the increase in the number of companies in difficulty in France.

## Global Banking and Markets

The worsening of the financial crisis following the collapse of Lehman Brothers and profound dislocation in the financial markets had a severe impact on capital market activities, particularly as regards the least liquid products. Growth in interest rate and forex market activities partly made up for difficulties in derivative products.

The Global Banking and Markets business achieved revenue growth due to HSBC's strong presence in major financing and advisory deals, such as GDF-Suez, EDF-British Energy, Pernod Ricard-Absolut and Converteam. Revenues from activities with major French companies in the HSBC Group as a whole increased by a further 20 per cent.

Risk-weighted assets were subject to very tight management and are increasingly focused on long-term customer relationships.

In Asset Management, funds under management decreased by 17 per cent to EUR 74 billion, mainly as a result of the market decline. In addition, changes were seen in the asset mix in favour of lower-margin products due to customers looking to invest in secure products. These two factors explain the decline in earnings for this business line. In addition, the performance of European equity funds held up well relative to their benchmark (+224 basis points for the GIPS composite compared to the MSCI Europe index -44.84 per cent) and a good performance of the Eurozone government bond funds (+10.75 per cent for the GIPS composite), as well as the two flagship absolute return strategies: Halbis Global Macro (+10.07 per cent, fund ranked in the first decile of the Morningstar category "Asset Allocation Global Neutral" with an average performance of -21.26 per cent) and Sinopia Global Market Neutral (fund "Global Bond Market Neutral 300 (GBMN 300)" +4.23 per cent compared to -33.71 per cent for the HFRI RV: Fixed Income-Convertible Arbitrage Index).

Unlike a number of financial institutions, the Global Banking and Markets business generated a profit before tax of EUR 172 million, even though this is down 68 per cent compared with an excellent year in 2007. This was achieved due to a fall in revenues of just 29 per cent, control of costs in relation to business performance and a very tight control of credit risk.

## Private Banking

In 2008, assets under management fell to EUR 8.5 million, down 27 per cent year-on-year, due to the equity and bond market decline prompting withdrawals by institutional investors and a negative market effect on assets under management.

However, the rate of customer acquisition in onshore private banking was solid, with assets under management up 7 per cent, boosted by synergies with the HSBC France network, particularly with the Personal Financial Services business, and the reputation of the HSBC brand.

Over the course of the year, a major shift was seen among customers towards risk-free products such as term deposits, negotiable treasury notes and euro life insurance funds.

1 *Companies with revenues of EUR 750,000 to EUR 30 million.*
2 *Source: Banque de France – December 2008.*

Once again, the Private Banking division won a number of awards for the performance of its mutual funds:

– ranked first in the Alpha League Table France 2008 (Europerformance/Edhec);

– 2008 "*Trophée d'or*" for the best "eurozone equities" range over three years (Le Revenu).

The decline in assets under management and changes in the asset mix therefore resulted in a 23 per cent fall in revenues. Measures to reduce general operating expenses by 10 per cent partly made up for the decline in net operating income. Overall, profit before tax decreased by 61 per cent.

## Proposed resolutions

The Board of Directors has drawn up the following resolutions to be presented at the Annual General Meeting of Shareholders on 27 May 2009.

### Ordinary business

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 and risk management procedures, approve the annual financial statements for the year ended 31 December 2008 as well as the transactions reflected in those statements or summarised in those reports.

Resolution 2 concerns the allocation of the 2008 net profit of EUR 1,985,603,126.02. Along with retained earnings of EUR 1,123,058,857.87, the profit available for distribution amounts to EUR 3,108,661,983.89. It is proposed not to distribute any dividend and to allocate the profit available for distribution to the "Retained earnings" account.

Resolution 3 proposes that shareholders approve the consolidated financial statements at 31 December 2008 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 shareholders 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.

Resolution 5 proposes to ratify the Board's co-option of Mr Stuart Gulliver as Director made on 20 November 2008, to replace Mr Charles-Henri Filippi who has resigned.

Resolution 6 proposes to appoint Mr Thierry Moulonguet as Director to replace Mr Paul Dubrule who is retiring by rotation.

Resolution 7 proposes to appoint Mr Jacques Veyrat as Director in addition to the Directors currently in office.

Resolutions 8 to 10 propose that shareholders renew the directorships of Mr Peter Boyles, Mr Marcel Roulet and Mr Peter Shawyer 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 2012.

### Special business

To enable the company to build up its equity capital if necessary, or to take advantage of investment opportunities that may arise, resolution 11 seeks authorisation for the Board to increase the Company's share capital by up to EUR 100 million. The proposed resolution also allows this to be done by incorporation of reserves and share premiums.

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

To comply with the aforementioned legal requirements, we ask you in resolution 12 to decide on the principle of granting an authority to the Board to increase the share capital by issuing shares reserved for participants in the employee share ownership plan.

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

### Powers (Resolution 13)

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.

# Senior Executives

## Directors and members of the Executive Committee

**Peter Boyles** *Chief Executive Officer.*
Age 53. 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 in 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 46. 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 Executive Officer, Deputy to the Chief Executive Officer in all of his duties.

**Gilles Denoyel** *Deputy Chief Executive Officer, Chief Risk Officer.*
Age 54. In 1996, he joined HSBC France as Finance Director, having held senior appointments in the French Ministry of Finance. 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 46. 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 66. He joined HSBC France in 2005 as Vice-Chairman of Corporate Finance Europe. In February 2005, he was appointed Member of HSBC France's Board. At the end of August 2007, he was appointed Member of HSBC's New European Advisory council. Over the last 30 years he has held a number of leading positions in the French banking and industrial sectors, including Chairman and CEO of the banking group Crédit Industriel et Commercial; Chairman and CEO of Framatome; and Chairman of Areva prior to joining HSBC in January 2005. Since September 2007, he has been Chairman Investment Banking.

**Other members of the Executive Committee**

| | |
|---|---|
| **Luc Auberger** | Chief Financial Officer, from 19 February 2009 |
| **Jacques-Emmanuel Blanchet** | Head of Commercial Banking |
| **Loïc Bonnat** | Chief Operating Officer, Global Banking and Markets France |
| **Caroline Brousse** | Chief Executive Officer, HSBC Global Asset Management Europe |
| **Alain Cadiou** | Head of Group Audit France |
| **Antoine Cahuzac** | Senior Corporate Adviser to the Chief Executive Officer |
| **Johnny Crichton** | Head of Credit |
| **Didier Descamps** | Head of Global Markets France |
| **Laurent Facque** | Head of Compliance |
| **Matthieu Kiss** | Head of Strategy and Organisation |
| **Marc de Lapérouse** | Head of Legal and Tax Affairs |
| **Carl Lashua** | Regional CIO Continental Europe |
| **Pierre Lebleu** | Head of Human Resources, from 1 January 2009 |
| **Chantal Nedjib** | Head of Corporate Communications |
| **Stephen Pascoe** | Head of Personal Financial Services, from 1 February 2009 |
| **Daniel Roy** | Chairman of the Executive Board of HSBC Private Bank France |
| **Pierre Ruhlmann** | Head of Operations |
| **Jean-Pierre Wiedmer** | Head of Insurance |

# Corporate Governance

## Composition of the Board of Directors of HSBC France on 1 January 2009 [1]

**Stuart Gulliver** *Born in 1959*
Holds 1 HSBC France share. First elected: 2009. Term ends: 2012.

*Principal position:*
Chief Executive, Global Banking and Markets and Global Asset Management, HSBC Holdings plc.
Chairman of the Board of Directors, HSBC France.

*Other directorships in the HSBC Group:*
Director, HSBC Holdings plc (since 1 May 2008). Director, The Hongkong and Shanghai Banking Corporation Limited. Director, HSBC Bank plc. Director, HSBC Latin America Holdings (UK) Limited (since 6 August 2008). Director, HSBC North America Holdings Inc. (since 1 May 2008). Director, HSBC Private Banking Holdings (Suisse) SA. Member of the Supervisory Board and Deputy Chairman, HSBC Trinkaus & Burkhardt AG.

*Résumé:*
Executive Director of HSBC Holdings plc since May 2008, joined HSBC in 1980. Head of Treasury and Capital Markets in Asia-Pacific from 1996 to 2002. Head of Global Markets from 2002 to 2003 and Co-Head of Global Banking and Markets from 2003 to May 2006. Appointed a Group General Manager of the HSBC Group in 2000 and a Group Managing Director in 2004.

---

**Peter Boyles** *Born in 1955* [2]
Holds 1 HSBC France share. First elected: 2007. Term ends: 2009 [3].

*Principal position:*
Chief Executive Officer, HSBC France.

---

**Christophe de Backer** *Born in 1962* [2]
Holds 1 HSBC France share. First elected: 2007. Last re-elected: 2008. Term ends: 2012.

*Principal position:*
Deputy CEO, HSBC France.

*Other directorships in the HSBC Group:*
Chairman of the Supervisory Board, HSBC Private Bank France. Director, HSBC Assurances Vie (France). Director, HSBC Assurances IARD (France). Director, HSBC Global Asset Management (France). Director, Sinopia Asset Management. Directorship expired in 2008: Director, Société Marseillaise de Crédit.

*Other directorship outside of the HSBC Group:*
Member of the Supervisory Board: BioAlliance Pharma (from 29 April 2008 to 15 December 2008).

---

**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, Halbis Capital Management (since 28 August 2008). Director, HSBC Assurances IARD (France). Director, HSBC Global Asset Management (France). Director, Sinopia Asset Management. Member of the Supervisory Board, HSBC Private Bank France.

*Other directorships outside of the HSBC Group:*
Director, Société de Financement de l'Economie Française (since 17 October 2008). Director, DCNS. Director, Fonds de Garantie des Dépôts. Director, MEDEF (permanent representative of HSBC France) (since 5 February 2008). Member of the Board and Treasurer, Association Française des Banques. Chairman, Groupement des Banques Etrangères en France. Member of the Orientation Committee, Euronext.

1 *As far as their directorship at HSBC France is concerned, the address of HSBC France's Directors and Senior Executives is the company's registered office, 103 avenue des Champs-Elysées – 75419 Paris Cedex 08 – France.*
2 *Résumé available on page 8.*
3 *Director standing for re-election at the Annual General Meeting to be held on 27 May 2009.*

**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 of the Board, Foncière Elysées. Director, HSBC Epargne Entreprise. Director, Nobel. Director, HSBC Global Asset Management (France) (permanent representative of HSBC France).

*Other directorships outside of the HSBC Group:*
Director, X-Banque. Director, Amicale des Anciens Elèves de Polytechnique. Director, Institut de la Gestion Déléguée (since 17 April 2008).

---

**Evelyne Cesari** *Born in 1949*
Holds 1 HSBC France share. First elected: 2000. Last re-elected: 2008. Term ends: 2012.
Director elected by employees.

*Principal position:*
Head of the Personal Financial Services customer group, HSBC REIM.

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

*Other directorships:*
Directorships expired in 2008: Director, Oberthur Technologies. Manager, Société d'Exploitation et d'Investissements Hôteliers – SEIH, 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. Last re-elected: 2008. Term ends: 2012.
Director elected by employees.

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

*Other directorships in the HSBC Group:*
Chairman of the Board, Institution de Prévoyance Vernet. Member of the Supervisory Board, HSBC France Sécurité Régularité Equilibre Dynamique.

*Other directorship outside of the HSBC Group:*
Director, AGIRA.

*Résumé:*
Joined HSBC France in 1981.

1 *Résumé available on page 8.*
2 *Director retiring by rotation and not standing for re-election at the Annual General Meeting to be held on 27 May 2009.*

## Corporate Governance (continued)

**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[1]:*
Chairman, British Bankers' Association. Chairman, Multinational Chairman's Group. 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. Director, China Now Trading Limited. Director, The Hong Kong Association. Member, London Business School. Member, The Prime Minister's Business Council for Britain.

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

**Philippe Houzé** *Born in 1947*
Holds 1 HSBC France share. First elected: 1999. Last re-elected: 2008. Term ends: 2012.
Independent Director. Member of the HSBC France Nomination and Remuneration Committee.

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

*Other directorships [1]:*
Director, Casino Guichard Perrachon. 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. Directorship expired in 2008: Director, Société d'Exploitation du Palais des Congrès de Paris. Directorship expired in 2009: Member of the Executive Board, MEDEF.

*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.

**Thierry Jacquaint** *Born in 1964*
Holds 1 HSBC France share. First elected: 2008. Term ends: 2012.
Director elected by employees.

*Principal position:*
Supervisor, HSBC Asnières-sur-Seine branch, HSBC France.

*Résumé:*
Joined HSBC France in 1993.

**Igor Landau** *Born in 1944*
Holds 1 HSBC France share. First elected: 2002. Last re-elected: 2008. Term ends: 2012.
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.

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

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

*Principal position:*
Chairman Investment Banking, HSBC France.

*Other directorship in the HSBC Group:*
Director, Nobel.

---

**Philippe Purdy** *Born in 1958*
Holds 1 HSBC France share. First elected: 2004. Last re-elected: 2008.Term ends: 2012.
Director elected by employees.

*Principal position:*
Customer service, 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 [2].
Independent Director. Chairman of the HSBC France Audit Committee.

*Other directorships:*
Director, France Télécom. Director, Thales as permanent representative of TSA. Chairman of the Supervisory Board, Gimar Finances SCA. Member of the Supervisory Board, Eurazeo. Censor, Cap Gemini. Censor, Thomson (since 15 October 2008). Directorship expired in 2008: Director, Thomson.

*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.

---

**Peter Shawyer** *Born in 1950*
Holds 1 HSBC France share. First elected: 2005. Term ends: 2009 [2].
Independent Director. Member of the HSBC France Audit Committee.

*Other directorships:*
Independent Director and Member of the Audit Committee, HSBC Bank plc. Chairman, British International. Chairman, Ingenious Media Holdings. Directorships expired in 2008: Director, Ingenious Media plc. Independent Director and Chairman of the Audit Committee, Silverjet plc.

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

---

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

*Principal position:*
Chairman and CEO, Annick Goutal.

*Other directorships:*
Director, Ensemble Orchestral de Paris. Director, Opéra Comique. Member of the Board, Ensemble Intercontemporain.

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

1 *Résumé available on page 8.*
2 *Director standing for re-election at the Annual General Meeting to be held on 27 May 2009.*

# Corporate Governance (continued)

## Directorships held[1] by the members of the Board of Directors (composition at 1 January 2009)

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

| Director's name<br>Principal position | First elected | Term ends | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|
| **Peter Boyles**<br>Chief Executive Officer,<br>HSBC France | 2007 | 2009[2] | Directorships in the HSBC Group:<br>Director and CEO: HSBC France. | Directorships in the HSBC Group:<br>Director and CEO: HSBC France. | – | – | – |
| **Christophe de Backer**<br>Deputy CEO,<br>HSBC France | 2007 | 2012 | Directorships in the HSBC Group:<br>Director and Deputy CEO: HSBC France.<br>Chairman of the Supervisory Board: HSBC Private Bank France.<br>Director: HSBC Assurances Vie (France), HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management. | Directorships in the HSBC Group:<br>Director and Deputy CEO: HSBC France.<br>Chairman of the Supervisory Board: HSBC Private Bank France.<br>Director: Erisa, Erisa IARD, HSBC Investments (France), Société Marseillaise de Crédit, Sinopia Asset Management. | – | – | – |
| **Gilles Denoyel**<br>Deputy CEO,<br>HSBC France | 2004 | 2010 | Directorships in the HSBC Group:<br>Director and Deputy CEO: HSBC France.<br>Vice-Chairman: HSBC Assurances Vie (France).<br>Director: Halbis Capital Management, HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management.<br>Member of the Supervisory Board: HSBC Private Bank France.<br><br>Directorships outside of the HSBC Group:<br>Director: Société de Financement de l'Economie Française, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France), DCNS.<br>Chairman: Groupement des Banques Etrangères en France.<br>Member of the Board and Treasurer: Association Française des Banques.<br>Member of the Orientation Committee: Euronext. | Directorships in the HSBC Group:<br>Director and Deputy CEO: HSBC France.<br>Vice-Chairman: Erisa.<br>Director: Erisa IARD, HSBC Investments (France), HSBC Epargne Entreprise, Sinopia Asset Management.<br>Member of the Supervisory Board: HSBC Private Bank France.<br><br>Directorships outside of the HSBC Group:<br>Director: DCN, Fonds de Garantie des Dépôts.<br>Chairman: Groupement des Banques Etrangères en France.<br>Member of the Board and Treasurer: Association Française des Banques.<br>Member of the Orientation Committee: Euronext. | Directorships in the HSBC Group:<br>Director and Deputy CEO: HSBC France.<br>Chairman and CEO: HSBC Asset Management Holding.<br>Chairman of SAS: HSBC Investments FCP (France).<br>Chairman: HSBC Investments (France), Sinopia Asset Management, Halbis Capital Management (France), HSBC Epargne Entreprise.<br>Vice-Chairman: Erisa.<br>Director: Erisa IARD, Sinopia-Société de Gestion, (permanent representative of HSBC Asset Management Holding).<br>Member of the Supervisory Board: HSBC Private Bank France.<br><br>Directorships outside of the HSBC Group:<br>Director: DCN, Association Française des Banques.<br>Member of the Orientation Committee: Euronext. | Directorships in the HSBC Group:<br>Director and Deputy CEO: HSBC France.<br>Director: Erisa, Erisa IARD, HSBC Asset Management Holding, HSBC Investments (France), Sinopia Asset Management.<br>Member of the Supervisory Board: HSBC Private Bank France.<br><br>Directorships outside of the HSBC Group:<br>Director: DCN, Association Française des Banques. | Directorships in the HSBC Group:<br>Director and Deputy CEO: CCF.<br>Director: Banque Hervet, Erisa, HSBC CCF Asset Management Holding, Société Marseillaise de Crédit.<br>Member of the Supervisory Board: HSBC Private Bank France.<br><br>Directorships outside of the HSBC Group:<br>Director: DCN, Fondation de France, Association Française des Banques. |

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 27 May 2009.*

| Director's name<br>Principal position | First elected | Term ends | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|
| **Jean Beunardeau**<br>Senior Corporate Vice-President, HSBC France | 2008 | 2010 | Directorships in the HSBC Group: Director: HSBC France, HSBC Epargne Entreprise, Nobel, HSBC Global Asset Management (France) (permanent representative of HSBC France). Chairman of the Board: Foncière Elysées.<br><br>Directorships outside of the HSBC Group: Director: X-Banque, Amicale des Anciens Elèves de Polytechnique, Institut de la Gestion Déléguée. | – | – | – | – |
| **Evelyne Cesari**<br>Head of PFS, HSBC REIM | 2000 | 2012 | Director elected by employees: HSBC France. | Director elected by employees: HSBC France. | Director elected by employees: HSBC France. | Director elected by employees: HSBC France. | Director elected by employees: HSBC France. |
| **Paul Dubrule**<br>Company Director | 1999 | 2009[1] | – | 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. |
| **Michel Gauduffe**<br>Deputy Head of HSBC Limoges branch, HSBC France | 2008 | 2012 | Directorships in the HSBC Group: Director elected by employees: HSBC France. Chairman of the Board: Institution de Prévoyance Vernet. Member of the Supervisory Board: HSBC France Sécurité Régularité Equilibre Dynamique. | – | – | – | – |

1 *Director retiring by rotation and not standing for re-election at the Annual General Meeting to be held on 27 May 2009.*

# Corporate Governance (continued)

| Director's name<br>Principal position | First elected | Term ends | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|
| **Stephen Green**<br>Group Chairman, HSBC Holdings plc | 2000 | 2011 | Group Chairman, HSBC Holdings plc.<br><br>Directorships outside of the HSBC Group: Chairman: British Bankers' Association, Multinational Chairman's Group. 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, The Hong Kong Association. Member: London Business School, The Prime Minister's Business Council for Britain. | Group Chairman, HSBC Holdings plc.<br><br>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.<br><br>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.<br><br>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.<br><br>Directorships outside of the HSBC Group: Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., The Institute of International Finance, Inc. |
| **Philippe Houzé**<br>Chairman of the Management Board, Groupe Galeries Lafayette | 1999 | 2012 | Chairman of the Management Board: Groupe Galeries Lafayette. Director: Casino Guichard-Perrachon. 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: 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. |
| **Thierry Jacquaint**<br>Supervisor, HSBC Asnières-sur-Seine branch, HSBC France | 2008 | 2012 | Director elected by employees: HSBC France. | – | – | – | – |

| Director's name<br>Principal position | First elected | Term ends | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|
| **Igor Landau**<br>Company Director | 2002 | 2012 | Director: Sanofi-Aventis. Member of the Supervisory Board: Adidas-Salomon, Allianz AG. | 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. |
| **Philippe Pontet**<br>Chairman Investment Banking, HSBC France | 2005 | 2011 | Directorships in the HSBC Group: Director: HSBC France, Nobel. | Directorships in the HSBC Group: Director: HSBC France, Nobel. | Directorships in the HSBC Group: Vice Chairman Corporate Finance Europe: HSBC France.<br><br>Directorships outside of the HSBC Group: Chairman: SOGEPA, SOGEADE Gérance. | Directorships in the HSBC Group: Vice Chairman Corporate Finance Europe: HSBC France.<br><br>Directorships outside of the HSBC Group: Chairman: SOGEPA, SOGEADE Gérance. | – |
| **Philippe Purdy**<br>Customer service, HSBC Mandelieu branch, HSBC France | 2004 | 2012 | Director elected by employees: HSBC France. | Director elected by employees: HSBC France. | Director elected by employees: HSBC France. | Director elected by employees: HSBC France. | Director elected by employees: HSBC France. |
| **Marcel Roulet**<br>Company Director | 1996 | 2009[1] | Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: France Télécom, Thales (permanent representative of TSA). Censor: Cap Gemini, Thomson. | 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 TSA), France Télécom. Censor: Cap Gemini. | Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: Thomson, Thales (permanent representative of Thomson SA), France Télécom. Censor: Pages Jaunes Groupe, Cap Gemini. | Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: Thomson, Thales (permanent representative of Thomson SA), France Télécom. |
| **Peter Shawyer**<br>Company Director | 2005 | 2009[1] | Independent Director and member of the Audit Committee: HSBC Bank plc. Chairman: British International, Ingenious Media Holdings. | 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. | – |
| **Brigitte Taittinger**<br>Chairman and CEO, Annick Goutal | 2008 | 2012 | Chairman and CEO: Annick Goutal. Director: Ensemble Orchestral de Paris, Opéra Comique. Member of the Board: Ensemble Intercontemporain. | – | – | – | – |

1 *Director standing for re-election at the Annual General Meeting to be held on 27 May 2009.*

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

*Under the Article L. 225-37 of the French Commercial Code, the Chairman of the Board of Directors of a French "société anonyme" issuing financial instruments to the public is required to report to shareholders annually on the composition, preparation and organisation of the Board's work, the internal control and risk management procedures and any restrictions on the powers of the Chief Executive Officer. This report is attached to the report referred to in Articles L. 225-100, L. 225-102, L. 225-102-1 and L. 233-26.*

*I am pleased to present my report in this respect for the year ended 31 December 2008. Management is responsible for defining and implementing adequate and effective internal control and risk management procedures 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 and risk management 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.*

*This report was presented to the Audit Committee on 16 February 2009 and approved by the Board of Directors on 18 February 2009.*

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

## CHAIRMAN'S REPORT ON CORPORATE GOVERNANCE

### Corporate governance Code

During its meeting of 20 November 2008, the Board of Directors reviewed the AFEP-MEDEF recommendations of 6 October 2008 concerning the compensation of executive officers of listed companies. It considers that these recommendations are already integrated into the company's corporate governance practices.

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

The company's consolidation into the HSBC Group has not led to any changes in the application of corporate governance rules, as the Group attaches a great deal of importance to respecting corporate governance rules, both for itself and for its subsidiaries. However, some of the duties of the Nomination and Remuneration Committee have been adapted to comply with the status of a fully-owned company. HSBC France's Board of Directors therefore no longer has to decide on share award plans as the shares awarded to HSBC France employees are now HSBC shares. As an unlisted subsidiary of HSBC Holdings plc, HSBC France applies the British corporate governance rules (the Combined Code on Corporate Governance) referred to by parent company HSBC Holdings plc in certain areas, in particular as regards share awards.

### Board of Directors

#### Composition of the Board

At 31 December 2008, 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;

– one Director representing a company which owns 99.9 per cent of HSBC France;

– six 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 2008 for a term of four years, in accordance with the provisions of the French order of 21 October 1986.

Two Directors are non-French nationals. The average age of the Directors in office is 57.1.

There were several changes to the Board's composition in 2008:

– Michael Geoghegan resigned as a Director on 16 January 2008 and the Board decided, on the recommendation of the Nomination and Remuneration Committee, not to replace him;

– on 28 May 2008, the AGM renewed the terms of office of Charles-Henri Filippi, Christophe de Backer, Philippe Houzé and Igor Landau for a period of four years;

– on 31 July 2008, the AGM appointed Brigitte Taittinger as a Director for a period of four years;

– regarding the Directors elected by the employees, Michel Gauduffe replaced on 1 January 2008 Maurice Ettori who retired, and Thierry Jacquaint was elected by the employees on 26 September 2008. On the same date, Evelyne Cesari, Michel Gauduffe and Philippe Purdy were re-elected.

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 28 May 2008, 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. On 28 May 2008, it also proposed to the Board the candidature of Brigitte Taittinger.

Finally, during its meeting on 20 November 2008, the Board recorded the resignation of Charles-Henri Filippi as Chairman of the Board and Director with effect on 1 January 2009. On the recommendation of the Nomination and Remuneration Committee, it decided to co-opt Stuart Gulliver as a Director from 1 January 2009 for the remainder of the term of office of his predecessor, i.e. until 2012, and to appoint him as Chairman of the Board until the expiry of his mandate as a Director. The Board also confirmed the decision made in July 2007 and May 2008 to separate the functions of Chairman of the Board of Directors and Chief Executive Officer.

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

### The Board's work in 2008

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. Furthermore, Directors are regularly advised of significant events affecting the company and receive the relevant documents.

The Board of Directors met seven times during 2008, with an average attendance rate of 78 per cent compared with 77 per cent in 2007:

– 26 February 2008 (attendance rate: 81.3%);

– 29 February 2008 (attendance rate: 69%);

– 6 May 2008 (attendance rate: 69%);

– 28 May 2008 (attendance rate: 88%);

– 29 July 2008 (attendance rate: 81.3%);

– 16 September 2008 (attendance rate: 82.3%);

– 20 November 2008 (attendance rate: 88.2%).

In 2008, 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 2008 in its meeting held on 26 February 2008.

At its meeting of 26 February 2008, the Board of Directors discussed the various strategic options concerning the Retail Banking development model for HSBC France by looking at a variety of scenarios for the development of HSBC France's seven regional bank subsidiaries. After a meeting held on 29 February 2008 to review a firm offer to acquire these seven regional banks, the Board decided to enter into exclusive negotiations with Banque Fédérale des Banques Populaires with a view to their sale. The Board followed up the various stages leading up to the effective sale of the regional banks during its meetings of 6 May 2008 and 28 May 2008, including in particular the review of a number of operational projects and the gradual lifting of conditions precedent. At its meeting of 26 February 2008, the Board also discussed the acquisition by HSBC France of eight branches owned by Société Marseillaise de Crédit operated under the HSBC banner since 2006.

At its meeting of 28 May 2008, the Board of Directors approved the mergers into HSBC France of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie, as the final stage of the proposed merger initiated in November 2005 of banks belonging to the HSBC platform. It was also informed at its meeting of 29 July 2008 of the consequences of these mergers on harmonising employee status and the completion of two operational mergers.

In addition to these major deals, the Board of Directors approved the acquisition by HSBC France of a stake in *Société de Financement de l'Economie Française,* the merger into HSBC France of SCI Neuilly Vichy at its meeting of 20 November 2008, and the creation of HSBC Covered Bonds (France) at its meeting of 29 July 2008. It was also informed at its meeting of 16 September 2008 of the opening of its Algerian branch to customers and decided to increase its local capital contribution.

The Board conducted regular reviews of the group's position in its main business lines, in particular:

– how well customers received the Premier banking offering and the associated range of high-end services (meeting of 28 May 2008);

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

- the launch of company-dedicated business centres (meeting of 28 May 2008);
- strategic development axes for the Insurance business (meeting of 28 May 2008);
- the direction to be taken in Investment Banking and Markets activities against the backdrop of the financial market crisis (meeting of 28 May 2008).

The 2010 Development Plan, which follows on from the 2005-08 Strategic Plan, was presented to the Board of Directors at its meeting of 29 July 2008. The plan is based chiefly on improving the network's business performance and refocusing the network on Personal Financial Services and Commercial Banking services. The Board was updated on the implementation of this new organisational structure at its meeting of 20 November 2008.

The Board of Directors discussed how to optimise HSBC France's capital and decided to carry out a capital reduction by buying back shares at the meetings of 29 July 2008 and 20 November 2008. It also discussed HSBC France's resources of medium and long term financing and the consequences of the large increase in liquidity cost due to the financial crisis at the meeting of 20 November 2008. It approved the Covered Bonds issue programme by its subsidiary HSBC Covered Bonds (France) at the meeting of 29 July 2008.

At each meeting, the Board carried out regular reviews of the group's situation with regard to credit, market, litigation and operating risk. It looked in particular at the consequences for the HSBC France group of the financial market crisis following the bankruptcy of Lehman Brothers at its meeting of 16 September 2008 and debated measures adopted to manage and control these market risks against the backdrop of severe volatility at its meeting of 20 November 2008.

The Board reviewed the Annual Reports (Articles 42 and 43 of CRBF regulation 97-02) sent to the *Commission bancaire* (the French banking commission), as well as follow-up letters and replies following audits conducted by the *Commission bancaire* and investigations conducted by the AMF.

As regards human resources, the Board was informed at its meeting of 20 November 2008 of the results of the Global People Survey to measure the commitment of HSBC Group employees. This survey was conducted for the second year during Summer 2008. The Board also debated the measures taken by HSBC France with a view to promoting diversity at its meeting of 26 February 2008.

Lastly, the Board of Directors debated the recommendations set out in the AFEP-MEDEF report of October 2008 concerning conditions for the compensation of executive officers and adopted a resolution in accordance with AFEP-MEDEF recommendations.

The work of the Board Committees is set out on a regular basis in detailed reports by their respective Chairmen and debated during Board meetings. Within this framework, the Board was regularly informed about progress made in work concerning compliance with Basel II regulations and preparation for the transition to the Basel II IRB Advanced Approach.

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

## Special committees

### Nomination and Remuneration Committee

**Composition of the Nomination and Remuneration Committee**

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 according to the desirable balance in the composition of the Board but also to the specific skills and reputation of applicants;
- proposing a Chairman and a CEO to the Board, and proposing Deputy CEOs to the Board on the CEO's recommendation, for succession planning purposes or in the event of a vacancy;
- examining all remuneration of Executive Directors;
- making proposals and recommendations to the Board concerning remuneration, pension and protection plans, additional pension contributions, benefits in kind and various cash entitlements of Executive Directors;
- making recommendations on Directors' remuneration and 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.

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

**The Nomination and Remuneration Committee's work in 2008**

The Committee met two times in 2008, 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 five Directors in the AGM. Proposals were made to renew the terms of office of Charles-Henri Filippi (Director since 1998), Christophe de Backer (Director since 2007), Philippe Houzé (Director since 1999) and Igor Landau (Director since 2002);

– it made proposals to the Board on the change in the Board's composition and on appointing two new Directors: Brigitte Taittinger (meeting of 29 July 2008) and Stuart Gulliver (meeting of 20 November 2008);

– proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the 2008 remuneration of Peter Boyles, Christophe de Backer and Gilles 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 the Board on the harmonisation of the HSBC France governance rules with the recommendations of the AFEP/MEDEF Code and, in particular, with those regarding the remuneration conditions of the Executive Directors.

The Chairman of the Committee and Philippe Houzé, member of the Committee, reported to the Board on its work at the Board meetings on 26 February and 20 November 2008.

## Audit Committee

**Composition of the Audit Committee**

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 were subjected to an in-depth 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 view 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, including supervision of the turnover of the signing partners 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 Audit Committee's work in 2008**

The Audit Committee met five times in 2008, and the attendance rate was 100 per cent, as in 2007:

– 22 and 26 February 2008;

– 16 May 2008;

– 25 July 2008;

– 14 November 2008.

Meetings were also attended by the external Auditors and HSBC France officers responsible for the issues under discussion. All meetings were also attended by the Head of the HSBC Group Internal Audit who has been a member of the Audit Committee since May 2005. The CEO and the two Deputy CEOs 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 2007 consolidated financial statements were presented according to IFRS, with a distinction drawn between the legal and French managerial scope of consolidation. Parent company financial statements for 2007 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 and aspects subject to particular attention at the time of preparing the 2007 financial statements (meeting on 22 February 2008). They presented their audit on the financial statements at 30 June and 30 September 2008 (meetings on 25 July and 14 November 2008).

The Audit Committee looked at Sarbanes-Oxley certificates drawn up quarterly and examined "weaknesses" identified in Sarbanes-Oxley reporting. It was also informed of the introduction of new SOX control procedures following the 2008 risk assessment and corrections of weaknesses identified previously. It reviewed the points raised in quarterly suspense account reconciliation certificates prepared at the request of the HSBC Group. 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, the change of risk-weighted assets, 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 and procedures in place, in a special context of financial crisis and of emergence of new risk factors on these markets. It specifically reviewed operating controls, which have been reinforced in order to protect against risks of fraud in capital market activities. More generally, a review of internal controls concerning access to IT systems was presented to the Committee;

– compliance, legal and litigation risk;

– other risks, including operational and information systems risk. It was informed of the new organisation of the operational risks monitoring and of permanent control with the establishment of the ORIC Committee (Operational Risks and Internal Control), which in particular, monitors the "Top ten risks" (meeting on 25 July 2008). The Committee was kept informed of the conclusions of the report on the "lessons to be learned" following the HUB IT migration process. It also examined the updating of the IT recovery plan and the mid-term IT plan (meeting on 16 May 2008).

Furthermore, at the request of the Committee, the positions acquired by HSBC France in assets and shares in dynamic money market funds in order to provide liquidity to its customers which held these funds were reviewed at each Committee's 2008 meeting.

In 2008, the Audit Committee continued to closely monitor the progress of the Basel II project with the implementation of the first stage of the Basel II model according to the "Foundation" method. The model validation process is committed to adopting the IRB Advanced method in 2009 and the Committee was also informed of the discussions with *Commission Bancaire* regarding the implementation of their various recommendations.

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 monitoring of the recommendations not yet implemented. It approved the 2008 of annual audit plan, and its update for the second half of 2008 further to the disposal of the regional banks. It reviewed the Chairman's report on internal control and the "Review of Internal

Control Framework", which meets UK and US requirements on corporate governance (meetings on 22 February and 20 November 2008). In its meeting on 16 May 2008, it conducted a detailed review of the annual reports to the *Commission bancaire*: article 42 Report on internal control procedures (permanent control and periodic control) and article 43 Report on risk measurement and supervision required under the CRBF regulation 97-02.

As part of the compliance controls, the Committee reviewed quarterly compliance certificates, which state the main procedural breaches. In particular, it was informed of the changes regarding the organisation of the Compliance Department and the implementation of a compliance warning system to meet the CRBF regulation 97-02 requirements (meeting on 16 May 2008). 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 examined the compliance action plan for 2008, based on reinforcing measures to combat money laundering and the correct implementation of the MiFID directive. It was informed of the conclusion of various audits carried out by the AMF and the *Commission bancaire* in particular regarding money laundering. The Committee discussed the audit programme and budget for external Auditors' fees for 2008.

The Chairman of the Audit Committee reported on the key points of the Committee's work at the Board meetings held on 26 February, 28 May, 29 July and 20 November 2008.

## Remuneration and advantages of Directors and Senior Management

### Remuneration and advantages of Executive Directors

The remuneration of Executive Directors is adopted each year by the Board of Directors upon the recommendation by the Nomination and Remuneration Committee, after approval by the Remuneration Committee of HSBC Holdings plc. It includes a fixed component and a variable component. The fixed component is determined in accordance with market practices with the help of specialist consulting firms.

The variable component is determined on the basis of a number of objective performance indicators covering financial aspects (return on equity, profit before tax, cost efficiency ratio, etc.), customer relations (customer recommendations, brand reputation, market share, synergies, etc.), processes (quality of service, optimisation of IT applications, etc.) and human resources (employee commitment, retention rate of top employees, etc.). These indicators are analysed in comparison with the previous year or relative to forecasts for the year. The variable component also takes account of market practices and, if necessary, changes in regulations. In accordance with the Group's deferral rules, this variable component is paid partly in cash and partly in shares.

In 2008, Executive Directors benefited from the allocation of bonus shares in HSBC Holdings plc in accordance with the HSBC Group's general policy of systematically awarding shares instead of stock options since 2006. The Group awards various categories of bonus shares:

– Performance Shares, which are subject to performance criteria and are awarded to directors involved in the work of the Group Management Board (executive committee) of the HSBC Group;

– Restricted Shares, which are not subject to specific performance criteria but which are definitively awarded to employees still with the Group at the end of a two-year period.

No HSBC France Executive Directors were involved in the work of the Group Management Board in respect of 2008 and therefore they did not receive any Performance Shares but did receive Restricted Shares, for which the only criterion is to be with the company after a period of two years.

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 that the beneficiary dies, 60 per cent of this pension is payable to the surviving spouse. It is increased every year in line with the average rate applied to 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 basis, and as his status changed on 1 September 2007, Charles-Henri Filippi had accrued pension rights at HSBC France representing, at 1 January 2009, an annual amount of EUR 135,325 to which is added a guaranteed pension income of EUR 455,000 as a Group Managing Director of HSBC Holdings plc.

At 31 December 2008, Gilles Denoyel had accrued pension rights at HSBC France representing 20 per cent of his fixed 2008 salary and 11 per cent of his total 2008 cash remuneration.

From 1 September 2007, Christophe de Backer began to accrue pension rights at HSBC France.

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

At 31 December 2008, he had accrued pension rights representing 3 per cent of his fixed 2008 salary and 1 per cent of his total 2008 cash remuneration.

The provision corresponding to the present value of these HSBC France pension commitments has been recorded in the HSBC France accounts at 31 December 2008, for an amount of EUR 4.3 million.

Peter Boyles, CEO of HSBC France, is seconded by the HSBC Group to HSBC France. Regarding his status as International Manager, he has an employment contract with another company of the HSBC Group and has access to a pension fund of the HSBC Group. Therefore, he is not a beneficiary of the defined benefits supplementary pension scheme of HSBC France.

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

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

The remuneration of Executive Directors below is presented in accordance with the AFEP and the MEDEF Corporate Governance Code as applied by HSBC France, as well as the AMF recommendations of December 2008*. The published information concerns remuneration paid by HSBC France, the companies it controls and the companies that control it (the HSBC Group).

