HSBC France

Annual Report and Accounts 2010

HSBC

The world's local bank

The HSBC Group

Headquartered in London, HSBC is one of the world's largest banking and financial services organisations and one of the industry's most valuable brands. HSBC provides a comprehensive range of financial services to around 95 million customers through two customer groups: Personal Financial Services and Commercial Banking; and two global businesses: Global Banking and Markets, and Global Private Banking.

The Group's international network covers 87 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, the Middle East, North America and Latin America.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 221,000 shareholders in 127 countries and territories.

In 2010, HSBC's reported profit before tax was USD 19,037 million and the underlying pre-tax profit was USD 18,366 million. Profit attributable to shareholders of the parent company was USD 13,159 million. Group total assets were USD 2,455 billion at 31 December 2010.

Geographical distribution of results – Profit before tax:

Year ended 31 December 2010

	USDm	%
Europe	4,302	22.6
Hong Kong	5,692	29.9
Rest of Asia-Pacific	5,902	31.0
Middle East	892	4.7
North America	454	2.4
Latin America	1,795	9.4
Profit before tax	19,037	100.0

AUTORITÉ DES MARCHÉS FINANCIERS
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This Registration Document was registered with the Autorité des Marchés Financiers on 26 April 2011 in accordance with Article 212-13 of its 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. This document has been prepared by the issuer and is binding on its signatories.

Annual Report and Accounts 2010

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

In 2010, HSBC France once again proved the strength of its universal banking model. In France, Retail Banking, Global Banking and Markets, Asset Management and Private Banking activities capitalised on the HSBC Group's strengths – its leading international presence, its solid financial position and its innovation in banking and technology.

The businesses of HSBC France and the development of its organisation and structures

Principal activities

HSBC France's strategy is based on a universal banking model and relies on a comprehensive range of services aimed at a business and retail clientele wishing to benefit from the infrastructure and network of the HSBC Group, one of the world's leading financial institutions. Its business activities are organised into three business units.

Combining the network of bank branches and insurance business activities, Retail Banking serves two customer groups. Personal Financial Services markets the HSBC Group products in France, more particularly the "Premier" and "Advance" services, aimed at a wealthy clientele with an international outlook and high expectations in terms of service quality and wealth management. Specialising in small and medium-sized businesses, Commercial Banking supports its clients in their development plans in France and abroad on the international markets through a comprehensive range of services in the areas of financing, cash management, factoring and trade finance.

Global Banking and Markets offers its clients (financial institutions, corporate and institutional investors) a broad range of expertise and products meeting their specific requirements. This business unit also encompasses Asset Management activities.

Finally, Private Banking assists its clients in developing a personalised patrimonial wealth and financial strategy.

Retail Banking 2011 Strategic Plan

The Retail Banking business continues its transformation. This programme, "Strategic Plan 2011", is organised around four key projects:

- specialisation of the professional market;
- concentration of branches on commercial activities;
- reducing and dematerialising the administrative workload;
- the real estate plan.

To better meet customer needs, the organisation of the professional market has specialised, relationship managers developed their expertise and two new segments have emerged: a Professionals segment for the "liberal" professions (self-employed individual professionals) and an Entrepreneurs segment for professionals operating as a company. This project was completed at the end of 2010.

A new organisational model for retail customer branches has been gradually implemented since September 2010, with a clarification of everyone's roles and standardised working practices. The aim is to double the amount of time devoted to commercial activities so that customer officers have more time for their customers. At the end of December, one third of the branches had already put this new organisation in place and a significant increase in the amount of time devoted to commercial activities has already been noted.

In parallel, the plan to lighten the administrative workload throughout the retail and business customer network is being deployed. This simplifies, dematerialises and centralises administrative tasks, through the integration of the Group's workflow tool and the creation of a middle office, while continuing to improve the quality of transaction processing.

In 2010, under the real estate plan, 14 branches or Premier Centres were renovated and 23 branches freshened up. The target is to double the number of Premier Centres and roll out the new HSBC Group Premium design. The 2011 Strategic Plan provides for the renovation and freshening up of 145 sites in the long term, which is about 50 per cent of the network in terms of surface area.

Further simplification of the HSBC France group

Main changes to organisational structures within the HSBC France group

According to the agreement signed on 26 October 2009, the fund depositary and custodial activities of HSBC France and its subsidiary HSBC Securities Services (France), specialising in fund administration activities, were sold to CACEIS on 1 January 2010. The deal encompassed EUR 39 billion in funds under custody in 390 portfolios and EUR 56 billion in assets under administration for 20 management companies and 700 mutual funds. As part of the transaction, a partnership was formed covering several countries in the Asia region where CACEIS in France will have access to the foreign sub-custodial services of the HSBC network.