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

| | 2007 | | **2008** | |
|---|---|---|---|---|
| *(in euros)* | *Amounts paid in 2007* | *Amounts due in respect of 2007* | ***Amounts paid in 2008*** | ***Amounts due in respect of 2008*** |
| **Charles-Henri Filippi** [1] | | | | |
| *Chairman of the Board of Directors* | | | | |
| Compensation (detailed in table 2) | 2,955,250 | 1,662,887 | **390,667** | **472,000** |
| Value of the options awarded (detailed in table 4) | – | – | **–** | **–** |
| Value of the shares awarded [2] (detailed in table 6) [2] | 704,000 [3] | – | **–** | **–** |
| **Total** | 3,659,250 | 1,662,887 | **390,667** | **472,000** |
| **Peter Boyles** [4] | | | | |
| *Chief Executive Officer* | | | | |
| Compensation (detailed in table 2) | 149,789 [4] | 926,082 | **1,205,668** | **816,257** |
| Value of the options awarded (detailed in table 4) | – | – | **–** | **–** |
| Value of the shares awarded (detailed in table 6) [2]. | – | 702,219 [5] | **637,811** [5] | **790,006** |
| **Total** | 149,789 [4] | 1,628,301 | **1,843,479** | **1,606,263** |
| **Christophe de Backer** [6] | | | | |
| *Deputy CEO* | | | | |
| Compensation (detailed in table 2) | 133,333 [6] | 833,333 | **1,106,605** | **869,680** |
| Value of the options awarded (detailed in table 4). | – | – | **–** | **–** |
| Value of the shares awarded (detailed in table 6) [2]. | – | 1,040,000 | **1,040,000** | **1,016,925** |
| **Total** | 133,333 [6] | 1,873,333 | **2,146,605** | **1,886,605** |
| **Gilles Denoyel** | | | | |
| *Deputy CEO* | | | | |
| Compensation (detailed in table 2) | 688,745 | 688,745 | **688,745** | **657,820** |
| Value of the options awarded (detailed in table 4). | – | – | **–** | **–** |
| Value of the shares awarded (detailed in table 6) [2]. | 470,000 | 470,000 | **470,000** | **328,975** |
| **Total** | 1,158,745 | 1,158,745 | **1,158,745** | **986,795** |

1 *Chairman and CEO until 1 September 2007 and then Chairman of the Board until 31 December 2008.*
2 *As the HSBC France Executive Directors are not awarded Performance Shares (see above page 23), this line shows the shares without performance conditions.*
3 *Performance Shares (cf. page 23).*
4 *CEO and Director from 1 September 2007.*
5 *The gap between the amount due for 2007 and the amount paid in 2008 is attributable to the difference in the GBP/EUR foreign exchange rate observed between the decision to award and the effective award.*
6 *Deputy CEO and Director from 1 September 2007.*

* *Table numbers refer to table models provided by the Autorité des Marchés Financiers in its recommendation of 22 December 2008 concerning information to be provided in registration documents concerning compensation of corporate officers.*

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

| *(in euros)* | 2007 *Amounts paid in 2007* | 2007 *Amounts due in respect of 2007* | **2008** ***Amounts paid in 2008*** | **2008** ***Amounts due in respect of 2008*** |
|---|---|---|---|---|
| **Charles-Henri Filippi** [1] | | | | |
| *Chairman of the Board of Directors* | | | | |
| Fixed remuneration | 546,667 | 546,667 | – | – |
| Variable remuneration | 2,349,734 [2] | 1,069,734 | – | – |
| Exceptional remuneration | – | – | **350,000** | **350,000** |
| Director's fees | 53,030 | 40,667 | **40,667** | **122,000** |
| Benefits in kind | 5,819 [3] | 5,819 [3] | – | – |
| **Total** | 2,955,250 [4] | 1,662,887 [4] | **390,667** [4] | **472,000** [4] |
| **Peter Boyles** [5] | | | | |
| *Chief Executive Officer* | | | | |
| Fixed remuneration | 149,789 [5] | 149,789 [5] | **429,375** | **429,375** |
| Variable remuneration | – | 776,293 | **776,293** | **386,882** |
| Exceptional remuneration | – | – | – | – |
| Director's fees | – | – [6] | – [6] | – [6] |
| Benefits in kind | – | – | – | – |
| **Total** | 149,789 [5] | 926,082 | **1,205,668** | **816,257** |
| **Christophe de Backer** [7] | | | | |
| *Deputy CEO* | | | | |
| Fixed remuneration | 133,333 [7] | 133,333 [7] | **400,000** | **400,000** |
| Variable remuneration | – | 700,000 | **700,000** | **463,075** |
| Exceptional remuneration | – | – | – | – |
| Director's fees | – | – [6] | – [6] | – [6] |
| Benefits in kind | – | – | **6,605** [3] | **6,605** [3] |
| **Total** | 133,333 [7] | 833,333 | **1,106,605** | **869,680** |
| **Gilles Denoyel** | | | | |
| *Deputy CEO* | | | | |
| Fixed remuneration | 365,000 | 365,000 | **365,000** | **365,000** |
| Variable remuneration | 300,000 | 300,000 | **300,000** | **291,075** |
| Exceptional remuneration | – | – | – | – |
| Director's fees | 22,000 | 22,000 | **22,000** | – [6] |
| Benefits in kind | 1,745 [3] | 1,745 [3] | **1,745** [3] | **1,745** [3] |
| **Total** | 688,745 | 688,745 | **688,745** | **657,820** |

1 *Chairman and CEO until 1 September 2007 and then Chairman of the Board until 31 December 2008.*
2 *This amount includes the variable remuneration in respect of 2006 (EUR 1,280,000) and of 2007 (EUR 1,069,734) but excludes the contribution paid into the UK pension scheme in exchange for the prior waiver of bonus, i.e. EUR 320,000.*
3 *Company car.*
4 *A part of this remuneration was paid by other HSBC Group companies in respect of his functions within the Group.*
5 *CEO and Director from 1 September 2007.*
6 *Renounced the payment of his fees by HSBC France (cf. below page 27).*
7 *Deputy CEO and Director from 1 September 2007.*

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

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

| | *Number of the plan and date of award* | *Type of options* | *Value of the shares under the method used for the consolidated accounts* | *Number of options awarded during the year* | *Exercise price* | *Period of exercise* |
|---|---|---|---|---|---|---|
| None (cf. page 23). | | | | | | |

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

**CCF options exercised in 2008**

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

**HSBC Holdings plc options exercised in 2008**

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

### Shares awarded to each Executive Director in 2008 in respect of 2007 (Table 6)

**HSBC Holdings plc shares***

| | *Date of award* | *Number of shares awarded* [1] | *Value of the shares under the method used for the consolidated accounts* | *Vesting date* | *Date of availability* |
|---|---|---|---|---|---|
| Peter Boyles | 03.03.2008 | 61,328 | EUR637,811 | 03.03.2010 | 03.03.2012 |
| Christophe de Backer | 03.03.2008 | 99,976 | EUR1,040,000 | 03.03.2010 | 03.03.2012 |
| Gilles Denoyel | 03.03.2008 | 45,192 | EUR470,000 | 03.03.2010 | 03.03.2012 |

* *The HSBC France Executive Directors were not awarded shares subject to performance conditions, as this category of shares is awarded by the HSBC Group to directors involved in the work of the Group Management Board (cf. page 23).*

1 *The shares awarded by other Group companies are included.*

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

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

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

| | *Number of options awarded/ exercised* | *Average exercise price* | *Date of award* | *Expiry date* |
|---|---|---|---|---|
| CCF options awarded during the year, by the issuer and by any company of its group to its ten employees whose number of awarded options is the highest | None | | | |
| HSBC options awarded during the year, by the issuer and by any company of its group to its ten employees whose number of awarded options is the highest | None | | | |
| CCF options exercised during the year by the 12 employees and former employees whose number of exercised shares is the highest | 111,500 | EUR78.61 | 1998 and 1999 | 2008 and 2009 |
| HSBC options exercised during the year by the ten employees and former employees whose number of exercised shares is the highest | 629,500 | GBP7.519 | 2001 to 2005 | 2011 to 2015 |

**Other information required by the Corporate Governance Code (Table 10)**

| **Executive Director**<br>Function<br>First appointed<br>Term ends | *Employment contract* [3] | *HSBC France supplementary pension scheme* [4] | *Compensation or benefits due or that may be due upon termination or change in duties* | *Compensation due under terms of non-compete agreement* |
|---|---|---|---|---|
| **Charles-Henri Filippi**<br>Chairman of the Board<br>1 March 2004 [1]<br>31 December 2008 [1] | No | Yes | No | Yes |
| **Peter Boyles**<br>CEO<br>1 September 2007<br>2009 [2] | Yes [5] | No | No | No |
| **Christophe de Backer**<br>Deputy CEO<br>1 September 2007<br>2012 | Suspended | Yes | No | No |
| **Gilles Denoyel**<br>Deputy CEO<br>1 March 2004<br>2010 | Suspended | Yes | No | No |

1 *Chairman and CEO from 1 March 2004 to 31 August 2007, then Chairman of the Board from 1 September 2007 to 31 December 2008.*
2 *Standing for re-election at the Annual General Meeting to be held on 27 May 2009.*
3 *Cf. page 24.*
4 *Cf. pages 23 and 24.*
5 *Employment contract with another company of the HSBC Group.*

## 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 compared with EUR 480,000 since 2005 in order to implement a decision of the Board adopted on 25 July 2007 to grant the Chairman of the Board an annual flat fee of EUR 122,000.

Furthermore, in 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.

Within the HSBC Group, it is customary for Directors representing HSBC and Executive Directors to renounce Directors' fees from HSBC Group companies. This recent recommendation is progressively implemented by the Executive Directors.

In 2008 (in respect of 2007), Stephen Green, Peter Boyles and Christophe de Backer renounced the payment of their fees by HSBC France. It has to be noted that in respect of 2008, according to the internal rule of the HSBC Group, Stephen Green, Peter Boyles, Christophe de Backer, Gilles Denoyel, Philippe Pontet and Jean Beunardeau renounced the payment of their fees.

Net total Directors' fees to be paid in May 2009 in respect of 2008 amount to EUR 0.39 million, compared to EUR 0.40 million paid in 2008 in respect of 2007.

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

| | *Directors' fees paid in 2007 in respect of 2006* | *Directors' fees paid in 2008 in respect of 2007* | *Other compensation paid in 2007* [1] | *Other compensation paid in 2008* [1] |
|---|---|---|---|---|
| **Executive Directors of HSBC Group companies** | | | | |
| Jean Beunardeau [2] | – | – | – | EUR1,140,000 |
| Michael Geoghegan [3] | – | – | GBP3,157,456 [4] | GBP1,667,745 |
| Stephen K Green [3] | – | – | GBP3,012,457 | GBP1,265,368 |
| Philippe Pontet | EUR22,000 | EUR22,000 | EUR750,000 | EUR850,000 |
| **Directors elected by the employees** | | | | |
| Evelyne Césari | EUR22,000 | EUR22,000 | | |
| Maurice Ettori [5] | EUR22,000 | EUR22,000 | | |
| Michel Gauduffe [5] | – | – | | |
| Thierry Jacquaint [6] | – | – | | |
| Philippe Purdy [7] | EUR22,000 | EUR22,000 | | |
| Joyce Semelin [7, 8] | EUR22,000 | EUR22,000 | | |
| **Independent Directors** | | | | |
| Martin Bouygues | EUR22,000 | EUR16,500 [9] | – | – |
| Paul Dubrule | EUR32,000 | EUR32,000 | – | – |
| Philippe Houzé | EUR32,000 | EUR32,000 | – | – |
| Jean-Claude Jolain | EUR32,000 | EUR8,000 [10] | – | – |
| Igor Landau | EUR22,000 | EUR22,000 | – | – |
| Jean-Charles Naouri | EUR22,000 | EUR11,000 [11] | – | – |
| Marcel Roulet | EUR47,000 | EUR47,000 | – | – |
| Peter Shawyer | EUR77,100 [12] | EUR84,171 [12] | – | – |
| Brigitte Taittinger [13] | – | – | – | – |

1 *Fixed and variable remuneration and benefits in kind.*
2 *Appointed on 1 January 2008.*
3 *Emoluments shown are paid by other HSBC Group companies in respect of their executive functions within the Group.*
4 *Of which an executive allowance of GBP 520,413 paid to fund personal pension arrangement. 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.*
5 *On 1 January 2008, Michel Gauduffe took over from Maurice Ettori who retired.*
6 *Elected on 26 September 2008.*
7 *Directors' fees paid to a trade union organisation.*
8 *Appointment ended on 26 September 2008.*
9 *Appointment ended on 1 October 2007.*
10 *Appointment ended on 10 May 2008.*
11 *Appointment ended on 17 July 2007.*
12 *Of which EUR 27,750 paid by HSBC France, excluding withholding tax.*
13 *Appointment on 31 July 2008.*

## 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 and Stuart Gulliver are Directors of HSBC France and respectively Chairman and Director 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 attend the discussion.

## 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 its meeting on 26 February 2008. These rules specify the Board's main duties:

– to discuss all issues relating to its legal and regulatory obligations and those arising from the company's articles of association;

– to determine the general direction of the company's activities and ensure that it is followed.

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

– to discuss the strategy adopted by HSBC France;

– to oversee its implementation;

– to approve strategic investment and divestment plans and all transactions liable to have a significant impact on earnings;

– to oversee and control material risks;

– to ensure the quality of information provided to the shareholder and to the market through the financial statements and the Annual Report;

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

Further to the Board's decision to separate the Chairman and CEO roles, the internal rules were completed to specify the terms under which the Chairman of the Board of Directors carries out his functions, and the Chairman's various duties, together with those of the CEO. They also define the procedures for conducting Board meetings and providing information to the Board. Furthermore, the Board's internal rules define, in accordance with the HSBC Group rules, the duties, powers and responsibilities of the Audit Committee and the Nomination and Remuneration Committee (see above). They incorporate a code of conduct to be followed by the Directors of HSBC France, setting out their rights and duties. Lastly, they define intervention rules on HSBC Group listed securities for HSBC France directors.

### Self-assessment

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

### General Meeting

Meetings are open to all shareholders. They are convened and transact business in accordance with the provisions of the law and regulations in force. According to article 22 of the Articles of Association, all shareholders, whatever the number of shares they own, are entitled to attend General Meetings and to take part in the deliberations, personally or through a representative, provided their shares are paid up in full for payments that are due and are registered on an account in their own name not later than midnight, Paris time, of the third business day preceding the General Meeting. However, the author of the notice to attend has the option at all times to reduce this period of time, as he so sees fit.

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

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

### Restrictions on the CEO's powers

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

In this respect, the Board of Directors has delegated its powers to issue bonds to Peter Boyles (Chief Executive Officer), Christophe de Backer and Gilles 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 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 agents holding general powers of attorney reporting directly to them.

These powers concern:

– representation of the bank;

– banking operations;

– bank-related operations;

– litigation.

Delegated powers must be exercised within the bounds of the person's responsibilities and in accordance with 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 AND RISK MANAGEMENT PROCEDURES

### Significant events and regulatory developments in 2008

The key event of 2008 was the reorganisation of the retail banking business, entailing the sale of regional banking subsidiaries in the south of France and the launch of the 2010 development plan. As regards controls, in accordance with the Group's instructions, the creation of an Operational Risk and Internal Control (ORIC) Department has enhanced existing permanent control procedures.

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

## General organisation of internal control and risk management procedures

### Organisation of permanent control and of risk monitoring

HSBC France's permanent control system is currently based, on the one hand, on eight risk functions which manage their own control systems in their respective risk areas (structural interest rate and liquidity, market, credit, IT, accounting, business continuity planning/physical safety, compliance, legal and tax) and, on the other hand, on the operational risk and internal control management system (cf. below) and is coordinated by the HSBC France's Deputy CEO in charge of risks. 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 on 10 July 2008. In 2008, the HSBC France group aligned its permanent control procedures resulting from the application of CRBF regulation 97-02 with the operating risk management requirements of Basel II regulations.

Monitoring of the main risks is summarised by the Risk Management Meeting, which is convened once a month chaired by the Deputy CEO in charge of risks. These meetings are attended by many of the Executive Committee members, as well as heads of risk management units.

An Operational Risk and Internal Control (ORIC) Department, reporting to the Deputy CEO in charge of risks, was created in July 2008. This department is responsible for overseeing operational risk management and supervision of internal control operated by the businesses and departments. The organisational structure of this unit – modelled on that adopted by the HSBC Group – has been adapted to the specific requirements of French regulations.

This central team plays a role in consolidation and harmonisation, covering all entities or structures reporting to HSBC France on issues such as identifying operational risks, defining and monitoring plans of action, declaring incidents, organising the implementation of risk indicators and even reviewing control plans and coordinating the formalisation of key controls and the contents of reports.

The team also serves as an interface between HSBC entities, HSBC Holdings plc on one hand and HSBC Bank plc on the other. Notably, it is involved in the consolidation and dispatch of required reports, as well as disseminating instructions and best practices. Lastly, the team is involved in the project managership of the IT system used for the recording of operational risks and incidents, GORDON.

An Operational Risk and Internal Control (ORIC) Committee has been created at HSBC France, which meets once a month. The committee is chaired by the Deputy CEO in charge of risks. It is responsible for:

– promoting an organisation that is aware of risk management, involving all entities in a formalised process for understanding, assessing and managing operational risks;
– communicating on the HSBC Group's organisation and procedures in terms of operational risk management and control, and ensuring that these are effectively reflected in local directives and procedures;
– overseeing the implementation and compliance of directives and procedures relating to operational risk and internal control;
– reviewing and managing the risk profile within HSBC France's business lines, focusing in particular on pro-active management of emerging issues and new risks.

The ORIC Committee acts locally, at the level of each of HSBC France's business lines and at the level of each risk management unit identified in accordance with CRBF regulation 97-02.

Management of essential outsourced services forms an integral part of control procedures to be defined and implemented. Its results are reported to the ORIC Committee.

### Company references

**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 over the past year.

**Handbook and Codes of Conduct**

The Handbook features business ethics rules that apply to all staff, relating to confidentiality, compliance with laws and regulations and professional integrity. In addition to these rules, each business line and activity has a specific code of conduct and/or compliance manual that collates operational application procedures relating to staff business ethics and compliance to laws and regulations. Staff working in functions regarded as sensitive must confirm in writing that they comply with the applicable code of conduct. Staff working in functions regarded as sensitive are also subject to specific requirements relating to personal transactions.

Legislative and regulatory changes, in particular the introduction of the EU Markets in Financial Instruments Directive, have led to changes in compliance procedures contained in the internal rules. These new procedures will come into effect in 2009 following the consultation with the unions carried out in 2008.

**Accounting control procedures**

The Finance Department maintains accounting control manuals featuring procedures and instructions. 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 comply with French accounting standards and take into account changes in structure and in responsibilities arising from the reorganisation of networks under the HSBC brand, and the creation of new IT systems.

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

**Internal circulars**

Internal circulars are the key vehicle for com–municating policies to management and staff. 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 function 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 about 60 staff, and carried out 67 on-site audits and 58 remote audits in 2008.

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.

It should be noted that GAF underwent two major changes in 2008. First of all, regional banks in the south of France were sold to the Banque Populaire Group in the year and the GAF office in Marseille, which had 10 employees, was closed down. In addition, following a decision made by the HSBC Group – fully in line with French regulations resulting from CRBF regulation 97-02 – to make a clearer distinction between permanent controls and periodic controls, the activities carried out by GAF within the banking networks in the area of credit and operational risk management and continuous auditing have been transferred to permanent control units. These transfers concerned 15 auditor positions. In addition to job cuts in Marseille, this means that the audit team in Paris has been reduced from 65 to 40 people.

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 branches with the highest risk are audited first.

1 *Cf. pages 21 to 23.*

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 2007, GAF's audit schedule was prepared, in 2008, using the results of the Risk Calculator tool, which classifies entities according to the extent of their risks.

The HSBC Group audit division specialising in the finance sector (Group Financial Services and European Audit or AUF), based in London, still provides control of all HSBC Group's Capital Markets activities as well as its Insurance, Asset Management, Accounting, Corporate Banking and Private Banking operations. It still has a unit in Paris, as part of GAF. AUF teams have had a strong presence at HSBC France, having carried out 16 audits in 2008 compared with just five the previous year.

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, which is responsible for implementing recommendations made by GAF, by the external Auditors or by the supervisory authorities. Audit 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 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 six months, is reported to the audit committees and the Executive Management Committee. These various audits to monitor the implementation of recommendations were refined further in 2008.

To give greater authority to audits, the CEO has been sending detailed letters to all entities where two consecutive audits have graded "unsatisfactory" results since the end of the first quarter of 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 annually monitors recommendations issued by supervisory authorities. Group Finance is responsible for the quarterly monitoring of 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 met five 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 a large part of the HSBC France Executive Committee and officers responsible for risk functions.

*d* *Compliance Committee*

The Compliance Committee, set up in April 2006, meets quarterly. Chaired by the HSBC France CEO, it includes the Deputy CEO in charge of risks and the members of the Executive Committee 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* *The Operational Risk and Internal Control (ORIC) Committee*

This Committee, created in mid-2008, now groups together activities previously assigned to two committees:

– the Permanent Control Committee (created in 2006);

– the Operational Risk Committee (created in late 2003 in accordance with regulatory requirements resulting from Basel II).

The Committee is organised as follows:

– a Committee meeting once per quarter, under the authority of the Deputy CEO in charge of risks, and bringing together business line managers and managers in charge of the eight risk functions – as defined in the permanent control organisational structure – to review the group's top ten risks, all operating losses incurred by HSBC France over the period and progress made in decisions made during previous Committee meetings; it also reviews the main controls performed by each business line, in particular those relating to major risks identified by these units, as well as progress made in essential audit points;

- a "technical" Committee, which meets twice per quarter to review in greater detail risks, losses, controls, risk indicators and plans of action for a specific business line or support function.

The ORIC Department prepares and acts as secretary for these Committees and is also responsible, under the authority of the Deputy CEO (and Risk Officer), for the centralisation and supervision of work carried out relating to operational risk management and permanent control, in particular managing and coordinating operational risk correspondents and permanent control officers within the group's business lines and support functions.

As regards operational risk, the ORIC Department coordinates the various work carried out by operational risk correspondents, in particular that relating to declaring operating losses and identifying and assessing the seriousness of risks using a grading system shared by the entire HSBC Group.

*f* *Compliance Department*

To guarantee the full independence of the compliance function with respect to operational activities, as ordered by the provisions of CRBF regulation 97-02, it was decided that, from 2006, all compliance teams should report to the central Compliance Department. The Chief Compliance Officer is responsible for compliance control at HSBC France, within the meaning of aforesaid regulation, and for coordinating the HSBC France group's compliance control system. The Compliance Department is made up of six units reporting to the Chief Compliance Officer. These consist of five business-line units (Retail Banking, Global Banking and Markets, Asset Management, Private Banking and Insurance) and a central compliance unit in charge of making sure the system is consistent.

Group Compliance carries out the following main tasks to control non-compliance risks:

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

*g* *Finance*

The Finance Department 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, off-balance sheet items and income statement accounts. All business units have a finance function that reports monthly to the Finance Department. These departments are responsible for drawing up budgets and action plans in line with guidance given by Senior Management. During 2008, given the wealth of developments in the accounting field, the Finance Department organised several technical seminars and information meetings on the following themes: regulatory and tax news, IFRS and IAS, budget procedure, the certification of accounts, and SOX.

*h* *Operational Risk Business Co-ordinators (ORBCs)*

Each business line has its own Operational Risk Business Co-ordinator (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 involved 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 (GORDON or Group Operational Risk Database Online Network). Progress with action plans and operating losses reported by business lines are periodically presented to the ORIC Committee. Furthermore, risk exposure indicators are defined by the business lines and support functions. These are reviewed by business lines committees dealing with risk and control and then summarised for the ORIC Committee.

A summary of this committee's work and conclusions is regularly submitted to the RMM and to the HSBC France group Audit Committee.

i *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. The HSBC France Finance Department is also involved in centralised reporting to HSBC in London.

## Internal control procedures

### Procedures for controlling compliance with laws and regulations

**Compliance function**

*Identification and control of non-compliance risks*

The Compliance Department uses in particular the legislation monitoring carried out by the Legal and Tax Department to monitor changes in laws, regulations and case law affecting the activities of HSBC France, analyse these changes and define how they should be applied.

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. Following on from the work carried out in 2007 to harmonise the mapping of non-compliance risks associated with the HSBC France group's various business lines, the consistency of the measurement of risks identified relative to data recorded in the operational risk management system was reviewed in 2008. Non-compliance risk maps are updated at least twice a year.

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 involved, 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 is responsible for ensuring that the relevant products comply with laws, regulations and internal standards and 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 relevant entity and is the subject of an exception report that is passed on 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 HSBC France and consists of the Chief Compliance Officer, Compliance Department Heads, the Deputy CEO in charge of risk, the members of the Executive Committee 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 implemented.

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 acts as 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 Legal and Tax Department is responsible for the HSBC France group's legal and tax function, and has analysed and mapped this function's major risks. The group has 10 listed major legal risks and three major tax risks.

The Legal and Tax Risks Committee, chaired by the Deputy CEO in charge of risks, meets quarterly to ensure that the risks system for legal and tax risks remains adequate in the face of changes in laws, regulations and organisations. The Committee also examines the monitoring of incidents raised previously, the results of controls, along with any new incidents and measures taken. It reports on its work to the HSBC France group ORIC Committee.

Each group subsidiary that is directly affected by CRBF regulation 97-02 draws up a half-yearly legal permanent control report signed by a lawyer and the Head of permanent control of the subsidiary for itself and the companies it controls. These reports highlight any significant subjects revealed by controls, or any control deficiencies and proposed plans of action to resolve any incidents observed during controls. 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

All of the procedures described below are due to change in 2009 due to the need to adapt the group's credit risk management to the reorganisation of the network and to that of the Credit Risk Department (DRC).

In 2008, within the HSBC France group, credit risk was managed by the Credit ALCO and by DRC, which is independent of business lines. DRC reports hierarchically to the Deputy CEO in charge of risk, and functionally to the HSBC Bank plc Head of Credit.

*ALCO function*

Credit ALCO, in which Senior Management takes part, was the main authority in charge of the HSBC France group's credit policy. Its duty was to control the DRC'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 was informed by the DRC 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 per quarter, the committee met as a permanent control committee, as required by CRBF regulation 97-02.

*Phases of the credit process*

- Lending powers

As regards credit limits, the ability to grant loans is limited to those holding lending powers. Beneficiaries are notified in writing according to a precise formulation. Powers are allocated to individuals by name and not position. There is no lending committee, and decisions are made individually.

HSBC France's CEO holds powers granted by HSBC Bank plc and has delegated his powers to the Deputy CEO in charge of risks, who delegated them to the Head of Credit. For amounts in excess of these limits, cases are referred to the HSBC Bank plc Credit Department in London.

The Head of DRC 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 DRC members in charge of lending decisions and different persons within the network.

- Credit documentation, analysis and decisions

A holder of lending powers is able to grant loans in compliance with the HSBC Group, the parent company HSBC Bank plc, and the HSBC France group 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, the parent company HSBC Bank plc and HSBC France directives. The central document for HSBC France is the HSBC France group's lending procedures manual (HSBC France BIM Credit).

- Credit monitoring

The quality of the HSBC France group's counterparties is permanently monitored.

The DRC (Monitoring team) is in charge of this monitoring. It takes direct responsibility for monitoring loans above certain thresholds. Below these thresholds, loans were monitored by the Head of Risk Prevention and Control (DPMR) for networks under the HSBC brand until end 2008.

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) – Markets.

Networks use the same monitoring tools (Vigirisk).

- Permanent control of lending activities

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

The DRC and its members are the central unit of the credit function, which had three main local sub-functions in 2008:

– the credit function for HSBC France networks managed by the DPMR, which as of 1 March 2008 reports solely to the DRC;

– the 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;

– the credit function for subsidiaries (HSBC Private Bank France, HSBC Factoring (France), etc.).

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

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

At the central and local levels, controls are performed by dedicated internal controllers, along with staff that also carries out operational activities (credit managers, credit analysts, supervisory analysts).

- Specific control authorities

The general committee is the Credit ALCO, whose role has been enlarged and which has taken on the role of the Credit Risk Permanent 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 ORICC.

- Tools

In order to ensure harmonisation of the work carried out by group internal control departments, procedures are based on a series of generic control forms and certificates defined by the DRC in liaison with function representatives. These aim to cover all risks identified in risk mapping.

The required certificates cover:

– knowledge of procedures;

– elementary in-branch controls;

– control of non-performing loans and provisions.

Control forms cover:

– compliance of the credit file;

– out-of-date files not renewed or overdue;

– monitoring of threshold breaches;

– Large Credit Exposure Policy – LCEP.

These aspects of permanent control are complemented by permanent control procedures for the central coordination of Basel II loans, which concern:

– data quality;

– Basel II monitoring (assessment of Use Test);

– compliance with governance rules for models.

Information is reported on a quarterly basis.

Internal control procedures are updated annually and validated by the Credit ALCO. They are also updated whenever a major change is made requiring the revision of forms or coverage of a new risk.

## 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.

The majority of transactions within the Retail Banking network are now handled by the Operations and Support Functions Department, which in 2008 finalised risk mapping by process. The aim is to identify first-tier control procedures in place in order to determine the second-tier control plan. Assignments are then performed by dedicated internal control teams. In 2008, the scope of controls was enlarged to include Operations units in provincial areas.

An Operational Risk and Internal Control Committee, which meets on a quarterly basis, has been created within the department to review the results of internal control assignments, monitoring of the implementation of audit recommendations, the main incidents and losses, monitoring of essential outsourced services and the impacts on control procedures – including on Sarbanes-Oxley (SOX) procedures – of the main projects currently underway.

**Security/business continuity planning function**

Firstly, the HSBC France group has comprehensive procedures for limiting the risk of financial loss and internal and external fraud. The main underlying principle is the strict separation 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 and an overall information protection policy has been implemented. Others procedures handle management of cash, securities and safe keys and organise the management and control of access to central buildings and the branch network with optimum security.

Furthermore, in accordance with the BRP FIM, the Major Risks and Security Committee (CRMS), including the Major Incident Group (MIG) of the HSBC France group, was reorganised in 2007 and represents the permanent control body of the Business Continuity Plan division, meeting the requirements of CRBF regulation 97-02. This organisation allows for the review and control of matters relating to business continuity (drawing up and updating business continuity plans, tests, etc.) for the group as a whole, as well as all policy and strategy matters, including a component for the security of goods or people.

**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 room mandates attributed by the HSBC Group to HSBC France. These global mandates are divided by business line by the Market Risk Committee, then translated into operational limits within each entity. These limits are expressed in terms of lists of authorised instruments and maturities, Value at Risk, sensitivity, maximum loss and stress tests. They are revised at least once a year by the Market Risk Committee 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 & Risk (TMR)*

The HSBC Group allocates risk limits to various entities within the HSBC Group through the Room Mandate. The TMR 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.

*Market Risk Control (MRC)*

Within HSBC France's Global Banking and Markets support functions, MRC is responsible for the calculation, control, analysis and day-to-day distribution of market risk indicators. MRC defines the risk calculation architecture and algorithms (sensitivities, value at risk, stress tests).

*Product Control*

Product Control is in charge of the production, analysis and control of the daily valuation of positions, defining reserves and recording daily results.

*Derivative Models Review Group (DMRG)*

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

*Valuation Committee*

The Valuation Committee is managed by the Head of Market Risk and Product Control, and is made up of members of the DMRG, Product Control, Market Risk Management and front-office representatives. It meets in the first two weeks of every month, and discusses valuation assumptions. The main indicators relating to exotic activities and concentration risks are also examined during these monthly meetings.

*Market Risk Committee*

The Market Risk Committee meets every month, and is chaired by the Deputy CEO in charge of risks. 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. The Market Risk Committee 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).

The Markets Risk Committee meets monthly to examine risk indicators prepared by Market Risk Control, and analyses any significant events that took place during the previous month. Any entity that generates market risks must request the renewal or extension of its limits every year.

Periodic control of market risks, as described above, is carried out by Group Financial Services and European Audit (AUF), which is the HSBC Group unit in charge of the periodic control of worldwide capital markets activities.

**Structural interest rate, forex and liquidity risk function**

Structural interest-rate, liquidity and forex risks are managed centrally by the Capital & ALM Department (DGFB) which is part of the Finance Department. The DGFB is also in charge of capital management, balance sheet monitoring and funding for the HSBC France group. In accordance with CRBF regulation 97-02, the DGFB has a map of this function's inherent risks, control procedures and a circular setting out the permanent control organisation.

The supervisory body for these risks is the Balance Sheet ALCO, for which the Head of DGFB acts as secretary, and which in turn reports to the Risk Management Meeting. The Balance Sheet ALCO, which meets every month, brings together the main heads of business lines and support functions concerned by ALM. It examines risk indicators prepared by the Finance Department 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.

Any incidents observed during structural interest rate, liquidity and forex risk management processes and corrective measures are presented to the Balance Sheet ALCO on a quarterly basis.

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

*Structural 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 and departments 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 the DGFB. These activities rely on a set of controls on which a monthly statement is made. 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 is based 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.

The DGFB coordinates the work of the Retail TALCO Committee – the interest rate sub-committee of the ALCO – which meets once a month to supervise the Commercial Banking business's structural interest rate risk management. The Retail TALCO minutes and interest rate risk indicators are presented once a month to the Balance Sheet ALCO.

*Liquidity risk*

All entities measure liquidity risk by calculating regulatory indicators. The Finance Department also calculates internal consolidated indicators at the HSBC France 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 executing transactions (Treasury), for reporting and for supervision (Finance Department). This committee is tasked with managing liquidity ratios, preparing the funding plan, looking into alternative sources of funding and handling any matters relating to liquidity.

The 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 funding plan.

The liquidity steering committee's report, along with liquidity indicators, various cash flow stress scenarios and monitoring reports on funding sources, are presented monthly to the Balance Sheet

ALCO, which defines limits with HSBC Holdings plc that are supplementary to regulatory limits.

Since summer 2007, regular meetings have been organised and attended by the CEO and the two Deputy CEOs in order to ensure closer monitoring of liquidity-related issues in view of the severe difficulties in this area.

*Structural exchange rate risk*

As HSBC France is part of the HSBC Group, its exchange rate positions are now limited. Exchange-rate positions resulting from the banking activity are systematically transferred to the Global Markets Department.

There is also an exchange rate risk corresponding to changes in shareholders' equity resulting from foreign-currency investments not hedged by foreign-currency financing. HSBC Holdings plc terms this risk as "structural", and it is supervised through exposure and capital adequacy sensitivity indicators calculated by the Finance Department. The analysis of these ratios is presented to Balance Sheet ALCO on a quarterly basis.

## Control procedures for financial reporting

**Accounting function**

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

The main accounting principles applicable are available to all group accounting departments on the HSBC France Intranet. These principles are based mainly on the French Commercial Code, the fourth European Directive, IFRS and all CRC texts and recommendations.

HSBC France'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 processing of information. Systems are tested by 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 partially consolidated financial statements using both French GAAP and IFRS, and to create common tools (provisions, etc.). The HSBC Group's integrated System 9 consolidation software was implemented in September 2008 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 datawarehouse 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 System 9 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. According to the Group's rules, HSBC France draws up a monthly certificate of accounting reconciliation which is sent to the HSBC Group Finance Division. This certificate attests that all accounts are properly reconciled and is a summary of accounting reconciliation certificates provided by the various accounting and financial departments of HSBC France and its subsidiaries. This monthly reporting 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 and Finance Department. Any anomalies identified by the reconciliation certificate are used as a basis for corrective action by the business units involved, with the establishment of an action plan.

The Finance Department also receives GAF and AUF audit reports and uses them to monitor the implementation of accounting and finance-related recommendations. Statements to the supervisory authorities that contain accounting information are prepared directly by operational departments. The Head of Accounting examines and validates the information before submitting it to the HSBC France Finance Department. The process is formalised every quarter through the signature of financial statements sent. 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.

At HSBC France, financial control is decentralised at the operational department and subsidiary levels. Operational departments and subsidiaries report monthly to their own management and to the Finance Department.

The CFO presents the results to the Executive Committee each month and reports to the HSBC France Board of Directors.

To comply with Sarbanes-Oxley provisions as of 2006, HSBC France's management must carry out an in-depth assessment of the internal control procedures used in drawing up financial statements.

Weaknesses identified within the framework of these controls should be corrected urgently and a dedicated team has been set up to coordinate all such work. A certificate signed by the CEO, the CFO and the Head of Audit is sent twice a year to HSBC Bank plc, attesting to the effectiveness of financial internal control procedures and specifying, if necessary, any weaknesses in the process of being corrected.

The audit also participates in these controls within the framework of independent tests relating to Sarbanes-Oxley (SOX) controls, as well as the external Auditors, who have conducted a review of the various works carried out on behalf of KPMG London – the HSBC Group Auditors – which in turn will give its opinion on the SOX 404 report prepared by management of HSBC Holdings plc. The external Auditors are therefore involved in each quarterly review of SOX risks and, at the end of the year, perform an audit of procedures.

## 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. To this end, it has established 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 continental Europe 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 at the level of business line functions, the IT managers of these business line functions, 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.

In accordance with Group policies (GSM chapter 8 and IT FIM), the effectiveness of control procedures should be measured through the establishment of:

- an annual IT compliance certificate, which assesses in detail the compliance of each IT department with regulations and with the Group's standards and procedures;
- regular monitoring of the implementation of IT audit recommendations;
- reports on permanent controls (compliance with security policies, emergency plan, intrusion tests);

– reports on IT incidents relating to the availability, integrity and confidentiality of the IT system.

The results of these compliance measures are analysed and presented periodically in internal committees of the HSBC France group:

– Audit Committee meetings half-yearly;

– IT Steering Committee meetings quarterly;

– RMM (Risk Management Meeting) monthly.

Furthermore, the major operational risks are assessed monthly and the monitoring of plans of action are presented to the Operational Risk and Internal Control Committee (ORICC).

*Governance of IT processes and internal control in the Information Systems Department (HSBC Technology Services – HTS)*

The efficiency of internal control procedures implemented at the level of IT processes and intended to combat major IT risks is assessed by the IT Management Board. This Committee groups together the Senior Manager of the department and persons responsible for major IT processes.

*Acquisition or 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 imposes 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, HTS has created Projects Committees to ensure that projects comply with business line requirements, with the HSBC Group IT urban development and architecture rules, but most importantly with security and regulatory compliance rules. Flagship IT projects involve project quality planning.

*Testing*

Testing is conducted throughout the project management process. There are a variety of tests, concerning distinct project resources, which are performed chronologically one after the other and for specific environments: unit tests, integration tests, user validations and pre-production tests.

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, their manager and the person in charge of the subsequent testing phase. For production testing, the validation of the Change Control Committee is required.

In order to move onto the production phase, all those involved in the project have to sign an implementation certificate, which represents the decision to move onto the production phase, attesting that all preparatory measures have been completed.

*System go-live control*

The Change Control Committee established by HTS 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 continuity of IT programmes in case of system failure. In particular, an IT Back-Up Plan (IBP), also known as the Disaster Recovery Plan, is in place and is subject to periodic tests in order to ensure – depending on the requirements of the business lines and the importance of systems – that the bank's key IT functions can be resumed.

*System access control*

Password controls are set for any person with access to operating systems, databases and IT environments. A person is granted access by a dedicated HTS Security team following approval by his/her hierarchical Head.

Access to the production environment is limited and requires justification: all access requests are subject to a dispensation request approved by the business line that owns the data and is granted with a limited validity timeframe. Transactions carried out using these special access rights are logged and controlled.

*Operations control*

Computer equipment is installed in secured computer premises under the responsibility of HSBC France's Security Department.

*Information security policy*

HSBC France has drawn up its information security policy. Initiated by the Security Department, it complies with legislative and regulatory requirements and is in line with the HSBC Group policies and directives.

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

It expresses the HSBC France group's general information security strategy and serves as a reference framework for the integration of information security, from the initiation of a project to the implementation of a solution.

The IT function is central to this process and is intended to play an active role in risk measurement. In this respect, the function recently appointed a head of information security.

*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 comprehensively assess the quality of internal control.*

Stuart Gulliver
*Chairman*

Paris, 18 February 2009

## 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

*For the year ended 31 December 2008*

To the Shareholders,

In our capacity as Statutory Auditors of HSBC France S.A., and in accordance with Article L. 225-235 of the French Commercial Code, we hereby report on the report prepared by the Chairman of your company in accordance with Article L. 225-37 of the French Commercial Code for the year ended 31 December 2008.

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

It is our responsibility:

– to report to you on the information contained in the Chairman's report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information, and

– to attest that this report contains the other disclosures required by Article L. 225-37 of the French Commercial Code, being specified that we are not responsible for verifying the fairness of these disclosures.

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

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

The professional 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 consist mainly in:

– obtaining an understanding of 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 is based and existing documentation;

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

– determining if any material 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 accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with Article L. 225-37 of the French Commercial Code.

**Other information**

We hereby attest that the report prepared by the Chairman of the Board of Directors also contains the other disclosures required by Article L. 225-37 of the French Commercial Code.

Paris-La Défense and Paris, 28 April 2009

| KPMG Audit | BDO France – Léger & Associés |
|---|---|
| Fabrice Odent | Michel Léger |
| Partner | Partner |

# Sustainability

## Sustainability: a driver for long-term success

To establish and maintain the confidence of all stakeholders in HSBC, the Group's strategy is based on an active culture of sustainable development. Its policy in this domain, one of the pillars of which is the fight against global warming, defines and provides a framework for its actions. The "Accountability Rating 2008" system, which measures the environmental and social performance of the top 100 global companies, ranks HSBC in third place. According to Simon Martin, Head of Group Sustainability, this rating represents "tremendous recognition, which proves that it is possible to judge which companies act responsibly."

In 2008 the HSBC Group thus announced:

- its adoption of the Climate Principles on 2 December, a new code for best practices relating to climate change, as applicable to the financial sector, which was launched by the Climate Group. The Climate Principles provide a framework for the measures undertaken by companies to reduce greenhouse gas emissions and a strategic orientation for all financial products and services. They were developed under the aegis of HSBC and four other groups in the banking/insurance sector, all of whom, as signatories to the principles, have committed to incorporating carbon and climate change risks into their research activities and their investment decisions, to encouraging their clients to understand the risks and opportunities associated with climate change, and to developing products and services that will help them to manage these risks and to take advantage of the opportunities presented;
- the launch of a research programme on climate change, accessible to all fund managers interested in independent research work. Through this system, those who wish receive all specialised data allowing them to understand how climate change may affect their portfolios. This programme was launched in partnership with Ernst & Young, New Energy Finance, Risk Management Solutions and the UK Met Office, all four of which are clear leaders in their domain. It serves as a complement to the initiatives taken by HSBC in 2007: creation of the Global Climate Change Benchmark Index and opening of the Climate Change Centre of Excellence;
- a review of its philanthropic activities in the educational domain: for a number of years now, the Group has given special attention to environmental and educational issues. For HSBC, the success of younger generations is a societal question – but also a key lever for economic performance. Consequently, the Group has decided to contribute, via sponsorship actions, to the reduction of inequalities by facilitating access to education for youth in disadvantaged areas. Reaffirming its commitments in this domain, HSBC's investment plans now chiefly target primary and secondary education for underprivileged children, financial and commercial education and, lastly, environmental education and awareness. HSBC's actions must, as a general rule, be in alignment with the interests and the challenges of the local communities where the Group is established. In addition, HSBC has decided to increase its support of team members involved in these sponsorship activities;
- the results of the second edition of the HSBC Climate Confidence Index, a survey of 12,000 people in 12 different countries, conducted by the *Observatoire de la Confiance Climatique* (Climate Confidence Observatory). The aim of this survey is to assess concerns, confidence, commitment and optimism regarding climate change, and how capable the participants feel governments and companies to be in terms of responding to this major challenge.

A Sustainable Development Unit was created to support the integration of these initiatives in France. The team, initially assigned to the Communications Department, is now under the supervision of Christophe de Backer, Deputy CEO of HSBC France. In addition to this mission, the team also leads the Sustainable Development Committee chaired by Christophe de Backer. The Committee, which meets on a quarterly basis, communicates the policies defined by the Group and supervises the commitments undertaken by each Department in France. Its objectives consist in assisting the business lines in incorporating sustainable development into their banking activities, in taking measures to ensure that the Group's environmental commitments are met, in defining and structuring a clear policy on corporate sponsorship, and in making sustainable development one of the strong points in the corporate culture at HSBC. A team of four has been tasked with implementing actions in collaboration with a network of fifteen correspondents divided amongst all relevant activities: Private Banking, Purchasing, Communications, Compliance, Building Management, Financial Transactions, Human Resources, Operational Credit Risk, Networks, Corporate Banking and Commercial Banking, Personal Financial Services, Information Systems, HSBC Global Asset Management, HSBC Assurances and Nobel.

To communicate the progress made by the Group in France and worldwide, HSBC France publishes an annual report on its sustainable development policy. Since 2004, this report has been composed of two files: the French translation of the Sustainability Report HSBC Holdings plc and the Sustainability Report HSBC France, which provides a detailed description of the actions undertaken in France. These two reference documents are exclusively available online and are accessible to the visually impaired and the partially sighted via a download in an e-accessibility pdf format that can be read by a speech synthesis system.

## Incorporation of sustainable development into the Bank's activities

The HSBC Group serves over 100 million clients worldwide in around 9,500 offices in 86 countries and territories. Given its scope, the decisions made by HSBC can have a significant impact, not only economically, but also on a social and environmental level. Responsible lending and investing is the rule guiding risk management policies and business development strategy. In 2008, HSBC France adopted a number of new initiatives to improve the integration of sustainable development issues in its businesses.

### Launch of HSBC Living Business

Living Business is the first freely accessible programme aiming to raise awareness amongst and to guide heads of microbusinesses and small and medium-sized enterprises (SMEs) regarding the issues of climate change and sustainable development. HSBC France offers concrete help to all heads of microbusinesses and SMEs – whether clients of the group or not – in initiating or developing their Sustainable Development strategy. This support is organised around a dedicated space on the hsbc.fr website, as well as a specific banking package.

### Heightened support for microfinance activities

Microfinance consists in delivering small-scale financial services, such as loans, savings, insurance and fund transfers, to individuals excluded from the traditional banking system. Based on a commercial approach, microfinance can constitute a sustainable development activity in and of itself.

In 2008, HSBC France continued its commitment to solidarity:

- by doubling the line of credit allocated to the ADIE (Association for the Right to Economic Initiative), which now stands at EUR 2 million. HSBC France has also decided to grant ADIE a portion of the employee savings budget dedicated to insertion enterprises;
- via FinanCités, a solidarity-orientated venture capital fund created by Planet Finance, in which HSBC France acquired holdings of EUR 1 million in 2007. Its aim is to bolster the equity held by microbusinesses in disadvantaged neighbourhoods. At year-end 2008, FinanCités had invested in the capital of 20 such microbusinesses.

### Launch of a "Climate Change" Visa Bank Card

In appreciation of the commitments undertaken by GoodPlanet to promote sustainable development, HSBC has decided to support the association chaired by Yann Arthus-Bertrand by means of a Visa Bank Card campaign including a visual on climate change. For each subscription, EUR 1 is paid over to GoodPlanet.

### A charitable "client recommendation" campaign

HSBC Premier clients having encouraged a friend or family member to join HSBC are rewarded: they can choose to receive a gift or to designate one of three charitable organisations (GoodPlanet, the French Red Cross or SOS Children's Villages) to receive a donation of EUR 100 paid by HSBC.

### Participation in a socially responsible bond issue

In December 2008, the Nord-Pas-de-Calais Region issued a socially responsible bond, for which HSBC France was co-lead bank. Totalling EUR 50 million and maturing at 15 years, this issue was strictly reserved for investors and funds known to be socially responsible. Furthermore, the lead banks were selected after verification that they had a proactive approach to socially responsible investment within their respective entities. HSBC France can pride itself on its work in this area: in June 2007, HSBC Global Asset Management launched a global Socially Responsible Investment (SRI) platform in order to provide its private and institutional clients with specialised expertise and a wide range of investment solutions in various classes of assets: international securities, European bonds, Eurobonds and bonds issued in euros.

In 2008, the global SRI platform, located in Paris, brought an Intranet site online, rallying all internal and external research around the three pillars of sustainable development: Environment (E), Society (S) and Governance (G) (ESG). This research covers more than 2,500 companies around the world, in both developed and emerging countries. The tool is accessible by all managers of securities on behalf of third parties working for the Group. Thus, the SRI platform provides managers with the ESG information they require to meet the requirements of the PRIs (Principles for Responsible Investment) to which the Group has adhered.

## Sustainability (continued)

Furthermore, the SRI portfolios managed by HSBC Global Asset Management benefited from the quantitative and qualitative advances made via this research. For their part, our SRI portfolios benefited from the quantitative and qualitative advances of our research. The solid performance of our European SRI funds has highlighted the fact that these funds deliver performances in line with those of the market as a whole, although taking a course determined by the specificities of their particular investment universe, which favours those companies developing Environmental, Social and Governance best practices. Thus, in the present context of economic and financial crisis, the HSBC Sustainable Development Fund largely exceeded the MSCI EMU Total Return Index (including dividend reinvestment). This type of fund allows interested investors to invest in harmony with their ESG convictions and to support through their investments those companies developing best practices, while at the same time benefiting from the Group's know-how in the field of financial management.

### Managing the environmental footprint of operations

HSBC is the first bank in the world to have committed to identifying, controlling and compensating for all of its energy consumption. In 2005, it became carbon neutral and is continuing its efforts to improve its energy performance every year. In June 2007, the Group launched a programme worth USD 90 million, the Global Environmental Efficiency Programme, in order to further reduce the direct impact of its activities on the environment. Fully in line with the commitments undertaken by the Group since 2004, HSBC France strives to sustainably manage its environmental impact.

Thus in 2007, it exceeded nearly all objectives it had set for the period 2005-2007, by reducing its energy consumption by 12.5 per cent, its water consumption by 2.8 per cent, its production of non-recycled waste by 25.9 per cent and its $CO_2$ emissions associated with energy consumption by 26.4 per cent, measured on like-for-like operations.

For 2008-2011, HSBC France is aiming to further reduce its energy consumption by 2.8 per cent, its water consumption by 5 per cent, its production of non-recycled waste by 6 per cent and its $CO_2$ emissions associated with energy consumption by 1.4 per cent. The HSBC Group objectives are 8 per cent (energy), 11 per cent (water), 10 per cent (non-recycled waste) and 6 per cent ($CO_2$).

To meet its commitments, HSBC France will continue the efforts begun in previous years, placing an even greater emphasis on its property assets.

### Diversity at the centre of the Human Resources policy

It is HSBC's ambition to become the best employer. To evaluate the level of satisfaction of its staff, along with their involvement, their pride of belonging and their desire to promote the company, the Group conducted an employee engagement survey in July 2008, following on from a first survey performed in October 2007. In France, 78.2 per cent of staff responded. A great number of employees applauded HSBC's investment in sustainable development and expressed their pride in working for HSBC.

HSBC employs 325,000 people and serves over 100 million clients, spread across 86 countries. Diversity is a fact of life, and a key component of HSBC's corporate culture. The Human Resources Department at HSBC France is committed for the long run and strives to make this policy a reality in four different fields of action: diversity of origin, disability, gender equality in the workplace and age diversity.

In late 2004, HSBC France was one of 34 companies to sign the Diversity Charter. A second decisive stage was reached in December 2007, when HSBC France sealed a company agreement, negotiated with its social partners, covering the four topics in diversity: origin, age, gender and disability. This agreement helped its policy to take root and increased its impact.

In 2008, the company gave concrete expression to its commitment in creating its own Internal Charter, a variation on the National Charter. In parallel to distribution of the charter, the group also produced a film on diversity, intended to establish dialogue and to contribute to the debate on diversity during group meetings led by managers.

In terms of gender equality, the actions undertaken resulted in an increased share of positions of responsibility being held by women. As at 31 December 2008, women accounted for over 45 per cent of managers, 31 per cent of Branch Managers and 27 per cent of Head Office Managers.

The whole of this policy is bearing fruit, as witnessed in the latest Universum 2008 rankings, conducted on 14,000 French students from 105 universities, which confirmed HSBC France as the 8th preferred employer of business school students.

## Raising awareness of all target audiences and inspiring each individual to get involved

In order for each person to feel concerned by the issues around sustainable development and to want to help to make the world around them a better place, HSBC endeavours to raise the awareness of its staff and clients. The Group's approach consists, firstly, in structuring its sponsorship actions and in defining priorities, and secondly, in gaining expertise and engaging its employees, and finally, in seeking to identify how best to raise awareness amongst its clientele.

To support this work, HSBC created the HSBC Philanthropy Observatory in 2008 and ran a study, conducted by Ipsos, aiming to establish current opinion in Europe regarding charity. In addition, HSBC France undertook an internal survey addressing its employees' perceptions of sustainable development, with a view to better guiding future actions and providing relevant responses to their expectations.

In parallel, HSBC France continued its own awareness-raising actions. For example, each year the group recognises the ecological initiatives of its bank branches via the HSBC Green Branch competition and the best socially responsible projects of its employees by means of "*Trophées Développement Durable*" (formerly Trophées RSE). At the same time, this approach has a part to play in achieving the Group's objective of a neutral carbon footprint.

## Corporate sponsorship at the service of education and the environment

In 2008, HSBC France dedicated more than EUR 1.3 million to charitable programmes. The Group's priorities are education and environmental protection. Considering the involvement of its staff to be essential to their awareness, the Group actively supports their initiatives.

In terms of education, in 2008 HSBC France came to the aid of almost 6,000 children and enabled 645 employees to take part in these actions.

The Group in France participates in actions undertaken by HSBC on a global scale, such as SIFE, an association promoting the free enterprise of students at *grandes écoles* and universities, and Future First, a five-year (2007-2012) programme totalling USD 10 million, which aims to improve the standards of living of children in highly precarious situations.

In addition, HSBC France has engaged in its own initiatives, such as the *Fondation HSBC pour l'Education*, created in April 2006 under the aegis of the *Fondation de France*. Its mission is to support the initiatives of associations and institutions of which goal is to facilitate access to education for youth in underprivileged areas. Since its first call for projects, 45 projects have received human and financial support from the *Fondation HSBC pour l'Education*, including 15 new projects in 2008. Moreover, the aid granted to 20 of the 24 projects awarded in 2007 was renewed for a second year. This decision brought the total number of projects supported by the *Fondation HSBC pour l'Education* in 2008 to 35.

Concerning the environment, in 2008, 126 employees participated in local environmental protection programmes. HSBC France, in partnership with EcoAct, has committed to improving the area surrounding the *Domaine National de St-Cloud*, by holding two days of action there each year until 2010. Other similar initiatives have been organised in the Vexin and Marquenterre natural parks. This approach is part of the global programme launched by the Group in June 2007, the HSBC Climate Partnership. USD 100 million have been allocated to this 5-year programme which works to preserve the planet's major rivers and forests and encourages staff involvement in environmental conservation, research and protection projects.

## Managing reputational risk associated with the exercise of our businesses

All HSBC activities include the measurement, assessment, acceptance and management of a certain degree of risk or combination of risks. The main categories of risk to which the Group is exposed are: credit risk (including country risk and international exposure), insurance risk, liquidity risk, market risk (including foreign exchange risk, interest rate risk and share price risk), various forms of operating risk, retirement risk, residual value risk, reputational risk and sustainable development risk (environmental and social risks).

The confidence that the various stakeholders have in the company – and consequently its financial performance – is conditioned by the management of reputational risk. This major issue for the Group is complicated by the growing issues of climate change, world population development and the emergence of an economy less dependent on oil. Governance, financing policy, compliance and ethics form a set of complementary rules that help to develop the company in an environment of confidence.

The objective of the Compliance function, created in 2001 at HSBC France, is to ensure that Group activities are exercised with integrity and professionalism, in accordance with current laws,

# Sustainability (continued)

regulations and good practices in France. To this end, Compliance addresses major issues such as the fight against money laundering and funding of terrorism, as well as the proper application of the duty to inform and advise our clientele.

This function is coordinated by a Compliance Committee chaired by Peter Boyles, CEO of HSBC France. The Committee is comprised of different members of the Senior Executives, responsible for the group's businesses. It meets on a quarterly basis. Its mission consists in steering the Compliance control mechanism and in ensuring that areas at risk of non-compliance are identified and that appropriate corrective measures are taken.

An unlisted company since 2000, HSBC France maintains the same high standards as it had prior to its integration into the HSBC Group. In this way, HSBC France continues to apply corporate governance rules as recommended in France [1] and to respect the evolving regulations applicable to the Group.

HSBC applies the principles of sustainable risk management in sectors of heavy environmental and/or social impact (forests and forest sector products, freshwater infrastructure, chemicals, energy, metals, mining extraction and weapons). Sectoral policies set out the standards to be respected when granting loans and investments by the Group in companies and projects, as well as the domains in which we refuse to participate. These policies are an integral part of the financing procedures in each country where the Group operates. The local teams are all trained in these procedures.

## Annex – New Economic Regulations Decree 2008 – Environmental Section

Information on the impact of our company's activities on the environment, in accordance with Article 2 of Decree 2002-221 of 20 February 2002, in application of Article L. 225-102-1 of the French Commercial Code.

The figures for 2008 correspond to the HSBC France perimeter as at year-end 2008 [2] (excluding regional banking subsidiaries).

### Water consumption

HSBC France has set a new objective of reducing its water consumption by 5 per cent between 2008 and 2011. To achieve this, HSBC France has continued to optimise its systems and has adopted technologies allowing it to restrict the quantity of water consumed. In 2008, 186,009 $m^3$ of water were consumed by the 11,162 present active staff members ("persons") of the HSBC Group in France, or 16.66 $m^3$ per person, down from 2007 levels (see table below).

The multi-annual plan for the renovation of toilet facilities is continuing in the branches and systematically incorporates the installation of individual water meters, tap aerators and dual flush toilets.

Innovative technologies for wastewater reclamation were tested this year during renovation of a central site on Rue Vernet in Paris. In the future, these initiatives will be rolled out as other renovation work is performed.

Lastly, a special effort was made in 2008 to eliminate systems with high water consumption installed at certain sites. In particular, 8 open-circuit air conditioning units were removed.

| | **2008** [2] | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Water | | | | |
| in thousands of $m^3$ . . | **186** | 246 | 258 | 270 |
| per person ($m^3$). . . . . . | **16.66** | 18.07 | 19 | 20.3 |

### Consumption of raw materials

**Paper consumption**

In 2008, HSBC France continued its efforts to reduce the use of paper. Multiple studies were undertaken with a view to promoting electronic document management, identifying levers for change and raising staff awareness concerning the need for a more sparing use of paper. Thus, in late 2008, HSBC France offered all of its personnel with HSBC bank accounts the possibility of opting for online account statements: possibility of consulting statements in PDF format within the secure framework of the online bank. This concerns current accounts, savings accounts and bank card statements.

This project was the materialisation of joint work by the Operations Department, HSBC Technology Services, Multichannels distribution Department and Personal Financial Services teams, and is a part of the HSBC Sustainable Development strategy. For this purpose, a partnership with an association or company involved in environmental protection is now being finalised prior to extension of this service to individual clients.

| | **2008** [2] | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Paper purchased (tonnes). . . . . . . . . . . | **2,170** | 2,651 | 2,785 | 2,305 |

2,170 tonnes of paper were consumed in 2008, representing a decrease of 18.1 per cent compared with 2007. This reduction was largely the result of the change in perimeter associated with the sale of seven of our regional banking subsidiaries to the Banque Populaire Group, on 2 July 2008.

1 *Cf. page 18.*
2 *Change in perimeter in 2008, following the sale of its regional banking subsidiaries by HSBC France.*

**Consumption of office supplies**

The procedure launched in 2007 instituting a minimum order amount of EUR 50 to restrict the number of small deliveries of office items came to fruition in 2008. Consequently, the number of small orders of under EUR 50 dropped from 2,948 in 2007 to 1,860 in 2008.

**Energy consumption**

HSBC France has committed to reducing its energy consumption by 2.8 per cent between 2008 and 2011.

In 2008, HSBC France had already reduced its energy consumption by 1.8 per cent. This was achieved thanks to various improvements to its buildings and the adoption of energy emitting less $CO_2$. Fuel oil boilers were removed and HSBC France properties are gradually being fitted with low-consumption lighting and double-glazing. Furthermore, five preliminary energy reviews were conducted at network branches in 2008. This analysis allowed for optimisation of the action plan to improve their energy performance.

Finally, multiple staff awareness-raising actions have also helped to provide a better understanding of HSBC's commitments in favour of the environment and to increase staff involvement in reducing energy consumption.

| | **2008**[1] | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Energy consumption (GWh) | **78** | 98 | 106 | 111 |
| Energy consumption (MWh) per FTE | **6.99** | 7.2 | 7.95 | 8.61 |

Energy consumption breaks down as follows:

| | **Electricity** | Gas | Fuel oil | Hot/ cold |
|---|---|---|---|---|
| Consumption in GWh | **55.78** | 10.98 | 1.79 | 9.41 |

## Discharges into the air, water and soil

Twice a year, HSBC France estimates its carbon dioxide ($CO_2$) emissions as part of the worldwide review conducted by the HSBC Group. In 2008, total HSBC France emissions amounted to 9,854 tonnes. This figure includes emissions related to Group activities, such as business travel.

HSBC France has set the objective of decreasing its carbon dioxide emissions associated with energy consumption by 1.4 per cent by 2011. Thanks to the actions undertaken, this objective was achieved after just one year.

## Noise and odour pollution

Non-significant in the business exercised.

## Non-recycled waste

HSBC France has committed to reducing its waste production by 6 per cent between 2008 and 2011 through better recycling practices and, for paper, a decrease in printing.

| | **2008**[1] | 2007 | 2006 |
|---|---|---|---|
| Waste production (in tonnes) | **2,070** | 3,284 | 3,550 |
| Waste production per FTE (kilogrammes) | **185** | 241 | 266 |
| Percentage of waste recycled/ total waste | **55%** | 44% | 40% |

The existence of a multiservice management contract for all HSBC France branches enables better identification and management of waste. Concretely, since its implementation, this has resulted in an increase in recycling across the whole of the HSBC network, particularly paper recycling.

In 2008, waste production dropped by nearly 20 per cent. At the same time, the proportion of waste recycled rose by 11 per cent compared with 2007. These achievements are the result of a major internal communications campaign using posters and articles on the Intranet – particularly during Waste Reduction Week – as well as intensified efforts on the part of our multiservice providers, to better manage and reprocess all waste. A system for sorting paper at the source was installed in some one hundred branches and an office block, significantly improving recycling activities.

Likewise, plastic bottle collection is being tested at a pilot site. This action will be reproduced in the years to come.

A new contract for retrieval of electrical and electronic equipment (PCs, laptops, monitors, printers, inverters, computer hardware and sundry other electrical equipment), with a view to their restoration or destruction, was negotiated with a service provider in early 2008. This company is an ESAT (establishments and services for aid through employment) with a mission to support and reinsert persons with psychological disabilities. It performs recycling of these materials, and at the same time provides for the insertion of people with difficulties.

In 2008, 15 tonnes of computer and electronic equipment were collected, and 2.2 tonnes were repaired and reused.

1 *Change in perimeter in 2008, following the sale of its regional banking subsidiaries by HSBC France.*

## Sustainability (continued)

Lastly, office furniture in good condition but being replaced was donated to schools and associations.

### Measures taken to limit harmful effects on ecological balance and on protected plant and animal species

Within the context of its business, HSBC France, following the example of the HSBC Group, incorporates the Equator Principles and, by the same token, social and environmental criteria, into its process for evaluating financing applications. It has also adopted the Group guidelines for financing projects in the following sectors: forests and forest by-products, the chemical industry, freshwater, mining and energy.

In terms of printing and photocopying, HSBC France continues to use paper certified by the FSC (Forest Stewardship Council) – an international organisation that labels products from sustainably managed forests – in a growing number of its publications. The action conducted in 2008, in which our printers were asked to use FSC certified paper, resulted in a marked increase in our purchasing of FSC certified paper. 29 per cent of all paper consumed had received FSC certification and 75 per cent of our Marketing and Communications publications were printed on FSC certified paper. Toward the end of the year, a decision was made to only purchase reams of FSC certified A4 paper.

Finally, the Purchasing Department has begun to gradually replace a portion of our company cars with a new hybrid model of Toyota, with an initial order to purchase several of these vehicles.

At year-end 2008, the HSBC France fleet included 30 hybrid vehicles, compared with 7 at year-end 2006. For each vehicle replaced, the average drop in $CO_2$ emissions is 44 per cent and fuel consumption is also lower.

### Measures taken to ensure compliance of the company's business with applicable legislative and regulatory provisions

Under the impetus of its parent company, HSBC France established a Compliance Department in 2001 to provide for a consistent and productive system of controls. This department ensures that the Group's activities are exercised with integrity and professionalism, and in accordance with current laws, regulations and professional and ethical standards in France. It verifies proper application of the duty to advise our clientele and is in charge of major subjects such as the fight against money laundering and financing of terrorist networks.

HSBC France internal environmental management staff training and information services have a Sustainable Development Committee since 2003. This Committee is chaired by the Deputy CEO and includes 16 leaders and representatives of the core functional and operational HSBC businesses in France, notably Credit, Asset Management, Human Resources, Compliance, Purchasing, Building Management and Marketing. This Committee is coordinated by a Delegate, who reports to General Management and the Communications Department. The Committee meets each quarter to review actions undertaken, current issues, any changes in HSBC Group policy and measures to be taken locally.

Management of the Group's direct impacts on the environment is driven by the Building Management Department, via a team of five individuals. This team is responsible for assessing the Group's carbon emissions in France, based on information provided by the administrative managers of the various Group entities and subsidiaries. It also defines the strategy required in order to fulfil the objectives set for 2011, along with the Group's central teams and the French Sustainable Development Department.

In terms of information, HSBC has a site dedicated to sustainable development on the Group's Intranet. This site provides regular updates on news in sustainable development, information on the HSBC Group's values and actions in the domain, and success stories from the different businesses. The internal newsletter, *Ressources*, also has a section devoted to sustainable development.

In 2008, HSBC France once again recognised the ecological initiatives of its bank branches, via the "HSBC Green Branch" competition, and rewarded the best socially responsible projects of its staff with *Trophées Développement Durable*. These awards have made it possible to identify good practices in terms of controlling impacts on the environment, such as the collection of expired bank cards for recycling and the creation of special areas arranged for the reclamation of household and business waste.

Finally, training in sustainable development and diversity at the HSBC Group has been incorporated into the manager training course. New arrivals are also educated about these subjects during their welcome sessions. These different programmes set out the strategy and actions undertaken in terms of the direct and indirect impacts of Group activities on the environment.

# Risk management

*All the HSBC France group 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 is 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 eight risk areas determined to date (structural interest-rate and liquidity risk, market risk, credit risk, information systems, accounting, business continuity plan/physical security, 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* (the French banking commission) 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 *Commission bancaire* requires each bank and banking group to maintain an individually prescribed ratio of total capital to risk-weighted assets.

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 *Commission bancaire* for supervisory purposes, and the varied risks of its business.

In June 2006, the Basel Committee on Banking Supervision published the final comprehensive version of International Convergence of Capital Measurement and Capital Standards, known as Basel II. Basel II is structured around three "pillars": minimum capital requirements, supervisory review process and market discipline. The Capital Requirements Directive ("CRD") implements Basel II in the EU and the *Commission bancaire* then gives effect to the CRD by including the requirements of the CRD in its own rulebooks.

2008 is a year of transition between the Basel I regulation (Cooke ratio) and the new Basel II regulation enforced by the "Arrêté du 20 février 2007" in respect of capital requirements for banks. Indeed, during two years of parallel run, capital requirements are calculated under the two sets of rules and a floor limits the possible savings under Basel II.

The HSBC France group capital is divided into two tiers. Tier 1 capital comprises only core tier 1 capital as no innovative tier 1 securities have been issued by the 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.

Under Basel II regulation, the following deductions are taken into account when calculating the regulatory capital:

- Are deducted 50 per cent from tier 1 and 50 per cent from tier 2 capital;
  - the negative difference between expected losses and the total of individual and collective impairment allowances on IRB (Internal Ratings- Based) portfolios,
  - the expected losses on equity exposures measured on IRB – simple calculation,
  - financial investments below 10 per cent and subordinated loans in banks in excess of 10 per cent of regulatory capital.
- The carrying value of financial investments over 10 per cent in banks remains deducted from total capital as these investments were made before 1 January 2007.

Basel II provides three approaches, of increasing sophistication, to the calculation of pillar 1 credit risk capital requirements. The basic approach

1 *Cf. Note 33 to the consolidated financial statements pages 119 to 136.*
2 *Cf. pages 29 to 42.*

## Risk management (continued)

(standardised) requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories to which it applies standardised risk weightings. The next level, the internal ratings-based ("IRB") foundation approach, allows banks to calculate their credit risk regulatory capital requirement on the basis of their internal assessment of the probability that a counterparty will default ("PD"), but with quantification of exposure at default ("EAD") and loss given default estimates ("LGD"), the two latter being subject to standard supervisory parameters. Lastly, the IRB advanced approach allows banks to use their own internal assessment of not only PD, but also the quantification of EAD and LGD. Expected losses are calculated by multiplying EAD by PD and LGD. The capital requirement under the IRB approach is intended to cover unexpected losses and is derived from a formula specified in the regulatory rules, which incorporates these factors and other variables such as maturity and correlation.

For credit risk, with CB approval, the group uses the IRB foundation approach for Corporate exposures and the IRB advanced approach for Sovereign, Banks and Retail exposures, for the majority of its business. The group intends to extend coverage of the advanced approach to Corporate exposures, leaving a small residue of exposures on the standardised approach.

Market risk is derived from fluctuations on trading book assets arising from changes in values, income, interest and foreign exchange rates and is measured using VAR models with CB permission or the standard rules prescribed by the CB. Counterparty credit risk in the trading book and the non-trading book is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. Four counterparty credit risk calculation approaches are defined by Basel II to determine exposure values, being the standardised, mark to market, initial risk and internal model methods. These exposure values are then used to determine risk weighted assets ("RWAs") using one of the credit risk approaches: standardised, IRB foundation and IRB advanced. The group uses both VAR and standard rules approaches for market risk and the mark to market approach for counterparty credit risk.

Basel II also introduces capital requirements for operational risk and, again, contains three levels of sophistication. The capital required under the basic indicator approach will be a simple percentage of gross revenues, whereas under the standardised approach it will be one of three different percentages of gross revenues allocated to each of eight defined business lines. Lastly, the advanced measurement approach uses the banks' own statistical analysis and modelling of operational risk data to determine capital requirements. The group has adopted the standardised approach.

The second pillar of Basel II (Supervisory Review and Evaluation Process) involves both banks and regulators taking a view on whether a bank should hold additional capital against risks not covered in pillar 1. Part of the pillar 2 process is the Internal Capital Adequacy Assessment Process (ICAAP) which is the bank self assessment of risks not captured by pillar 1.

Pillar 3 of Basel II is related to market discipline and aims to make banks more transparent by requiring them to publish more details of their risks, capital and risk management. The group does not publish its own set of pillar 3 disclosures but is included in the disclosures that HSBC Holdings will make available during the first half of 2009 on the investor relations section of its website.

During 2007, the group was supervised under Basel I, under which banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined accordingly. Banking book risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. Banking book off-balance sheet items giving rise to credit, foreign exchange or interest rate risk are assigned weights appropriate to the category of the counterparty, taking into account any eligible collateral or guarantees. Trading book risk-weighted assets are determined by taking into account market-related risks such as foreign exchange, interest rate and equity position risks, as well as counterparty risk.

## Regulatory capital position

The table below sets out the analysis of regulatory capital.

**Composition of regulatory capital**

| *(in millions of euros)* | **2008 Basel II** | 2007 Basel I |
|---|---|---|
| **Tier 1:** | | |
| Shareholders' funds of the parent company | **5,228** | 5,064 |
| Minority interests | **48** | 31 |
| Less: dividends to be paid to the parent company | **–** | – |
| Less: items treated differently for the purposes of capital adequacy | **(68)** | (236) |
| Less: goodwill capitalised and intangible assets | **(375)** | (441) |
| Less: deductions in respect of expected losses | **(123)** | – |
| Less: investments in credit institutions exceeding 10% of capital | **(174)** | – |
| Total qualifying tier 1 capital | **4,536** | 4,418 |
| **Tier 2:** | | |
| Reserves arising from revaluation of property and unrealised gains on available-for-sale securities | **100** | 232 |
| Perpetual subordinated loan and term-subordinated loan | **221** | 272 |
| Less: deductions in respect of expected losses | **(123)** | – |
| Less: investments in credit institutions exceeding 10% of capital | **(174)** | – |
| Total qualifying tier 2 capital | **24** | 504 |
| Investments in other banks and other financial institutions | **(4)** | (4) |
| Total capital | **4,556** | 4,918 |
| Total Basel I risk-weighted assets *(unaudited)* | **48,949** | 50,142 |
| Total Basel II risk-weighted assets *(unaudited)* | **47,784** | – |
| **Capital ratios:** ***(unaudited)*** | | |
| Total capital | **9.6%** | 9.8% |
| Tier 1 capital | **9.5%** | 8.8% |

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 2008 and 2007.

In 2008, HSBC France granted a EUR 650 million subordinated loan to HSBC Bank plc and as a result, the 10 per cent of capital limit for such investments was exceeded : EUR 174 million were deducted from Tier 1 capital and EUR 174 million from Tier 2 capital.

**Tier 1**

Taking into account the impact of the deduction in respect of Expected Loss under Basel II and the deduction in respect of investments in banks, the net change in Tier 1 capital is primarily due to the EUR 1,400 million capital reduction by HSBC France and net income for the year of EUR 1,764 million.

**Tier 2**

Taking into account the impact of the deduction in respect of Expected Loss under Basel II and the deduction in respect of investments in banks, Tier 2 capital decreased by EUR 183 million mainly as a result of the decline in reserves of unrealised capital gains on AFS securities in the amount and the early redemption of a subordinated debt.

## Operational risk management

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

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

### Identification and management of operational risks

An operational risk management system was established in 2003 as an extension of the loss-reporting system set up for all HSBC France group business units in 2002. The system is based on a dedicated central team, which operates with the support of Operational Risk Business Coordinators (ORBCs) appointed by the heads of the business lines and sectors.

In mid-2008, the staff responsible for centralising operational risk and the staff in charge of overseeing permanent control work were brought together into a new Operational Risk and Internal Control (ORIC) department, which reports to the Deputy CEO in charge of risk management.

# Risk management (continued)

The ORBCs coordinate, within their entities, 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.

Since 2004, action plans have been 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 the relevant Committees (ORIC Committee and Risk Management Meeting) and to the HSBC France Audit Committee.

A special Operational Risk and Internal Control Committee (ORICC) for the HSBC France group as a whole was created in July 2008. It took over the activities that previously came under the responsibility of the Operational Risk and Permanent Control Committees. The ORICC periodically reviews risks and controls applying to the business lines and the status of action plans instituted to limit identified risks and operating losses.

All group entities carry out an annual review of risk analysis for all business lines and every quarter, the ORICC Plenary Committee reviews trends in major risks and the impact of measures adopted to mitigate these risks. A summary of this work is submitted to the Risk Management Meeting and to the HSBC France Audit Committee.

An IT application developed by the HSBC Group, called GORDON (Group Operational Risk Database Online Network), has been used by HSBC France since 2006. This application provides a decentralised way of managing the process of identifying and updating operational risks, reporting losses and following up on the action plans adopted to reduce the seriousness of risks classified as major.

## Legal risks and litigation

The Legal and Tax Department (DAJF) provides support to the HSBC France group business lines in legal risk prevention and control, and litigation follow-up.

– Prevention of legal risks:

  The DAJF manages the Legal and Tax Risks Committee, which meets quarterly to discuss situations likely to generate specific substantive legal and tax risks, and the Structured Transactions Committee, which reviews the legal, accounting, tax, financial and reputation risks connected with complex structured transactions. The DAJF is also involved in the New Products Examination and ORIC (Operational Risk and Internal Control) Committees, in the RMM (Risk Management Meeting) of the HSBC France group, and 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:

  There is no litigation or arbitration proceeding 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, ex-HSBC UBP and ex-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.

There are also specific plans to cover business operations conducted in the branch networks against partial unavailability of staff due to floods, health risks and the like. Potential loss of the Lognes site is addressed in the Information Systems Security Plan (PSI).

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

Tests are performed on a regular basis by the business lines and sectors and are subject to an audit and certification process to ensure business continuity in the event of a crisis.

A consultation is underway, 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.

### Fraud prevention

Since October 2006, the Security Department has managed a fraud prevention unit. The purpose of this unit is to provide all support that the business lines need to prevent fraud or to take appropriate measures to minimise the impact of identified fraud, both internal and external. The system, which operates 6 days a week, centralises reporting of all cases of attempted fraud or fraud committed across the entire scope of HSBC France and hosted subsidiaries.

In addition, the Security Department promotes and sets up fraud prevention tools to reduce the company's risk of fraud.

Lastly, the development of new products or services offered to customers is covered by a fraud risk assessment procedure, which is carried out by the relevant business lines and by the Security Department, to ensure that preventive measures to significantly reduce this risk are in place up the line.

### Dependency

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

### Environmental risks

The Corporate Sustainability policy is described on pages 44 to 50 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, regulations, 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 staff within the HSBC France group reports hierarchically to the Compliance Department so as to ensure full independence of the compliance function from operational activities, as required by CRBF Regulation 97-02. The Compliance Department consists of six departments reporting to the Head of Compliance: five departments specialised by business line (Retail Banking, Global Banking and Markets, Asset Management, Private Banking and Insurance) 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 compliance controls;

– coordinating relations with regulatory authorities.

## Risk management (continued)

### Identification and monitoring procedures for compliance risks

The Compliance Department draws among others on 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 compliance.

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, as well as the procedures and controls implemented to ensure compliance with them. As an extension of the work carried out in 2007 to harmonise mapping of compliance risks associated with the various HSBC France group business lines, a review was conducted in 2008 to determine whether the assessment of identified risk was consistent with the data recorded in the operational risk management system.

Non-compliance risks affecting the HSBC France group 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. Compliance risk mapping is updated at least every six months.

For compliance risks associated with new products and services as well as 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 involved, including the Compliance Department, to ensure that all risks induced 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 CEO, and for which the Compliance Department serves as secretary. The Compliance Department is responsible for ensuring that the products comply with both legal and regulatory requirements as well as 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 rely 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 HSBC France CEO.

Any identified discrepancies in the implementation of compliance requirements are documented by the LCO of the entity involved 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 chaired by the HSBC France CEO and includes, in addition to the Head of Compliance and the other Compliance Department Heads, the Deputy CEO in charge of risk and control (responsible for coordination of permanent control for the HSBC France group), the Executive Committee members responsible for the business lines and the Head of the Legal and Tax Department.

The role of this committee is two-fold: to make decisions regarding the direction of the compliance control system, and to inform 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, specialised anti-money laundering committees in each business line are formed for the purpose of reviewing any matter pertaining to the prevention of money laundering. The Compliance Department organises these committees and serves as secretary for them.

## Insurance and risk coverage

The HSBC Group in France is covered by the main global insurance programmes taken out by HSBC Holdings plc in London regarding the coverage of 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 Group in France. 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 associated business interruptions 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 or excesses are:

– in line with insurance market condition, business areas, practice and legislation;

– in line with the value of the assets and the pertinence of the balance sheets of HSBC France and HSBC Holdings plc.

The total amount of insurance premiums paid for 2008 represented 0.20 per cent of net operating income of the HSBC France group.

Most of the programmes, both international and local, involve the participation of an HSBC Group captive reinsurance subsidiary.

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.

# Financial highlights*

**HSBC France group**

| *(in millions of euros)* | **2008** [1] | 2007 [1] | 2006 [1] | 2005 [1] | 2004 [1, 2] |
|---|---|---|---|---|---|
| Profit before tax | **1,744** | 1,051 | 801 | 1,240 | 608 |
| Profit attributable to shareholders | **1,764** | 975 | 613 | 1,119 | 528 |
| At year-end | | | | | |
| Shareholders' funds | **5,228** | 5,064 | 5,406 | 5,325 | 4,168 |
| Loans and advances to customers and banks | **78,556** | 88,279 | 62,855 | 53,783 | 49,513 |
| Customers accounts and deposits by banks | **95,927** | 93,083 | 57,336 | 54,858 | 52,454 |
| Total assets | **266,025** | 198,627 | 132,847 | 128,100 | 87,947 |
| Number of employees (full-time equivalents) | **10,886** | 14,279 | 14,379 | 13,878 | 13,908 |
| Ratios | | | | | |
| Capital ratios | | | | | |
| Total capital [3] | **9.6%** | 9.8% | 9.6% | 10.1% | 8.9% |
| Tier One capital [3] | **9.5%** | 8.8% | 9.9% | 9.5% | 8.8% |
| Cost efficiency ratio | **48.5%** | 64.3% | 69.7% | 63.4% | 76.7% |

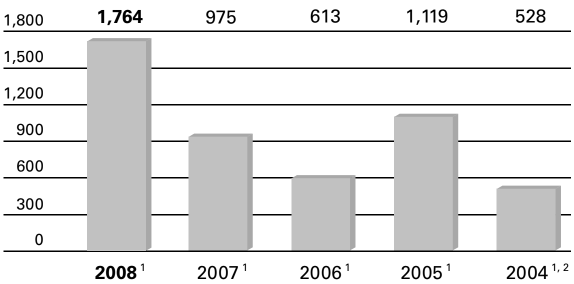
The financial highlights are influenced by changes in the group structure over the five years. The most significant changes are as follows:

– 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;

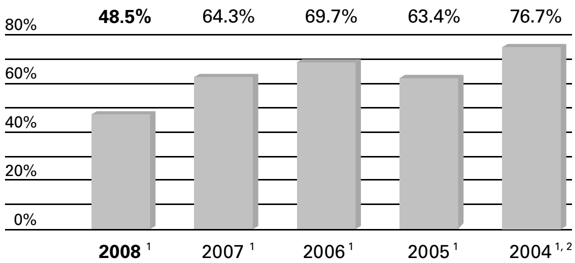
– in 2007: disposal of the participation in HSBC Private Banking Holdings (Suisse) SA to HSBC Europe (Netherlands) BV. Acquisition of 50.01 per cent of the share capital of Erisa and Erisa IARD and transfer of these two entities to HSBC Bank plc Paris Branch;

– in 2008: disposal by HSBC France of its seven regional banking subsidiaries.