In December 2009, HSBC France entered into an agreement for the sale of buildings located at 103 avenue des Champs-Elysées and 15 rue Vernet, for

EUR 400 million, with French Properties Management. As the necessary conditions were satisfied, the sale was finalised on 25 February 2010 to a subsidiary of a French OPCI (*Organisme de Placement Collectif Immobilier* – real-estate collective investment scheme) created for this purpose. HSBC France agreed to a 9-year lease, with the option to terminate the lease at the end of the 4th, 5th and 6th years.

As part of the reorganisation of its equity derivatives business announced in April 2009, the HSBC France group sold these operations to HSBC Bank plc Paris Branch in November 2009. This transfer has given the business a broader financial base to underpin its growth. Following the operational migration of the HSBC Financial Products (France) activities, completed in the first half of 2010, the merger of HSBC Financial Products (France) with HSBC France took place on 30 June 2010.

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 optimise the organisation by business line.

The bank's performance in 2010

After a difficult year in 2009, the French economy gradually recovered a positive albeit modest rate of growth in 2010, with a slight rise in inflation and a falloff in unemployment.

The present state of the economy nonetheless remains marked by highly volatile financial markets, fuelled by unsettled forex markets and deep concerns regarding the sovereign debt weighing down several Eurozone countries. The CAC 40 ended the year at a level close to that of end 2009, while the cost of refinancing countries with the highest levels of debt remained high, despite the concerted intervention of the Eurozone governments and the European Central Bank.

HSBC France's performance in 2010 mirrored this contrasting economic climate, with strong growth in Retail Banking but a slowdown in the Markets business compared with an exceptional year in 2009. With the exception of market operations, all businesses saw their revenue grow, while the cost of risk decreased significantly (about 32 per cent) compared to 2009.

HSBC France's performance is analysed below from three different angles:

– the individual financial statements of HSBC France, prepared in accordance with the principal accounting policies applicable to credit institutions in France[1];

– the consolidated financial statements of the HSBC France group, prepared in accordance with IFRS accounting rules as defined in Note 1[2] of the consolidated financial statements;

– HSBC in France, which also includes the Paris branch of HSBC Bank plc, which is engaged in equity derivatives activities among others, as well as subsidiaries HSBC Assurances Vie (France) and HSBC Assurances IARD (France).

Financial results of HSBC France

HSBC France showed a pre-tax profit of EUR 681 million in 2010, down 1 per cent from 2009. This includes the gain in February 2010 on the sale and leaseback of the Champs-Elysées headquarters (EUR 236.7 million).

Net operating income totalled EUR 2,039 million, down 13 per cent from 2009, which had been marked by exceptional profits on capital market activities.

The Retail Banking business performed very well commercially in 2010. Nearly 39,000 new Premier customers joined HSBC France, which in addition continued to support its Business customers, by continuing its medium and long-term outstanding customer loans.

The contribution by Global Banking and Markets was also significant, despite the impact of the sovereign debt crisis in Europe; among other things it benefited from HSBC France's good positioning in the coverage and equity capital markets activities.

General and administrative expenses were up 6 per cent from the previous year, more particularly due to the exceptional tax on market professionals performance costs, paid in 2010 for tax year 2009 or the rise in rental expenses following the sale of the headquarters. Apart from these specific items, the trend in the cost base remained under control. Following the upturn in economic conditions, the cost of risk has dropped by 17 per cent, amounting to EUR 142 million.

Net profit available for distribution thus totalled EUR 624 million for financial year 2010, a sharp increase (+13 per cent) compared with 2009.

HSBC France's consolidated results (legal entities)

The HSBC France group showed a pre-tax profit of EUR 512 million, up 26 per cent from 2009. This includes the gain of February 2010 on the sale and leaseback of the Champs-Elysées head office (+EUR 141 million), as well as fair value movements on its own debt attributable to credit spread (+EUR 37 million).

1 *See Note 1 of the Parent company financial statements, page 180.*
2 *See page 90.*

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

The profitability of Retail Banking continued to grow, capitalising on investments devoted to the transformation and optimisation of our network. The contribution of Global Banking and Markets to group profits remained significant, although it was adversely affected in the second half of the year by tensions on sovereign debt in the Euro zone.

Thanks to an upturn in economic conditions, the cost of risk fell 32 per cent to EUR 121 million. The average loss rates thus stood at 0.4 per cent of credit outstandings, compared with 0.5 per cent in 2009.

HSBC France has also pursued its efforts to optimise the use of its capital, managing to reduce its risk weighted assets by 6 per cent during the course of 2010. The capital ratios (Core Tier One) thus remained practically unchanged at 12.1 per cent, despite a dividend payout of EUR 720 million, up nearly 60 per cent compared to the period's profit attributable to the shareholders, which amounted to EUR 454 million. The liquidity ratio again improved to 122 per cent, remaining much higher than French regulatory requirements.

HBSC France thus continues to benefit from a very solid balance sheet structure, which stands it in good stead to adapt to the more stringent requirements of the new Basel III regulatory framework.