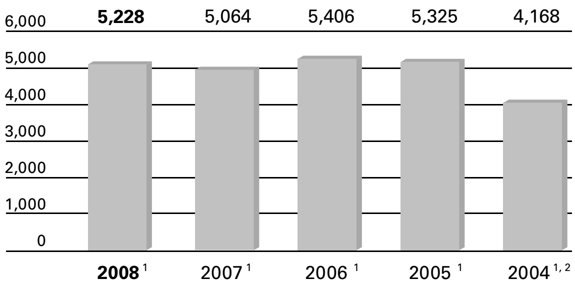
**Profit attributable to Shareholders** (in millions of euros)




**Cost efficiency ratio**




**Shareholders' funds** (in millions of euros)




* *Published consolidated financial information – HSBC France legal perimeter.*
1 *The 2004, 2005, 2006, 2007 and 2008 financial highlights are prepared in accordance with IFRS as endorsed by the EU.*
2 *2004 financial highlights exclude IAS 32, 39 and IFRS 4.*
3 *Capital ratios under Basel I until 2007 and under Basel II from 2008.*

# Consolidated financial statements

## Consolidated income statement for the year ended 31 December 2008

| (in millions of euros) | Notes | 2008 | 2007 |
|---|---|---|---|
| Interest income | | **3,974** | 3,658 |
| Interest expense | | **(4,164)** | (3,479) |
| Net interest income | | **(190)** | 179 |
| Fee income | | **1,087** | 1,319 |
| Fee expense | | **(371)** | (355) |
| Net fee income | | **716** | 964 |
| Trading income | | **1,435** | 1,339 |
| Net income from financial instruments designated at fair value | | **45** | (5) |
| Gains less losses from financial investments | | **5** | 538 |
| Dividend income | | **21** | 12 |
| Other operating income | | **1,601** | 62 |
| **Total operating income before loan impairment (charges)/release and other credit risk provisions** | | **3,633** | 3,089 |
| Loan and other impairment charges and other credit risk provisions | | **(127)** | (52) |
| **Net operating income** | 4 | **3,506** | 3,037 |
| Employee compensation and benefits | 5 | **(1,042)** | (1,201) |
| General and administrative expenses | | **(651)** | (707) |
| Depreciation of property, plant and equipment | 18 | **(57)** | (64) |
| Amortisation of intangible assets and impairment of goodwill | 17 | **(12)** | (15) |
| **Total operating expenses** | | **(1,762)** | (1,987) |
| **Operating profit** | | **1,744** | 1,050 |
| Share of profit in associates and joint ventures | 16 | **–** | 1 |
| **Profit before tax** | | **1,744** | 1,051 |
| Tax expense | 7 | **22** | (119) |
| Net profit of discontinued operations | | **–** | 45 |
| **Profit for the period** | | **1,766** | 977 |
| Profit attributable to shareholders | 31 | **1,764** | 975 |
| Profit attributable to minority interests | 31 | **2** | 2 |

| (in euros) | | | |
|---|---|---|---|
| Basic earnings per ordinary share | 9 | 23.52 | 12.88 |
| Diluted earnings per ordinary share | 9 | 23.27 | 12.71 |
| Dividend per ordinary share | 9 | 0.00 | 9.58 |

# Consolidated financial statements (continued)

## Consolidated balance sheet at 31 December 2008

### ASSETS

| *(in millions of euros)* | *Notes* | **2008** | 2007 |
|---|---|---|---|
| Cash and balances at central banks | *32* | **2,077** | 4,014 |
| Items in the course of collection from other banks | *32* | **1,234** | 1,369 |
| Trading assets | *12* | **67,427** | 58,114 |
| Financial assets designated at fair value | | **515** | – |
| Derivatives | *13* | **105,213** | 36,556 |
| Loans and advances to banks | *27* | **27,270** | 33,083 |
| Loans and advances to customers | *27* | **51,286** | 55,196 |
| Financial investments | *14* | **3,247** | 4,050 |
| Interests in associates and joint ventures | *16* | **6** | 6 |
| Goodwill and intangible assets | *17* | **390** | 450 |
| Property, plant and equipment | *18* | **548** | 639 |
| Other assets | *20* | **4,969** | 3,722 |
| Deferred tax assets | *23* | **77** | 27 |
| Prepayments and accrued income | | **1,766** | 1, 401 |
| **TOTAL ASSETS** | | **266,025** | 198,627 |

### LIABILITIES AND EQUITY

| *(in millions of euros)* | *Notes* | **2008** | 2007 |
|---|---|---|---|
| **Liabilities** | | | |
| Deposits by banks | *27* | **42,136** | 48,393 |
| Customer accounts | *27* | **53,791** | 44,690 |
| Items in the course of transmission to other banks | *32* | **1,041** | 1,180 |
| Trading liabilities | *26* | **33,892** | 35,964 |
| Financial liabilities designated at fair value | *21* | **2,206** | 336 |
| Derivatives | *13* | **102,997** | 36,473 |
| Debt securities in issue | *27* | **20,351** | 22,840 |
| Retirement benefit liabilities | *5* | **101** | 178 |
| Other liabilities | *22* | **2,383** | 1,550 |
| Current taxation | | **18** | 14 |
| Accruals and deferred income | | **1,538** | 1,572 |
| Provisions for liabilities and charges | *23* | **85** | 78 |
| Deferred tax liabilities | *23* | **3** | 2 |
| Subordinated liabilities | *25* | **207** | 262 |
| **TOTAL LIABILITIES** | | **260,749** | 193,532 |
| **Equity** | | | |
| Called up share capital | *30* | **337** | 380 |
| Share premium account | *31* | **16** | 1,191 |
| Other reserves and retained earnings | *31* | **4,875** | 3,493 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **5,228** | 5,064 |
| Minority interests | *31* | **48** | 31 |
| **TOTAL EQUITY** | | **5,276** | 5,095 |
| **TOTAL EQUITY AND LIABILITIES** | | **266,025** | 198,627 |

## Consolidated statement of recognised income and expense for the year ended 31 December 2008

| *(in millions of euros)* | **2008** | 2007 |
|---|---|---|
| Available-for-sale investments: | | |
| – valuation gains/(losses) taken to equity | **(216)** | 96 |
| – transferred to income statement on disposal or impairment | **(73)** | (482) |
| Cash flow hedges: | | |
| – gains/(losses) taken to equity | **(19)** | (61) |
| – transferred to income statement | **18** | (3) |
| Exchange differences arising on net investments in foreign operations | **(8)** | (4) |
| Other reserves: | | |
| – gains/(losses) taken to equity | **(9)** | 2 |
| – actuarial gains/(losses) on post-employment benefits | **(2)** | 9 |
| | **(309)** | (443) |
| Net deferred taxation on items taken directly to equity | **64** | 34 |
| Net Profit for the year | **1,766** | 977 |
| **Total recognised income and expense for the year** | **1,521** | 568 |
| | | |
| **Total recognised income and expense for the year attributable to:** | | |
| – Shareholders of the parent company | **1,519** | 566 |
| – Minority interests | **2** | 2 |
| | **1,521** | 568 |

# Consolidated financial statements (continued)

## Consolidated cash flow statement for the year ended 31 December 2008

| *(in millions of euros)* | *Notes* | **2008** | 2007 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **1,744** | 1,051 |
| *of which profit before tax from regional banks held for sale* | | **29** | – |
| Net profit on discontinued operations | | **–** | 45 |
| – non-cash items included in net profit | *32* | **345** | 28 |
| – change in operating assets | *32* | **(7,009)** | (21,798) |
| – change in operating liabilities | *32* | **2,858** | 41,898 |
| – change in assets/liabilities of disposal groups classified as held for sale | | **–** | – |
| – elimination of exchange differences | | **(126)** | (35) |
| – net gain from investing activities | | **(1,829)** | (585) |
| – share of profits in associates and joint ventures | | **–** | (1) |
| – dividends received from associates | | **–** | 4 |
| – tax paid | | **(19)** | (171) |
| Net cash from operating activities | | **(4,036)** | 20,436 |
| **Cash flows (used in)/from investing activities** | | | |
| Purchase of financial investments | | **(2,330)** | (2,234) |
| Proceeds from the sale of financial investments | | **3,570** | 2,477 |
| Purchase of property, plant and equipment | | **(63)** | (61) |
| Proceeds from the sale of property, plant and equipment | | **102** | 7 |
| Purchase of goodwill and intangible assets | | **(17)** | (17) |
| Net cash outflow from acquisition of and increase in stake of subsidiaries | | **–** | – |
| Net cash inflow from disposal of subsidiaries | | **1,434** | – |
| Net cash outflow from acquisition of and increase in stake of associates | | **–** | (229) |
| Proceeds from disposal of associates | | **–** | 29 |
| Net cash (used in)/from investing activities | | **2,696** | (28) |
| **Cash flows (used in)/from financing activities** | | | |
| Issue of ordinary share capital | | **16** | 23 |
| Net purchases of own shares | | **(1,400)** | – |
| Increase in non-equity minority interests | | **–** | – |
| Subordinated loan capital issued | | **–** | – |
| Subordinated loan capital repaid | | **(61)** | (503) |
| Dividends paid to shareholders | | **–** | (1,038) |
| Dividends paid to minority interests | | **–** | – |
| Net cash (used in)/from financing activities | | **(1,445)** | (1,518) |
| **Net increase in cash and cash equivalents** | | **(2,785)** | 18,890 |
| Cash and cash equivalents at 1 January | | **38,211** | 19,381 |
| Effect of exchange rate changes on cash and cash equivalents | | **(463)** | (60) |
| **Cash and cash equivalents at 31 December** | *32* | **34,963** | 38,211 |

## 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.

During 2008, the group adopted the following amendments to standards and interpretations:

– IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" had no significant effect on the consolidated financial statements;

– IFRIC 11 "Group and Treasury Share Transactions" ("IFRIC 11"). Application of this interpretation has resulted in the group treating all share based payment transactions as equity settled. This change in accounting policy was made in accordance with the transitional provisions of IFRIC 11, which require that the interpretation be applied retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", subject to the transitional provisions of IFRS 2 "Share-based Payments".

The group has not used the option offered under IAS 39 amendment "Financial Instruments: Recognition and Measurement" ("IAS 39") and IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7") – "Reclassification of Financial Assets" ("Reclassification Amendment").

Capital Disclosures under IAS 1 "Presentation of Financial Statements" have been included in the audited section of Risk Management on pages 51 to 53.

**b** The HSBC France group's (the "group") consolidated financial statements consist of the financial statements of HSBC France, its subsidiaries, HSBC France's interests in jointly controlled entities and associates as at 31 December.

*Acquisitions*

Acquired subsidiaries are consolidated from the date 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. Exclusive control over a subsidiary is determined by the ability to govern the subsidiary's financial and operating policies in order to benefit from its activities. Control results from:

– the direct or indirect ownership of a majority of the subsidiary's voting rights;

– the power to appoint 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 unanimous consent of all the venturers sharing control.

Companies over which HSBC France has significant influence are accounted for as associates. Significant influence is the power to participate in the financial and operating decisions of an entity without controlling it. Significant influence is assumed if 20 per cent or more of an entity's voting rights are held.

**1 Basis of preparation** *(continued)*

Lastly, HSBC France consolidates distinct legal entities created specifically to manage a transaction or a group of similar transactions ("special purpose entities"), even if there is no capital link, provided that HSBC France controls the entities in substance, based on the following criteria:

– the entity's activities are being conducted on behalf of HSBC France, such that HSBC France benefits from these activities;

– HSBC France has decision-making powers to obtain the majority of benefits arising from the entity's ordinary activities. These powers include the ability to dissolve the entity, to change its charter or Articles of Association and to veto proposed changes of the Special purpose entities' (SPE) charter or Articles of Association. These powers may have been delegated through an autopilot mechanism;

– HSBC France is able to obtain the majority of the benefits from the entity and may therefore be exposed to risks arising from the entity's activities;

– HSBC France retains the majority of the risks related to the entity in order to obtain benefits from its activity.

*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 owed to HSBC France, based on financial statements updated 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.

In order to make assumptions and estimates, Management uses information available at the date of preparation of the financial statements and can exercise its judgment.

By nature, valuations based on estimates include, especially in the context of the financial crisis that grew up over 2008, risks and uncertainties relating to their occurrence in the future. Consequently, actual future results may differ from these estimates and have a significant impact on the financial statements.

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, retirement benefits and share-based payments.

**d** *Future accounting developments - Standards and Interpretations issued by the IASB and endorsed by the EU*

IFRS 8 "Operating Segments" ("IFRS 8"), which replaces IAS 14 "Segment Reporting" ("IAS 14"), was issued on 30 November 2006 and is effective for annual periods beginning on or after 1 January 2009. This standard specifies how an entity should disclose information about its segments which enables users to evaluate the nature and financial effects of its business activities and the economic environments in which it operates. The group will adopt IFRS 8 with effect from 1 January 2009, and will accordingly present financial information for segments whose operating activities are regularly reviewed by the chief operating decision maker in order to make decisions about allocating resources and assessing performance. The group currently presents a set of segment data in accordance with IAS 14, based on customer groups.

A revised IAS 1, which is applicable for annual periods beginning on or after 1 January 2009, was issued on 6 September 2007. The revised standard aims to improve users' ability to analyse and compare information given in financial statements. The adoption of the revised standard will have no effect on the results reported in the group's consolidated financial statements. It will, however, result in certain presentational changes in the primary financial statements of the group.

The IASB issued an amendment to IFRS 2 "Share-based Payment" – "Vesting Conditions and Cancellations" – on 17 January 2008. The amendment, which is applicable for annual periods beginning on or after 1 January 2009, clarifies that vesting conditions comprise only service conditions and performance conditions. It also specifies the accounting treatment for a failure to meet a non-vesting condition. The group does not expect adoption of the amendment to have a significant effect on the group's consolidated financial statements.

# Consolidated financial statements (continued)

## 1 Basis of preparation *(continued)*

The IASB issued a revised IAS 23 "Borrowing Costs" on 29 March 2007, which is applicable for annual periods beginning on or after 1 January 2009. The revised standard eliminates the option of recognising borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. The group does not expect adoption of the revised standard to have a significant effect on the consolidated financial statements.

IFRIC 13 "Customer Loyalty Programmes" ("IFRIC 13") was issued on 28 June 2007 and is effective for annual periods beginning on or after 1 July 2008. IFRIC 13 addresses how companies that grant their customers loyalty award credits (often called "points") when buying goods or services should account for their obligation to provide free or discounted goods and services, if and when the customers redeem the points. IFRIC 13 requires companies to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations to provide goods or services. The group does not expect the adoption of this interpretation to have a significant effect on the consolidated financial statements.

## 2 Principal accounting policies

**a** *Interest income and expense*

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

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

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

**b** *Non-interest income*

*Fee income*

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

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

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

– if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate (for example, loan commitment fees) and recorded in "Interest income" (see Note 2 a).

*Dividend income*

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

*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".

## 2 Principal accounting policies *(continued)*

*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 10.

**d** *Determination of fair value*

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, *i.e.* the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held or liabilities to be issued and offer prices for assets to be acquired or liabilities held at the time. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option-pricing models and other valuation techniques commonly used by market participants.

For certain derivatives, fair values may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

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

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

**e** *Reclassification of financial assets*

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in particular circumstances:

- financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity;
- financial assets (except financial assets that would have met the definition of loans and receivables) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

**f** *Loans and advances to banks and customers*

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

**2 Principal accounting policies** *(continued)*

For certain leveraged finance and syndicated lending activities, the group may commit to underwrite loans on fixed contractual terms for specified periods of time, where the drawdown of the loan is contingent upon certain future events outside the control of the group. Where the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a trading derivative and measured at fair value through profit and loss. On drawdown, the loan is classified as held for trading and measured at fair value through profit and loss. Where it is not the group's intention to trade the loan, a provision on the loan commitment is only recorded where it is probable that the group will incur a loss. This may occur, for example, where a loss of principal is probable or the interest rate charged on the loan is lower than the cost of funding. On inception of the loan, the hold portion is recorded at its fair value and subsequently measured at amortised cost using the effective interest method. However, where the initial fair value is lower than the cash amount advanced, the write down is charged to the income statement. The write down will be recovered over the life of the loan, through the recognition of interest income using the effective interest rate method, unless the loan becomes impaired. The write down is recorded as a reduction to other operating income.

**g** *Loan impairment*

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

*Individually assessed loans*

Impairment losses on individually assessed accounts are determined by an evaluation of the exposures on a case-by-case basis. HSBC France assesses at each balance-sheet date whether there is any objective evidence that a loan is impaired.

In determining such impairment losses on individually assessed accounts, the following factors are considered:

– HSBC France's aggregate exposure to the customer;

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

– the likely dividend available on liquidation or bankruptcy;

– 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.

**2 Principal accounting policies** *(continued)*

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.

*Loan write-offs*

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from realising the security have been received.

*Reversals of impairment*

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

---

**h** *Trading assets and trading liabilities*

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

---

**i** *Financial instruments designated at fair value*

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

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

– applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis and where information about that group of financial instruments is provided internally on that basis to key management staff; or

– relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments, 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".

**2 Principal accounting policies** *(continued)*

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are also included in "Net income from financial instruments designated at fair value". Interest on these derivatives is also included in this line, except for interest on derivatives managed with debt securities in issue 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.

**j** *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 i) 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 2007 or 2008.

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 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.

Management is required to exercise judgement in determining whether there is objective evidence that an impairment loss has occurred. Once an impairment has been identified, the amount of impairment is measured in relation to the fair value of the asset.

The objective evidence required to determine whether an available-for-sale debt security is impaired comprises evidence of the occurrence of a loss event, and evidence that the loss event results in a decrease in estimated future cash flows. Where cash flows are readily determinable, a low level of judgement may be involved. Where determination of estimated future cash flows requires consideration of a number of variables, some of which may be unobservable in current market conditions, more significant judgement is required.

**k** *Sale and repurchase agreements (including stock lending and borrowing)*

When securities are sold subject to a commitment to repurchase them at a predetermined price ("repos") or are the subject of a stock lending agreement, they remain on the balance sheet and a liability is recorded in respect of the consideration received. Conversely, securities purchased under analogous commitments to resell ("reverse repos") are not recognised on the balance sheet and the consideration paid is recorded in "Loans and advances to banks" or "Loans and advances to customers" as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement using the effective interest method.

Securities lending and borrowing transactions are generally secured, with collateral taking the form of securities or cash advanced or received. The transfer of securities to counterparties is not normally reflected on the balance sheet. Cash collateral advanced or received is recorded as an asset or a liability respectively.

Securities borrowed are not recognised on the balance sheet, unless control of the contractual rights that comprise these securities is obtained and the securities are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in "Trading income", and the obligation to return them is recorded as a trading liability and measured at fair value.

**l** *Derivatives and hedge accounting*

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. In the normal course of business, the fair value of a derivative at initial recognition is considered to be the transaction price (*i.e.* the fair value of the consideration given or received). However, in certain circumstances the fair value of an instrument will be evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, including interest rate yield curves, option volatilities and currency rates. When such evidence exists, HSBC France recognises a trading profit or loss on inception of the derivative. If observable market data are not available, the initial increase in fair value indicated by the valuation model, but based on unobservable inputs, is not recognised immediately in the income statement but is recognised over the life of the transaction on an appropriate basis, or recognised in the income statement when the inputs become observable, or when the transaction matures or is closed out.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, when the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not designated at fair value. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Derivatives embedded in home purchase savings products (PEL/CEL) are some of the main embedded derivatives identified by HSBC France, and have therefore been valued using a HSBC France specific model (see Note 13).

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

**2 Principal accounting policies** *(continued)*

*Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the asset or liability or group thereof that are attributable to the hedged risk.

If the hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the residual period to maturity. Where the adjustment relates to the carrying amount of a hedged equity security, this remains in retained earnings until the disposal of the equity security.

*Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

*Net investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed.

*Hedge effectiveness testing*

To qualify for hedge accounting, IAS 39 requires the hedge to be highly effective. At the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis.

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

In assessing effectiveness, the changes in the fair value or the cash flows of the hedged item and the hedging instrument must be expected to, or must almost fully, offset each other. For prospective effectiveness, the changes in fair value or cash flows must be expected to offset each other in the range of 90 per cent to 110 per cent. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

*Derivatives that do not qualify for hedge accounting*

All gains and losses from changes in the fair value of any derivative that does not qualify for hedge accounting are recognised immediately in the income statement. These gains and losses are reported in "Trading income", except where derivatives are managed in conjunction with financial instruments designated at fair value, in which case gains and losses are reported in "Net income from financial instruments designated at fair value".

**m** *Derecognition of financial assets and liabilities*

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where HSBC France has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised when they are extinguished, *i.e.* when the obligation is discharged or cancelled or expired.

## 2 Principal accounting policies *(continued)*

**n** *Offsetting financial assets and financial liabilities*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**o** *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.

**p** *Goodwill and intangible assets*

Goodwill arises on business combinations, including the acquisition of subsidiaries, joint ventures or associates when the cost of acquisition exceeds the fair value of HSBC France's share of the identifiable net assets, liabilities and contingent liabilities acquired. By contrast, if HSBC France's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost to acquire, the excess is recognised immediately in the income statement.

Intangible assets are recognised separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed annually by comparing the present value of the expected future cash flows from a business with the carrying value of its net assets, including attributable goodwill. Goodwill is stated at cost less accumulated impairment losses which are charged to the income statement.

Goodwill on acquisitions of joint ventures or associates is included in "Interests in associates and joint ventures".

At the date of disposal of a business, attributable goodwill is included in HSBC France's share of net assets in the calculation of the gain or loss on disposal.

Intangible assets include computer software, trade names, customer lists, core deposit relationships and merchant or other loan relationships. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. An intangible asset recognised during the current period is tested before the end of the current annual period;

Intangible assets that have a finite useful life (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.

**q** *Property, plant and equipment*

Land and buildings are stated at historical cost, or fair value at the date of transition to IFRS ("deemed cost"), less any impairment losses and depreciation calculated to write off the assets as follows:

- land is not depreciated;
- acquisition-related expenses on buildings are expensed in the year in which they occur, as are preliminary costs;
- depreciation of buildings is calculated on a straight-line basis over their estimated useful lives which are generally between 25 and 75 years.

# Consolidated financial statements (continued)

## 2 Principal accounting policies *(continued)*

Equipment, fixtures and fittings (including equipment on operating leases where HSBC France is the lessor) are stated at cost less any impairment losses and depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between 5 and 10 years. HSBC France holds certain properties as investments to earn rentals or for capital appreciation, or both. Investment properties are included in the balance sheet at fair value with changes in fair value recognised in the income statement in the period of change. Fair values are determined by independent professional valuers who apply recognised valuation techniques.

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

**r** *Finance and operating leases*

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

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

All other leases are classified as operating leases. Where HSBC France is the lessor, the assets subject to the operating leases are included in "Property, plant and equipment" and accounted for accordingly. Impairment losses are recognised to the extent that the carrying value of equipment is impaired through residual values not being fully recoverable. Where HSBC France is the lessee, the leased assets are not recognised on the balance sheet. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in "General and administrative expenses" and "Other operating income" respectively.

**s** *Income tax*

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantially enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when HSBC France intends to settle on a net basis and the legal right to set off exists.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group, relate to income taxes levied by the same taxation authority, and a legal right to set off exists in the entity.

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.

**2 Principal accounting policies** *(continued)*

**t** *Pension and other post-retirement benefits*

HSBC France operates a number of pension and other post-retirement benefit plans. These plans include both defined benefit and defined contribution plans and various other retirement benefits such as post-retirement health-care benefits.

The costs recognised for funding these defined benefit plans are determined using the Projected Unit Credit Method, with annual actuarial valuations performed on each plan. Following the HSBC Group policy, HSBC France uses the option offered by IAS 19 not to defer actuarial gains and losses on the balance sheet and to recognise them directly in reserves, without being recognised in income. Past service costs are recognised immediately to the extent the benefits are vested, and are otherwise recognised on a straight-line basis over the average period until the benefits are vested. The current service costs and any past service costs together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities are charged to operating expenses.

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

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

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

---

**u** *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 reserve account. The expense value takes into account hypotheses regarding employee departures and performance conditions for the part of the shares subject to such conditions.

*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.

# Consolidated financial statements (continued)

## 2 Principal accounting policies *(continued)*

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

**v** *Foreign currencies*

Items included in the financial statements of each of HSBC France's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements of HSBC France are presented in euros. Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

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 set the cumulative translation differences for all foreign operations to zero at the date of transition to IFRS. On disposal of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the income statement.

**w** *Provisions*

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and a reliable estimate can be made of the amount of the obligation.

**x** *Debt securities in issue and subordinated liabilities*

Debt securities in issue and subordinated liabilities are initially measured at fair value, which is the consideration received net of directly attributable transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest rate method to amortise the difference between proceeds net of directly attributable transaction costs and the redemption amount over the expected life of the debt, unless the securities are designated at fair value (see Note 2 i).

**y** *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.

**z** *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).

## 2 Principal accounting policies *(continued)*

**aa** *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 and disposal of subsidiaries

*Sale of the regional banking subsidiaries in 2008*

On 2 July 2008, HSBC France group completed the sale of seven French regional banking subsidiaries to Banque Fédérale des Banques Populaires (BFBP) for EUR 2.1 billion, following an announcement by Senior Management on 29 February. The group's profit on sale is EUR 1.5 billion.

The profit before tax generated by these units from 1 March 2008 to 2 July 2008 is reclassified under "Other operating income". It stands at EUR 29 million.

*Acquisition and sale of Erisa in 2007*

On 26 March 2007, HSBC France agreed to acquire Swiss Life's 50.01 per cent holding in Erisa and Erisa IARD (now named HSBC Assurances Vie (France) and HSBC Assurances IARD (France) respectively). 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.

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".

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 82 million increase in equity was recognised on 26 March 2007.

# Consolidated financial statements (continued)

## 4 Net operating income

Net operating income for the year ended 31 December 2008 amounts to EUR 3,506 million and is stated after the following items of income, expense, gains and losses:

| (in millions of euros) | 2008 | 2007 |
|---|---|---|
| **Income** | | |
| Fees earned on financial assets not held for trading nor designated at fair value and not included in their effective interest rates | **658** | 787 |
| Fees earned on trust and other fiduciary activities where HSBC France holds or invests assets on behalf of its customers | **348** | 447 |
| Income from listed investments[1] | **1,741** | 1,369 |
| Income from unlisted investments[1] | **214** | 186 |
| **Expense** | | |
| Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value | **(4,109)** | (3,471) |
| Fees payable on financial assets or liabilities not held for trading nor designated at fair value and not included in their effective interest rates | **(260)** | (288) |
| **Gains/(losses)** | | |
| **Gains on disposal of property, plant and equipment, intangible assets and non-financial investments** | **1,555** | 25 |
| – gain on disposal of regional banking subsidiaries | **1,527** | – |
| – other | **28** | 25 |
| **Gains/(losses) on financial investments**[2] | **124** | 565 |
| – equity securities | **140** | 536 |
| – debt securities | **(16)** | 29 |
| **Impairment of available for sale equity shares** | **(119)** | (26) |
| **Net impairment losses on** | | |
| – loans and advances | **(127)** | (52) |
| – available-for-sale financial investments: debt securities | **–** | – |

1 *Dividends and interests.*
2 *2007: of which gain on disposal of the holding in HSBC Private Banking Holding (Suisse) SA amounted to EUR 309 million.*

## 5 Employee compensation and benefits

| (in millions of euros) | 2008 | 2007 |
|---|---|---|
| Wages and salaries | **758** | 834 |
| Social security costs | **252** | 298 |
| Post-employment benefits | **32** | 69 |
| | **1,042** | 1,201 |

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

| | 2008 | 2007 |
|---|---|---|
| Personal Financial Services and Commercial Banking[1] | **5,386** | 9,501 |
| Global Banking and Markets | **1,654** | 1,602 |
| Asset Management | **583** | 583 |
| Private Banking | **329** | 332 |
| Support Functions and Others[1] | **3,275** | 2,777 |
| **Total** | **11,227** | 14,795 |

1 *The number of persons employed by the regional banking subsidiaries which were sold in July 2008 as well as those of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie were included in Personal Financial Services and Commercial Banking in 2007. In 2008, after the merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France, their commercial staff members remained in Personal Financial Services and Commercial Banking whereas the others were moved to the line Support Functions and Others.*

5 **Employee compensation and benefits** *(continued)*

**a** *Post-employment benefit plans*

In 2007, provisions for employee benefits covered 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.

In 2008, HSBC France signed two agreements which provide:

– the transfer to APICIL of the ARCCO-AGIRC commitments (excluding the banking complementary pension);

– the constitution of a new defined contribution healthcare scheme. With this regard, HSBC France paid an exceptional amount which cancelled any further obligation for HSBC France relating to the financing of the healthcare schemes.

The related provisions were released in 2008 for an appropriate amount.

**b** *Post-employment defined benefit plans' principal actuarial assumptions*

The principal actuarial financial assumptions used to calculate the defined benefit pension plans and post-employment healthcare benefits at 31 December 2008, and the 2009 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 31-12-2008** | | | | | | | |
| **France** . . . . . . . | **5.75** | **–**[1] | **2** | **2.5** | **3** | **–**[2] | **–**[3] |
| At 31-12-2007 | | | | | | | |
| France . . . . . . . | 5.5 | 7[1] | 2 | 2 | 3 | –[2] | 6 |

1 *Expected rate on equities. However expected rate of return on bonds was 4.5 per cent for 2008 and 4.75 per cent for 2007.*
2 *HSBC France uses "mortality tables" for retirement compensation and long-service awards (TV88-90 pour les indemnités de départs à la retraite et les médailles du travail) and for pension obligation (TGH/TGF05 pour les engagements de retraite).*
3 *At end 2008, no more commitment linked to healthcare costs.*

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.

# Consolidated financial statements (continued)

## 5 Employee compensation and benefits *(continued)*

### c *Defined benefit pension plans*

**Value recognised in the balance sheet**

| (in millions of euros) | **2008** ***HSBC France Pension Plan*** | 2007 *HSBC France Pension Plan* |
|---|---|---|
| Equities | **8** | 16 |
| Bonds | **20** | 52 |
| Property | **–** | – |
| Other | **14** | 25 |
| Fair value of plan assets | **42** | 93 |
| Present value of funded obligations | **(23)** | – |
| Present value of unfunded obligations | **(128)** | (235) |
| Defined benefit obligation | **(151)** | (235) |
| Unrecognised past service cost | **8** | – |
| **Net liability** | **(101)** | (142) |

**Changes in the present value of the defined benefit obligation**

| (in millions of euros) | **2008** ***HSBC France Pension Plan*** | 2007 *HSBC France Pension Plan* |
|---|---|---|
| At 1 January | **235** | 252 |
| Current service cost | **4** | 4 |
| Interest cost | **10** | 11 |
| Contributions by employees | **–** | – |
| Actuarial (gains)/losses | **(2)** | (7) |
| Benefits paid | **(15)** | (21) |
| Past service cost – vested immediately | **–** | 2 |
| Past service cost – unvested benefits | **8** | – |
| Acquisitions | **–** | – |
| (Gains)/losses on curtailments | **–** | – |
| (Gains)/losses on settlements | **(50)** | (4) |
| Exchange and other movements | **(39)** | (2) |
| **At 31 December**[1] | **151** | 235 |

1 *Of which non post employment benefit obligation for EUR 12 million (2007: EUR 16 million) and post-employment benefit obligation for EUR 139 million (2007: EUR 219 million).*

## 5 Employee compensation and benefits *(continued)*

**Changes in the fair value of plan assets**

| (in millions of euros) | **2008** ***HSBC France Pension Plan*** | 2007 *HSBC France Pension Plan* |
|---|---|---|
| At 1 January | **93** | 105 |
| Expected return | **4** | 4 |
| Contributions by the group | **–** | – |
| Contributions by employees | **–** | – |
| Actuarial gain | **(6)** | (2) |
| Benefits paid | **(17)** | (7) |
| Acquisitions | **–** | – |
| (Gains)/losses on settlements | **(22)** | (4) |
| Exchange and other movements | **(10)** | (3) |
| **At 31 December** | **42** | 93 |

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

| (in millions of euros) | **2008** ***HSBC France Pension Plan*** | 2007 *HSBC France Pension Plan* |
|---|---|---|
| Current service cost | **4** | 4 |
| Interest cost | **10** | 12 |
| Expected return on plan assets | **(4)** | (5) |
| Past service cost | **–** | 2 |
| (Gains)/losses on curtailments | **–** | – |
| (Gains)/losses on settlements | **(27)** | – |
| **Total net expense** | **(17)** | 13 |

In 2008, no net actuarial gain was recognised in respect of defined benefit pension plans (2007: net actuarial gains of EUR 7 million).

**d** *Post-employment healthcare benefits plans*

**Value recognised in the balance sheet**

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Present value of funded obligations | **–** | – |
| Present value of unfunded obligations | **–** | (36) |
| Defined benefit obligation | **–** | (36) |
| Unrecognised past service cost | **–** | – |
| **Net liability** | **–** | (36) |

# Consolidated financial statements (continued)

## 5 Employee compensation and benefits *(continued)*

**Changes in the present value of the defined benefit obligation**

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| At 1 January | **36** | 40 |
| Current service costs | **1** | 1 |
| Interest costs | **1** | 2 |
| Contributions by employees | **–** | – |
| Actuarial (gains)/losses | **–** | (6) |
| Benefits paid | **(18)** | (1) |
| Past service cost: | **–** | – |
| – vested immediately | **–** | – |
| – unvested benefits | **–** | – |
| Acquisitions | **–** | – |
| (Gains)/losses on curtailments | **–** | – |
| (Gains)/losses on settlements | **(20)** | – |
| Exchange and other movements | **–** | – |
| **At 31 December** | **–** | 36 |

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

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Current service cost | **1** | 1 |
| Interest cost | **1** | 2 |
| Expected return on plan assets | **–** | – |
| Past service cost | **–** | – |
| (Gains)/losses on curtailments | **–** | – |
| (Gains)/losses on settlements | **(20)** | – |
| **Total expense** | **(18)** | 3 |

In 2008, HSBC France had no more commitment in respect of post-employment healthcare benefits plans.

**e** *Retirement benefit liabilities*

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Net liability on defined pension plans (Note 5 c) | **(101)** | (142) |
| Net liability on post-employment healthcare benefits plans (Note 5 d) | **–** | (36) |
| **Total** | **(101)** | (178) |

## 6 Share-based payments

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

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

## 6 Share-based payments *(continued)*

*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 when granted, subject to vesting conditions.

*Share Options without performance conditions*[1]

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

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | ***Number (000)*** | ***Weighted average exercise price (in GBP)*** | *Number (000)* | *Weighted average exercise price (in GBP)* |
| Outstanding at 1 January | **48,744** | | 51,984 | |
| Granted in the year | **–** | | – | |
| Exercised in the year | **(1,304)** | **7.41** | (2,297) | 7.49 |
| Transferred in the year | **–** | | – | |
| Expired in the year | **(779)** | **8.23** | (943) | 8.17 |
| **Outstanding at 31 December** | **46,661** | | 48,744 | |

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

*Share Options with performance conditions*

In 2005, 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 when granted, after which they will lapse.

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | ***Number (000)*** | ***Weighted average exercise price (in GBP)*** | *Number (000)* | *Weighted average exercise price (in GBP)* |
| Granted in the year | **–** | | – | |
| Forfeited in the year | **(226)** | | (103) | |
| **Outstanding at 31 December** | **224** | | 450 | |

In 2008, EUR 2.2 million (2007: EUR 9.2 million) 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.

The HSBC Holdings Plc shares held by the group to be delivered to the employees are booked in the available-for-sale portfolios and measured at fair value (quoted price).

*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.

**6 Share-based payments** *(continued)*

"Performance shares"

| | **2008** | 2007 |
|---|---|---|
| | ***Number (000)*** | *Number (000)* |
| Outstanding at 1 January | **239** | 320 |
| Granted in the year | **–** | 122 |
| Exercised in the year | **–** | – |
| Transferred in the year | **–** | – |
| Expired in the year | **–** | (203) |
| **Outstanding at 31 December** | **239** | 239 |

Vesting of performance shares is subject to a three-year vesting period and to performance conditions that have changed over the period:

**2003 and 2004 awards**

Awards of performance shares are released in full if HSBC Holdings plc's TSR (Total Shareholder Return) exceeds that of a group of comparator banks ("the benchmark"). For 2003 and 2004 awards, the benchmark consisted of:

1. a peer group of nine selected banks;
2. the five largest banks by market capitalisation from the USA, UK, continental Europe and the Far East (excluding banks in group 1);
3. the banking sector of the Morgan Stanley Capital International World Index (excluding those in groups 1 and 2).

A market comparator benchmark is then formed by combining the groups above and weighting the average so that 50 per cent is applied to group 1, 25 per cent to group 2 and 25 per cent to group 3.

As the test of the performance condition (TSR) failed in 2008 for the third year, the Performance shares awarded in 2003 will not be released. The test regarding the Performance shares awarded in 2004 failed in 2007 and 2008. The last test will be performed in March 2009.

**2005 onwards**

From 2005 onwards three main changes apply:

– only 50 per cent of the award is subject to a TSR measure and the remainder to an EPS (Earning Per Share) measure;

– the TSR measure is no longer against a single index but is ranked against a comparator group of 28 major banks;

– there is a sliding scale for the release of shares with awards vesting at 30 per cent if HSBC's TSR ranks at $14^{th}$ position within the comparator group and 100 per cent if HSBC's TSR ranks at $7^{th}$ position or higher.

**Earnings per share (EPS)**

For awards of performance shares made in 2005 to 2007, 50 per cent of the award is subject to growth in EPS over the three-year life of the award.

The percentage of the performance share award to be released will depend upon incremental EPS in each year compared to the EPS of the base year, *i.e.* if the EPS in any year is higher than that of the base year then a positive number is returned and a negative number if the EPS is lower than that of the base year. The total of the incremental EPS is applied to a simple formula to determine the percentage to vest: 30 + 2.5 (X-24).

## 6 Share-based payments *(continued)*

"Achievement Shares" and "Restricted Shares"

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

| | 2008 | 2007 |
|---|---|---|
| | *Number (000)* | *Number (000)* |
| Outstanding at 1 January | **4,899** | 1,999 |
| Granted in the year[1] | **3,144** | 3,085 |
| Exercised in the year | **(1,847)** | – |
| Transferred in the year | **(103)** | – |
| Expired in the year | **(72)** | (185) |
| **Outstanding at 31 December** | **6,020** | 4,899 |

1 *In 2007, "Restricted Shares".*

All these share categories cannot be sold before the end of a further two-year tax lock-up period after their vesting.

In 2008, EUR 36.1 million were charged to the income statement in respect of amortisation of the 2006, 2007 and 2008 plans (2007: EUR 30.6 million). This amortisation runs over a vesting period, *i.e.* 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. In 2008, Employees of the HSBC France group took up a total of 2,761,005 HSBC Holdings plc shares (2007: 2,940,087 shares), representing a total capital amount of EUR 22.9 million (EUR 32.6 million in 2007).

In 2008, the cost of the discount based on the share price at the opening of the offer period amounted to EUR 6.9 million (2007: EUR 8.0 million).

## 7 Tax expense

| (in millions of euros) | 2008 | 2007 |
|---|---|---|
| Current tax | **4** | 103 |
| Deferred tax | **(26)** | 16 |
| **Tax expense** | **(22)** | 119 |
| Effective tax rate (per cent) | **n/a** | 11.3 |

**Analysis of overall tax charges**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| (in millions of euros) | *Amount* | *%* | *Amount* | *%* |
| Taxation at French corporate tax rate | **598** | **34.43** | 362 | 34.43 |
| Impact of overseas profits in principal locations taxed at different rates | **(1)** | **(0.1)** | (1) | 0.1 |
| Operations taxed at reduced tax rate in France[1] | **(530)** | **(30.5)** | (156) | 14.8 |
| Other items including result for tax Group integration | **(90)** | **(5.2)** | (86) | 8.2 |
| **Overall tax charge** | **(22)** | **n/a** | 119 | 11.3 |

In 2008, HSBC France and its subsidiary undertakings in France were subject to French corporation tax at 34.43 per cent for Short Term (ST) and 1.72 per cent[2] for Long Term (LT) (2007: (ST) 34.43 per cent and (LT) 1.72 per cent). The rates used for deferred taxes are based on 2009 tax rates.

1 *Mainly capital gain on the disposal of the regional banking subsidiaries.*
2 *Except property company securities and securities with cost price higher than EUR 22.8 million but lower than 5 per cent of capital, and securities from FCPR and SCR.*

# Consolidated financial statements (continued)

## 8 Dividends paid in 2007 and 2008

| (in millions of euros) | **2008** EUR per share | **2008** Amount | 2007 EUR per share | 2007 Amount |
|---|---|---|---|---|
| Second interim dividend for previous year | – | – | 4.10 | 311 |
| Exceptional dividend | – | – | 6.54 | 496 |
| First interim dividend for current year | – | – | 3.04 | 231 |
| | | – | | 1,038 |

**Dividends related to 2008**

On 18 February 2009, the Board of Directors will propose to the Annual General Meeting, to be held on 28 May 2009, not to distribute any dividend in respect of the 2008 results.

**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 General Meeting held on 28 May 2008 approved no further dividend in respect of the 2007 results.

## 9 Earnings and dividends per share

| (in euros) | **31 December 2008** | 31 December 2007 |
|---|---|---|
| Basic earnings per share | **23.52** | 12.88 |
| Diluted earnings per share | **23.27** | 12.71 |
| Dividend per share | – | 9.58 [1] |

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

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 1,764 million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 75,020,854 (full year 2007: earnings of EUR 975 million and 75,698,434 shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 75,808,731 (full year 2007: 76,705,465 shares).

## 10 Segment analysis

HSBC France mainly operates in France. HSBC France manages its business through the following customer groups: Personal Financial Services (including Insurance activity from 2007), Commercial Banking, Global Banking and Markets, and Private Banking. Impacts of the disposal of the seven regional banking subsidiaries are the main items included in “Other” in 2008 (2007: impacts of the acquisition of Erisa and Erisa IARD).

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.

## 10 Segment analysis *(continued)*

| (in millions of euros) | **31 December 2008** | 31 December 2007 |
|---|---|---|
| **Total operating income before loan impairment charges** | | |
| Personal Financial Services | **754** | 957 |
| Commercial Banking | **649** | 715 |
| Global Banking and Markets | **799** | 1,131 |
| Private Banking | **82** | 107 |
| Other | **1,515** | 14 |
| **Total France** | **3,799** | 2,924 |
| Perimeter differences | **(166)** | 165 |
| Group reporting differences | **–** | – |
| **Total Legal** | **3,633** | 3,089 |
| **Profit before Tax** | | |
| Personal Financial Services | **91** | 130 |
| Commercial Banking | **122** | 148 |
| Global Banking and Markets | **172** | 530 |
| Private Banking | **7** | 18 |
| Other | **1,461** | 79 |
| **Total France – before goodwill impairment** | **1,853** | 905 |
| Goodwill impairment | **–** | – |
| **Total France** | **1,853** | 905 |
| Perimeter differences | **(109)** | 146 |
| Group reporting differences | **–** | – |
| **Total Legal** | **1,744** | 1,051 |
| **Total Assets** | | |
| Personal Financial Services | **12,371** | 15,812 |
| Commercial Banking | **13,399** | 15,325 |
| Global Banking and Markets | **238,760** | 165,865 |
| Private Banking | **1,158** | 1,181 |
| Other | **337** | 444 |
| | **266,025** | 198,627 |
| **Capital expenditure incurred on property, plant and equipment** | | |
| Personal Financial Services | **28** | 27 |
| Commercial Banking | **17** | 21 |
| Global Banking and Markets | **18** | 13 |
| Private Banking | **–** | – |
| Other | **–** | – |
| | **63** | 61 |
| **Capital expenditure incurred on intangibles (including goodwill)** | | |
| Personal Financial Services | **3** | 5 |
| Commercial Banking | **2** | 4 |
| Global Banking and Markets | **13** | 8 |
| Private Banking | **–** | – |
| Other | **–** | – |
| | **18** | 17 |

## 11 Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies in Note 2 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet by the class of financial instrument to which they are assigned, and therefore by the measurement basis.

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

| | At 31 December 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (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 | – | – | – | – | 2,077 | – | – | 2,077 |
| Items in the course of collection from other banks | – | – | – | – | 1,234 | – | – | 1,234 |
| Trading assets | 67,427 | – | – | – | – | – | – | 67,427 |
| Financial assets designated at fair value | – | 515 | – | – | – | – | – | 515 |
| Derivatives | 104,723 | – | – | – | – | 30 | 460 | 105,213 |
| Loans and advances to banks | – | – | 27,270 | – | – | – | – | 27,270 |
| Loans and advances to customers | – | – | 51,286 | – | – | – | – | 51,286 |
| Financial investments | – | – | – | 3,247 | – | – | – | 3,247 |
| Other assets | – | – | – | – | 4,852 | – | – | 4,852 |
| Accrued income | – | – | – | – | 1,766 | – | – | 1,766 |
| **Total financial assets** | 172,150 | 515 | 78,556 | 3,247 | 9,929 | 30 | 460 | 264,887 |
| Total non-financial assets | | | | | | | | 1,138 |
| **Total assets** | | | | | | | | 266,025 |
| **Financial liabilities** | | | | | | | | |
| Deposits by banks | – | – | – | – | 42,136 | – | – | 42,136 |
| Customer accounts | – | – | – | – | 53,791 | – | – | 53,791 |
| Items in the course of transmission to other banks | – | – | – | – | 1,041 | – | – | 1,041 |
| Trading liabilities | 33,892 | – | – | – | – | – | – | 33,892 |
| Financial liabilities designated at fair value | – | 2,206 | – | – | – | – | – | 2,206 |
| Derivatives | 102,369 | – | – | – | – | 67 | 561 | 102,997 |
| Debt securities in issue | – | – | – | – | 20,351 | – | – | 20,351 |
| Other liabilities (including current tax) | – | – | – | – | 2,383 | – | – | 2,383 |
| Subordinated liabilities | – | – | – | – | 207 | – | – | 207 |
| Accruals | – | – | – | – | 1,538 | – | – | 1,538 |
| **Total financial liabilities** | 136,261 | 2,206 | – | – | 121,447 | 67 | 561 | 260,542 |
| Total non-financial liabilities | | | | | | | | 5,483 |
| **Total liabilities** | | | | | | | | 266,025 |

## 11 Analysis of financial assets and liabilities by measurement basis *(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 | – | – | – | – | 3,539 | – | – | 3,539 |
| Accrued income | – | – | – | – | 1,401 | – | – | 1,401 |
| Total financial assets | 94,439 | – | 88,279 | 4,050 | 8,922 | 42 | 189 | 197,322 |
| Total non-financial assets | | | | | | | | 1,305 |
| 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 | – | – | – | – | 1,550 | – | – | 1,550 |
| Subordinated liabilities | – | – | – | – | 262 | – | – | 262 |
| Accruals | – | – | – | – | 1,572 | – | – | 1,572 |
| Total financial liabilities | 71,989 | 336 | – | – | 118,915 | 80 | 368 | 193,260 |
| Total non-financial liabilities | | | | | | | | 5,367 |
| Total liabilities | | | | | | | | 198,627 |

# Consolidated financial statements (continued)

## 12 Trading assets

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Trading assets: | | |
| – which may be repledged or resold by counterparties | **34,844** | 28,416 |
| – not subject to repledge or resale by counterparties | **32,583** | 29,698 |
| | **67,427** | 58,114 |

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Treasury and other eligible bills | **40,885** | 30,445 |
| Debt securities | **9,357** | 6,456 |
| Equity securities | **2,052** | 13,089 |
| Loans and advances to banks | **11,668** | 6,251 |
| Loans and advances to customers | **3,465** | 1,873 |
| | **67,427** | 58,114 |

## 13 Derivatives

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

| | **At 31 December 2008** | | | | | |
|---|---|---|---|---|---|---|
| | ***Assets*** | | | ***Liabilities*** | | |
| (in millions of euros) | ***Trading*** | ***Hedging*** | ***Total*** | ***Trading*** | ***Hedging*** | ***Total*** |
| Exchange rate | **5,556** | **–** | **5,556** | **(6,114)** | **(2)** | **(6,116)** |
| Interest rate | **88,686** | **490** | **89,176** | **(87,302)** | **(626)** | **(87,928)** |
| Equities | **12,223** | **–** | **12,223** | **(10,776)** | **–** | **(10,776)** |
| Credit derivatives | **87** | **–** | **87** | **(6)** | **–** | **(6)** |
| Commodity and other | **–** | **–** | **–** | **–** | **–** | **–** |
| **Gross total fair values** | **106,552** | **490** | **107,042** | **(104,198)** | **(628)** | **(104,826)** |
| Netting | | | **(1,829)** | | | **1,829** |
| **Total** | | | **105,213** | | | **(102,997)** |

| | 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) |

The increase of the fair values of third-party derivatives is mainly due to market volatility and to activity increase.

## 13 Derivatives *(continued)*

**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 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".

*Notional contract amounts of derivatives held-for-trading purposes by product type*

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Exchange rate | **128,134** | 101,650 |
| Interest rate | **4,082,848** | 2,963,623 |
| Equities | **125,454** | 122,118 |
| Credit derivatives | **1,162** | 2,630 |
| Commodity and other | **–** | – |
| **Total** | **4,337,598** | 3,190,021 |

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.

## 13 Derivatives *(continued)*

The contract amount of credit derivatives of EUR 1,162 million (2007: EUR 2,630 million) above consists of protection bought for EUR 1,156 million (2007: EUR 1,985 million) and protection sold for EUR 6 million (2007: EUR 645 million).

*Derivatives valued using models with unobservable inputs*

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows.

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| **Unamortised balance at 1 January** | **42** | 22 |
| Deferral on new transactions | **106** | 80 |
| Recognised in the income statement during the period: | | |
| – amortisation | **(37)** | (26) |
| – subsequent to observability | **(50)** | (9) |
| – maturity or termination | **(14)** | (24) |
| – FX movements and other | **–** | (1) |
| **Unamortised balance at 31 December** | **47** | 42 |

**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.

The table below shows the notional contract amount of derivatives held for hedging purposes by product type:

| | **At 31 December 2008** | | At 31 December 2007 | |
|---|---|---|---|---|
| (in millions of euros) | ***Cash flow hedge*** | ***Fair value hedge*** | *Cash flow hedge* | *Fair value hedge* |
| Exchange rate contracts | **–** | **540** | 11 | 591 |
| Interest rate contracts | **49,248** | **2,591** | 64,196 | 7,641 |
| 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.

***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 2008, were assets of EUR 30 million and liabilities of EUR 67 million (31 December 2007, assets of EUR 42 million and liabilities of EUR 80 million).

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

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| – on hedged instruments | **(20)** | (61) |
| – on hedged items attributable to the hedged risk | **21** | 63 |

## 13 Derivatives *(continued)*

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was a gain of EUR 1.3 million for the year ended 31 December 2008 (a gain of EUR 2 million for the year ended 31 December 2007).

***Cash flow hedges***

The group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be re-funded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time, form the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions. These are initially recognised directly in equity as gains or losses not recognised in the income statement and are transferred to current period earnings when the forecast cash flows affect net profit or loss.

At 31 December 2008, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of EUR 460 million and liabilities of EUR 561 million (at 31 December 2007, assets of EUR 189 million and liabilities of EUR 368 million).

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

| | **31 December 2008** | | | |
|---|---|---|---|---|
| (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 | **12,304** | **5,920** | **6,389** | **–** |
| Cash outflows from liabilities | **(7,052)** | **(7,561)** | **(6,144)** | **(1,713)** |
| **Net cash inflows/(outflows)** | **5,252** | **(1,641)** | **245** | **(1,713)** |

| | 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) |

Reconciliation of movements in the cash flow hedge reserve

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| **At 1 January** | **(117)** | (74) |
| Amounts recognised directly in equity during the year | **(18)** | (62) |
| Amounts removed from equity and included in the income statement for the year | **18** | (3) |
| Deferred taxation | **–** | 22 |
| **At 31 December** | **(117)** | (117) |

The amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was a loss of EUR 3.7 million in the year ended 31 December 2008 (at 31 December 2007: a loss of EUR 1 million).

# Consolidated financial statements (continued)

## 13 Derivatives *(continued)*

**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 2008, derivatives embedded in home purchase savings products represented a liability of EUR 11 million (at 31 December 2007: a liability of EUR 1 million).

## 14 Financial investments

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Financial investments: | | |
| – which may be pledged or resold by counterparties | **530** | 754 |
| – not subject to repledge or resale by counterparties | **2,717** | 3,296 |
| | **3,247** | 4,050 |

| | **2008** | | 2007 | |
|---|---|---|---|---|
| (in millions of euros) | ***Book value*** | ***Fair value*** | *Book value* | *Fair value* |
| **Treasury and other eligible bills** | **309** | **309** | 952 | 952 |
| – available-for-sale | **309** | **309** | 952 | 952 |
| – held-to-maturity | **–** | **–** | – | – |
| **Debt securities** | **2,090** | **2,090** | 1,312 | 1,312 |
| – available-for-sale[1] | **2,090** | **2,090** | 1,312 | 1,312 |
| – held-to-maturity | **–** | **–** | – | – |
| **Equity securities**[2] | **848** | **848** | 1,786 | 1,786 |
| – available-for-sale | **848** | **848** | 1,786 | 1,786 |
| **Total financial investments** | **3,247** | **3,247** | 4,050 | 4,050 |

1 *Including EUR 272 million of underlying assets in the dynamic money market funds (2007: EUR 612 million) and EUR 410 million of assets held by the funds consolidated since 2008.*
*Including EUR 758 million of debt securities issued in 2008 by SFEF (Société de Financement de l'Economie Française) guaranteed by the French government.*

2 *In 2007, this line included shares of dynamic money market funds for EUR 667 million. These funds were consolidated in 2008.*

## 15 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 the contractual rights to receive the cash flows of the financial assets are retained but a contractual obligation to pay the cash flows to one or more recipients is assumed;

(ii) partial derecognition occurs when the 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:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| (in millions of euros) | ***Carrying amount of assets*** | ***Carrying amount of associated liabilities*** | *Carrying amount of assets* | *Carrying amount of associated liabilities* |
| **Nature of transaction** | | | | |
| Repurchase agreements | **37,640** | **37,640** | 30,166 | 30,166 |
| Securities lending agreements | **–** | **–** | – | – |
| **Total** | **37,640** | **37,640** | 30,166 | 30,166 |

## 16 Interests in associates and joint ventures

**a** *Principal associates*

At 31 December 2008, the HSBC France group had no material associated companies.

**b** *Interests in joint ventures*

| | **At 31 December 2008** | | |
|---|---|---|---|
| | ***Principal activity*** | ***Interest in equity*** | ***Capital*** |
| HCM Holdings Ltd | **Holding** | **51%** | **–** |

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

# Consolidated financial statements (continued)

## 16 Interests in associates and joint ventures *(continued)*

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 on the rights of HSBC France as the majority shareholder and indicates joint control over HCM Holdings Ltd by the two shareholders.

**Summarised aggregate financial information on joint ventures**

(Figures from the local financial statements: 100%)

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Current assets | **1** | 1 |
| Non-current assets | **–** | – |
| Current liabilities | **–** | – |
| Non current liabilities | **1** | 1 |
| Income | **–** | – |
| Expenses | **–** | – |

## 17 Goodwill and intangible assets

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

**a** *Goodwill*

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| **Cost** | | |
| **At 1 January** | **429** | 429 |
| Additions | **–** | – |
| Disposals [1] | **(57)** | – |
| Exchange translation differences | **3** | – |
| Changes in scope of consolidation and other changes | **–** | – |
| **At 31 December** | **375** | 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** | **343** | 397 |

1 *Disposal of the regional banking subsidiaries.*

In 2008 and 2007, no goodwill impairment was recognised. Impairment testing has been performed in accordance with IAS 36.

## 17 Goodwill and intangible assets *(continued)*

**b** *Other intangible assets*

The analysis of the movement of intangible assets for the year ended 31 December 2008 is as follows:

| (in millions of euros) | *Internally generated software* | *Purchased software* | *Other* | *Total* |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 1 January 2008** | **140** | **53** | **38** | **231** |
| Additions | **2** | **10** | **6** | **18** |
| Disposals | **–** | **–** | **(1)** | **(1)** |
| Exchange translation differences | **–** | **–** | **–** | **–** |
| Changes in scope of consolidation and other changes | **–** | **(5)** | **(8)** | **(13)** |
| **At 31 December 2008** | **142** | **58** | **35** | **235** |
| **Accumulated impairment losses** | | | | |
| **At 1 January 2008** | **(137)** | **(31)** | **(10)** | **(178)** |
| Charge for the year [1] | **(4)** | **(8)** | **–** | **(12)** |
| Disposals | **–** | **–** | **–** | **–** |
| Impairment losses | **–** | **–** | **–** | **–** |
| Reversal of impairment losses | **–** | **–** | **–** | **–** |
| Exchange translation differences | **–** | **–** | **–** | **–** |
| Changes in scope of consolidation and other changes | **–** | **2** | **–** | **2** |
| **At 31 December 2008** | **(141)** | **(37)** | **(10)** | **(188)** |
| **Net book value at 31 December 2008** | **1** | **21** | **25** | **47** |

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

| (in millions of euros) | *Internally generated software* | *Purchased software* | *Other* | *Total* |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 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".*

## Consolidated financial statements (continued)

### 17 Goodwill and intangible assets *(continued)*

**c** *Goodwill and intangible assets*

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| **Cost** | | |
| Goodwill – net book value (see Note 17 a) | **343** | 397 |
| Other intangible assets – net book value (see Note 17 b) | **47** | 53 |
| | **390** | 450 |

### 18 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 2008** | **458** | **326** | **784** |
| Additions at cost | **2** | **61** | **63** |
| Fair value adjustments | **–** | **–** | **–** |
| Disposals | **(3)** | **(5)** | **(8)** |
| Exchange translation differences | **–** | **–** | **–** |
| Changes in scope of consolidation and other changes[1] | **(60)** | **(70)** | **(130)** |
| **At 31 December 2008** | **397** | **312** | **709** |
| **Accumulated depreciation** | | | |
| **At 1 January 2008** | **(30)** | **(115)** | **(145)** |
| Depreciation charge for the year[2] | **(9)** | **(48)** | **(57)** |
| Disposals | **1** | **4** | **5** |
| Exchange translation differences | **–** | **–** | **–** |
| Changes in scope of consolidation and other changes[1] | **8** | **28** | **36** |
| **At 31 December 2008** | **(30)** | **(131)** | **(161)** |
| **Net book value at 31 December 2008** | **367** | **181** | **548** |

1 *Of which related to the sale of the regional banking subsidiaries for net book value of EUR 93 million.*
2 *Including impairment on property: EUR 1.5 million.*

## 18 Property, plant and equipment *(continued)*

| (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 value of EUR 42 million.*

**b** *Investment properties*

As at 31 December 2008 and 31 December 2007, the HSBC France group did not own investment properties.

**c** *Property, plant and equipment*

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Property, plant and equipment Goodwill – net book value (see Note 18 a) | **548** | 639 |
| Investment properties – net book value (see Note 18 b) | **–** | – |
| | **548** | 639 |

# Consolidated financial statements (continued)

## 19 Investments

| *Consolidated companies* | *Country* | *Consolidation method** | *Main line of business* | HSBC France group interest % **2008** | % 2007 |
|---|---|---|---|---|---|
| **Retail and Commercial Banking** | | | | | |
| Banque Chaix [3] | France | FC | Bank | – | 100.0 |
| Banque de Savoie [3] | France | FC | Bank | – | 99.9 |
| Banque Dupuy de Parseval [3] | France | FC | Bank | – | 100.0 |
| Banque Marze [3] | France | FC | Bank | – | 100.0 |
| Banque Pelletier [3] | France | FC | Bank | – | 100.0 |
| COPARI | France | FC | Holding company | **100.0** | 99.8 |
| Crédit Commercial du Sud-Ouest (CCSO) [3] | France | FC | Bank | – | 100.0 |
| Financière d'Uzès | France | EM | Financial company | **34.0** | 34.0 |
| HSBC de Baecque Beau [1] | France | FC | Bank | – | 100.0 |
| HSBC Factoring (France) (ex-Elysées Factor) | France | FC | Financial company | **100.0** | 100.0 |
| HSBC Hervet [1] | France | FC | Bank | – | 100.0 |
| HSBC Picardie [1] | France | FC | Bank | – | 100.0 |
| HSBC UBP [1] | France | FC | Bank | – | 100.0 |
| Massilia Participations Immobilières [3] | France | FC | Holding company | – | 100.0 |
| Provençale de Participation [3] | France | FC | Financial company | – | 100.0 |
| SARL Neuilly Valeurs | France | FC | Investment company | **100.0** | 99.8 |
| SCI Château Richard [3] | France | FC | Holding company | – | 100.0 |
| SCI Hervet Mathurins | France | FC | Holding company | **100.0** | 100.0 |
| SCI Les Hauts de Malençons [3] | France | FC | Holding company | – | 100.0 |
| SCI Neuilly Vichy | France | FC | Holding company | **100.0** | 100.0 |
| SCI Pelletier [3] | France | FC | Holding company | – | 100.0 |
| SNC Neuilly l'Ecrin [2] | France | FC | Holding company | – | 100.0 |
| Société Anonyme Professionnelle de Crédit (SAPC Ufipro Recouvrement) | France | FC | Bank | **100.0** | 100.0 |
| Société Auxiliaire Immobilière [3] | France | FC | Holding company | – | 100.0 |
| Société Immobilière de la Région Rhône-Alpes (SIRRA) [3] | France | FC | Service company | – | 100.0 |
| Société Immobilière et Foncière Savoisienne (SIFS) [3] | France | FC | Holding company | – | 100.0 |
| Société Immobilière Provence Côte d'Azur [2] | France | FC | Holding company | – | 100.0 |
| Société Marseillaise de Crédit [3] | France | FC | Bank | – | 100.0 |
| 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 [4] | France | FC | Financial company | – | 100.0 |
| Vernet Rendement 37 [4] | France | FC | Financial company | – | 100.0 |
| **Global Banking and Markets** | | | | | |
| 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 10 | France | FC | Financial company | **100.0** | 100.0 |
| DEM 9 | 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 |
| 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 |

* *FC: Full consolidation – EM: Equity Method.*
1 *Merger with HSBC France.*
2 *Liquidation.*
3 *Disposal.*
4 *Deconsolidation.*

## 19 Investments *(continued)*

| Consolidated companies | Country | Consolidation method* | Main line of business | HSBC France group interest % 2008 | % 2007 |
|---|---|---|---|---|---|
| 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 | **100.0** | 99.8 |
| Foncière Elysées | France | FC | Holding company | **100.0** | 100.0 |
| France Titrisation | France | EM | Service company | **33.3** | 33.3 |
| HSBC Covered Bonds (France) (ex-Hervet Participations) | France | FC | Financial company | **100.0** | 99.8 |
| 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** | 85.0 |
| HSBC Paris Immo Buro (SCPI)[2] | France | FC | Holding company | **–** | 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[4] | France | FC | Financial company | **–** | 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** | 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** | 100.0 |
| SAF Palissandre | France | FC | Financial company | **100.0** | 100.0 |
| SAF Zhu jiang | France | FC | Financial company | **100.0** | 100.0 |
| SAF Zhu jiang ba | France | FC | Financial company | **100.0** | – |
| SAF Zhu jiang er | France | FC | Financial company | **100.0** | – |
| SAF Zhu jiang jiu | France | FC | Financial company | **100.0** | – |
| SAF Zhu jiang liu | France | FC | Financial company | **100.0** | – |
| SAF Zhu jiang qi | France | FC | Financial company | **100.0** | – |
| SAF Zhu jiang san | France | FC | Financial company | **100.0** | – |
| SAF Zhu jiang shi | France | FC | Financial company | **100.0** | – |
| SAF Zhu jiang shiyi | France | FC | Financial company | **100.0** | – |
| SAF Zhu jiang wu | France | FC | Financial company | **100.0** | – |
| SAF Zhu jiang yi | France | FC | Financial company | **100.0** | – |
| Saussaies Haussmann | France | FC | Holding company | **100.0** | 100.0 |
| SNCB / M6-2008A (ex-SAS Losange Immobilier)[4] | France | FC | Financial company | **–** | 100.0 |

* *FC: Full consolidation – EM: Equity Method.*
2 *Liquidation.*
4 *Deconsolidation.*

# Consolidated financial statements (continued)

## 19 Investments *(continued)*

| *Consolidated companies* | *Country* | *Consolidation method** | *Main line of business* | HSBC France group interest % **2008** | % 2007 |
|---|---|---|---|---|---|
| Société Financière et Mobilière (SFM) | France | FC | Financial company | **100.0** | 100.0 |
| Société Immobilière Malesherbes-Anjou | France | FC | Holding company | **100.0** | 100.0 |
| Sopingest | France | FC | Financial company | **100.0** | 100.0 |
| Thasosfin | France | FC | Financial company | **100.0** | 100.0 |
| **Asset Management** | | | | | |
| CCF & Partners Asset Management Ltd | United Kingdom | FC | Financial company | **100.0** | 100.0 |
| Global Marco High Risk | France | FC | Financial company | **89.7** | 100.0 |
| Halbis Capital Management (France) | France | FC | Asset management | **100.0** | 100.0 |
| HCM Holdings Ltd | United Kingdom | Joint control | Financial company | **51.0** | 51.0 |
| HSBC Duoblig (ex-HSBC Dynamic Cash) | France | FC | Financial company | **55.7** | – |
| HSBC Eotop | France | FC | Financial company | **78.8** | – |
| HSBC Epargne Entreprise (France) | France | FC | Financial company | **100.0** | 100.0 |
| HSBC Global Asset Management (France) (ex-HSBC Investments (France)) | France | FC | Asset management | **100.0** | 100.0 |
| HSBC Global Asset Management FCP (France) (ex-HSBC Investments FCP (France)) | France | FC | Financial company | **100.0** | 100.0 |
| HSBC Horizon 2007 [2] | France | FC | Financial company | **–** | 81.0 |
| HSBC Horizon 2008 [4] | France | FC | Financial company | **–** | 73.0 |
| HSBC Horizon 2034-2036 | France | FC | Financial company | **59.3** | 78.0 |
| HSBC Multimanager World Equity | France | FC | Financial company | **99.7** | 100.0 |
| Isère 2010 | France | FC | Financial company | **76.3** | 76.0 |
| Moderato 85 [2] | France | FC | Financial company | **–** | 70.0 |
| Moderato 95 [2] | France | FC | Financial company | **–** | 89.0 |
| SGF Allegro [2] | 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 (Asia Pacific) Ltd | Hong Kong | FC | Asset management | **100.0** | 100.0 |
| Sinopia Asset Management (UK) Ltd | United Kingdom | FC | Service company | **100.0** | 100.0 |
| Sinopia Danube 2015 | France | FC | Financial company | **74.9** | – |
| Sinopia Digit Long Terme [4] | France | FC | Financial company | **–** | 80.0 |
| Sinopia Financial Services | France | FC | Financial company | **100.0** | 100.0 |
| Sinopia Global Equities | France | FC | Financial company | **57.7** | – |
| Sinopia HSBC Guarant 2016 US [4] | France | FC | Financial company | **–** | – |
| Sinopia HSBC Guarant 2021 US [4] | France | FC | Financial company | **–** | – |
| Sinopia Société de Gestion | France | FC | Service company | **100.0** | 100.0 |
| Sinopia SpreadCash [4] | France | FC | Financial company | **–** | 99.9 |
| Sinopia TRS 1 | France | FC | Financial company | **100.0** | 100.0 |
| SNC Olivier d'Antibes | France | FC | Financial company | **60.0** | 60.0 |
| **Private Banking** | | | | | |
| Byron Equilibre | France | FC | Insurance broker | **99.9** | 99.8 |
| Delosfin SA | France | FC | Investment company | **100.0** | 99.9 |
| Eurofin Assurances | France | FC | Insurance broker | **99.9** | 99.8 |
| Eurofin Capital Partners (ECP) | France | FC | Investment company | **100.0** | 100.0 |
| HSBC Private Bank France | France | FC | Bank | **100.0** | 100.0 |
| HSBC Private Wealth Managers (ex-Louvre Gestion) | France | FC | Financial company | **100.0** | 100.0 |
| HSBC Republic Assurance SARL | France | FC | Insurance broker | **100.0** | 100.0 |
| LGI | Luxembourg | FC | Wealth management | **100.0** | 100.0 |
| Octogone Immobilier | France | FC | Holding company | **100.0** | 100.0 |
| SCI Triangle d'Or [2] | France | FC | Holding company | **–** | 100.0 |

* *FC: Full consolidation – EM: Equity Method.*
2 *Liquidation.*
4 *Deconsolidation.*

## 19 Investments *(continued)*

| *Consolidated companies* | *Country* | *Consolidation method** | *Main line of business* | HSBC France group interest % **2008** | % 2007 |
|---|---|---|---|---|---|
| **Others** | | | | | |
| Charterhouse Management Service Limited (CMSL) | United Kingdom | FC | Investment company | **100.0** | 100.0 |
| Elysées Forêts | France | FC | Service company | **75.3** | 75.2 |
| 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** | 25.0 |
| Forepar | France | FC | Financial company | **100.0** | 100.0 |
| HSBC PP 1 | France | FC | Financial company | **100.0** | 100.0 |
| Nobel | France | FC | Investment company | **100.0** | 100.0 |
| Serdac | Switzerland | 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 [2] | France | FC | Financial company | – | 81.8 |
| Value Fund 2 | France | EM | Financial company | **45.4** | 45.4 |

* *FC: Full consolidation – EM: Equity Method.*
2 *Liquidation.*

| *Additions* | *Year* |
|---|---|
| FinanCités | 2007 |
| Global Marco High Risk | 2007 |
| HSBC Horizon 2007 | 2007 |
| HSBC Horizon 2008 | 2007 |
| HSBC Horizon 2034-2036 | 2007 |
| HSBC Middle East Leasing Partnership (Dubai) | 2007 |
| HSBC Multimanager World Equity | 2007 |
| Isère 2010 | 2007 |
| Moderato 85 | 2007 |
| Moderato 95 | 2007 |
| SAF Baiyun | 2007 |
| SAF Guangzhou | 2007 |
| SGF Allegro | 2007 |
| Sinopia Digit Long Terme | 2007 |

| *Additions* | *Year* |
|---|---|
| HSBC Duoblig (ex-HSBC Dynamic Cash) | 2008 |
| HSBC Eotop | 2008 |
| SAF Zhu jiang ba | 2008 |
| SAF Zhu jiang er | 2008 |
| SAF Zhu jiang jiu | 2008 |
| SAF Zhu jiang liu | 2008 |
| SAF Zhu jiang qi | 2008 |
| SAF Zhu jiang san | 2008 |
| SAF Zhu jiang shi | 2008 |
| SAF Zhu jiang shiyi | 2008 |
| SAF Zhu jiang wu | 2008 |
| SAF Zhu jiang yi | 2008 |
| Sinopia Global Equities | 2008 |

# Consolidated financial statements (continued)

## 19 Investments *(continued)*

**Merger:**

Merger of HSBC de Baecque Beau with HSBC France
Merger of HSBC Hervet with HSBC France
Merger of HSBC Picardie with HSBC France
Merger of HSBC UBP with HSBC France

**Deconsolidation:**

HSBC Horizon 2008
Moabi
Sinopia Digit Long Terme
Sinopia HSBC Guarant 2016 US
Sinopia HSBC Guarant 2021 US
Sinopia SpreadCash
SNCB / M6-2008 – A (ex-SAS Losange Immobilier)
Vernet Rendement 22
Vernet Rendement 37

**Change of name:**

HSBC Covered Bonds (France) (ex-Hervet Participations)
HSBC Duoblig (ex-HSBC Dynamic Cash)
HSBC Factoring (France) (ex-Elysées Factor)
HSBC Global Asset Management (France) (ex-HSBC Investments (France))
HSBC Global Asset Management FCP (France) (ex-HSBC Investments FCP (France))
HSBC Private Wealth Managers (ex-Louvre Gestion)
SNCB / M6-2007B (ex-SAF Huang He)
SNCB / M6-2008A (ex-SAS Losange Immobilier)

**Disposals or liquidations:**

Banque Chaix
Banque de Savoie
Banque Dupuy de Parseval
Banque Marze
Banque Pelletier
Crédit Commercial du Sud-Ouest (CCSO)
HSBC Horizon 2007
HSBC Paris Immo Buro (SCPI)
Massilia Participations Immobilières
Moderato 85
Moderato 95
Provençale de Participation
SCI Château Richard
SCI Les Hauts de Malençons
SCI Pelletier
SCI Triangle d'Or
SGF Allegro
SNC Neuilly l'Ecrin
Société Auxiliaire Immobilière
Société Immobilière de la Région Rhône-Alpes (SIRRA)
Société Immobilière et Foncière Savoisienne (SIFS)
Société Immobilière Provence Côte d'Azur
Société Marseillaise de Crédit
Value Fund 1

## 20 Other assets

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Current taxation recoverable | **112** | 99 |
| Non current assets held for sale | **5** | 84 |
| Other accounts | **4,852** | 3,539 |
| | **4,969** | 3,722 |

***Non-current assets held for sale***

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Property, plant and equipment | **5** | 42 |
| Investment properties | **–** | 42 |
| **Total assets classified as held for sale** | **5** | 84 |

The assets classified as "Non-current assets held for sale" follow the conditions of the IFRS 5 (see Note 2 aa).

A gain of EUR 20 million was recognised in 2008 on the sale of properties classified as "Non-current assets held for sale" in 2007.

## 21 Financial liabilities designated at fair value

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Deposits by banks | **–** | – |
| Customer accounts | **204** | 166 |
| Debt securities in issue | **1,996** | 157 |
| Subordinated liabilities | **6** | 13 |
| | **2,206** | 336 |

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2008 was EUR 81 million (at 31 December 2007, EUR 9 million).

At 31 December 2008, the accumulated amount of the change in fair value attributable to changes in credit risk for the group was EUR 48 million (at 31 December 2007, EUR 2 million).

In 2008, the amount reported in the income statement in respect of HSBC France's own credit spread was a gain of EUR 45 million (2007: a gain of EUR 2 million).

In June 2008, an issue was made as part of the HSBC France EMTN programme for a total amount of EUR 1.5 billion.

## 22 Other liabilities

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Amounts due to investors in funds consolidated by the group | **90** | – |
| Share-based payments[1] | **–** | 42 |
| Obligations under finance leases | **–** | – |
| Other liabilities | **2,293** | 1,508 |
| | **2,383** | 1,550 |

1 *Since 2008, the share-based payments transactions are treated as equity settled (see Note 1 a and shareholders' fund impact Note 31).*

# Consolidated financial statements (continued)

## 23 Deferred taxation liabilities and provisions for liabilities and charges

**a** *Deferred taxation liabilities*

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| (in millions of euros) | ***Deferred tax asset*** | ***Deferred tax liability*** | ***Total*** | *Deferred tax asset* | *Deferred tax liability* | *Total* |
| Temporary differences: | | | | | | |
| – retirement benefits . . . | **23** | **1** | **(22)** | 48 | 2 | (46) |
| – assets leased . . . . . . . . | **(2)** | **–** | **2** | (28) | – | 28 |
| – revaluation of property | **(48)** | **–** | **48** | (73) | – | 73 |
| – other temporary differences . . . . . . . . . | **104** | **2** | **(102)** | 80 | – | (80) |
| | **77** | **3** | **(74)** | 27 | 2 | (25) |

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

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Cash flow hedge . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **63** | 59 |
| Available-for-sale reserve . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **13** | (43) |
| Actuarial losses . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **(2)** | (3) |

**b** *Provisions for liabilities and charges*

| (in millions of euros) | ***Provisions*** |
|---|---|
| **At 1 January 2008** . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **78** |
| Additional provisions/increase in provisions . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **56** |
| Provisions utilised . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **(12)** |
| Amounts reversed . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **(20)** |
| Exchange, changes in scope of consolidation and other movements[1] . . . . . . . . . . . . . . . . . . . . . | **(17)** |
| **At 31 December 2008** . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **85** |

1 *Of which impact of the disposal of the regional banking subsidiaries for EUR 17 million.*

| (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 |

At 31 December 2008, "Provisions for liabilities and charges" included:

- a provision of EUR 9 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 2005-2008 Strategic Plan (2007: EUR 15 million);
- a provision of EUR 28 million, booked in 2008 relating to the 2010 Development Plan.

## 24 Sale and repurchase and settlement accounts

| (in millions of euros) | At 31 December 2008 | At 31 December 2007 |
|---|---|---|
| **Assets** | | |
| Loans and advances to customers include: | | |
| – assets under sale and repurchase agreements | **16,911** | 17,111 |
| – settlement accounts | **393** | 388 |
| Loans and advances to banks include: | | |
| – assets under sale and repurchase agreements | **28,477** | 31,238 |
| – settlement accounts | **1,591** | 2,725 |

| (in millions of euros) | At 31 December 2008 | At 31 December 2007 |
|---|---|---|
| **Liabilities** | | |
| Customer accounts include: | | |
| – liabilities under sale and repurchase agreements | **24,757** | 13,578 |
| – settlement accounts | **818** | 1,315 |
| Deposits by banks include: | | |
| – liabilities under sale and repurchase agreements | **29,155** | 35,904 |
| – settlement accounts | **681** | 1,876 |

## 25 Subordinated liabilities

| | *Book value* | |
|---|---|---|
| (in millions of euros) | **2008** | 2007 |
| Subordinated liabilities: | | |
| – at amortised cost | **207** | 262 |
| – designated at fair value | **7** | 13 |
| | **214** | 275 |

Subordinated borrowings of the Group:

| | | *Book value* | |
|---|---|---|---|
| (in millions of euros) | | **2008** | 2007 |
| EUR150m[1] | Floating rate notes maturing 2014 | **150** | 150 |
| JPY10bn[2] | Undated subordinated variable rate notes | **–** | 66 |
| EUR15m | Floating rate notes maturing 2015 | **7** | 13 |
| JPY5bn | Undated subordinated variable rate notes | **40** | 30 |
| | Other subordinated variable rate notes | **17** | 16 |
| | | **214** | 275 |

1 *Debt issued to HSBC Bank plc.*
2 *Repayment of the undated subordinated notes in November 2008 by the exercise of the call option.*

## 26 Trading liabilities

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Other liabilities – short positions | **22,179** | 26,204 |
| Deposits by banks | **7,572** | 4,100 |
| Customer accounts | **2,601** | 3,716 |
| Debt securities in issue | **1,540** | 1,944 |
| **Total** | **33,892** | 35,964 |

In 2008, the amount reported in the income statement in respect of HSBC France's own credit spread in the debt securities in issue was a profit of EUR 119.9 million (2007: a profit of EUR 2 million).

## 27 Fair value of financial instruments

### 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 by reference to external quotation or evidenced pricing parameters, independent price determination or validation is used. In less liquid markets, direct observation of a traded price may not be possible. In these circumstances, the group will source alternative market information to validate the financial instrument's fair value. Greater weight will be given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- the extent to which prices may be expected to represent genuine traded or tradeable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

The results of the independent price validation process are reported to senior management, and adjustments to fair values resulting from considerations of the above information are recorded where appropriate.

For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of the logic within valuation models, the inputs to those models, any adjustments required outside the valuation models and, where possible, model outputs.

The results of the independent validation process are reported to, and considered by, Valuation Committees. Valuation Committees are composed of individuals from several independent support functions (Product Control, Market Risk Management, Derivative Model Review Group and Finance) in addition to senior trading management.

Any adjustments made to the assessed fair values as a result of the validation process are reported to senior management.

### 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).

## 27 Fair value of financial instruments *(continued)*

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 or 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 (consensus pricing data may, for example, be used).

Furthermore, the majority of the fair value derived from a valuation technique with significant non-observable inputs may in some cases still be attributable to the observable inputs. Consequently, the impact of uncertainty in the determination of the unobservable inputs will generally only give rise to a degree of uncertainty about the overall fair value of the financial instrument being measured. To assist in understanding the extent and the range of this uncertainty, additional information is provided in respect of instruments valued using non-observable inputs in the section below.

In certain circumstances, primarily where debt is hedged with interest rate derivatives or structured notes issued, the group uses fair value to measure the carrying value of its own debt in issue. Where available, the fair value will be based upon quoted prices in an active market for the specific instrument concerned. Where not available, the fair value will either be based upon quoted prices in an inactive market for the specific instrument concerned, or estimated by comparison with quoted prices in an active market for similar instruments. The fair value of these instruments therefore includes the effect of applying the credit spread which is appropriate to the group's liabilities. For all issued debt securities, discounted cash flow modelling is utilised to isolate that element of change in fair value that may be attributed to the group's credit spread movements rather than movements in other market factors such as benchmark interest rates or foreign exchange rates.

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

Gains and losses arising from changes in the credit spread of liabilities issued by the group reverse over the contractual life of the debt, provided that the debt is not repaid early.

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

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

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.

### 27 Fair value of financial instruments *(continued)*

*Private equity*

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

*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, when available. When unavailable, fair value is determined by reference to quoted market prices for similar instruments.

Illiquidity in the market for debt securities backed by mortgages has resulted in less observable data being available. While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required.

In the absence of quoted market prices, fair value is determined using valuation techniques. The inputs to these valuation techniques are derived from observable market data and, where relevant, assumptions in respect of unobservable inputs.

*Derivatives*

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

*Loans*

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

## 27 Fair value of financial instruments *(continued)*

*Structured notes*

For structured notes whose fair value is derived from a valuation technique, the fair value will be derived from the fair value of the underlying debt security as described above, and the fair value of the embedded derivative will be determined as described in the section above on derivatives.

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:

| | | Valuation techniques: | | | | |
|---|---|---|---|---|---|---|
| (in millions of euros) | *Quoted market price* | *using observable inputs* | *with significant non-observable inputs* | *Third Party Total* | *Amounts with HSBC entities* | *Total* |
| **At 31 December 2008** | | | | | | |
| **Assets** | | | | | | |
| Trading assets . . . . . . . . | **52,526** | **11,571** | **–** | **64,097** | **3,330** | **67,427** |
| Financial assets designated at fair value | **–** | **512** | **–** | **512** | **3** | **515** |
| Derivatives . . . . . . . . . . | **3,559** | **65,096** | **124** | **68,779** | **36,434** | **105,213** |
| Financial investments available-for-sale. . . . . | **1,849** | **1,051** | **170** | **3,070** | **177** | **3,247** |
| **Liabilities** | | | | | | |
| Trading liabilities . . . . . | **23,117** | **7,911** | **–** | **31,028** | **2,864** | **33,892** |
| Financial liabilities at fair value. . . . . . . . . | **204** | **2,002** | **–** | **2,206** | **–** | **2,206** |
| Derivatives . . . . . . . . . . | **4,598** | **63,050** | **124** | **67,772** | **35,224** | **102,996** |
| 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 at fair value. . . . . . . . . | – | 336 | – | 336 | – | 336 |
| Derivatives . . . . . . . . . . | 2,537 | 20,731 | 798 | 24,066 | 12,407 | 36,473 |

### Fair value of financial instruments not carried at fair value

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.

**27 Fair value of financial instruments** *(continued)*

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 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.

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**

Cash and balances at central banks
Items in the course of collection from other banks
Short-term receivables within "Other assets"

**Liabilities**

Items in the course of transmission to other banks
Short-term payables within "Other liabilities"

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:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| (in millions of euros) | ***Carrying value*** | ***Fair value*** | *Carrying value* | *Fair value* |
| **Assets** | | | | |
| Loans and advances to banks | **27,270** | **27,273** | 33,083 | 33,110 |
| Loans and advances to customers | **51,286** | **50,370** | 55,196 | 54,718 |
| **Liabilities** | | | | |
| Deposits by banks | **42,136** | **42,136** | 48,393 | 48,406 |
| Customer accounts | **53,791** | **53,816** | 44,690 | 44,692 |
| Debt securities in issue | **20,351** | **20,430** | 22,840 | 22,840 |
| Subordinated liabilities | **207** | **210** | 262 | 266 |

## 28 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 2008 | | | | | |
|---|---|---|---|---|---|---|
| (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 | **723** | **47,481** | **2,444** | **2,572** | **1,464** | **54,684** |
| Customer accounts | **17,161** | **45,360** | **2,418** | **230** | **522** | **65,691** |
| Trading liabilities | **33,892** | **–** | **–** | **–** | **–** | **33,892** |
| Financial liabilities designated at fair value | **–** | **15** | **4** | **2,187** | **568** | **2,774** |
| Derivatives | **102,388** | **–** | **257** | **352** | **–** | **102,997** |
| Debt securities in issue | **–** | **12,590** | **2,629** | **4,261** | **1,805** | **21,285** |
| Subordinated liabilities | **–** | **–** | **40** | **–** | **230** | **270** |
| Other financial liabilities | **2,813** | **1,176** | **638** | **551** | **1** | **5,179** |
| Loan commitments | **129** | **2,184** | **3,211** | **8,975** | **2,166** | **16,665** |
| **Total** | **157,016** | **108,806** | **11,641** | **19,128** | **6,756** | **303,437** |

| | 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)

## 28 Maturity analysis of financial assets and liabilities *(continued)*

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.

| | **At 31 December 2008** | | |
|---|---|---|---|
| (in millions of euros) | ***Due within one year*** | ***Due after more than one year*** | ***Total*** |
| **Assets** | | | |
| Financial assets designated at fair value | **–** | **515** | **515** |
| Loans and advances to banks | **25,705** | **1,565** | **27,270** |
| Loans and advances to customers | **31,960** | **19,326** | **51,286** |
| Financial investments | **51** | **3,196** | **3,247** |
| Other financial assets | **5,284** | **45** | **5,329** |
| | **63,000** | **24,647** | **87,647** |
| **Liabilities** | | | |
| Deposits by banks | **38,932** | **3,204** | **42,136** |
| Customer accounts | **53,133** | **658** | **53,791** |
| Financial liabilities designated at fair value | **19** | **2,187** | **2,206** |
| Debt securities in issue | **15,062** | **5,289** | **20,351** |
| Other financial liabilities | **2,450** | **549** | **2,999** |
| Subordinated liabilities | **–** | **207** | **207** |
| | **109,596** | **12,094** | **121,690** |

| | At 31 December 2007 | | |
|---|---|---|---|
| (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 | 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 |

Further information regarding the group liquidity and funding management is available in Note 33.

## 29 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) | **2008** | 2007 |
|---|---|---|
| Treasury bills and other eligible securities | **–** | – |
| Loans and advances to banks | **–** | – |
| Loans and advances to customers | **–** | – |
| Debt securities | **37,640** | 29,730 |
| Equity shares | **–** | 436 |
| | **37,640** | 30,166 |

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 2008, the fair value of financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default was EUR 66,154 million (EUR 63,088 million in 2007).

In 2008, the fair value of financial assets accepted as collateral that have been sold or repledged was EUR 61,518 million (EUR 56,609 million in 2007). 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.

## 30 Called up share capital

In 2008, HSBC France reduced its capital.