Estimated impact of the Basel committee's new rules on the bank

Since most of the new standards proposed by the Basel committee have not yet been adopted at European level nor transposed into French law, their impact is still hard to assess, surrounded as it is by a high degree of uncertainty. Moreover, since the estimates below are based on our positions at 31 December 2010, they do not factor in future changes in HSBC France's balance sheet, nor the potential mitigating effects further to a possible adjustment to our business model.

For information, our current assumptions show that the stricter rules governing the definition of regulatory capital requirements may have a limited impact, in the order of a few tens of millions of EUR, compared with a Core equity Tier One of approximately EUR 4 billion on 31 December 2010.

On the other hand the impact is expected to be more significant on risk weighted assets, which – all things being equal, and before taking into account any measure of optimisation – could rise to 40 per cent, primarily due to the new rules on stressed Value at Risk, the recognition of Incremental Risk Charge and the introduction of a capital charge for Credit Valuation Adjustments (CVA).

HSBC France however has high capital surpluses, representing nearly EUR 1.4 billion on 31 December 2010[1], and should thus be able to meet the new capital ratios that will apply by 2018 while maintaining a significant dividend payout ratio.

Contribution of France to the results of the HSBC Group operations[2]

Within the scope of HSBC in France, which also includes insurance and equity derivative activities, pre-tax profit came to EUR 628 million, up 15 per cent on 2010.

Excluding accounting adjustments[3], pre-tax profit came to EUR 608 million, down 21 per cent year on year, owing to the volatile financial environment that prevented Capital Markets from repeating its excellent performance of 2009. On the other hand, all the other business lines, Retail Banking in particular, performed significantly better.

The cost of risk at year-end was the same as that for the consolidated company (legal entities), EUR 121 million or 0.4 per cent of outstanding loans.

General and administrative expenses were up 6 per cent, more particularly due to the exceptional tax on the market professionals performance costs, paid in 2010 for tax year 2009, the rise in rental expenses further to the sale of the head office, and sundry provisions for litigation, all these items being partially offset by the classification under corporate income tax of the business value-added contribution (CVAE in French)[4]. Apart from these specific items, the control over the trend in the cost base remains very moderate. Our cost income ratio remains steady at 71 per cent, based on reported figures.

1 *By assessing capital requirements at 8 per cent of risk weighted assets.*
2 *The comments on pages 4 to 7 relate to the contribution of France to the results of the HSBC Group operations, which includes:*
– *the HSBC France group, including the results of entities legally owned to HSBC France but located outside France (mainly Asset Management businesses held abroad, CMSL in the United Kingdom), that is to say the legal scope in its entirety, and also the Paris branch of HSBC Bank plc, which is engaged in equity derivative activities, as well as HSBC Assurances Vie (France) and HSBC Assurances IARD (France), to the exclusion of the costs of funding and the debt on acquisition recognised by HSBC Bank plc Paris Branch;*
– *dynamic money market funds in which the HSBC France group has a controlling interest, consolidated since the 1st quarter of 2008.*
The financial figures are presented according to the IFRS as adopted by the HSBC Group.
3 *In this document and unless otherwise stated, "excluding accounting adjustments" imply restated items to eliminate the fair value movements on own debt and covered bonds attributable to credit spread, former regional banking subsidiaries swap amortisation discount on CCF share options unwind and impairment charge on HSBC shares allocated to employees.*
4 *CVAE is one of the two components of the territorial economic contribution (CET in French), which replaced the "taxe professionnelle" (local tax on businesses) on 1 January 2010. The latter was recognised under general and administrative expenses.*

Business segment results

Personal Financial Services

Personal Financial Services, including Insurance, showed pre-tax profit of EUR 82 million, over double that of 2009.

2010 was marked by high growth in the interest margin on deposits (+37 per cent), despite the relatively low interest rates and thanks to a rise in deposits on regulated savings accounts. The growth in deposit outstandings reflects among other things the steady and dynamic development of the customer segment "Premier", which brought in nearly 39,000 new bank clients in 2010, representing 12 per cent of the Premier customer base. Net fees and commissions on banking transactions were also up from 2009 (+6 per cent).

The cost of risk for its part was down 45 per cent from 2009, which had been affected by a significant impairment relating to a market-wide litigation. It is still very low, in the region of 0.1 per cent of credit outstandings.

In order to sustain its growth, HSBC France invested more in marketing and advertising campaigns, to boost its brand image. The launch of the HSBC Advance offer was part of this strategy, catering more particularly to the needs of the 25-45 age bracket. It supplements the HSBC Premier offer and allows the bank, with these two propositions, to target the wealthiest 25 per cent of the population.

Launched in partnership with Asset Management, the World Selection range of funds has been a great success, with over EUR 200 million collected in France since it was launched in 2009. These funds, managed by Asset Management, showed returns of 6 to 12 per cent in 2010.