The authorised ordinary share capital of HSBC France at 31 December 2008 was EUR 337 million divided into 67,437,820 ordinary shares of EUR 5 each.

| | *Number of HSBC France ordinary shares* | *Amount (in millions of euros)* |
|---|---|---|
| **At 1 January 2008** | **75,963,895** | **380** |
| Shares issued | **221,154** | **1** |
| Reduction of capital by share buy back | **(8,750,000)** | **(44)** |
| Merger HSBC Hervet and HSBC de Baecque Beau | **2,771** | **–** |
| **At 31 December 2008** | **67,437,820** | **337** |
| At 1 January 2007 | 75,683,045 | 378 |
| Shares issued | 280,850 | 2 |
| At 31 December 2007 | 75,963,895 | 380 |

## 31 Equity

| | 2008 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | *Other reserves* | | | | | | | | |
| (in millions of euros) | *Called up share capital* | *Share premium* | *Retained earnings* | *Available-for-sale fair value reserve* | *Cash flow hedging reserve* | *Foreign exchange reserve* | *Actuarial gains/(losses) on defined benefit plans* | *Share-based payment reserve* | *Associates and joint ventures* | *Total share-holders' equity* | *Minority interests* | *Total equity* |
| **At 1 January 2008** | **380** | **1,191** | **3,272** | **211** | **(117)** | **–** | **6** | **117** | **4** | **5,064** | **31** | **5,095** |
| Capital reduction | **(43)** | **(1,191)** | **(166)** | **–** | **–** | **–** | **–** | **–** | **–** | **(1,400)** | **–** | **(1,400)** |
| Impact of IFRIC 11 at 1 January 2008 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **11** | **–** | **11** | **–** | **11** |
| New share capital subscribed, net of costs | **–** | **16** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **16** | **17** | **33** |
| Profit for the year attributable to shareholders | **–** | **–** | **1,764** | **–** | **–** | **–** | **–** | **–** | **–** | **1,764** | **–** | **1,764** |
| Dividends to shareholders of the parent company | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Actuarial gains/(losses) on defined benefit plans | **–** | **–** | **–** | **–** | **–** | **–** | **(2)** | **–** | **–** | **(2)** | **–** | **(2)** |
| Fair value gains/(losses) taken to equity | **–** | **–** | **–** | **(216)** | **(19)** | **–** | **–** | **–** | **–** | **(235)** | **–** | **(235)** |
| Amounts transferred to the income statement | **–** | **–** | **–** | **(73)** | **18** | **–** | **–** | **–** | **–** | **(55)** | **–** | **(55)** |
| Share-based payment | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **17** | **–** | **17** | **–** | **17** |
| Tax on items taken directly to or transferred from equity | **–** | **–** | **–** | **64** | **–** | **–** | **–** | **–** | **–** | **64** | **–** | **64** |
| Profit attributable to minority interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **2** | **2** |
| Dividends to minority interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(2)** | **(2)** |
| Exchange differences | **–** | **–** | **–** | **–** | **–** | **(7)** | **–** | **–** | **–** | **(7)** | **–** | **(7)** |
| Other | **–** | **–** | **–** | **(9)** | **–** | **–** | **–** | **–** | **–** | **(9)** | **–** | **(9)** |
| **At 31 December 2008** | **337** | **16** | **4,870** | **(23)** | **(118)** | **(7)** | **4** | **145** | **4** | **5,228** | **48** | **5,276** |

**31 Equity** *(continued)*

| (in millions of euros) | Called up share capital | Share premium | Retained earnings | Net profit of discontinued operations | Other reserves: 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 | | | | | | | | | | | | | | |
| 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 |

## Consolidated financial statements (continued)

### 32 Notes on the cash flow statement

**Non-cash items included in income**

| (in millions of euros) | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Depreciation and amortisation | **69** | 79 |
| Share based payments | **44** | 11 |
| Revaluations on investment property | **–** | (7) |
| Loan impairment losses | **127** | 52 |
| Loans written off net of recoveries | **(39)** | (82) |
| Provisions raised | **37** | (26) |
| Provisions utilised | **(12)** | (26) |
| Impairment of financial investments | **119** | 26 |
| Accretion of discounts and amortisation of premiums | **–** | 1 |
| | **345** | 28 |

**Change in operating assets**

| (in millions of euros) | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Change in prepayments and accrued income | **(364)** | (237) |
| Change in net trading securities and net derivatives | **(10,843)** | (11,270) |
| Change in loans and advances to banks | **1,982** | 3,870 |
| Change in loans and advances to customers | **4,046** | (13,144) |
| Change in financial assets designated at fair value | **(516)** | – |
| Change in other assets | **(1,314)** | (1,017) |
| | **(7,009)** | (21,798) |

**Change in operating liabilities**

| (in millions of euros) | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Change in accruals and deferred income | **(34)** | 298 |
| Change in deposits by banks | **(6,257)** | 24,463 |
| Change in customer accounts | **9,101** | 11,284 |
| Change in debt securities in issue | **2,489** | 5,777 |
| Change in financial liabilities designated at fair value | **665** | 63 |
| Change in other liabilities | **1,872** | 13 |
| | **2,858** | 41,898 |

**Breakdown of cash and cash equivalents**

| (in millions of euros) | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Cash and balances at central banks | **2,077** | 4,014 |
| Items in the course of collection from other banks | **1,234** | 1,369 |
| Loans and advances to banks due in one month or less | **31,909** | 33,079 |
| Treasury bills, other bills and certificates of deposit due in less than three months | **784** | 929 |
| Less: cash accounts (liabilities) | **(1,041)** | (1,180) |
| | **34,963** | 38,211 |

## 33 Risk management

All the HSBC France group's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

The most important types of risk arising from financial instruments are credit risk (which includes country and cross-border risk), liquidity risk and market risk. 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 lending commitments.

The management of other risks that are significant to the group is discussed in the Risk management section on pages 51 to 57.

### Credit risk management

*Initiatives undertaken and risks identified*

Credit risk management within the HSBC France group is the responsibility of a Credit ALCO committee and the Credit Risk Department (DRC), which is independent of the business lines and reports hierarchically to the Deputy CEO in charge of risk and functionally to the HSBC Bank plc Risk Department in London.

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 businesses. The HSBC Group has standards, policies and procedures dedicated to monitoring and managing risk from all such activities.

The HSBC Bank plc Risk Department in London 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 at high risk are considered on a case by case basis.

*Credit quality*

The Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. For individually significant accounts, risk ratings are reviewed regularly and amendments, where necessary, are implemented promptly. Within the Group's retail portfolios, risk is assessed and managed using a wide range of risk and pricing models.

Previously, the Group had deployed a seven-grade rating system based on a "composite" assessment of the likelihood and extent of delinquency and risk mitigation. This legacy risk rating scale has been superseded by a more granular methodology, based on probability of default and loss estimates, compliant with an internal ratings-based ("IRB") approach required to support the Basel II framework for calculating minimum capital requirement. The integration of this framework into the reporting structure will enable reporting on the new basis to internal management in accordance with the Group's IRB obligations.

*Impairment assessment*

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

Two types of impairment allowance are in place: individually assessed and collectively assessed which are discussed in Note 2 g.

## Consolidated financial statements (continued)

### 33 Risk management *(continued)*

*Maximum exposure to credit risk*

The following table presents the maximum exposure to credit risk in respect of financial instruments, before taking account of any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements as set out in Note 2. For financial assets recognised in the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

In respect of certain financial assets, the group typically has legally enforceable rights to offset certain credit exposures against amounts owing to the same counterparty. In normal circumstances, there would be no intention of settling net, or of realising the financial assets and settling the financial liabilities simultaneously. Consequently, for reporting purposes the financial assets are not offset against the respective financial liabilities. However, the exposure to credit risk relating to the respective financial assets is reduced as tabulated below.

| | 31 December 2008 | | |
|---|---|---|---|
| (in millions of euros) | *Maximum exposure* | *Offset* | *Net exposure to credit risk* |
| **Items in the course of collection from other banks** | **1,234** | **–** | **1,234** |
| **Trading assets** | **65,375** | **–** | **65,375** |
| – treasury and other eligible bills | **40,885** | **–** | **40,885** |
| – debt securities | **9,357** | **–** | **9,357** |
| – loans and advances | **15,133** | **–** | **15,133** |
| **Financial assets designated at fair value** | **515** | **–** | **515** |
| – debt securities | **3** | **–** | **3** |
| – loans and advances | **512** | **–** | **512** |
| **Derivatives** | **105,213** | **(85,022)** | **20,191** |
| **Loans and advances held at amortised cost** | **78,556** | **(6,718)** | **71,838** |
| – loans and advances to banks | **27,270** | **–** | **27,270** |
| – loans and advances to customers | **51,286** | **(6,718)** | **44,568** |
| **Financial investments** | **2,399** | **–** | **2,399** |
| – treasury and other eligible bills | **309** | **–** | **309** |
| – debt securities | **2,090** | **–** | **2,090** |
| **Other assets** | **4,829** | **–** | **4,829** |
| **Off-balance sheet** | **25,391** | **–** | **25,391** |
| – financial guarantees | **7,226** | **–** | **7,226** |
| – loan commitments and other credit-related commitments | **18,165** | **–** | **18,165** |
| **Total** | **283,512** | **(91,740)** | **191,772** |

**33 Risk management** *(continued)*

| (in millions of euros) | 31 December 2007 *Maximum exposure* | *Offset* | *Net exposure to credit risk* |
|---|---|---|---|
| Items in the course of collection from other banks | 1,369 | – | 1,369 |
| Trading assets | 45,025 | – | 45,025 |
| – treasury and other eligible bills | 30,445 | – | 30,445 |
| – debt securities | 6,456 | – | 6,456 |
| – loans and advances | 8,124 | – | 8,124 |
| Financial assets designated at fair value | – | – | – |
| – debt securities | – | – | – |
| – loans and advances | – | – | – |
| Derivatives | 36,556 | (26,245) | 10,311 |
| Loans and advances held at amortised cost | 88,279 | – | 88,279 |
| – loans and advances to banks | 33,083 | – | 33,083 |
| – loans and advances to customers | 55,196 | – | 55,196 |
| Financial investments | 2,264 | – | 2,264 |
| – treasury and other eligible bills | 952 | – | 952 |
| – debt securities | 1,312 | – | 1,312 |
| Other assets | 3,629 | – | 3,629 |
| Off-balance sheet | 27,199 | – | 27,199 |
| – financial guarantees | 6,873 | – | 6,873 |
| – loan commitments and other credit-related commitments | 20,326 | – | 20,326 |
| Total | 204,321 | (26,245) | 178,076 |

*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 mitigation 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 including credit default swap 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 available.

**33 Risk management** *(continued)*

Other securities

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

Derivatives

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.

Items in course of collection from other banks

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 is 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 direct exposure to US subprime.

*Loans and advances to customers by industry sector*

| | **31 December 2008** | | 31 December 2007 | |
|---|---|---|---|---|
| | ***Gross loans and advances to customers (in millions of euros)*** | ***Gross loans by industry sector as a % of total gross loans (%)*** | *Gross loans and advances to customers (in millions of euros)* | *Gross loans by industry sector as a % of total gross loans (%)* |
| **Personal** | **10,452** | **20.15** | 12,800 | 22.88 |
| Residential mortgages | **3,137** | **6.05** | 3,980 | 7.11 |
| Other personal | **7,315** | **14.10** | 8,820 | 15.77 |
| **Corporate and commercial** | **25,059** | **48.29** | 25,825 | 46.17 |
| Commercial, industrial and international trade | **12,758** | **24.58** | 12,519 | 22.38 |
| Commercial real estate | **6,926** | **13.35** | 7,691 | 13.75 |
| Other property-related | **264** | **0.51** | 356 | 0.64 |
| Government | **200** | **0.39** | 215 | 0.38 |
| Other commercial | **4,911** | **9.46** | 5,044 | 9.02 |
| **Financial** | **16,378** | **31.56** | 17,308 | 30.95 |
| Non-bank financial institutions | **16,332** | **31.47** | 17,243 | 30.83 |
| Settlement accounts | **46** | **0.09** | 65 | 0.12 |
| **Total gross loans and advances to customers** | **51,889** | **100.00** | 55,933 | 100.00 |

## 33 Risk management *(continued)*

*Credit quality of financial instruments*

The four classifications below describe the credit quality of the group's lending, debt securities portfolios and derivatives. These categories each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external ratings attributed by external agencies to debt securities.

There is no direct correlation between the internal and external ratings at granular level, except insofar as both fall within one of the four classifications.

Quality Classification

| | ***Wholesale lending and Derivatives*** | ***Retail lending*** | ***Debt securities / other*** |
|---|---|---|---|
| Strong . . . . . . . . . . . . . . . . . . . . . . . . . | CRR 1 to CRR 2 | EL 1 to EL 2 | A- and above |
| Medium . . . . . . . . . . . . . . . . . . . . . . . | CRR 3 to CRR 5 | EL 3 to EL 5 | B+ to BBB+, and unrated |
| Sub-Standard . . . . . . . . . . . . . . . . . . . | CRR 6 to CRR 8 | EL 6 to EL 8 | B and below |
| Impaired . . . . . . . . . . . . . . . . . . . . . . | CRR 9 to CRR 10 | EL 9 to EL 10 | Impaired |

**Quality classification definitions**

"Strong": exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Retail accounts operate within applicable product parameters and only exceptionally show any period of delinquency.

"Medium": exposures require closer monitoring, with low to moderate default risk. Retail accounts typically show only short periods of delinquency, with losses expected to be minimal following the adoption of recovery processes.

"Sub-standard": exposures require varying degrees of special attention and default risk is of greater concern. Retail portfolio segments show longer delinquency periods of generally up to 90 days; past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.

"Impaired": exposures have been assessed, individually or collectively, as impaired. The group observes the disclosure convention, reflected in the quality classification definitions above, that all retail accounts delinquent by 90 days or more are considered impaired. Such accounts may occur in any EL grade, whereby in the higher quality grades the grading assignment will reflect the offsetting of the impact of delinquency status by credit risk mitigation in one form or another.

**Granular risk rating scales**

The CRR (Customer Risk Rating) 10-grade scale maps to a more granular underlying 22-grade scale of obligor probability of default. The scales are used group-wide for all distinct customers, depending on the Basel II approach adopted for the exposure in question. The EL (Expected Loss) 10-grade scale for retail business summarises a more granular, group-wide 29-grade scale combining obligor and facility/product risk factors in a composite measure. For consistency of disclosure and based on market practice for transactions in debt securities and certain other financial instruments, external ratings have been aligned as above, and in the table of "Distribution of financial instruments by credit quality" below, to the four quality classifications defined for internally-rated exposures, although it should be noted that there is no fixed correlation between internal and external ratings. The ratings of Standard and Poor's are cited, with those of other agencies being treated equivalently. Debt securities with short-term ratings are reported below against the long-term rating of the issuer of the short-term debt securities. If major rating agencies have different ratings for the same debt securities, the securities are reported against the lower rating.

The basis of reporting has been changed from previous years, replacing the former uniform seven-grade portfolio quality scale, in order both to extend the range of financial instruments covered in the presentation of portfolio quality and to reflect the more risk-sensitive rating systems introduced under the group's Basel II programme.

# Consolidated financial statements (continued)

## 33 Risk management *(continued)*

Impairment is not measured for assets held in trading portfolios or designated at fair value, as assets in such portfolios are managed according to movements in fair value, and the fair value movement is taken directly through the profit and loss statement. Consequently, all such balances are reported under "Neither past due nor impaired".

For details of impairment incurred on available-for-sale debt and equity securities, see "Accounting policies" in Note 2.

*Distribution of financial instruments by credit quality*

| | At 31 December 2008 | | | | | |
|---|---|---|---|---|---|---|
| | *Neither past due nor individually impaired* | | | | | |
| (in millions of euros) | *Strong* | *Medium* | *Sub-standard* | *Past due not impaired* | *Impaired* | *Total* |
| **Items in the course of collection from other banks** | **1,234** | **–** | **–** | **–** | **–** | **1,234** |
| **Trading assets** | **58,643** | **6,732** | **–** | **–** | **–** | **65,375** |
| Treasury and other eligible bills | 40,885 | – | – | – | – | 40,885 |
| Debt securities | 6,400 | 2,957 | – | – | – | 9,357 |
| Loans and advances to banks | 10,724 | 944 | – | – | – | 11,668 |
| Loans and advances to customers | 634 | 2,831 | – | – | – | 3,465 |
| **Financial assets designated at fair value** | **515** | **–** | **–** | **–** | **–** | **515** |
| Treasury and other eligible bills | 3 | – | – | – | – | 3 |
| Debt securities | – | – | – | – | – | – |
| Loans and advances to banks | – | – | – | – | – | – |
| Loans and advances to customers | 512 | – | – | – | – | 512 |
| **Derivatives** | **88,416** | **16,797** | **–** | **–** | **–** | **105,213** |
| **Loans and advances held at amortised cost** | **46,272** | **31,131** | **560** | **173** | **420** | **78,556** |
| Loans and advances to banks | 22,369 | 4,885 | 16 | – | – | 27,270 |
| Loans and advances to customers | 23,903 | 26,246 | 544 | 173 | 420 | 51,286 |
| **Financial investments** | **1,096** | **1,303** | **–** | **–** | **–** | **2,399** |
| Treasury and other eligible bills | 309 | – | – | – | – | 309 |
| Debt securities | 787 | 1,303 | – | – | – | 2,090 |
| **Other assets** | **–** | **4,829** | **–** | **–** | **–** | **4,829** |
| Endorsements and acceptances | – | 3 | – | – | – | 3 |
| Other | – | 4,826 | – | – | – | 4,826 |
| **Total** | **196,176** | **60,792** | **560** | **173** | **420** | **258,121** |

| (in millions of euros) | At 31 December 2007 *Neither past due nor individually impaired* *Strong* | *Medium* | *Sub-standard* | *Past due not impaired* | *Impaired* | *Total* |
|---|---|---|---|---|---|---|
| Items in the course of collection from other banks | 1,369 | – | – | – | – | 1,369 |
| Trading assets | 38,557 | 6,468 | – | – | – | 45,025 |
| Treasury and other eligible bills | 30,445 | – | – | – | – | 30,445 |
| Debt securities | 3,411 | 3,045 | – | – | – | 6,456 |
| Loans and advances to banks | 4,664 | 1,588 | – | – | – | 6,252 |
| Loans and advances to customers | 37 | 1,835 | – | – | – | 1,872 |
| Financial assets designated at fair value | – | – | – | – | – | – |
| Treasury and other eligible bills | – | – | – | – | – | – |
| Debt securities | – | – | – | – | – | |
| Loans and advances to banks | – | – | – | – | – | – |
| Loans and advances to customers | – | – | – | – | – | – |
| Derivatives | 27,719 | 8,837 | – | – | – | 36,556 |
| Loans and advances held at amortised cost | 48,983 | 38,328 | 344 | – | 624 | 88,279 |
| Loans and advances to banks | 23,780 | 9,303 | – | – | – | 33,083 |
| Loans and advances to customers | 25,203 | 29,025 | 344 | – | 624 | 55,196 |
| Financial investments | 1,314 | 950 | – | – | – | 2,264 |
| Treasury and other eligible bills | 952 | – | – | – | – | 952 |
| Debt securities | 362 | 950 | – | – | – | 1,312 |
| Other assets | – | 3,629 | – | – | – | 3,629 |
| Endorsements and acceptances | – | 9 | – | – | – | 9 |
| Other | – | 3,620 | – | – | – | 3,620 |
| Total | 117,942 | 58,212 | 344 | – | 624 | 177,122 |

# Consolidated financial statements (continued)

## 33 Risk management *(continued)*

**Ageing analysis of past due but not impaired gross financial instruments**

The following table provides an analysis of gross loans and advances to customers held at amortised cost which are past due but not considered impaired. There are no other significant balance sheet items where past due balances are not considered impaired.

| (in millions of euros) | *Up to 29 days* | *30-59 days* | *60-89 days* | *Total* |
|---|---|---|---|---|
| **As at 31 December 2008** | **148** | **19** | **6** | **173** |

**Movement in allowance accounts for total loans and advances**

| | **Year ended 31 December 2008** | | |
|---|---|---|---|
| (in millions of euros) | ***Individually assessed*** | ***Collectively assessed*** | ***Total*** |
| **At 1 January** | **(644)** | **(93)** | **(737)** |
| Amounts written off | **43** | **–** | **43** |
| Release of allowances no longer required | **142** | **7** | **149** |
| (Charge) to income statement | **(268)** | **(12)** | **(280)** |
| Exchange and other movements[1] | **202** | **21** | **223** |
| **At 31 December** | **(525)** | **(77)** | **(602)** |

1 *In which sale of the regional banking subsidiaries EUR 198 million for individually assessed and EUR 21 million for collectively assessed.*

| | Year ended 31 December 2007 | | |
|---|---|---|---|
| (in millions of euros) | *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) |

**Impairment allowances against loans and advances to customers**

| (in %) | **31 December 2008** | 31 December 2007 |
|---|---|---|
| Total impairment allowances to gross lending[1]: | | |
| – individually assessed impairment allowances | **1.40** | 1.60 |
| – collectively assessed impairment allowances | **0.20** | 0.23 |
| **Total** | **1.60** | 1.83 |

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

**33 Risk management** *(continued)*

**Loan impairment charges and other credit risk provisions**

| (in millions of euros) | **Year ended 31 December 2008** | Year ended 31 December 2007 |
|---|---|---|
| **Individually assessed impairment allowances** | | |
| New allowances | **268** | 208 |
| Release of allowances no longer required | **(142)** | (152) |
| Recoveries of amounts previously written off | **(4)** | (10) |
| | **122** | 46 |
| **Collectively assessed impairment allowances** | | |
| New allowances | **12** | 17 |
| Release of allowances no longer required | **(7)** | (11) |
| Recoveries of amounts previously written off | **–** | – |
| | **5** | 6 |
| **Total charge for impairment losses** | **127** | 52 |
| – banks | **–** | – |
| – customers | **127** | 52 |
| Other credit risk provisions | **1** | – |
| Impairment charges on debt security investments available-for-sale | **(1)** | – |
| **Loan impairment charges and other credit risk provisions** | **127** | 52 |
| Customer charge for impairment losses as a percentage of closing gross loans and advances | **0.24%** | 0.09% |
| **Balances outstanding** | | |
| Non-performing loans | **946** | 1,268 |
| Individually impairment allowances | **525** | 644 |
| Gross loans and advances | **79,158** | 89,017 |
| **Total allowances cover as a percentage of non-performing loans and advances** | **55.50%** | 50.79% |

**Liquidity and funding management**

Liquidity risk is defined as the risk of the group not having sufficient financial resources to honour its obligations when they become due or of it obtaining these resources at excessive cost. This risk results from the different maturities of cash flows.

Funding risk (a form of liquidity risk) occurs when the resources to finance an illiquid asset cannot be obtained in accordance with the terms provided and when necessary.

Therefore, 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, and debt instruments.

HSBC France adapts its liquidity and funding management policy to respond to developments in the group's business activities and changes in the markets in which HSBC France operates. This policy will continue to be adapted to take account in particular of current market disturbances.

Liquidity and funding management is carried out respecting the practices and limits set by the group. These limits take account of the liquidity and depth of the markets in which HSBC France operates.

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;

**33 Risk management** *(continued)*

- managing the concentration and profile of debt maturities;
- monitoring funding plans;
- management of contingent liquidity commitments in accordance with pre-determined limits;
- 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.

*Main sources of funding*

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 2008, HSBC France continued with its balanced strategy aiming to raise the resources needed to develop its business activities at the lowest cost.

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, results in funding directly in the wholesale market. In June 2008, an issue was made as part of the EMTN programme for a total amount of EUR 1.5 billion.

Most of the bank's asset base is euro-based but may also be in sterling and US dollars and to a small extent in other currencies. The non-euro asset base is funded through currency-denominated resources taken from the Eurocurrency interbank market, from central banks, corporate customers and other financial institutions.

An analysis of the cash flows payable by the group by remaining contractual maturities at the balance sheet date is discussed in Note 28.

*Monitoring of the Advances to Deposits ratio*

The HSBC Group favours financing customer loans using customer deposits and its aim is to be independent of the capital markets in the short term. In order to achieve this, the Group sets limits for banking subsidiaries looking to limit growth in customer loans that would not be financed through growth in stable resources using an "Advances to Deposits" ratio.

In addition to the Advances to Deposits ratio, HSBC France uses a number of other indicators to manage the group's liquidity, as well as projected cash flow requirements on the basis of different scenarios.

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

The group maintains liquid assets, allowing it to honour any unexpected cash demands by selling marketable securities and through additional financing, for example in the interbank market or *via* repo transactions.

*Monitoring of the French regulatory liquidity ratio*

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. In 2008, the average liquidity ratio of HSBC France was 111.25 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 one month, plus a percentage 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 one month without recourse to the wholesale markets. This requirement is additional to the regulatory requirement.

## 33 Risk management *(continued)*

*Contingent liquidity*

Within the framework of its ordinary business activities, HSBC France provides funding commitments that are not used and therefore constitute a source of contingent liquidity demand. These commitments may be given to customers and loan financing vehicles *via* the liquidity line.

Like other HSBC Group entities, HSBC France takes these liquidity commitments into consideration in the group's liquidity and funding management, particularly by means of projections based on crisis scenarios.

*Liquidity and funding contingency plans*

HSBC France's liquidity management also entails defining and monitoring effective liquidity and funding contingency plans to be implemented in the event of a liquidity and/or funding crisis (LCP/FCP), in order to cope with a crisis situation by having drawn up an executable plan. The crisis scenarios for which contingency plans are developed are divided into two main categories:

– those corresponding to a crisis specific to HSBC;

– those corresponding to a systemic banking crisis;

and are adapted to the specific requirements of HSBC France's business lines and the markets in which it operates.

**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 Chief Financial & Risk Officer.

Market Risk Management (MRM)

Market Risk Management (MRM) 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.

# Consolidated financial statements (continued)

## 33 Risk management *(continued)*

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 joined 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. Are also examined during these monthly meetings changes in the main market indicators, concentration risk on securities and potential illiquidity provisions.

Market Risk Committee

The Market Risk Committee meets every month, and is chaired by the Deputy CEO in charge of risks. 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 Market Risk Committee 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.

Every month, the Market Risk Committee examines 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.

## 33 Risk management *(continued)*

*Market risk assessment tools*

Value at Risk

One of the principal tools used by the Group to monitor and limit market risk exposure is VaR (Value at Risk). An internal model of HSBC France is used to calculate VaR.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for the Group, 99 per cent). HSBC France calculates VaR daily. The VaR model used by HSBC France, as for the Group, is based on historical simulation.

The historical simulation model derives plausible future scenarios from historical market rates time series, taking account of inter relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential movements in market prices are calculated with reference to market data from the last two years. The internal model of HSBC France was 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;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

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

VaR captures the traditional risk factors directly observable on a daily basis, such as exchange rates, interest rates, equity prices, etc., but does not take account of potential changes in more exotic factors such as correlations, basis risk, return to mean parameters, future dividend expectations, etc. Therefore, since 31 December 2007, HSBC France also calculates an additional VaR measure called "Add-On VaR" in respect of these exotic risk factors.

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

| (in millions of euros) | *One-day VaR without Add-On perimeter* | *Add-On VaR* |
|---|---|---|
| **At 31 December 2008** | **21.15** | **7.0** |
| At 31 December 2007 | 9.53 | 3.8 |

| | *One-day VaR without Add-On perimeter* | | | *Add-On VaR* | | |
|---|---|---|---|---|---|---|
| (in millions of euros) | *Average* | *Minimum* | *Maximum* | *Average* | *Minimum* | *Maximum* |
| **2008** | **11.49** | **6.1** | **28.56** | **4.8** | **3.3** | **7.9** |
| 2007 | 7.6 | 4.9 | 13.6 | – | – | – |

The significant increase in VaR in 2008 was due to the inclusion in the calculation of scenarios corresponding to the high volatility observed since the onset of the financial crisis. On the other hand, risk limits have been significantly reduced in many areas, especially since October 2008.

# Consolidated financial statements (continued)

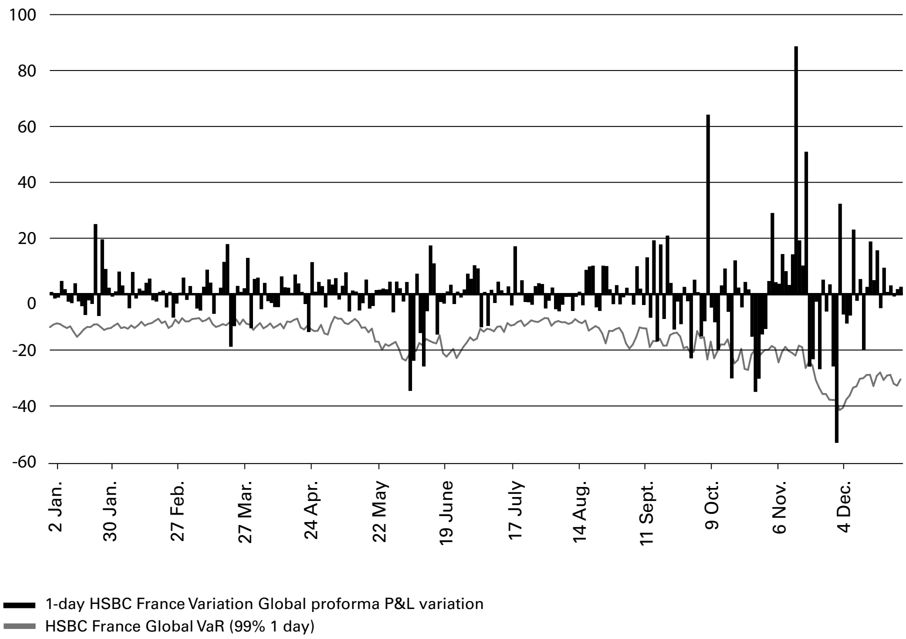
## 33 Risk management *(continued)*

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 2008–December 2008**
(in millions of euros)




Like most other banks, HSBC France recorded an unusually high number of back testing breaches in 2008 (10 breaches), due to extremely high market volatility.

*Fair value and price verification control*

Where certain financial instruments are carried on the Group's balance sheet at fair values, it is the Group policy that the valuation and the related price verification processes be subject to independent testing across the Group. Financial instruments which are accounted for on a fair value basis include assets held in the trading portfolio, financial instruments designated at fair value, obligations related to securities sold short, all derivative financial instruments and available-for-sale securities.

The determination of fair values is therefore a significant element in the reporting of the Group's Global Markets activities.

All significant valuation policies, and any changes thereto, must be approved by Senior Finance Management. The Group's governance of financial reporting requires that Financial Control Departments across the Group be independent of the risk-taking businesses, with the Finance functions having ultimate responsibility for the determination of fair values included in the financial statements, and for ensuring that the Group's policies and relevant accounting standards are adhered to.

*Trading*

Market risk in trading portfolios is monitored and controlled at both portfolio and position levels using a complementary set of techniques, such as VaR and present value of a basis point, together with stress and sensitivity testing and concentration limits. These techniques quantify the impact on capital of defined market movements.

Other controls include restricting individual operations to trading within a list of permissible instruments authorised by Traded Markets Development and Risk, and enforcing rigorous new product approval procedures.

## 33 Risk management *(continued)*

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 2008** | **0.27** | **17.04** | **6.53** | **21.20** |
| At 31 December 2007 | 0.40 | 10.56 | 5.94 | 10.70 |
| Average | | | | |
| **2008** | **0.33** | **12.97** | **4.07** | **11.75** |
| 2007 | 0.30 | 8.27 | 2.96 | 8.04 |
| Minimum | | | | |
| **2008** | **0.09** | **6.79** | **1.58** | **5.96** |
| 2007 | 0.11 | 4.40 | 0.74 | 4.96 |
| Maximum | | | | |
| **2008** | **0.75** | **27.17** | **7.22** | **28.02** |
| 2007 | 0.66 | 12.46 | 6.54 | 13.70 |

**Positions taken with trading intent – VaR by risk type**

| (in millions of euros) | *Foreign exchange* | *Interest rate trading* | *Equity* | *Total* |
|---|---|---|---|---|
| **At 31 December 2008** | **0.27** | **16.69** | **6.53** | **19.97** |
| At 31 December 2007 | 0.40 | 8.47 | 5.94 | 8.15 |
| Average | | | | |
| **2008** | **0.33** | **12.16** | **4.07** | **9.65** |
| 2007 | 0.30 | 7.42 | 2.96 | 6.46 |
| Minimum | | | | |
| **2008** | **0.09** | **5.45** | **1.58** | **5.96** |
| 2007 | 0.11 | 4.38 | 0.74 | 4.87 |
| Maximum | | | | |
| **2008** | **0.75** | **27.30** | **7.22** | **23.79** |
| 2007 | 0.66 | 12.38 | 6.54 | 10.08 |

**Positions taken without trading intent – VaR by risk type**

| (in millions of euros) | *Foreign exchange* | *Interest rate trading* | *Equity* | *Total* |
|---|---|---|---|---|
| **At 31 December 2008** | **–** | **1.23** | **–** | **1.23** |
| At 31 December 2007 | – | 2.55 | – | 2.55 |
| Average | | | | |
| **2008** | **–** | **2.12** | **–** | **2.11** |
| 2007 | – | 1.58 | – | 1.58 |
| Minimum | | | | |
| **2008** | **–** | **0.94** | **–** | **0.94** |
| 2007 | – | 0.09 | – | 0.09 |
| Maximum | | | | |
| **2008** | **–** | **4.23** | **–** | **4.23** |
| 2007 | – | 3.61 | – | 3.61 |

## 33 Risk management *(continued)*

***Capital adequacy reporting***

The 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 2008, it covered almost all market risks within HSBC France. Risks not covered by the internal model are measured using the standardised approach devised by the Bank of International Settlements and transposed into French law by CRBF regulation 95-02.

Capital requirements with respect to market risks break down as follows (in millions of euros):

| | **31 December 2008** | | 31 December 2007 | |
|---|---|---|---|---|
| (in millions of euros) | ***BIS*** | ***CAD*** | *BIS* | *CAD* |
| **Internal Model[1]:** | **364.1** | **364.1** | **92.0** | **92.0** |
| Foreign exchange risk | **4.5** | **4.5** | 5.4 | 5.4 |
| General interest rate risk | **321.7** | **321.7** | 91.6 | 91.6 |
| General equities risk | **109.0** | **109.0** | 39.2 | 39.2 |
| Netting effet | **(71.1)** | **(71.1)** | (44.2) | (44.2) |
| **Standards methods:** | **69.8** | **69.8** | **87.1** | **87.1** |
| Foreign exchange risk | **–** | **–** | 0.15 | 0.15 |
| General interest rate risk | **–** | **–** | 0.11 | 0.08 |
| Specific interest rate risk | **69.8** | **69.8** | 75.68 | 75.68 |
| General equities risk | **–** | **–** | – | – |
| Specific equities risk | **–** | **–** | 11.19 | 11.19 |
| **Total** | **433.9** | **433.9** | **179.1** | **179.1** |

1 *Including the Add-On perimeter.*

*Structural interest rate management*

The main objective of structural rate risk management is to suppress the sensitivity of the net interest income to market rates, by managing the fixed interest rate gap (imbalance between expected flows of current assets and expected cash flows of liabilities).

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.

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.

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. In addition, following simulation work carried out to comply with Basel II pillar II requirements on the Economic Value of Equity, HSBC France also measures each month the impact on equity of an across-the-board rise or fall of 200 bp.

*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 ALCO Balance Sheet.

## 33 Risk management *(continued)*

There is also an exchange rate risk on equity due to investments in foreign currency that are not hedged by financing in foreign currency. This exposure, termed as "structural", corresponds to net investments in subsidiaries, branches 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 are monitored by ALCO Balance Sheet.

### Analysis of Asset Backed Securities

The table above shows the group's market risk exposure to asset backed securities.

| | 31 December 2008 | | | |
|---|---|---|---|---|
| (in millions of euros) | *Gross principal* [2] | *CDS gross protection* [3] | *Net Principal exposure* [4] | *Carrying amount* [5] |
| – High grade [1] | **401** | **–** | **401** | **350** |
| – rated C to A | **29** | **–** | **29** | **20** |
| – not publicly rated | **14** | **–** | **14** | **12** |
| **Total asset backed securities** | **444** | **–** | **444** | **382** |

| | 31 December 2008 | | | |
|---|---|---|---|---|
| (in millions of euros) | *Unrealised gains and losses* [6] | *Realised gains and losses* [7] | *Impairment* [8] | *Fair value movements through equity* [9] |
| – High grade [1] | **(51)** | **–** | **–** | **(47)** |
| – rated C to A | **(9)** | **–** | **–** | **(9)** |
| – not publicly rated | **(2)** | **–** | **–** | **(3)** |
| **Total asset backed securities** | **(62)** | **–** | **–** | **(59)** |

1 *High grade assets rated AA or AAA.*
2 *The gross principal is the redemption amount on maturity or, in the case of an amortising instrument, the sum of the future redemption amounts through the residual life of the security.*
3 *A CDS is a credit default swap. CDS gross protection is the gross principal of the underlying instruments that is protected by CDSs.*
4 *Net principal exposure is the gross principal amount of assets that are not protected by CDSs. It includes assets that benefit from mono-line protection except where this protection is purchased with a CDS.*
5 *Carrying amount of the net principal exposure.*
6 *Unrealised gains and losses on the net principal exposure (see footnote 4) recognised during the year.*
7 *Realised gains and losses on the net principal exposure (see footnote 4) recognised during the year in the income statement as a result of the disposal of assets.*
8 *Impairment losses recognised in the income statement in respect of the net principal amount (see footnote 4) of available-for-sale and held-to-maturity assets.*
9 *Fair value gains and losses on the net principal exposure (see footnote 4) recognised in equity during the year as a result of the changes in the fair value of available-for-sale assets adjusted for transfers from the available-for-sale reserve to the income statement as a result of impairment and adjusted for transfers to realised gains and losses following the disposal of assets.*

### 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. Eleven groups had individual exposures exceeding 10 per cent of net capital at 31 December 2008.

**33 Risk management** *(continued)*

*Loan loss provisions*

At 31 December 2008, loan loss provisions represented 55.50 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 111.25 per cent in 2008 on an individual basis.

*Basel II international solvency ratio*

The HSBC France group's Basel II international solvency ratio was 9.54 per cent at 31 December 2008, compared with a minimum requirement of 8 per cent. The group's Tier 1 capital ratio was 9.49 per cent compared with a minimum requirement of 4 per cent.

Under the Basel II definitions, total HSBC France group capital amounted to EUR 4.56 billion at 31 December 2008, of which EUR 4.54 billion was Tier 1 capital.

The corresponding risk-weighted assets totalled EUR 47.8 billion, broken down as follows:

| (in billions of euros) | |
|---|---|
| Credit risks | 38.3 |
| Market risks | 5.5 |
| Operational risks | 4.0 |

**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 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 large enough 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.

From the third quarter of 2007, the group acquired underlying assets and shares in two of its dynamic money market funds, HSBC EOTOP and HSBC Duoblig; no additional shares were acquired by the group during 2008. As a result of continued redemptions by unit holders, the group's holding in the two funds increased to a level where it obtained the majority of the risks and rewards of ownership during the first quarter of 2008. These funds were consolidated by the group at 31 December 2008.

*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.

## 34 Contingent liabilities and contractual commitments

**a** *Contingent liabilities and commitments*

| (in millions of euros) | **31 December 2008** | 31 December 2007 |
|---|---|---|
| **Contract amounts** | | |
| *Contingent liabilities* | | |
| Acceptances and endorsements | **–** | – |
| Guarantees and assets pledged as collateral security | **7,117** | 6,779 |
| Other contingent liabilities | **109** | 94 |
| | **7,226** | 6,873 |
| **Commitments** | | |
| Documentary credits and short-term trade-related transactions | **387** | 328 |
| Undrawn note issuing and revolving underwriting facilities | **–** | 26 |
| Undrawn formal stand-by facilities, credit lines and other commitments to lend: | | |
| – 1 year and under | **5,138** | 5,363 |
| – over 1 year | **11,140** | 14,609 |
| | **16,665** | 20,326 |

The above table discloses the nominal principal amounts of third-party off-balance sheet transactions. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default.

The total of the nominal principal amounts is not representative of future liquidity requirements.

**b** *Guarantees*

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

| (in millions of euros) | **At 31 December 2008** | At 31 December 2007 |
|---|---|---|
| **Guarantee type** | | |
| Financial guarantees[1] | **896** | 18 |
| Stand-by letters of credit which are financial guarantees[2] | **878** | 1,115 |
| Other direct credit substitutes[3] | **261** | 268 |
| Performance bonds[4] | **1,544** | 1,481 |
| Bid bonds[4] | **56** | 142 |
| Stand-by letters of credit related to particular transactions[4] | **–** | 50 |
| Other transaction-related guarantees[4, 5] | **3,482** | 3,705 |
| Other items | **109** | 94 |
| **Total** | **7,226** | 6,873 |

1 *Financial guarantees include undertakings to fulfil the obligations of customers or group entities should the obligated party fail to do so. The inter-company financial guarantees include a specific guarantee related to debt issued by the Group for the benefit of other entities of the group and with respect to regulatory requirements.*

2 *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.*

3 *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.*

4 *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.*

5 *Including guarantees by the group in favour of other HSBC Group entities for EUR 1,185 million in 2008 (2007: EUR 175 million).*

# Consolidated financial statements (continued)

## 34 Contingent liabilities and contractual commitments *(continued)*

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

The majority of the above guarantees have a term of more than one year. Those guarantees are subject to the group's annual credit review process.

When the group gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

**Provisions in respect of the group's obligations under outstanding guarantees**

| (in millions of euros) | **2008** | 2007 |
|---|---|---|
| Acceptances and endorsements | **–** | – |
| Other items | **3** | 7 |

## 35 Lease commitments

**Finance lease commitments**

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| (in millions of euros) | ***Total future minimum payments*** | ***Interest charges*** | ***Present value*** | *Total future minimum payments* | *Interest charges* | *Present value* |
| No later than one year | **–** | **–** | **–** | 1 | – | 1 |
| Later than one year and no later than five years | **–** | **–** | **–** | 2 | (1) | 1 |
| Later than five years | **–** | **–** | **–** | – | – | – |
| | **–** | **–** | **–** | 3 | (1) | 2 |

There were no future minimum sublease payments expected to be received under non-cancellable subleases.

**Finance lease receivables**

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| (in millions of euros) | ***Total future minimum payments*** | ***Interest charges*** | ***Present value*** | *Total future minimum payments* | *Interest charges* | *Present value* |
| Lease receivables: | | | | | | |
| – no later than one year | **360** | **(49)** | **311** | 285 | (51) | 234 |
| – later than one year and no later than five years | **1,489** | **(280)** | **1,208** | 1,140 | (249) | 891 |
| – later than five years | **1,603** | **(403)** | **1,200** | 1,365 | (363) | 1,002 |
| | **3,452** | **(732)** | **2,719** | 2,790 | (663) | 2,127 |

At 31 December 2008, unguaranteed residual values of EUR 113 million (2007: EUR 116 million) had been accrued, and there was 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.

## 36 Litigation

As at 31 December 2008, there was no 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.

## 37 Related party transactions

The ultimate parent company of the group is HSBC Holdings plc, which is incorporated in the UK.

All transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

**a** *Transactions, arrangements and agreements involving 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.

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| (in thousands of euros) | ***Number of persons*** | ***Highest balance during the year*** [1] | ***Balance at 31 December*** [1] | *Number of persons* | *Highest balance during the year* [1] | *Balance at 31 December* [1] |
| Loans | **6** | **11,928** | **10,785** | 7 | 7,892 | 7,279 |
| Credit cards | **6** | **73** | **39** | 7 | 89 | 43 |
| Guarantees | **6** | **342** | **325** | 7 | 17 | 17 |

1 *The highest balance during the year and the balance at 31 December are considered to be the most significant information to show the transactions during the year.*

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

| (in thousands of euros) | **2008** | 2007 |
|---|---|---|
| Short-term employee benefits | **176** | 239 |
| Post-employment benefits | **197** | 254 |
| Long-term benefits | **1** | 1 |
| Termination fees | **72** | 75 |
| Share-based payment | **4,198** | 4,343 |
| | **4,644** | 4,912 |

Directors' and other Key Management Personnel shareholdings and options

| | **31 December 2008** | 31 December 2007 |
|---|---|---|
| Number of share options from equity participation plans held by Directors and other key management personnel (and their connected persons) | **2,254,811** [2] | 3,230,437 [2] |
| Number of share held by Directors and other key management personnel (and their connected persons) | **1,339,338** [1,2] | 1,378,695 [1,2] |

1 *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.*
2 *The number of Directors and other key management personnel was reduced to six persons compared to seven persons at the end of 2007.*

The Annual Report also includes a detailed description of Directors' remuneration (see pages 23 to 28 and 178 to 180).

# Consolidated financial statements (continued)

## 37 Related party transactions *(continued)*

**b** *Transactions with other related parties*

Transactions with other related parties of the Group

There is no significant amount due to joint ventures and associates.

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

| (in millions of euros) | **31 December 2008** | 31 December 2007 |
|---|---|---|
| **Assets** | | |
| Trading assets | **3,235** | 3,457 |
| Derivatives | **36,434** | 11,343 |
| Loans and advances to banks | **3,799** | 6,037 |
| Loans and advances to customers | **709** | 41 |
| Financial investments | **194** | 129 |
| Other assets | **2,483** | 2,335 |
| Prepayments and accrued income | **91** | 98 |
| **Liabilities** | | |
| Deposits by banks | **19,723** | 31,372 |
| Customer accounts | **153** | 589 |
| Trading liabilities | **282** | 2 962 |
| Derivatives | **35,224** | 12,426 |
| Other liabilities | **3,864** | 275 |
| Accruals and deferred income | **71** | 101 |
| Subordinated liabilities | **150** | 150 |
| **Income Statement** | | |
| Interest Income [1] | **539** | 301 |
| Interest expense [1] | **972** | 737 |
| Fee income | **141** | 145 |
| Fee expense | **131** | 117 |
| Gains less losses from financial investments | **–** | 60 |
| Other operating income | **2** | 2 |
| Dividend income | **6** | – |
| General and administrative expenses | **59** | 40 |

1 *Including interests on trading assets and trading liabilities for EUR 166 million in 2008 (2007: EUR 115 million).*

## 38 Audit fees

**Auditors' fees paid in 2008 within the HSBC France group**

| | KPMG | | | | BDO France – Léger & Associés | | | | Others | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Amount* | | *%* | | *Amount* | | *%* | | *Amount* | | *%* | |
| (in thousands of euros excluding VAT) | ***2008*** | *2007* | ***2008*** | *2007* | ***2008*** | *2007* | ***2008*** | *2007* | ***2008*** | *2007* | ***2008*** | *2007* |
| **Audit** | | | | | | | | | | | | |
| Statutory audit, certification, examination of Parent company and consolidated accounts | **1,512** | 2,007 | **67%** | 80% | **335** | 308 | **100%** | 100% | **305** | 362 | **100%** | 100% |
| – issuer | **540** | 484 | **–** | – | **268** | 207 | **–** | – | **–** | – | **–** | – |
| – fully consolidated subsidiaries | **972** | 1,523 | **–** | – | **67** | 101 | **–** | – | **305** | 362 | **–** | – |
| Related assignments | **753** | 508 | **33%** | 20% | **–** | – | **–** | – | **–** | – | **–** | – |
| – issuer | **701** | 403 | **–** | – | **–** | – | **–** | – | **–** | – | | – |
| – fully consolidated subsidiaries | **52** | 105 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| Sub-total | **2,265** | 2,515 | **100%** | 100% | **335** | 308 | **100%** | 100% | **305** | 362 | **100%** | 100% |
| **Other services** | | | | | | | | | | | | |
| Legal, tax, social | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| Other (if > 10 per cent of audit fees) | **–** | – | **–** | – | **–** | – | **–** | | **–** | – | **–** | – |
| Sub-total | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| **Total** | **2,265** | 2,515 | **100%** | 100% | **335** | 308 | **100%** | 100% | **305** | 362 | **100%** | 100% |

## 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 2008 financial statements.

# Consolidated financial statements (continued)

## Statutory Auditors' report on the consolidated financial statements

*Year ended 31 December 2008*

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2008, on:

– the audit of the accompanying consolidated financial statements of HSBC France S.A.;

– the justification of our assessments;

– the specific verification and information required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

### I – Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, on a test basis or by selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2008 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### II – Justification of our assessments

As mentioned in the group's management report, the financial crisis which was gradually accompanied by an economic crisis has many consequences on the companies, particularly as regards their activity and their financing. The extreme volatility of the financial markets remaining active, the rarity of transactions on financial markets which are no longer active and the lack of visibility on the future create specific conditions this year for the preparation of the consolidated financial statements, especially with respect to the accounting estimates which are required under the accounting principles. Such is the context in which we made our own assessments that we bring to your attention in accordance with the requirements of Article L. 823-9 of the French Commercial Code ("Code de commerce"):

*Impairments*

As mentioned in the Note 2 g to the consolidated financial statements, 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 your company at its year-end accounts closing process, we have reviewed and tested the procedures implemented by Management for identifying and assessing these risks as well as to determine the amount of depreciations considered necessary.

*Valuation of financial instruments*

As mentioned in the Note 2 d to the consolidated financial statements, 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.

*Impairment of available-for-sale securities*

As mentioned in the Note 2 j to the consolidated financial statements, your company accounts for impairments of available-for-sale securities whether there is any objective evidence of a significant or prolonged decline in fair value of these investments below its cost. We have reviewed the valuations and have verified the appropriateness of the principles applied by your company, as well as the accounting estimates.

*Impact of changes in its own credit risk with respect to the valuation of certain financial liabilities measured at fair value through profit and loss*

As mentioned in Notes 21, 26 and 27 to the consolidated financial statements, your company assesses the impact of changes in its own credit risk with respect to the valuation of certain financial liabilities measured at fair value through profit and loss. We have verified the appropriateness of the data used for this purpose.

*Other estimates*

For the purpose of preparing the financial statements, your company performs significant accounting estimates, related in particular to the assessment of goodwills, pension plans and other post-employment benefits. Taking into account the specific context of the credit crisis, we have reviewed the processes implemented by Management and the underlying assumptions and valuation parameters, and assessed whether these accounting estimates are based on documented procedures consistent with the accounting policies disclosed in Note 2 to the consolidated financial statements.

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 and information**

As required by law 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, on 28 April 2009

| KPMG Audit | BDO France – Léger & Associés |
|---|---|
| Fabrice Odent | Michel Léger |
| Partner | Partner |

# Information on the parent company financial statements

The annual financial statements of HSBC France, as at 31 December 2008, were audited and gave rise to an unqualified opinion without any remark.

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.

## Balance sheets 2008-2007-2006

### ASSETS

| *(in thousands of euros)* | **2008** | 2007 | 2006 |
|---|---|---|---|
| Cash and balances at central banks | **2,118,949** | 4,292,739 | 745,328 |
| Treasury bills and other eligible bills | **42,006,901** | 31,796,857 | 25,091,827 |
| Loans and advances to banks | **43,805,810** | 43,284,929 | 25,930,126 |
| Loans and advances to customers | **67,259,125** | 61,214,168 | 48,133,345 |
| Debt securities | **11,197,491** | 7,524,035 | 4,224,904 |
| Equity shares | **474,447** | 520,254 | 2,332 |
| Other participating interests and long-term securities | **325,848** | 1,049,640 | 1,369,984 |
| Interests in related parties | **1,946,963** | 2,743,877 | 3,730,146 |
| Intangible fixed assets | **165,063** | 47,349 | 52,297 |
| Tangible fixed assets | **348,865** | 323,783 | 322,271 |
| Other assets | **24,072,588** | 10,084,356 | 7,728,532 |
| Prepayments and accrued income | **78,244,443** | 31,489,894 | 22,510,394 |
| **TOTAL ASSETS** | **271,966,493** | 194,371,881 | 139,841,486 |
| **Memorandum items** | | | |
| Financing commitments | **18,296,348** | 19,552,694 | 16,205,692 |
| Guarantees and endorsements | **7,257,607** | 6,524,504 | 6,438,299 |
| Securities commitments (other commitments received) | **1,713,723** | 2,621,065 | 2,760,052 |

### LIABILITIES

| | **2008** | | 2007 | 2006 |
|---|---|---|---|---|
| *(in thousands of euros)* | ***Before appropriation*** | ***After appropriation***[1] | *After appropriation* | *After appropriation* |
| Deposits by banks | **55,176,600** | **55,176,600** | 59,421,892 | 30,872,787 |
| Customer accounts | **64,739,927** | **64,739,927** | 41,969,604 | 34,590,383 |
| Debt securities in issue | **24,252,179** | **24,252,179** | 24,993,802 | 19,602,233 |
| Other liabilities | **40,474,966** | **40,474,966** | 31,170,756 | 27,143,833 |
| Accruals and deferred income | **82,134,683** | **82,134,683** | 32,226,638 | 23,191,323 |
| Provisions for liabilities and charges | **417,917** | **417,917** | 370,846 | 373,916 |
| Reserve for general banking risks | **41** | **41** | – | – |
| Subordinated liabilities | **221,435** | **221,435** | 272,843 | 778,553 |
| Called up share capital | **337,189** | **337,189** | 379,819 | 378,415 |
| Share premium account | **16,139** | **16,139** | 1,190,817 | 1,164,372 |
| Reserves | **1,047,990** | **1,047,990** | 1,210,107 | 1,705,625 |
| Special tax-allowable reserves | **38,766** | **38,766** | 41,699 | 40,046 |
| Retained earnings | **1,123,058** | **3,108,661** | 1,123,058 | – |
| **Net profit of the year** | **1,985,603** | **–** | – | – |
| Interim dividend | **–** | **–** | – | – |
| **TOTAL LIABILITIES** | **271,966,493** | **271,966,493** | 194,371,881 | 139,841,486 |
| **Memorandum items** | | | | |
| Financing commitments | **2,735,255** | **2,735,255** | 509,162 | 395,070 |
| Guarantees and endorsements | **6,326,614** | **6,326,614** | 6,604,895 | 5,542,331 |
| Securities commitments | **1,968,819** | **1,968,819** | 2,796,874 | 2,466,576 |

1 *Proposed appropriation.*

## Profit and loss accounts 2008-2007-2006

| *(in thousands of euros)* | **31.12.2008** | 31.12.2007 | 31.12.2006 |
|---|---|---|---|
| **Income/(Expenses)** | | | |
| Interest and similar income | **5,116,279** | 4,166,094 | 2,891,139 |
| Interest and similar expenses | **(5,257,708)** | (4,228,756) | (2,906,563) |
| Income from equity shares | **281,167** | 368,341 | 311,088 |
| Fees and commissions received | **703,301** | 611,619 | 563,620 |
| Fees and commissions paid | **(185,791)** | (176,979) | (193,689) |
| Dealing profits | **947,513** | 794,416 | 693,986 |
| Gains or losses on available-for-sale securities | **(84,329)** | 1,254 | 31,731 |
| Other operating income | **38,107** | 13,905 | 32,334 |
| Other operating expenses | **(32,299)** | (10,464) | (16,008) |
| **Net operating income** | **1,526,240** | 1,539,430 | 1,407,638 |
| General operating expenses | **(1,321,725)** | (1,128,916) | (1,012,283) |
| Depreciation and amortisation | **(57,467)** | (51,148) | (50,759) |
| **Operating profit before provisions** | **147,048** | 359,366 | 344,596 |
| Provisions for non performing debts | **(108,803)** | (6,623) | (24,621) |
| **Operating profit after provisions** | **38,245** | 352,743 | 319,975 |
| Gains or losses on disposals on fixed asset investments | **1,787,455** | 956,720 | 107,978 |
| **Profit on ordinary activities before tax** | **1,825,700** | 1,309,463 | 427,953 |
| Exceptional items | **(6)** | – | (1,296) |
| Income tax | **156,711** | 49,648 | 8,194 |
| Net recovery from regulatory provisions | **3,198** | (1,651) | (485) |
| **Net attributable profit** | **1,985,603** | 1,357,460 | 434,366 |

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

*(Recommendation of the Stock Exchange Commission – Bulletin no. 79 of February 1979)*

| *(in thousands of euros)* | **31.12.2008** | 31.12.2007 | 31.12.2006 |
|---|---|---|---|
| **Net profit for the year** | | | |
| – total | **1,985,603.1** | 1,357,459.3 | 434,365.5 |
| – per share (in euros)[1, 2] | **29.44** | 17.87 | 5.74 |
| **Movements in shareholders' funds and the reserve for general banking risks** (after appropriation of 2007 and 2006 net profit and proposed appropriation for 2008 net profit) | | | |
| – change in revaluation difference | **(198.0)** | (33.0) | (57.0) |
| – transfer to reserves and change in retained earnings | **(161,921.0)** | – | (178,669.0) |
| – exceptional dividend paid from free reserves | – | (495,761.0) | – |
| – change in revaluation reserve and special tax-allowable reserves | **(431.0)** | 1,653.0 | 487.0 |
| – new shares issued upon exercise of stock options | **17,244.0** | 21,913.0 | 36,533.0 |
| – merger premium[3] | **3,512.0** | 5,936.0 | 5,036.0 |
| – transition adjustment in respect of accounting for PEL and CEL provisions | – | (3,506.0) | – |
| – capital increase | **14.0** | – | – |
| – reduction of capital | **(43,750.0)** | – | – |
| – reduction of share premium | **(1,194,328.0)** | – | – |
| **Change in shareholders' funds** | **(1,379,858.0)** | (469,798.0) | (136,670.0) |
| – per share (in euros)[1, 2] | **(18.2)** | (6.2) | (1.8) |
| **Proposed dividend** | | | |
| – gross | – | 230,618.9 | 613,032.7 |
| – per share (in euros)[1, 2] | – | 3.04 | 8.10 |

1 *Number of shares outstanding at year end (excluding own shares held): 67,437,820 in 2008; 75,963,895 in 2007; 75,683,045 in 2006.*
2 *Based on the weighted average number of shares outstanding (excluding own shares held), dividend per share amounted to EUR 0 in 2008 (75,020,854 shares), EUR 3.05 in 2007 (75,698,434 shares), and EUR 8.15 in 2006 (75,262,320 shares).*
3 *Merger of HSBC Hervet, HSBC de Baecque Beau, HSBC Picardie and HSBC UBP in 2008, 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 decree no. 67-236 of 23 March 1967 on commercial companies)*

| *(in thousands of euros)* | **31.12.2008** | 31.12.2007 | 31.12.2006 |
|---|---|---|---|
| **Sums available for distribution** | | | |
| – retained earnings | **1,123,058** | – | – |
| – transition adjustment in respect of accounting for PEL and CEL provisions | – | (3,506) [1] | – |
| – exit tax | – | – | – |
| – discounting cash flows impact | – | – | – |
| **Subtotal** | **1,123,058** | (3,506) | – |
| Net profit for the year | **1,985,603** | 1,357,460 | 434,366 |
| **TOTAL (A)** | **3,108,661** | 1,353,954 | 434,366 |
| **Appropriation of income** | | | |
| – dividends | – | 230,619 | 613,033 |
| – legal reserve | – | 277 | 137 |
| – free reserve | – | – | (178,804) |
| **TOTAL (B)** | – | 230,896 | 434,366 |
| **Retained earnings (A - B)** | **3,108,661** | 1,123,058 | – |

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

## Five-year highlights

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

| *(in thousands of euros)* | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| **Share capital at year end** | | | | | |
| Called up share capital [1] | **337,189** | 379,819 | 378,415 | 376,190 | 374,011 |
| Number of issued shares | **67,437,820** | 75,963,895 | 75,683,045 | 75,237,930 | 74,802,146 |
| 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) | **121,969,321** | 150,090,552 | 30,470,306 | 32,661,166 | – |
| Gross operating income (after compensation of financial instruments) | – | – | – | – | 3,762,736 |
| Profit before tax, depreciation and provisions | **2,415,956** | 1,347,356 | 515,192 | 1,044,550 | 633,771 |
| Profit after tax, depreciation and provisions | **1,985,603** | 1,357,460 | 434,366 | 935,669 | 652,311 |
| **Per share data** (in euros) | | | | | |
| Profit after tax, but before depreciation and provisions | **37.7** | 18.3 | 7.2 | 14.3 | 9.1 |
| Profit after tax, depreciation and provisions | **29.4** | 17.7 | 5.7 | 12.4 | 8.7 |
| Dividend paid per ordinary share, eligible as of 1 January | – | 3.04 | 8.10 | 5.19 | 6.22 |
| **Employees (France)** | | | | | |
| Number of employees [2] | **10,218** | 8,789 | 8,500 | 7,749 | 7,344 |
| Average number of employees (excluding employees available) [3] | **8,940** | 8,103 | 7,763 | 7,197 | 6,879 |
| Salaries and wages | **459,067** | 455,722 | 389,163 | 341,642 | 330,246 |
| Employee benefits | **231,279** | 206,607 | 167,936 | 149,569 | 139,943 |
| Payroll and other taxes | **65,481** | 46,694 | 49,134 | 43,680 | 40,643 |
| Incentive schemes and/or employee profit-sharing plan [4] | **27,610** | 25,728 | 21,380 | 15,883 | 23,210 |

1 *Capital increases pursuant to exercice of share options and, for 2008, capital reduction of EUR 43,750,000, increase of EUR 13,855 due to the merger, increase of EUR 1,105,770 due to the exercise of share options.*
2 *Banking status' employees, registered as at 31 December of each year.*
3 *Of which 5,462 executives and 3,478 non-executives in 2008; 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.*
4 *Based on previous year's profits.*

## List of equity shares and debt securities held at 31 December 2008 (excluding trading securities)

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

*(in thousands of euros)*

| | |
|---|---|
| **A – Held-to-maturity securities** | **240,840** |
| **Debt securities** | **240,840** |
| Treasury bills and other eligible bills | – |
| Other public sector securities | 20,023 |
| Money market instruments | – |
| Negotiable certificates of deposit | – |
| Negotiable medium-term notes | – |
| Bonds and similar | 219,399 |
| Accrued interest | 1,418 |
| **B – Available-for-sale and portfolio activity securities** | **2,196,609** |
| **Debt securities** | **1,722,162** |
| Treasury bills and other eligible bills | – |
| Other public sector securities | 274,257 |
| Money market instruments | – |
| Commercial paper | – |
| Negotiable certificates of deposit | – |
| Negotiable medium-term notes | – |
| Asset-backed securities | 22 |
| Bonds and similar | 1,425,463 |
| Negotiable medium-term notes issued by banks | – |
| Accrued interest | 22,420 |
| **Equity shares** | **474,447** |
| Equity shares and similar | 5,439 |
| Mutual fund units | 469,008 |
| **TOTAL HELD-TO-MATURITY, AVAILABLE-FOR-SALE AND PORTFOLIO ACTIVITY SECURITIES** | **2,437,449** |

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

*(in thousands of euros)*

| | |
|---|---|
| **A – Other participating interests and long-term securities** | **325,848** |
| Securities listed on a recognised French exchange | 1,847 |
| Unlisted French securities | 323,619 |
| Foreign securities listed on a recognised French exchange | – |
| Foreign securities listed elsewhere | 93 |
| Unlisted foreign securities | 100 |
| Accrued income | 189 |
| **B – Interests in related parties** | **1,946,963** |
| Listed French securities | – |
| Unlisted French securities | 1,916,270 |
| Listed foreign securities | – |
| Unlisted foreign securities | 30,693 |
| Accrued income | – |
| **TOTAL INTERESTS IN RELATED PARTIES, OTHER PARTICIPATING INTERESTS AND LONG-TERM SECURITIES** | **2,272,811** |

# Information on the parent company financial statements (continued)

## Interests in subsidiaries and related parties at 31 December 2008

*(Articles 247 and 295 of 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 Covered Bonds (France)<br>15, rue Vernet – 75008 Paris (France) | Financial company | EUR28,050 | EUR(9) | 100.00 |
| HSBC Factoring (France)<br>103, avenue des Champs-Elysées – 75008 Paris (France) | Financial company | EUR3,800 | EUR5,902 | 100.00 |
| COPARI Société de Constructions et de Participations Immobilières<br>184, avenue Frédéric & Irène Joliot-Curie – 92000 Nanterre (France) | Real estate | EUR50 | EUR961 | 99.96 |
| Société Française et Suisse<br>64, rue Galilée – 75008 Paris (France) | Investment company | EUR599 | EUR16,255 | 100.00 |
| FDM 6<br>39, rue Bassano – 75008 Paris (France) | Investment company | EUR139,052 | EUR31 | 100.00 |
| SAPC UFIPRO Recouvrement<br>186, avenue Frédéric & Irène Joliot-Curie – 92000 Nanterre (France) | Financial company | EUR7,619 | EUR1,076 | 99.98 |
| HSBC Epargne Entreprise<br>15, rue Vernet – 75008 Paris (France) | Financial company | EUR16,000 | EUR72,937 | 100.00 |
| HSBC Global Asset Management (France)<br>4, place de la Pyramide – La Défense 9<br>92800 Puteaux (France) | Investment company | EUR6,460 | EUR1,896 | 92.12 |
| HSBC Securities (France)<br>103, avenue des Champs-Elysées – 75008 Paris (France) | Financial company | EUR12,626 | EUR41,006 | 100.00 |
| Sinopia Asset Management<br>4, place de la Pyramide – La Défense 9<br>92800 Puteaux (France) | Financial company | EUR3,387 | EUR421 | 100.00 |
| HSBC Private Bank France<br>20, place Vendôme – 75001 Paris (France) | Bank | EUR42,972 | EUR135,067 | 100.00 |
| Nobel<br>1, avenue Franklin Roosevelt – 75008 Paris (France) | Investment company | EUR128,468 | EUR179,110 | 100.00 |
| SAF Palissandre<br>64, rue Galilée – 75008 Paris (France) | Financial company | EUR500,037 | EUR9,323 | 100.00 |

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

| Book value of securities held | | 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 | | | | | | |
| EUR28,039 | EUR28,039 | – | – | EUR450 | EUR280 | – | – |
| EUR5,236 | EUR5,236 | – | – | EUR13,864 | EUR1,244 | – | – |
| EUR36,370 | EUR842 | – | – | EUR52 | EUR125 | – | – |
| EUR60,384 | EUR1,018 | – | – | EUR512 | EUR(16,847) | – | – |
| EUR128,916 | EUR128,916 | – | – | EUR3,056 | EUR2,029 | – | – |
| EUR16,260 | EUR8,693 | – | – | EUR427 | EUR262 | – | – |
| EUR15,148 | EUR15,148 | – | – | EUR17,233 | EUR(760) | – | – |
| EUR72,146 | EUR72,146 | – | – | EUR111,359 | EUR32,697 | EUR31,529 | – |
| EUR55,988 | EUR31,566 | – | – | EUR2,111 | EUR(22,708) | EUR63,000 | – |
| EUR51,483 | EUR51,483 | – | – | EUR33,589 | EUR12,753 | EUR14,024 | – |
| EUR439,315 | EUR299,315 | – | – | EUR66,922 | EUR8,937 | EUR16,108 | – |
| EUR207,648 | EUR207,648 | – | – | EUR23,128 | EUR(33,891) | – | – |
| EUR500,037 | EUR500,037 | – | – | EUR31,173 | EUR20,349 | EUR15,500 | – |

# Information on the parent company financial statements (continued)

## Interests in subsidiaries and related parties at 31 December 2008 (continued)

*(Articles 247 and 295 of 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 Leasing (France)<br>39, rue Bassano – 75008 Paris (France) | Financial company | EUR281,760 | EUR(33,123) | 100.00 |
| Société Financière et Mobilière<br>103, avenue des Champs-Elysées – 75008 Paris (France) | Financial company | EUR40,000 | EUR69,849 | 100.00 |
| HSBC Financial Products (France)<br>103, avenue des Champs Elysées – 75008 Paris (France) | Financial company | EUR180,108 | EUR13,813 | 93.02 |
| Foncière Elysées S.A.<br>103, avenue des Champs-Elysées – 75008 Paris (France) | Holding company | EUR14,043 | EUR19,591 | 100.00 |
| Vernet Expansion<br>14, rue Vernet – 75008 Paris (France) | Investment company | EUR8,456 | EUR(650) | 100.00 |
| Société Immobilière Malesherbes Anjou<br>103, avenue des Champs-Elysées – 75008 Paris (France) | Holding company | EUR13,412 | EUR23,329 | 100.00 |
| Charterhouse Management Services Ltd<br>8 Canada Square – London E14 5HQ (United Kingdom) | Investment company | GBP25,000 | GBP20,559 | 100.00 |
| HSBC Real Estate Leasing (France)<br>15, rue Vernet – 75008 Paris (France) | Financial company | EUR38,255 | EUR17,324 | 80.98 |
| **2 – Associated companies (10-50%)** | | | | |
| CCF & Partners Asset Management Ltd<br>8 Canada Square – London E14 5HQ (United Kingdom) | Financial company | GBP5,000 | GBP248 | 14.71 |
| Lafarge Finance Limited<br>Seaton House, 17 Seaton Place<br>St Helier, Jersey (United Kingdom) | | GBP400,000 | – | 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) | – | – | – | – |

* *2007 figures (2008 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 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cost | Net | 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 |
| EUR281,756 | EUR281,756 | – | – | EUR24,134 | EUR38,132 | – | – |
| EUR84,053 | EUR84,053 | – | – | EUR(14,899) | EUR(11,678) | – | – |
| EUR104,212 | EUR0 | – | – | EUR(49,867) | EUR(125,125) | – | – |
| EUR44,476 | EUR42,127 | – | – | EUR3,814 | EUR8,962 | EUR2,498 | – |
| EUR8,519 | EUR8,519 | – | – | EUR0 | EUR(833) | – | – |
| EUR49,385 | EUR49,385 | – | – | EUR21,208 | EUR4,598 | – | – |
| EUR26,247 | EUR26,247 | – | – | n/a | GBP4,573 | – | – |
| EUR37,190 | EUR37,190 | – | – | EUR122,789 | EUR3,524 | – | – |
| EUR4,447 | EUR4,447 | – | – | GBP188 | GBP(136) | – | – |
| EUR209,974 | EUR209,974 | – | – | GBP48,189 * | GBP48,189 * | GBP9,000 * | – |
| EUR2,036 | EUR2,030 | – | – | – | – | EUR1,194 | – |
| EUR1,820 | EU1,819 | – | – | – | – | – | – |
| EUR322 | EUR4 | – | – | – | – | – | – |
| EUR0 | EUR0 | – | – | – | – | – | – |

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

## HSBC France group's main subsidiaries at 31 December 2008

### Retail banking

| | |
|---|---|
| **Distribution** | HSBC Factoring (France) (100%) |

### Global Banking and Markets

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

### Asset Management

| | |
|---|---|
| **France** | HSBC Global Asset Management (France) (100%)<br>Halbis Capital Management (France) (100%)<br>HSBC Global Asset Management FCP (France) (100%)<br>Sinopia Asset Management (100%)<br>Sinopia Financial Services (100%)<br>Sinopia Société de Gestion (100%)<br>HSBC Epargne Entreprise (100%)<br>HSBC REIM (France) (100%) |
| **Outside France** | Sinopia Asset Management Luxembourg (100%)<br>Sinopia Asset Management (Asia Pacific) Ltd (100%)<br>Sinopia Asset Management (UK) Ltd (100%) |

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

## Private Banking

| | |
|---|---|
| **France** | HSBC Private Bank France (99.9%)<br>HSBC Private Wealth Managers (99.9%) |
| **Outside France** | LGI (99.9%) |

## Subsidiaries & equity investments

| | |
|---|---|
| **France** | Nobel (100%)<br>Société Française Suisse (100%)<br>Elysées Formation (100%)<br>Malesherbes Anjou (100%)<br>Excofina (100%) |
| **Outside France** | Charterhouse Management Services Ltd (100%) |

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

**Distribution**
*(in thousands of euros)*

| | Total assets | | Shareholders' funds* | | Net profit | | HSBC France group's percentage holding | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| **HSBC Factoring (France)** | **370,423** | 291,311 | **9,824** | 9,656 | **1,244** | 168 | **100.0** | 100.0 |

Elysées Factor, a 100% member of the HSBC Group since 2005, changed its brand name in 2008 to HSBC Factoring (France). HSBC Factoring (France) saw growth of 22% in 2008, with net revenues of EUR 1.6 billion, corresponding to the amount of factored receivables. Net operating income rose 17.3% to EUR 13.8 million and the pre-tax contribution to group income came to EUR 1.9 million. HSBC Factoring (France) benefited from the following growth drivers in 2008:
- a review of the "Large SME, MME and Corporate Targeting" commercial acquisition policy, promoting the Invoice Discounting product, revising tariffs (new pricing structure), building up the business manager team in certain areas (Ile-de-France and Rhône-Alpes) and, lastly, overhauling institutional and product supports;
- improvement in prudential management, adjusting rules for forming new relations and adopting more stringent risk controls for clients in the portfolio;
- various aspects with the change of brand name, the relocation to La Défense and making internal operations more efficient.

**Global Banking and Markets**
*(in thousands of euros)*

| | Total assets | | Shareholders' funds* | | Net profit | | HSBC France group's percentage holding | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| **HSBC Securities (France)** | **262,477** | 454,234 | **53,632** | 47,448 | **(22,708)** | 69,184 | **100.0** | 100.0 |

There are three main reasons for the decline of 42% in total assets: the sharp fall in market transaction settlement accounts on behalf of HSBC Financial Products, full provisioning of participating interests held in HSBC Financial Products for EUR 23 million and a reduction in treasury as a result of a EUR 63 million dividend payment in the first half of 2008. Equity decreased by EUR 15 million due to the loss of EUR 22 million sustained over the year, weighted slightly for taking non-distributed income for 2007 of EUR 7 million to retained earnings. Net income for the year was affected by the 100% provisioning of HSBC Financial Products securities for EUR 23 million. Adjusted for this exceptional item, net income came to EUR 2 million. Net operating income fell from EUR 6.6 million in 2007 to EUR 5.2 million in 2008, with a decline in brokerage activities due to the withdrawal of regional banks from the HSBC Group, as well as to the fall in transactions at the end of the year. The total number of orders over the full year was 355,969 compared with 505,015 in 2007, down 30%.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **HSBC Financial Products (France)** | **21,872,894** | 25,781,013 | **193,920** | 35,969 | **(125,125)** | 7,951 | **100.0** | 100.0 |

Total assets decreased by 15% between 2007 and 2008. The increase in financing costs and severe financial market volatility led to a very significant reduction in the securities portfolio (EUR -10 million). However, there was an increase in mark-to-market gains on equity derivatives. 2008 was severely affected by the financial crisis in the last quarter of the year. At 30 September, net operating income was up more than 50% relative to the same period in 2007, while in the fourth quarter, the collapse of Lehman Brothers, difficulties facing a number of banks and financial institutions, and market movements significantly altered the level of customer activity concerning equity products and cancelled out the gains of the first nine months of the year. Because of a heavy loss, the company carried out a EUR 150 million capital increase in order to rebuild its equity, respecting regulatory requirements. 50% of the rights issue was paid up at 31 December 2008.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **HSBC Leasing (France)** | **1,928,366** | 1,510,951 | **286,768** | 248,636 | **38,132** | 4,413 | **100.0** | 100.0 |

HSBC Leasing (France) specialises in lease finance for major corporates. During 2008, the company confirmed its growth in lease purchase activities through its equity investments in subsidiaries. New assets financed in the course of the year relate primarily to aircraft for Asian and Middle Eastern airlines, as well as to a lesser extent railway equipment for the European market. HSBC Leasing (France) investments totalled EUR 1.8 billion in 2008 compared with EUR 1.4 billion in 2007.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Foncière Elysées SA** | **43,550** | 36,910 | **33,634** | 33,613 | **8,962** | 2,527 | **100.0** | 100.0 |

Foncière Elysées generated a profit of EUR 9 million in 2008 compared with EUR 2.5 million in 2007. This growth was mainly the result of the EUR 5.9 million capital gain realised on the sale of its real estate management subsidiary, HSBC REIM, created in 1972 by the Real Estate Affairs Department, to HSBC Global Asset Management (France) in June 2008. HSBC Real Estate Leasing (France) is therefore now Foncière Elysées's main operating investment.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **HSBC Real Estate Leasing (France)** | **925,354** | 816,255 | **55,579** | 48,108 | **3,524** | 7,689 | **100.0** | 100.0 |

With production of EUR 156 million in 2008, this real estate leasing specialist subsidiary continued to grow. Net income was down relative to 2007, while recurring net operating income and net income increased. In fact, the previous year benefited from exceptional gains of EUR 6.6 million on asset sales and the exercise of options.

* *Comprising share capital + reserves + FRBG.*

**Asset Management**
*(in thousands of euros)*

| | Total assets | | Shareholders' funds* | | Net profit | | HSBC France group's percentage holding | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| **HSBC Global Asset Management (France)** | **137,125** | 155,132 | **61,380** | 53,026 | **32,297** | 45,287 | **100.0** | 100.0 |

2008 was dominated by the global financial crisis which worsened during the second half, with consequences on asset management activities impacted by a strong negative market effect, significant withdrawals from European mutual funds and funding postponed by investors (institutional and third party). Managed and distributed assets decreased by 13.3% to EUR 63.6 billion on 31 December 2008, compared to EUR 73.4 billion on 31 December 2007, mainly due to a negative market effect (-12.7%). Business development continued in this bear and volatile market thanks to investments into more secure investments: inflows in money market and fixed income products partially offset outflows from the funds on emerging markets equities and absolute return strategies, as well as the cancellations/postponements of guaranteed/structured funds launches. In this high-risk environment, investments in risk management, infrastructure and process upgrades were strengthened.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Halbis Capital Management (France)** | **48,245** | 62,622 | **19,168** | 19,361 | **4,363** | 9,469 | **100.0** | 100.0 |

In 2008, asset management activities were seriously impacted by the financial crisis. Assets under management amounted to EUR 11.6 billion on 31 December 2008, decreasing by 20% compared to EUR 14.6 billion on 31 December 2007, mainly due to a negative market effect on European equities. Inflows in euro fixed income strategies by European institutional (pension funds) and wholesale clients partly offset withdrawals from enhanced money market funds, seriously impacted by the credit crisis since summer 2007. Good resistance of the Euroland equity large cap assets thanks to new investments from European and Asian clients.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Sinopia Asset Management** | **56,137** | 63,798 | **27,422** | 27,404 | **12,753** | 14,042 | **100.0** | 100.0 |

In 2008, the financial crisis and its immediate consequences on investors' behaviour strongly impacted asset management activities. Assets under management amounted EUR 19.7 billion on 31 December 2008, decreasing by 37% compared to EUR 31.5 billion on 31 December 2007. This decrease in assets is due to a negative market effect on equities, significant outflows from absolute return strategies, strongly impacted by market conditions and the investors' need for cash, and the cancellation/postponement of guaranteed and structured funds launches. Despite this difficult environment, new business development continued on international markets with institutional clients (launches of new mandates in Australia, Canada) on multi fixed-income strategies. In the area of innovation, Sinopia launched the first emerging markets inflation-linked bond strategy.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **HSBC Epargne Entreprise** | **195,761** | 133,835 | **88,937** | 18,510 | **(450)** | 70,427 | **100.0** | 100.0 |

HSBC Epargne Entreprise, a wholly-owned employee savings subsidiary of the HSBC Group, works with 12,000 companies on a daily basis and manages 700,000 individual accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totalling EUR 3.4 billion at 31 December 2008, making the Group the seventh-largest employee savings company. Its products are distributed either directly or via the HSBC Group distribution network in France and partner networks, covering the needs of companies of all sizes.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **HSBC REIM (France)** | **8,336** | 7,187 | **4,119** | 4,106 | **1,913** | 1,899 | **100.0** | 100.0 |

HSBC REIM (France) is the Asset Management subsidiary specialising in real estate management for third parties. At 31 December 2008, the market value of assets under management was EUR 655 million. The main fund managed, valued at EUR 538 million, is Elysées Pierre, an SCPI real estate investment trust with 124 properties, mainly offices in the Ile de France region. The fund has a yield-based strategy, which over the last five years has resulted in regular growth in the annual dividend of around 3% a year. HSBC REIM (France)'s 2008 net income was stable at around EUR 1.9 million. It generated net operating income of EUR 6.6 million, more than two-thirds of which came from recurring commission income for property management services and the remainder from commission income within the framework of SCPI Elysées Pierre capital increases.

**Private Banking**
*(in thousands of euros)*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **HSBC Private Bank France** | **1,427,035** | 1,276,002 | **178,039** | 171,881 | **8,937** | 22,192 | **99.9** | 99.9 |

HSBC Private Bank France's performance was severely affected in 2008 by the international financial crisis and the equity market slump. Assets under management stood at EUR 8.5 billion at the end of the year, down 27% compared with the end of 2007, as a result of the market decline. Net inflows for resident private banking customers held up thanks to the Group's solidity and synergies with Personal Financial Services and Commercial Banking in France, as well as with Group entities in other countries. As regards products, risk aversion among customers led to a major shift towards products such as term deposits, government bonds and life insurance. Against this unfavourable backdrop, control of general operating expenses partly made up for the fall in revenues.

* *Comprising share capital + reserves + FRBG.*

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

**Own investments**
*(in thousands of euros)*

| | Total assets | | Shareholders' funds* | | Net profit | | HSBC France group's percentage holding | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| **SFS** | **30,188** | 46,134 | **16,854** | 13,654 | **(16,783)** | 3,200 | **100.0** | 100.0 |

In view of severe deterioration in the financial markets and the financial crisis, SFS has set aside a significant level of provisions, mainly for investments in listed shares. These provisions explain the heavy loss of nearly EUR 17 million sustained in 2008.

| | Total assets | | Shareholders' funds* | | Net profit | | HSBC France group's percentage holding | |
|---|---|---|---|---|---|---|---|---|
| **Nobel** | **332,046** | 397,060 | **341,469** | 306,127 | **(33,891)** | 35,342 | **100.0** | 100.0 |

Nobel, a holding company for the Group's proprietary participating interests, pursues an investment strategy focusing on listed midcaps and private equity funds. Regarding listed stocks, Nobel acquires minority stakes, usually in midcap companies with little or no coverage by analysis firms, with a fundamental value-based approach and a truly medium-term investment horizon. Nobel's management is provided by a dedicated and independent team of seven investment professionals. Over the last ten years, Nobel's performance has generated a yearly internal rate of return of over 10% without use of leverage, while the various equity market indices have delivered negative performances or performances close to zero over the same period. Nobel sustained a gross operating loss of EUR 33 million in 2008 relating to provisions for some of its listed investments.

**Other subsidiary of the HSBC Group in France**
*(in thousands of euros)*

| | Total assets | | Shareholders' funds* | | Net profit | | HSBC France group's percentage holding | |
|---|---|---|---|---|---|---|---|---|
| **HSBC Assurances Vie (France)** | **14,631,411** | 14,519,848 | **393,253** | 368,748 | **53,022** | 40,508 | **100.0** [1] | 100.0 [1] |

HSBC Assurances Vie (France)'s gross reinsurance premiums were stable relative to 2007 at EUR 2 billion. Technical reserves in euros increased by 8% to EUR 11 billion, while those in unit-linked products decreased by 25% to EUR 2.6 billion. Net income totalled EUR 53 million in 2008, up 30.8% relative to 2007.

* *Comprising share capital + reserves + FRBG.*
1 *100% held by HSBC Bank plc Paris Branch since 20 December 2007.*

# Investment policy

## 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 in 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 rationalisation 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.

## Investment policy (continued)

**2007**

- Acquisition by HSBC France of 50.01 per cent of Erisa and Erisa IARD from 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.

**2008**

- Disposal by HSBC France of its regional banking subsidiaries (Société Marseillaise de Crédit, Banque de Savoie, Banque Chaix, Banque Marze, Banque Dupuy, de Parseval, Banque Pelletier and Crédit Commercial du Sud-Ouest).
  Proceeds: EUR 2,100 million.
- Disposal by HSBC France of its participation in Altadis.
  Proceeds: EUR 66.3 million.
- Subscription by HSBC France to capital increase made by HSBC Covered Bonds (France).
  Cost: EUR 28 million.
- Subscription by HSBC France of 9.43 per cent of Société de Financement de l'Economie Française capital.
  Cost: EUR 4.7 million.
- Subscription by HSBC France to capital increase made by HSBC Financial Products (France).
  Cost: EUR 75 million.
- Disposal by HSBC France of its participation in BIAT.
  Proceeds: EUR 8.6 million.

# Other legal documents relating to the Annual General Meeting to be held on 27 May 2009

## 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 2008

No agreement subject to the provisions of Article L. 225-38 of the French Commercial Code was entered into in 2008.

### Agreements entered into in prior years and still in force and effect during 2008

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 2008. These were a pooling of resources agreement designed to provide the parties with various services relating to their activities at cost, an agreement for the provision of services covering various activities and a group tax relief agreement.

The agreement entered into in 2003 with HSBC Bank plc regarding the invoicing of services covering market activities of the HSBC France group, remained in full force and effect during 2008.

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 2008.

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 2008 regarding the share of the IT development expenses engaged by the HSBC Group.

The agreement entered into in 2007 between HSBC Bank plc and HSBC France regarding 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, remained in full force and effect during 2008.

The agreement renewed in 2007 between HSBC Holdings plc and HSBC France giving HSBC France and its subsidiaries free use of the HSBC brand, remained in full force and effect during 2008.

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 2008.

Because of the merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France on 31 July 2008, the following agreements terminated on the day of the merger:

– the three agreements entered into in 2003 with HSBC UBP, HSBC Hervet, and HSBC de Baecque Beau for referrals of business and other services in the area of corporate advisory services;

– 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.

## Statutory Auditors' report on regulated agreements and commitments

*Year ended 31 December 2008*

To the shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present to you our report on the regulated agreements.

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 noticed. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of Article R.225-31 of the French Commercial Code, to evaluate the benefits arising from these agreements prior to their approval.

**I – Absence of agreement and commitment**

We report to you that we have not received any agreement or commitment that has been entered into in 2008 and submitted to Article L.225-38 of the French Commercial Code.

**II – Continuing agreements and commitments which were entered into in prior years**

In addition, in accordance with the French Commercial Code, we were informed that the following agreements, which were entered into in prior years, 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 6.6 million in 2008.

– 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 2008 represented charges of USD 21.3 million.

– Agreement renewed in 2007 and giving HSBC France and its subsidiaries free use of the HSBC brand.

*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. This agreement had no financial impact in 2008.

– Service level agreement for all market activities of the HSBC France group with respect to the agreement settled in 2003. This agreement had no financial impact in 2008.

– Further to a request of Commission bancaire, an agreement entered into in 2007 between HSBC France and HSBC Bank plc. This agreement 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 will not give rise to any invoices.

*With HSBC Bank Plc Paris Branch*

– Three agreements were entered into during 2001 by HSBC France and HSBC Bank Plc Paris Branch and remained in full force and effect during 2008:

  • A groupwide service agreement for the purpose of rendering services to its members at cost concerning diverse activities of the two entities: back-office payments, back-office treasury, IT, and euro zone management.

- 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 2.9 million in 2008.

- Tax integration agreement between HSBC Bank plc Paris Branch, the Company at the head of the tax integration group, 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 104 million in 2008.

*With HSBC Insurance Holding Limited*

– HSBC Insurance Holdings Limited invoiced an Insurance Advisory service to the different entities of the Group, including HSBC France, in accordance with the terms of the agreement in the course of completion since the end of 2006. This agreement had no financial impact in 2008.

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.

Paris-La Défense and Paris, 28 April 2009

| KPMG Audit | BDO France – Léger & Associés |
|---|---|
| Fabrice Odent | Michel Léger |
| Partner | Partner |

# Other legal documents relating to the Annual General Meeting to be held on 27 May 2009 (continued)

## Proposed resolutions to the Annual General Meeting

### Ordinary Business

**First resolution**

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the Statutory Auditors' report on the financial statements for the year ended 31 December 2008, and the Chairman's and the Statutory Auditors' reports on corporate governance, internal control and risk management procedures, the shareholders hereby approve the company's financial statements for that year as presented, together with the business operations reflected therein and summarised in the reports.

**Second resolution**

Voting under the quorum and majority conditions to transact ordinary business, the Annual General Meeting, considering retained earnings of EUR 1,123,058,857.87 and the year's profit of EUR 1,985,603,126.02, notes the existence of a profit available for distribution amounting to EUR 3,108,661,983.89, and proposes to allocate it to the "Retained earnings" account.

The shareholders duly note that dividends paid in respect of the three previous financial years were as follows:

| Year | Net dividend per share |
|---|---|
| 2005 | EUR5.19 |
| 2006 | EUR8.10 |
| 2007 | EUR3.04 |

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 French General Tax Code.

**Third resolution**

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors and the report of the Statutory Auditors regarding the consolidated statements for the year ended 31 December 2008, the shareholders hereby approve the consolidated financial statements for that year as presented.

**Fourth resolution**

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the Statutory Auditors' report on regulated agreements governed by Article L. 225-38 of the French Commercial Code, the shareholders hereby approve the agreements described therein under the conditions referred to in Article L. 225-40 of said Code.

**Fifth resolution**

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby ratify the Board's co-optation on 20 November 2008 of Mr Stuart Gulliver to replace Mr Charles-Henri Filippi who has resigned, for the remainder of the term of office of his predecessor, that is until the conclusion of the Annual General Meeting held to adopt the financial statements for the year ending 31 December 2011.

**Sixth resolution**

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby elect Mr Thierry Moulonguet as Director for a 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 2012 to succeed to Mr Paul Dubrule who is retiring by rotation and is not standing for re-election.

**Seventh resolution**

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby elect Mr Jacques Veyrat as Director for a 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 2012, in addition to the Directors currently in office.

**Eighth resolution**

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Peter Boyles, 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 2012.

**Ninth resolution**

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Marcel Roulet, 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 2012.

**Tenth resolution**

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Peter Shawyer, 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 2012.

## Special Business

**Eleventh resolution**

Voting under the quorum and majority conditions required to transact special business, the shareholders hereby authorise the Board of Directors to increase the share capital on one or more occasions at the time or times it deems appropriate up to a maximum amount of one hundred million euros, it being stipulated that this sum does not include capital increases made in respect of scrip dividend payments or upon exercise of stock options by employees.

Should the Board of Directors decide to use this authority, it may implement the capital increase at its discretion either by capitalising earnings, reserves or share premiums by means of an increase in the nominal value of existing shares or by means of a bonus issue of new shares identical in all respects to the existing shares, or by issuing new shares for cash or by way of a set-off, with pre-emptive rights in favour of existing shareholders, or by a combination of both procedures either successively or simultaneously.

In the event of a capital increase by issuing new shares for cash, the Board of Directors is specifically authorised to:

1. give those shareholders who applied for a greater number of shares than their entitlement as of right preference over any securities not taken up under the shareholders' pre-emptive rights, scaled back in the event that applications exceed the number of shares available;
2. limit the capital increase to the amount of applications received, provided that such amount represents at least three quarters of the initial proposed capital increase.

The shareholders hereby empower the Board of Directors to complete the capital increase or increases, if it deems appropriate, to fix the terms and conditions thereof and notably the issue price of the shares, the dividend entitlement date, which may be retrospective, and the opening and closing dates for applications, to officially record the capital increase and alter the Articles of Association accordingly, and, more generally, to take all measures and fulfil all formalities required to complete the operation.

This authority is valid for a period of 26 months with effect from the date of this meeting. It cancels and supersedes the authority granted at the Annual General Meeting held on 10 May 2007.

**Twelfth resolution**

Having heard and considered the report of the Directors and the special report of the Auditors, and in accordance with the provisions of Article L. 225-129-6, indent 1 of the French Commercial Code, and voting under the quorum and majority conditions required to transact special business, the shareholders hereby authorise the Board of Directors to increase the share capital, in one or several steps at its sole discretion, by issuing shares to be subscribed in cash reserved for participants in the company's employee share ownership plan in accordance with the provisions of Article L. 443-5 of the French Labour Code.

The shareholders set the maximum increase in the share capital at ten million euros.

The shareholders expressly renounce their pre-emptive subscription right with respect to new shares issued for the benefit of participants in the company's employee share ownership plan.

This authority shall extend for two years from the date of this General Meeting.

The shareholders grant full powers to the Board of Directors to decide all terms and conditions of the issuance transactions to be made, in particular the issue price of the new shares. The shareholders also grant the Board full powers to recognise the capital increase or increases effected under this authority, to amend the articles of association accordingly and generally to do what is necessary.

**Thirteenth resolution**

Voting under the quorum and majority conditions to transact ordinary and special business, the shareholders hereby confer full powers on the bearer of an original, copy or abstract of the minutes of this meeting for the purpose of completing any formalities required by law.

# Information on HSBC France and its share capital

## Information on the company

**Name**
HSBC France
New name of CCF since 1 November 2005.

**Commercial name**
HSBC since 1 November 2005.

**Date of incorporation**
1894.

**Registered office**
103, avenue des Champs-Elysées – 75008 Paris – France.

**Legal Form**
*Société Anonyme* incorporated under the laws of France, governed notably by the French Commercial Code. The company is a credit institution and authorised bank, and as such is also governed by the French Monetary and Financial Code.

**Term**
The company's term ends on 30 June 2043, unless previously wound up or extended.

**Corporate purpose (Article 3 of the Articles of Association)**
The company's corporate purpose is the transaction in all countries of any and all banking, finance, lending, guarantee, trading, brokerage or fee-earning business together with the provision of any and all investment services and related services within the meaning of Articles L. 321-1 and L. 321-2 of the French 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.

**Form of shares**
Shares are necessarily 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, merger, demerger, partial asset transfer, distribution following the liquidation of a shareholding company, universal asset transfer from a company, realisation of a security, or by way of compulsory or voluntary public tender, and whether they relate only to legal or beneficial ownership, shall be subject to the approval of the Board of Directors according to the conditions described below.

The transferor's request for approval, which must be served on the company, shall state the name, forenames, profession and address of the transferee, or the company name and registered office in the case of a company, the number of shares or negotiable securities giving access to the capital of which the disposal or transfer is envisaged, the price offered or an estimate of the value of the shares or negotiable securities giving access to the capital. This request for approval must be countersigned by the transferee.

Approval will be given in the form of a notice, or will be deemed to have been given, in the absence of a reply within three months of the date of the request for approval.

The approval decision will be made by the Board of Directors, by a majority of the directors present or represented. The transferor shall be entitled to vote, if he is a director.

The decision will not be justified, and in the event of a refusal, shall never give rise to any claim.

If the proposed transferee is approved, the transfer will be completed in favour of the transferee upon presentation of the supporting documents, which must be supplied within one month of service of the decision of the Board of Directors, failing which a fresh approval will be required.

If the company does not approve the proposed transferee, the transferor will have a period of eight days from the date of service of the refusal to notify the Board whether or not he abandons his proposal.

If the transferor does not expressly abandon his proposal under the conditions set out above, the Board of Directors shall be obliged within a period of three months from the date of service of the refusal, to arrange for the purchase of the shares or negotiable securities giving access to the capital, by a shareholder, a third party, or, with the transferor's consent, by the company, with a view to a reduction of the capital.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by shareholders or third parties, the Board of Directors shall inform the transferor of the surname, 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 French 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 extra-judicial instrument or by registered letter with aknowledgement of receipt.

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 French Civil Code, the expert's fees shall be paid in equal shares by the assignor and assignee.

# Information on HSBC France and its share capital (continued)

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 French 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 continues to expand, 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 the Gironde department.

1992: CCF acquires Banque Marze in the 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 the CCF group.

1995: CCF acquires Banque Dupuy, de Parseval.

1998: Société Marseillaise de Crédit joins the 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 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.

July 2008: Disposal by HSBC France of its regional banking subsidiaries (Société Marseillaise de Crédit, Banque de Savoie, Banque Chaix, Banque Marze, Banque Dupuy, de Parseval, Banque Pelletier and Crédit Commercial du Sud-Ouest).

July 2008: Merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France.

## 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 2008, the share capital amounted to EUR 337,189,100 divided into 67,437,820 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 |

The renewal of this authority for EUR 100 million until 27 July 2011 will be proposed to the Annual General Meeting to be held on 27 May 2009.

# Information on HSBC France and its share capital (continued)

## Movements in share capital

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **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 | **75,963,895** | **379,819,475** | **—** | 75,683,045 | 378,415,225 | — |
| Exercise of share options[1] | **221,154** | **1,105,770** | **16,138,604** | 280,850 | 1,404,250 | 20,508,297 |
| Reduction of share capital by cancellation of own shares held | **(8,750,000)** | **(43,750,000)** | **(834,122)** | — | — | — |
| Capital increase | **2,771**[2] | **13,855**[2] | **—** | — | — | — |
| At 31 December | **67,437,820** | **337,189,100** | **—** | 75,963,895 | 379,819,475 | — |

1 *Of which:*

2008: ***100,379 shares issued at EUR 73.48***
***120,775 shares issued at EUR 81.71***

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*

2 *Capital increase due to the approval by the General Meeting held on 31 July 2008 of the mergers of HSBC Hervet and HSBC de Baecque Beau with HSBC France.*

| 2006 | | | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|---|---|
| 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 |
| 75,237,930 | 376,189,650 | — | 74,802,146 | 374,010,730 | — | 74,350,066 | 371,750,330 | — |
| 445,115 | 2,225,575 | 34,307,830 | 435,784 | 2,178,920 | 32,513,604 | 452,080 | 2,260,400 | 28,896,678 |
| — | — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — | — |
| 75,683,045 | 378,415,225 | — | 75,237,930 | 376,189,650 | — | 74,802,146 | 374,010,730 | — |

*44,500 shares issued at EUR 35.52*
*96,000 shares issued at EUR 37.05*
*93,090 shares issued at EUR 73.48*
*91,900 shares issued at EUR 81.71*
*119,625 shares issued at EUR 142.50*

*52,000 shares issued at EUR 34.00*
*20,000 shares issued at EUR 35.52*
*53,560 shares issued at EUR 37.05*
*103,054 shares issued at EUR 73.48*
*112,920 shares issued at EUR 81.71*
*94,250 shares issued at EUR 142.50*

*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*

# 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 at 31.12.2008 | Expiry date |
|---|---|---|---|---|---|
| 1998 | 728,000 | FRF482 | EUR73.48 | 0 | 2008 |
| 1999 | 909,000 | FRF536 | EUR81.71 | 183,627 | 2009 |
| 2000 | 909,000 | — | EUR142.50 | 604,250 | 2010 |

The maximum number of HSBC France shares that may be issued pursuant to the exercise of share options is 787,877, which would raise the total number of EUR 5 nominal shares in circulation to 68,225,697.

## Ownership of share capital and voting rights at 31 December 2008

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

| | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Number of shares at 31 December | **67,437,820** | 75,963,895 | 75,683,045 | 75,237,930 | 74,802,146 |
| Average number of shares outstanding during the year | **75,020,854** | 75,698,434 | 75,262,320 | 74,826,025 | 74,374,838 |
| EPS [1] | **EUR23.52** | EUR12.88 | EUR8.14 | EUR14.95 | EUR9.80 |
| Net dividend | **EUR0** | EUR3.04 | EUR8.10 | EUR5.19 | EUR6.22 |
| Exceptional dividend | **—** | EUR6.54 | — | — | — |
| Dividend + tax credit | **—** | — | — | — | — |
| Payout [2] | **0%** | 74.4% | 99.5% | 34.9% | 63.8% |

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 27 May 2009, the Board will propose to distribute no dividend.

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 decree 2002-221 of 20 February 2002, in application of Article L. 225-102-1 of the French Commercial Code inserted by Law no. 2001-420 (the "New Economic Regulations" Act).*

## Employees at 31 December

**Number of staff members**

| | **2008** [1] | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Total HSBC France group | **11,227** | 14,795 | 14,901 | 14,417 | 14,387 |
| HSBC France | **10,218** | 8,789 | 8,503 | 7,752 | 7,346 |
| Subsidiaries and branches | **1,009** | 6,006 | 6,398 | 6,665 | 7,041 |

**Full time equivalents**

| | **2008** [1] | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Total HSBC France group | **10,886** | 14,279 | 14,379 | 13,878 | 13,908 |
| HSBC France | **9,892** | 8,486 | 8,204 | 7,494 | 7,104 |
| Subsidiaries and branches | **994** | 5,793 | 6,175 | 6,384 | 6,804 |

1 *2008 was subject to two major events: the sale by HSBC France of its seven regional banking subsidiaries in early July and the legal merger of the four banks in the Economic and Social Unit (HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie) with HSBC France on 31 July.*

## 2007/2008 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 2008

2008 headcount: 10,218, an increase of 16.3 per cent or 1,429 employees on 2007, as a result of the consolidation at 1 August 2008 of around 1,700 employees of former subsidiaries of the Economic and Social Unit (HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie).

New employees (excluding Group mobility): 998 in 2008, of which 529 new permanent employees and 469 contract staff, including 179 young people on work placements.

Departures: 1,315. Resignations accounted for 30 per cent of total departures in 2008.

### The structure of the workforce is similar to that of previous years, with the proportion of management staff remaining stable and a further increase in the proportion of female management staff

The proportion of management staff is now 60.3 per cent, and 46.4 per cent of HSBC France's management staff are now women (45.2 per cent in 2007).

At 31 December 2008, 928 employees were working part-time under the flexible working agreements signed by HSBC France, representing 9.1 per cent of the staff.

HSBC France employed more than 240 staff with disabilities at the end of 2008.

# Employees, remuneration, share offering and incentive schemes (continued)

Employee relations and collective bargaining agreements

- Agreement between the Economic and Social Unit of HSBC France – HSBC Hervet Group (HSBC Hervet and HSBC de Baecque Beau) – HSBC UBP – HSBC Picardie concerning diversity within companies in the Economic and Social Unit;
- Agreement on the early withdrawals from employee profit-sharing accounts in accordance with the law on purchasing power of 8 February 2008;
- Amendment to protocol agreements concerning the election of the HSBC Hervet Group's employee representatives and works council on 17 October 2005;
- Agreement between the Economic and Social Unit of HSBC France – HSBC Hervet Group – HSBC Picardie amending the regulations of company savings plans at companies in the Economic and Social Unit;
- Agreement concerning the substitution and harmonisation of the Société Marseillaise de Crédit/HSBC France collective status;
- Agreement between the Economic and Social Unit of HSBC France – HSBC Hervet Group – HSBC UBP – HSBC Picardie creating a group benefits scheme for the reimbursement of medical costs;
- Agreement between the Economic and Social Unit of HSBC France – HSBC Hervet Group – HSBC UBP – HSBC Picardie concerning single and exceptional payments to the optional group benefits scheme for the reimbursement of retired staff's medical costs;
- Agreement concerning employee bonuses, benefits and compensation;
- Agreement between the Economic and Social Unit of HSBC France – HSBC Hervet Group – HSBC UBP – HSBC Picardie concerning the harmonisation of pension schemes;
- Collective bargaining agreement concerning the regulations of the HSBC France company savings plan;
- Agreement concerning the dissolution of the HSBC France pension fund and the transfer of its reserves;
- Agreement on working hours;
- Agreement on early retirement schemes and family solidarity leave;
- HSBC France agreement introducing a group benefits scheme for reimbursement of medical costs;
- HSBC France agreement introducing an "Incapacity, disability and death" group benefits scheme;
- HSBC France agreement on the harmonisation of pension schemes;
- Agreement concerning the monetisation of rest days acquired by employees – 2009 financial year – HSBC France;
- Amendment to the agreement on the division of head offices at the HSBC France central works council;
- Agreement concerning extension of the terms of office of establishment-level works councils – employee representatives and members of the HSBC France health and safety and working conditions committee;
- Pre-election protocol agreement relating to the works council/employee representative elections of 22 January 2009;
- Agreement on the division of head offices at the HSBC France central works council;
- Agreement setting the rules for the election of members of the central works council and specific terms concerning the running of the body;
- Agreement concerning the structure of HSBC France employee representative bodies in the provinces;
- Pre-election protocol agreement relating to works council/employee representative elections of 22 January 2009 – Western Region;
- Pre-election protocol agreement relating to works council/employee representative elections of 22 January 2009 – North-West Region;
- Pre-election protocol agreement relating to works council/employee representative elections of 22 January 2009 – Southern Region.

### Pay

In 2008, the pay agreement with HSBC France provided for:

- a minimum pay increase for employees whose annual salary is EUR 35,000 or less;
- a collective bonus for all employees (excluding employees with exempt status);
- 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,
  - for employees aged over 50 who have not benefited from a selective pay rise in the last five years.

### Training

The range of online training ("e-learning") options was developed significantly in 2008 in all of the company's business sectors: Clarity for HSBC Technology Services, Acumen for Global Banking, wealth management for retail banking customer advisers, balance sheet analysis for business banking advisors, anti-money laundering and security for new joiners.

The Group is planning to develop e-learning as an autonomous training tool or coupled with classroom training sessions.

The volume of training in English is continuing to increase and justifies changes in the organisation of educational services, which will be fully operational in 2009. Remote learning and e-learning are favoured.

For the retail banking network, 18 training sessions of 10-15 days have been introduced for new graduates or employees on internal transfers. Training in banking techniques continued. For Personal Financial Service, the content of financial markets training was updated in preparation for level 3 accreditation of first advisers. For Commercial Banking, two new training courses have been created: "Risk Management" and "Computerisation of Information Flows". The "Customer Satisfaction" course has been a priority for retail banking reception staff for three years.

For Global Transaction Banking, "Business Performance" training was organised for the second year.

Back office staff within the Global Banking unit were provided with training in transactions, in order to give them an overall view of the activity and processing chain beyond their own role. A trial of two hours of training per week for front-office staff – in order to take account of the limited availability of commercial staff – was conducted successfully.

Employees in central functions received training in Basel II, accounting, management reporting, operating risks and administrative credit management.

The operating migration of HSBC Hervet and HSBC de Baecque Beau was accompanied by extensive e-learning and classroom training, followed by on-site support.

### Overtime, temporary staff and sub-contracting

Information about the amount of overtime in 2008 at HSBC France cannot be compared with information for 2007. 2008 is characterised by the consolidation of employees of subsidiaries that merged with HSBC France on 31 July 2008, as well as continuing IT integration within the framework of the HUB and Fusion projects and the introduction of the French law on work, employment and purchasing power (the "TEPA" law) in the fourth quarter. For all of these reasons, the number of overtime hours in 2008 was much higher than in the previous year (up 27 per cent), while the number of employees increased by just 9 per cent over the same period. Of this total, hours declared under the agreement on exceptional work increased by 8 per cent, largely relating to IT projects.

IT development and migration work continued in 2008, relying on resources from the HSBC Group's Global Technology IT centres in Asia. This resulted in more limited use of IT outsourcing in France. Furthermore, work previously carried out by back-office staff was also transferred to the HSBC Group's Group Services Centres.

# Employees, remuneration, share offering and incentive schemes (continued)

### 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.

In 2008, the Health and Safety and Work Committees were particularly involved in consultations relating to a number of relocations at central sites.

### Absenteeism

Maternity leave increased by 40 per cent in 2008 (160 compared to 114 in 2007), while the core number of employees increased by 16 per cent (8,789 at end-2007, 10,218 at end-2008). Absences caused by sickness and occupational accidents increased slightly in 2008.

### Company welfare schemes

The consolidated amount of payments to establishment-level works councils (*Comités d'Etablissements*) and central works council (*Comité Central d'Entreprise*), based on a percentage of total wage costs, is EUR 3.7 million.

The subsidy paid in 2008 to the HSBC France mutual benefit society amounted to EUR 0.7 million, for a duration of seven months. This is lower than the amount paid in 2007 (EUR 1 million) as a result of the introduction on 1 August 2008 of a new compulsory health insurance scheme. The reduction in the subsidy is offset by an employer contribution to the scheme.

HSBC France contributed more than EUR 8 million to additional employee benefits (housing, compensation for children starting a new school year, travel, childminding, Mother's Day, loyalty and long-service awards).

## 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 into 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 2008, the key terms and conditions were as follows:

– offer period: 5 June to 25 June 2008;

– offer price: the offer price was based on the average HSBC Holdings plc share price during the 20 London Stock Exchange trading sessions preceding 18 April 2008, the date on which the Remuneration Committee of HSBC Holdings plc decided to make the offering;

– investment options: one investment option was put to employees. This option allowed to buy up to EUR 5,000 in HSBC shares at a 20 per cent discount, through profit-sharing and incentive plans and possibly a personal contribution. The share price was EUR 8.3124;

– maximum investment: the limit on the total number of HSBC shares subscribed by the HSBC France group employees was 3,300,000. If this limit was exceeded, a proportional reduction was applied beginning with voluntary payments.

Employees took up a total of 2,667,632 HSBC Holdings plc shares, representing a total contribution of EUR 22.2 million.

## Incentive schemes

A profit-sharing agreement and an incentive agreement were signed on 21 June 2006 regarding HSBC France for a term of three years (2006, 2007 and 2008).

### Profit-sharing agreement

HSBC France'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 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.

### Agreement on early withdrawals from employee profit-sharing accounts

An agreement was signed in 2008 to allow for the early release of employee shareholdings within the framework of the law on purchasing power of 8 February 2008.

### Incentive agreement

HSBC France'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.

### Top-up payments

An agreement was signed on 28 May 2008 to allow employees of merged banks HSBC UBP, HSBC Picardie and HSBC Hervet Group including HSBC de Baecque Beau) to make payments into the HSBC France company savings plan and the HSBC France long-term pension savings plan from the date of the merger (31 July 2008) and to benefit from the additional amount contributed by the company. The total additional amounts from which they were able to benefit in 2008 were as follows (subject to deduction of additional amounts already received in 2008 on the company savings plan of their original company):

– a gross additional amount of up to EUR 1,680 for Fund H or up to EUR 1,280 for diversified SRED (Security, Regularity, Balance, Dynamic) funds or up to EUR 1,680 gross, dividing payments between Fund H and diversified funds;

– a gross additional amount of up to EUR 110 on the HSBC Company Savings Diversified Responsibility and Solidarity Fund (HDRS) (for a payment of EUR 200);

– representing a total of EUR 1,790;

– and a gross additional amount of up to EUR 528 on SRED pension funds (for a payment of EUR 720).

# Employees, remuneration, share offering and incentive schemes (continued)

## Collective bargaining agreement relating to regulations for the HSBC France company savings plan

An agreement was also signed in 2008 to offer all HSBC France employees a new and improved company savings plan as of 1 January 2009.

Employee payments into the company savings plan (PEE) and the long-term future retirement savings plan (PERF) will benefit from the following additional contributions:

– the company may pay an additional amount into the company savings plan of up to EUR 1,800;

– and the company may pay an additional amount into the future retirement savings plan of up to EUR 624;

– representing a contribution from the company of up to EUR 2,424 in 2009.

## Share option policy

Pursuant to the authority granted by the shareholders at the Extraordinary 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 (Table 8 [1])**

| | | | |
|---|---|---|---|
| Date of Annual General Meeting authority | 07.05.1997 | 07.05.1997 | 07.05.1997 |
| Date of Board meeting | 29.04.1998 | 07.04.1999 | 12.04.2000 |
| Total number of options awarded | 728,000 | 909,000 | 909,000 |
| of which: number of options awarded to members of the Management Committee | 321,000 | 312,000 | 161,000* |
| Total number of beneficiaries | 199 | 331 | 502 |
| Number of Management Committee beneficiaries | 31 | 29 | 10* |
| First exercise date | 07.06.2000 | 07.06.2000 | 01.01.2002 |
| Expiry date | 29.04.2008 | 07.04.2009 | 12.04.2010 |
| Exercise price | FRF482 | FRF536 | |
| | (EUR73.48) | EUR81.71 | EUR142.50** |
| Discount to average quoted share price | 5% | 5% | 5% |
| Number of options exercised at 31 December 2008 | 710,500 | 713,373 | 264,250 |
| Number of options lapsed | 17,500 | 12,000 | 40,500 |
| Number of options outstanding | – | 183,627 | 604,250 |

* *Executive Committee.*
** *Discount to HSBC offer price of EUR150 per share.*
1 *Table numbers refer to table models provided by the Autorité des Marchés Financiers in its recommendation of 22 December 2008 concerning information to be provided in registration documents concerning compensation of corporate officers.*

## 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.

A 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 Holdings plc 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 the 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 employees still working for the Group after a two-year period.

Vesting of performance shares is subject to a three-year vesting period and to performance conditions that have changed over the period:

**2003 and 2004 awards**

Awards of performance shares are released in full if HSBC's TSR (Total Shareholder Return) exceeds that of a group of comparator banks ("the benchmark"). For 2003 and 2004 awards, the benchmark consisted of:

1. A peer group of nine selected banks;
2. The five largest banks by market capitalisation from the USA, UK, continental Europe and the Far East (excluding banks in group 1);
3. The banking sector of the Morgan Stanley Capital International World Index (excluding those in groups 1 and 2).

# Employees, remuneration, share offering and incentive schemes (continued)

A market comparator benchmark is then formed by combining the groups above and weighting the average so that 50 per cent is applied to group 1, 25 per cent to group 2 and 25 per cent to group 3.

As the test of the performance condition (TSR) failed in 2008 for the third year, the Performance shares awarded in 2003 will not be released. The test regarding the Performance shares awarded in 2004 failed in 2007 and 2008. The last test will be performed in March 2009.

**2005 onwards**

From 2005 onwards three main changes apply:

– only 50 per cent of the award is subject to a TSR measure and the remainder to an EPS (Earning Per Share) measure;

– the TSR measure is no longer against a single index but ranked against a comparator group of 28 major banks;

– there is a sliding scale for the release of shares with awards vesting at 30 per cent if HSBC's TSR ranks at $14^{th}$ position within the comparator group and 100 per cent if HSBC's TSR ranks at $7^{th}$ position or higher.

*Earnings per share (EPS)*

For awards of performance shares made in 2005 to 2007, 50 per cent of the award is subject to growth in EPS over the three-year life of the award.

The percentage of the performance share award to be released will depend upon incremental EPS in each year compared to the EPS of the base year, i.e. if the EPS in any year is higher than that of the base year then a positive number is returned and a negative number if the EPS is lower than that of the base year. The total of the incremental EPS is applied to a simple formula to determine the percentage to vest: 30 + 2.5(X-24).

All these shares categories cannot be sold before the end of a further two-year tax lock-up period. Previously, 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 required under the "New Economic Regulations" Act

HSBC France

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).

**Information on shares awarded**

**HSBC Holdings plc shares awarded in 2008 in respect of 2007**

From 2008, only Group General Managers are awarded shares with performance conditions. In respect of 2007, no HSBC France Executive Director was Group General Manager and so they did not receive shares with performance conditions.

**– Shares without performance conditions**

| | Date of award | Number of shares awarded [1] | Value of the shares under the method used for the consolidated accounts | Vesting date | Date of availability |
|---|---|---|---|---|---|
| Value of the shares awarded to Executive Directors | | | | | |
| P Boyles | 03.03.2008 | 61,328 | EUR637,811 | 03.03.2010 | 03.03.2012 |
| C de Backer | 03.03.2008 | 99,976 | EUR1,040,000 | 03.03.2010 | 03.03.2012 |
| G Denoyel | 03.03.2008 | 45,192 | EUR470,000 | 03.03.2010 | 03.03.2012 |
| Total value of the 10 highest awards of shares (employees or former employees) | 03.03.2008 | 790,515 | EUR8,223,305 | 03.03.2010 | 03.03.2012 |

1 *Including the shares awarded by other companies of the HSBC Group.*

**HSBC Holdings plc shares awarded in 2009 in respect of 2008**

From 2008, only Group General Managers are awarded shares with performance conditions. As in 2008 (cf. above), no HSBC France Executive Director received shares with performance conditions.

**– Shares without performance conditions**

| | Date of award | Number of shares awarded[1] | Value of the shares under the method used for the consolidated accounts | Vesting date | Date of availability |
|---|---|---|---|---|---|
| Value of the shares awarded to Executive Directors | | | | | |
| P Boyles | 02.03.2009 | 176,546 | EUR790,000 | 02.03.2011 | 02.03.2013 |
| C de Backer | 02.03.2009 | 227,256 | EUR1,016,925 | 02.03.2011 | 02.03.2013 |
| G Denoyel | 02.03.2009 | 73,517 | EUR328,975 | 02.03.2011 | 02.03.2013 |
| Total value of the 10 highest awards of shares (employees or former employees) | 02.03.2009 | 1,944,920 | EUR8,733,100 | 02.03.2011 | 02.03.2013 |

1 *Including the shares awarded by other companies of the HSBC Group.*

## Information on options exercised and shares which became available in 2008

**CCF options exercised**

| | Number of options exercised | Exercise price EUR/share | Date of award | Expiry date |
|---|---|---|---|---|
| Options exercised by Executive Directors | None | | | |
| Total 12 highest options exercised (employees or former employees) | 111,500 | 73.48 and 81.71 (average price: 78.61) | 1998 and 1999 | 2008 and 2009 |

**HSBC Holdings plc options exercised**

| | Number of options exercised | Exercise price GBP/share | Date of award | Expiry date |
|---|---|---|---|---|
| Options exercised by Executive Directors | None | | | |
| Total 10 highest options exercised (employees or former employees) | 629,500 | 6.91 to 8.712 (average price: 7.519) | 2001 to 2005 | 2011 to 2015 |

# Employees, remuneration, share offering and incentive schemes (continued)

**HSBC Holdings plc shares which became available**

As shares were first awarded in 2006 and considering that the shares become available four years after the award under the rules described above, the shares awarded in 2006 will be available in 2010 or 2011 in the case of "Performance Shares".

## 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 2008.

| | Options exercised | Exercise price EUR/share | Date of award | Expiry date |
|---|---|---|---|---|
| Total options exercised by 2 employees ......... | 7,000 | 10.84 | 21.12.1999 | 21.12.2009 |

# 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 or commercial situation or outlook since 31 December 2008, the date of the last audited and published financial statements.

The main post-balance sheet event is:

**Reorganisation at HSBC to support the development of the Equity Derivatives business (Press release dated 15 April 2009)**

HSBC France plans to reorganise its equity derivatives activities in 2009. Equity derivatives activities, which are centred in France for the HSBC Group, have seen strong growth over the past few years, and have not been significantly affected by the present tensions in the financial markets.

To further develop these activities with a real benefit for equity derivatives customers, in terms of both simplified customer relations, and control and ability to deal with important volumes, two main strategic guidelines are considered:

– First, to attach the equity derivatives business to a single, large entity.

To deal with the increasing size of transactions concerned, and for reasons of regulatory simplification, the European Equity Derivatives business could be booked to a single entity, that of HSBC Bank Plc, the British branch of the Group as well as parent company of HSBC France, and which is larger than that of HSBC Financial Products.

– Secondly, to create a pan-European infrastructure, strengthening the equity derivatives centre of excellence in Paris.

With this model, equity derivatives activities would continue to be managed from France, where the Group's front-office staff are based, who will be responsible for the structuring, trading and sale of equity derivatives on behalf of the pan-European platform.

Equity derivatives back-office, finance and control teams would be reorganised between Paris and London in order to ensure optimum conditions for efficient processing and high quality risk control:

- risk control handled by the Paris platform;
- transfer to Paris of some derivatives transactions currently processed in London;
- centralisation in London of administrative processing of underlying assets;

to optimise investments, particularly in IT, and to widen the market coverage. This reorganisation is being carried out without any job cuts.

Implementation of these projects is subject to the various consultations required by law, notably with staff representative bodies.

# Recent developments and outlook (continued)

## Outlook

Following the merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France in 2008, as well as the sale of regional bank subsidiaries and the specialisation of the network by market, the Retail Banking business has set itself two targets for 2009 within the framework of the 2010 Development Plan. These are to improve the level of service offered to existing customers and to develop the bank's customer base in the strategic segments of Premier banking customers and companies with strong international connections.

It will draw on the efficiencies of the organisational structure implemented in 2008, which will establish a stronger presence among its customers. It has also set itself the target of continuing with efforts to control general costs and risks, in order to improve its cost efficiency ratio significantly. The retail banking business's aims are supported by the Operations and Support Functions Department, in order to streamline operations, improve the quality of customer reception and procedures, and to simplify and optimise tools.

Emphasis will also be placed on synergies between Personal Financial Services, Commercial Banking, Global Banking and Markets, and Private Banking.

HSBC France will continue to capitalise on its strengths, namely the HSBC brand name, a retail banking business with a stable organisational structure and its status as part of the HSBC Group.

The final stage of the merger between the HSBC banks and HSBC France will also take place in 2009. After the legal merger on 31 July 2008 of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France, followed by the operating merger of HSBC Hervet and HSBC de Baecque Beau in November 2008, the operating merger of ex HSBC UBP and ex HSBC Picardie will take place in the second quarter of 2009.

In December 2008, HSBC France also announced that it was providing EUR 500 million to support small and medium-sized French businesses, in addition to loans already granted by HSBC France to its customers. This reflects HSBC France's desire to continue lending responsibly to its small and medium-sized business customers. This initiative complements that of its shareholder participation in the "Société de Financement de l'Economie Française".

HSBC France will maintain extremely cautious management of its liquidity and balance sheet in 2009 in an uncertain global economic and financial climate. It will uphold its policy of stable and diversified financing and will continue to adapt this policy according to market disruptions. For example, the policy of renewing debts reaching maturity will be maintained. In January 2009, an issue was made within the framework of the EMTN programme and certificates of deposit were also issued.

# Persons responsible for the Registration Document and for auditing the financial statements

## Person responsible for the Registration Document

Mr. Peter Boyles, Chief Executive Officer.

## Statement by the person responsible 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 7 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 pages 142 and 143 of this document regarding the consolidated financial statements, and on page 144 regarding the parent company financial statements, which contain remarks.

Paris, 28 April 2008

*CEO*, Peter Boyles

# Persons responsible for the Registration Document and for auditing the financial statements (continued)

## Persons responsible for auditing the financial statements

| | Date first appointed | Date re-appointed | Date term ends |
|---|---|---|---|
| **Incumbents** | | | |
| KPMG[1] | 2001 | 2006 | 2012 |
| Represented by Fabrice Odent[2] | | | |
| 1, cours Valmy | | | |
| 92923 Paris La Défense Cedex | | | |
| BDO France – Léger & Associés[3] | 2007 | – | 2012 |
| Represented by Michel Léger | | | |
| 52, rue La Boétie | | | |
| 75008 Paris | | | |
| **Alternates** | | | |
| Gérard Gaultry[1] | 2001 | 2006 | 2012 |
| 1, cours Valmy | | | |
| 92923 Paris La Défense Cedex | | | |
| François Allain[1] | 2007 | – | 2012 |
| 2, rue Hélène-Boucher | | | |
| 78286 Guyancourt Cedex | | | |

1 *Member of the Compagnie Régionale des Commissaires aux Comptes of Versailles.*
2 *KPMG represented by Pascal Brouard from 2009.*
3 *Member of the Compagnie Régionale des Commissaires aux Comptes of Paris.*

Auditors' fees paid in 2008 within the HSBC France group are available in Note 38 to the consolidated financial statements on page 141.

# 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 2007 and the Statutory Auditors' report on the financial consolidated statements, presented on pages 53-134 and 135 of the Annual Report and Accounts 2007 filed with the AMF on 25 April 2008 under reference number D08-0300.

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**
431 locations
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 FRANCE SUBSIDIARIES**

**DISTRIBUTION**

**HSBC Factoring (France)**
103, avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 72 00
Facsimile: 33 1 40 70 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 Global Asset Management (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**
4 offices
117, avenue des Champs-Elysées
75386 Paris Cedex 08
Telephone: 33 1 49 52 20 00
Facsimile: 33 1 49 52 20 99
Web: www.hsbcprivatebankfrance.com

**HSBC Private Wealth Managers**
117, avenue des Champs-Elysées
75386 Paris Cedex 08
Telephone: 33 1 49 52 29 00
Facsimile: 33 1 49 52 28 99
Web: www.hsbcprivatebankfrance.com

**OTHER LOCATIONS OF THE HSBC FRANCE GROUP**

SPAIN
**HSBC Global Asset Management (France)**
Plazza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
Telephone: 34 91 456 6970
Facsimile: 34 91 456 6111

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 Global Asset Management (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

UNITED KINGDOM
**Sinopia Asset Management (UK) Limited**
78 Saint James Street
London SW1A 1EJ
Telephone: 44 20 7991 8888
Facsimile: 44 20 7024 1999

SWEDEN
**HSBC Global Asset Management (France)**
Birger Jarlsgatan 25
SE-111 45 Stockholm
Telephone: 46 8 4545435
Facsimile: 46 8 4545451

**OTHER LOCATIONS 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)**
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)**
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

# Network of offices (continued)

**HSBC INTERNATIONAL NETWORK***

Around 9,500 offices in 86 countries and territories:

| EUROPE | OFFICES |
|---|---|
| Armenia | 13 |
| Belgium | 2 |
| Channel Islands | 38 |
| Cyprus | 1 |
| Czech Republic | 7 |
| France | 454 |
| Georgia | 1 |
| Germany | 13 |
| Greece | 27 |
| Hungary | 11 |
| Ireland | 7 |
| Isle of Man | 8 |
| Italy | 2 |
| Luxembourg | 4 |
| Malta | 54 |
| Monaco | 2 |
| Netherlands | 1 |
| Poland | 24 |
| Russia | 12 |
| Slovakia | 4 |
| Spain | 4 |
| Sweden | 3 |
| Switzerland | 17 |
| Turkey | 229 |
| United Kingdom | 1,618 |

| ASIA-PACIFIC | |
|---|---|
| Australia | 34 |
| Bangladesh | 10 |
| Brunei Darussalam | 12 |
| China | 136 |
| Cook Islands | 1 |
| Hong Kong SAR | 325 |
| India | 155 |
| Indonesia | 114 |
| Japan | 14 |
| Kazakhstan | 3 |
| Korea, Republic of | 15 |
| Macau SAR | 7 |
| Malaysia | 49 |
| Maldives | 1 |
| New Zealand | 11 |
| Pakistan | 9 |
| Philippines | 27 |
| Singapore | 27 |
| Sri Lanka | 15 |
| Taiwan | 43 |
| Thailand | 1 |
| Vietnam | 4 |

| AMERICAS | OFFICES |
|---|---|
| Argentina | 226 |
| Bahamas | 8 |
| Bermuda | 15 |
| Brazil | 1,889 |
| British Virgin Islands | 3 |
| Canada | 292 |
| Cayman Islands | 13 |
| Chile | 2 |
| Colombia | 32 |
| Costa Rica | 46 |
| El Salvador | 90 |
| Honduras | 87 |
| Mexico | 1,265 |
| Panama | 83 |
| Peru | 17 |
| United States of America | 1,584 |
| Uruguay | 11 |
| Venezuela | 1 |

| MIDDLE EAST AND AFRICA | |
|---|---|
| Algeria | 2 |
| Bahrain | 9 |
| Egypt | 76 |
| Israel | 3 |
| Jordan | 5 |
| Kuwait | 1 |
| Lebanon | 7 |
| Libya | 2 |
| Mauritius | 12 |
| Oman | 9 |
| Palestinian Autonomous Area | 1 |
| Qatar | 6 |
| Saudi Arabia | 88 |
| South Africa | 5 |
| United Arab Emirates | 33 |

* *At 2 March 2009.*
*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 Condat Silk paper using vegetable oil-based inks. Made in France, the paper comprises 98% virgin fibre and 2% 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:**
P Boyles, G Denoyel, J Beunardeau: Tina Merandon
C de Backer, P Pontet: Ambroise Tézenas/olivier-ripoll.com

HSBC

The world's local bank

**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
**www.hsbc.fr**