Commercial Banking

Despite the continuing difficult economic situation, the before-tax earnings of Commercial Banking amounted to EUR 102 million, up 38 per cent from 2009. Revenue before loan impairment charges was up 3 per cent, driven among other things by the interest margin on deposits, and more specifically by sight deposits, which showed a 14 per cent rise in outstandings over one year.

These promising results are due to the efforts made by the network to specialise and rationalise, with the creation in 2010 of 15 small business centres ("*Pôles Entrepreneurs*") nationwide, catering to the special needs of businesses generating less than EUR 750,000 in annual turnover. The network's specialisation strategy can also be illustrated by the success of the Business Direct virtual branch, launched for the benefit of micro-businesses in 2009, which has seen a 9-fold increase in its number of clients in 2010.

At the heart of Commercial Banking is its capacity to offer businesses cross-border transactions; in this respect, the successful referrals to the HSBC Group were up 89 per cent compared with 2009.

The strong growth in the factoring business, whose revenues were 22 per cent up from 2009 must also be emphasised, and which is one of the 10 leading players on the French market [1].

2010 was also marked by tight risk cost control, which fell by 11 per cent. Despite the implementation of the 2011 Strategic Plan, operating expenditure for its part remained stable, resulting in a 2 points improvement in the cost income ratio.

Global Banking and Markets

Global Banking and Markets were faced with a subtained highly volatile macro-economic environment, which affected the performance of Markets activity in the second semester of 2010. The business line's before-tax earnings stood at EUR 293 million and net operating income stood at EUR 975 million, down 28 per cent compared with 2009.

Though impacted by the Eurozone sovereign debt crisis, and a switch of client demand toward more "standard" products, market activities have been resilient with the second best historical performance after 2009.

HSBC still has a strong market position in these activities, since it was rated 2nd largest bookrunner on public-sector issuances and 3rd largest bookrunnner on financial institutions issuances on the French market [2]. In addition, structured rates derivatives activities restored a positive contribution to revenue after a difficult year in 2009.

Global Banking activities saw their revenue before loan impairment charges rise sharply, in particular with a higher contribution from the Credit Default Swaps (CDS) portfolio. Despite a sharp slump in client activity, the advisory and equity capital markets platforms participated in numerous transactions such as SNI, BC Partners, Galeries Lafayette and Areva. HSBC France ended the year in 6th place for the M&A (Mergers and Acquisitions) transactions announced in 2010 [3], tied for 1st place for initial public offerings and in 4th place for equity offerings [4].

1 Association Française des Sociétés Financières *rankings on the 9 first months 2010.*
2 *Dealogic Bondware rankings at end December 2010.*
3 *Merger Market rankings at end December 2010.*
4 *Dealogic rankings at end December 2010.*

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

The cost of risk fell by over half compared with 2009, which was marked by a substantial impairment, partially offset by hedging on CDS. Total operating expenses for their part remained stable.

Asset Management showed before-tax earnings of EUR 22 million, over double compared with 2009. In a volatile and risk-averse market, growth in this business was driven by the investment products offer in emerging countries and the good performance of diversified funds and fixed income products.

Assets under management and under distribution have increased by 15 per cent in the past year, reaching EUR 97 billion. While these results benefited from the partial recovery of the markets, they were also due to a positive trend on net new money, notably thanks to the successful synergies with Retail Banking through the promotion of World Selection, and with HSBC Assurances (dedicated management agreements).

Private Banking

Private Banking showed consolidated before-tax income of EUR 13 million, a sharp increase compared with 2009, a year marked by particularly unfavourable market conditions.

These satisfying results reflect a moderate recovery in the financial markets, which Private Banking managed to turn to its advantage to boost the performance of managed products.

They also reflect strong commercial dynamism and a satisfactory level of gross inflows from private residential customers, through life insurance products, as well as the confirmed success of the synergies plan with the HSBC France network.

The market's recognition of Private Banking's expertise was once again demonstrated with the 6th place HSBC Private Wealth Managers obtained out of 668 equity managers for Europe value and *Grande Europe* funds [1] (risk-adjusted performance).

In a context of sustained growth in revenues before loan impairment charges (+10 per cent), Private Banking managed to improve its profitability through effective cost control. Costs levelled off in 2010, resulting in a 9 points improvement in the cost income ratio.

Proposed resolutions

The Board of Directors has drawn up the following resolutions to be presented at the Annual General Meeting of Shareholders on 4 May 2011.

Ordinary business

In Resolution 1, the Board proposes that the shareholders, having read the Board's management report, the Auditors' report on the financial statements and the reports of the Chairman and the 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 2010 as well as the transactions reflected in those statements or summarised in those reports.

Resolution 2 concerns the allocation of the 2010 net profit of EUR 623,670,762.87. Along with retained earnings of EUR 2,972,870,058.52, the profit available for distribution amounts to EUR 3,596,540,821.39. The dividend to be paid to the shareholders would be EUR 10.67 per share, for a total distribution of EUR 719,561,539.40. Therefore, retained earnings would amount to EUR 2,876,979,281.99. As the proposed dividend equals the advance dividends decided by the Board on 27 July and 10 November 2010, there would be no final payment.

Resolution 3 proposes that the shareholders approve the consolidated financial statements at 31 December 2010 so as to comply with Article L. 225-100 of the French Commercial Code, after having heard the Statutory Auditors' report on consolidated financial statements.

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

Resolution 5 proposes that the shareholders renew the directorship of Mr Philippe Pontet for a term of four years ending with the Annual General Meeting that will be called to approve the financial statements of the year ending in 2014.

1 *As rated by* Citywire *magazine.*

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 6 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 Articles L. 3332-18 and following 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 7 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 the shareholders reject this resolution.

Powers (Resolution 8)

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

Christophe de Backer *Chief Executive Officer.*
Age 49. Graduate of the Institut Supérieur de Gestion. He joined HSBC France in 1990 where he has held several positions notably in the equity markets area, becoming Chairman and Chief Executive Officer of CCF Securities in 1998. In January 2001, he was appointed Senior Corporate Vice-President in charge of Asset Management and Insurance for HSBC France. In September 2005, he was appointed as Chairman of the Executive Board of HSBC Private Bank France. In September 2007, he was appointed Deputy Chief Executive Officer, Deputy to the Chief Executive Officer in all of his duties. Since 1 February 2010, he has been appointed CEO of HSBC France. On 19 January 2011, he was appointed Group General Manager of the HSBC Group.

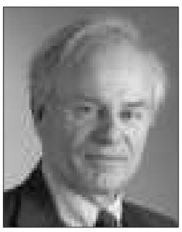
Jean Beunardeau *Deputy Chief Executive Officer, Deputy to the CEO, Head of Global Banking and Markets.*
Age 49. Graduated from Ecole Polytechnique, Telecom engineer and Master of Economy, he began his career at the Ministry of Finance, mainly at the Treasury. He became Technical Advisor to the Prime Minister in 1995. He joined HSBC France in 1997 in Corporate Finance and became Managing Director in 2000. He was appointed co-head of CIBM mainly in charge of Corporate and Investment Banking in March 2004. In 2005, he was appointed Senior Corporate Vice-President. In September 2007, he was appointed Head of Global Banking and Markets. Since 1 February 2010, he has been appointed Deputy CEO and Deputy to the CEO, in addition to his current role as Head of Global Banking and Markets France. In November 2010, he was appointed Head of Global Banking, Continental Europe, HSBC Group.

Gilles Denoyel *Deputy Chief Executive Officer, Chief Risk Officer.*
Age 56. Graduate of the Ecole des Mines de Paris, the Institut d'Etudes Politiques and the Ecole Nationale d'Administration. In 1981, he was appointed "*Inspecteur des Finances*" (Financial Controller) at the Ministry of Finance. In 1985, he entered the French Treasury, where he successively held responsibilities on the Interministerial Committee for Industrial Reconstruction (CIRI) and in the Insurance Department, before being put in charge of the French Privatisation Programme. In June 1996, he joined HSBC France as Chief Financial Officer. He became Group General Secretary, member of the Executive Committee, put in charge of Logistic and Operations in 1998 and was appointed Senior Corporate Vice-President Finance in March 2000. In March 2004, he was appointed Deputy Chief Executive Officer of HSBC France, in charge of the support functions and the finance support services. In January 2006, he was appointed Deputy Chief Executive Officer of HSBC France, in charge of the Asset Management activities, the Insurance activities and the non-finance support services. Since September 2007, he has been responsible for all risk management and control activities, and also for relations with the regulatory supervisors.

Christophe de Backer

Jean Beunardeau

Gilles Denoyel



Philippe Pontet *Chairman Investment Banking.*
Age 68. 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

Miguel Barrieras	Head of Commercial Banking
Marine de Bazelaire	Head of Corporate Sustainability
Xavier Boisseau	Head of Global Markets
Loïc Bonnat	Chief Operating Officer, Global Banking
Antoine Cahuzac	Senior Corporate Advisor to the Chief Executive Officer
Anne-Catherine Colleau	Head of Operational Risk and Internal Control
Laurent Facque	Head of Compliance
Matthieu Kiss	Chief Financial Officer HSBC France and Chief Financial Officer and Head of Strategy and Planning for Continental Europe, as of March 2011
Marc de Lapérouse	Head of Legal HSBC France and Head of Legal for Continental Europe, as of July 2010
Pierre Lebleu	Head of Human Resources
Nathalie Léonard	Head of Tax
Philippe Moiroud	Chief Operating Officer, Global Banking and Markets
François Mongin	Head of Group Audit France
Stephen Pascoe	Head of Personal Financial Services HSBC France and Head of PFS for Continental Europe, as of March 2010
Emmanuel Rémy	Chief Credit Officer
Daniel Roy	Chairman of the Executive Board of HSBC Private Bank France
Pierre Ruhlmann	HSBC Technology and Services Officer (CTSO) HSBC France and Deputy CTSO for Continental Europe, as of March 2011
Alexandra Serizay	Head of Strategy and Organisation
Laurent Tignard	Head of Asset Management
Jean-Pierre Wiedmer	Head of Insurance

Composition of the Board of Directors

Composition of the Board of Directors of HSBC France on 1 February 2011[1]

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

Principal position:
Group Chief Executive Officer, HSBC Holdings plc (since 1 January 2011).
Chairman of the Board of Directors, HSBC France. Member of the HSBC France Nomination and Remuneration Committee.

Other directorships in the HSBC Group:
Chairman, The Hongkong and Shanghai Banking Corporation Limited (since 1 January 2011). Chairman, HSBC Private Banking Holdings (Suisse) SA. Director, HSBC Holdings plc. Member of the Supervisory Board and Deputy Chairman, HSBC Trinkaus & Burkhardt AG. Directorships expired in 2010: Chairman, HSBC Bank plc. Chairman, HSBC Bank Middle East Limited.

Other directorships outside of the HSBC Group:
Trustee, Future Hope. Trustee, Special Boat Service Association. Member, International Advisors Board of President Arroyo of Philippines. Member, Heart of the City of London Limited.

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. Chairman Europe and Middle East and Head of Global Businesses in 2010. Group Chief Executive since 1 January 2011.

Peter Boyles *Born in 1955*
Holds 1 HSBC France share. First elected: 2007. Last re-elected: 2009.Term ends: 2013.

Principal position:
Chief Executive, Continental Europe, HSBC Group (since 1 February 2010).
Deputy Chairman, HSBC France (since 1 February 2010).

Other directorships in the HSBC Group:
Chairman, HSBC Bank plc A.S. (since 26 March 2010). Director, HSBC Bank Malta plc (since 6 May 2010). Director, HSBC Bank plc (since 22 July 2010). Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG (since 8 June 2010).

Other directorship outside of the HSBC Group:
Member of the Supervisory Board, S.A. des Galeries Lafayette.

Résumé:
Joined HSBC in 1975 and held various roles in the Middle East, Hong Kong and Asia. In 2000, 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, became Group Head of Human Resources in 2006. From September 2007 to January 2010, Chief Executive Officer of HSBC France. Since 1 February 2010, Chief Executive, Continental Europe for the HSBC Group and Deputy Chairman of 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:
Chief Executive Officer, HSBC France (since 1 February 2010).

Other directorships in the HSBC Group:
Chairman of the Supervisory Board, HSBC Private Bank France. Director, HSBC Assurances Vie (France). Director, HSBC Global Asset Management (France). Directorships expired in 2010: Director, HSBC Assurances IARD (France). Director, Sinopia Asset Management.

Other directorship outside of the HSBC Group:
Director and Member of the Committee, Fondation de France (permanent representative of HSBC France) (since 15 December 2010).

1 *As pertaining to their directorship at HSBC France, 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.*

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

Principal position:
Deputy CEO, HSBC France (since 1 February 2010).
Head of Global Banking, Continental Europe, HSBC Group (since November 2010).

Other directorships in the HSBC Group:
Chairman of the Board, Foncière Elysées. Director, Nobel. Director, HSBC Global Asset Management (France) (permanent representative of HSBC France). Director, HSBC Real Estate Leasing (France) (since 14 December 2010). Directorship expired in 2010: Director, HSBC Epargne Entreprise (France).

Other directorships outside of the HSBC Group:
Chairman, X-Banque (since 2010). Director, Amicale des Anciens Elèves de Polytechnique. Director, Institut de la Gestion Déléguée.

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

Principal position:
Deputy CEO, HSBC France.

Other directorships in the HSBC Group:
Vice-Chairman, HSBC Assurances Vie (France). Director, Halbis Capital Management (France). 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, DCNS. Director, Fonds de Garantie des Dépôts. Director, MEDEF (permanent representative of HSBC France). Treasurer, Association Française des Banques. Chairman, Groupement des Banques Etrangères en France. Directorships expired in 2010: Member of the Board, Association Française des Banques. Member of the Orientation Committee, Euronext.

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:
Commercial manager, HSBC REIM.

Résumé:
Joined HSBC France in 1967.

Michel Gauduffe *Born in 1959*
Holds 1 HSBC France share. First 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:
Deputy Chairman of the Board, Institution de Prévoyance Vernet (since 31 May 2010). Deputy Chairman of the Board, Institut de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France (since 28 June 2010). Directorship expired in 2010: Chairman of the Board, Institution de Prévoyance Vernet.

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

Résumé:
Joined HSBC France in 1981.

1 *Résumé available on page 8.*

Composition of the Board of Directors (continued)

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

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

Other directorships[1]*:*
Independent Director, HSBC Bank plc (since 1 October 2010). Director, Casino, Guichard-Perrachon. Chairman, Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors, National Retail Federation (NRF-USA). Elected member, Chambre de Commerce et d'Industrie de Paris.

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:
Chairman of the Supervisory Board, Adidas AG. Director, Sanofi-Aventis. Member of the Supervisory Board, Allianz AG.

Résumé:
After several 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 then, he has been a Director of Sanofi-Aventis.

Thierry Moulonguet *Born in 1951*
Holds 1 HSBC France share. First elected: 2009. Term ends: 2013.
Independent Director. Chaiman of the HSBC France Audit Committee.

Principal position:
Director and Special Adviser to the President of the Renault-Nissan Alliance (since 1 July 2010).

Other directorships:
Director, Fimalac (since 9 February 2010). Director, Fitch Rating Group Inc (since 1 September 2010). Directorships expired in 2010: Director, RCI Banque. Director, Renault Retail Group.

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

1 *Primarily 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[2].

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: 2009. Term ends: 2013.
Independent Director.

Other directorships:
Director, France Télécom. Chairman of the Supervisory Board, Gimar Finances SCA. Censor, Eurazeo. Directorships expired in 2010: Member of the Supervisory Board, Eurazeo. Censor, 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. Last re-elected: 2009. Term ends: 2013.
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. Chairman, Ingenious Asset Management Limited (since November 2010). Director, Ingenious Solar UK VCT 1 plc (since November 2010). Director, Ingenious Asset Management International Limited (since 21 January 2011). Director, FP Holdings Limited (since 21 January 2011).

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

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. Directorship expired in 2010: 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 4 May 2011.*

Composition of the Board of Directors (continued)

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

Principal position:
Chairman and CEO, Louis Dreyfus SAS.

Other directorships:
Director, Direct Energie. Director, Imerys. Member of the Supervisory Board, Eurazeo. Chairman of the Supervisory Board, Kurosawa BV.

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

Directorships held[1] by the members of the Board of Directors (composition at 1 January 2011)

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

Director's name Principal position	First elected	Term ends	2010	2009	2008	2007	2006
Stuart Gulliver Chief Executive Officer, HSBC Holdings plc Chairman of the Board of Directors, HSBC France	2009	2012	Directorships in the HSBC Group: Chairman: HSBC France, HSBC Private Banking Holdings (Suisse) SA. Director: HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited. Member of the Supervisory Board and Deputy Chairman: HSBC Trinkaus & Burkhardt AG. Directorships outside of the HSBC Group: Trustee: Future Hope, Special boat Service Association. Member: International Advisors Board of President Arroyo of Philippines, Heart of the City of London Limited.	Directorships in the HSBC Group: Chairman: HSBC France. Director: HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank plc, HSBC Private Banking Holdings (Suisse) SA. Member of the Supervisory Board and Deputy Chairman: HSBC Trinkaus & Burkhardt AG. Directorships outside of the HSBC Group: Trustee: Future Hope. Member: International Advisors Board of President Arroyo of Philippines.	–	–	–
Peter Boyles Chief Executive Officer, Continental Europe, HSBC Group Deputy Chairman, HSBC France	2007	2013	Directorships in the HSBC Group: Director and Deputy Chairman: HSBC France. Chairman: HSBC Bank A. S. Director: HSBC Bank Malta plc, HSBC Bank plc. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG. Directorship outside of the HSBC Group: Member of the Supervisory Board: S.A. des Galeries Lafayette.	Directorships in the HSBC Group: Director and CEO: HSBC France. Directorship outside of the HSBC Group: Member of the Supervisory Board: S.A. des Galeries Lafayette.	Directorships in the HSBC Group: Director and CEO: HSBC France.	Directorships in the HSBC Group: Director and CEO: HSBC France.	–

1 *Primarily appointments held in companies which do not belong to the group in which the Director holds his principal position.*

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	2010	2009	2008	2007	2006
Christophe de Backer Chief Executive Officer, HSBC France	2007	2012	Directorships in the HSBC Group: Director and CEO: HSBC France. Chairman of the Supervisory Board: HSBC Private Bank France. Director: HSBC Assurances Vie (France), HSBC Global Asset Management (France). Directorship outside of the HSBC Group: Director and Member of the Committee: Fondation de France (permanent representative of HSBC France).	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman of the Supervisory Board: HSBC Private Bank France. Director: HSBC Assurances Vie (France), HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman of the Supervisory Board: HSBC Private Bank France. Director: HSBC Assurances Vie (France), HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman of the Supervisory Board: HSBC Private Bank France. Director: Erisa, Erisa IARD, HSBC Investments (France), Société Marseillaise de Crédit, Sinopia Asset Management.	–
Jean Beunardeau Deputy CEO, HSBC France Head of Global Banking, Continental Europe, HSBC Group	2008	2014	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman of the Board: Foncière Elysées. Director: Nobel, HSBC Global Asset Management (France) (permanent representative of HSBC France), HSBC Real Estate Leasing (France). Directorships outside of the HSBC Group: Chairman: X-Banque. Director: Amicale des Anciens Elèves de Polytechnique, Institut de la Gestion Déléguée.	Directorships in the HSBC Group: Director: HSBC France, HSBC Epargne Entreprise, Nobel, HSBC Global Asset Management (France) (permanent representative of HSBC France). Chairman of the Board: Foncière Elysées. Directorships outside of the HSBC Group: Director: X-Banque, Amicale des Anciens Elèves de Polytechnique, Institut de la Gestion Déléguée.	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. Directorships outside of the HSBC Group: Director: X-Banque, Amicale des Anciens Elèves de Polytechnique, Institut de la Gestion Déléguée.	–	–

Director's name Principal position	First elected	Term ends	**2010**	2009	2008	2007	2006
Gilles Denoyel Deputy CEO, HSBC France	2004	2014	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman: HSBC Assurances Vie (France). Director: Halbis Capital Management (France), HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Chairman: Groupement des Banques Etrangères en France. Treasurer: Association Française des Banques.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman: HSBC Assurances Vie (France). Director: Halbis Capital Management, HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Chairman: Groupement des Banques Etrangères en France. Member of the Board and Treasurer: Association Française des Banques. Member of the Orientation Committee: Euronext.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman: HSBC Assurances Vie (France). Director: Halbis Capital Management, HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: Société de Financement de l'Economie Française, DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Chairman: Groupement des Banques Etrangères en France. Member of the Board and Treasurer: Association Française des Banques. Member of the Orientation Committee: Euronext.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman: Erisa. Director: Erisa IARD, HSBC Investments (France), HSBC Epargne Entreprise, Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCN, Fonds de Garantie des Dépôts. Chairman: Groupement des Banques Etrangères en France. Member of the Board and Treasurer: Association Française des Banques. Member of the Orientation Committee: Euronext.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman and CEO: HSBC Asset Management Holding. Chairman of SAS: HSBC Investments FCP (France). Chairman: HSBC Investments (France), Sinopia Asset Management, Halbis Capital Management (France), HSBC Epargne Entreprise. Vice-Chairman: Erisa. Director: Erisa IARD, Sinopia-Société de Gestion, (permanent representative of HSBC Asset Management Holding). Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCN, Association Française des Banques. Member of the Orientation Committee: Euronext.
Evelyne Cesari Commercial manager, 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
Michel Gauduffe Deputy Head of HSBC Limoges branch, HSBC France	2008	2012	Directorships in the HSBC Group: Director elected by employees: HSBC France. Vice-Chairman of the Board: Institution de Prévoyance Vernet; Institut de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Directorship outside of the HSBC Group: Director: AGIRA.	Directorships in the HSBC Group: Director elected by employees: HSBC France. Chairman of the Board: Institution de Prévoyance Vernet. Directorship outside of the HSBC Group: Director: AGIRA.	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. Directorship outside of the HSBC Group: Director: AGIRA.	–	–

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	2010	2009	2008	2007	2006
Philippe Houzé Chairman of the Management Board, Groupe Galeries Lafayette	1999	2012	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Director: Casino, Guichard-Perrachon. Chairman: Union du Grand Commerce de Centre-Ville (UCV), Member of the Board of Directors: National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.	Chairman of the Management Board: Groupe Galeries Lafayette. Director: Casino, Guichard-Perrachon. Vice-Chairman: Union du Grand Commerce de Centre-Ville (UCV), Member of the Board of Directors: National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.	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.
Thierry Jacquaint Supervisor, HSBC Asnières-sur-Seine branch, HSBC France	2008	2012	Director elected by employees: HSBC France	Director elected by employees: HSBC France	Director elected by employees: HSBC France	–	–
Igor Landau Company Director	2002	2012	Chairman of the Supervisory Board: Adidas AG. Director: Sanofi-Aventis. Member of the Supervisory Board: Allianz AG.	Chairman of the Supervisory Board: Adidas AG. Director: Sanofi-Aventis. Member of the Supervisory Board: Allianz AG.	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).
Thierry Moulonguet Director and Special Adviser to the President of the Renault-Nissan Alliance	2009	2013	Director: Fimalac, Fitch Rating Group Inc.	Director: RCI Banque, Renault Retail Group.	–	–	–
Philippe Pontet Chairman Investment Banking, HSBC France	2005	2011[1]	Directorships in the HSBC Group: Director: HSBC France, Nobel.	Directorships in the HSBC Group: Director: HSBC France, Nobel.	Directorships in the HSBC Group: Director: HSBC France, Nobel.	Directorships in the HSBC Group: Director: HSBC France,	Directorships in the HSBC Group: Vice-Chairman Corporate Finance Europe: HSBC France. Directorships outside of the HSBC Group: Chairman: SOGEPA, SOGEADE Gérance.

1 *Director standing for re-election at the Annual General Meeting to be held on 4 May 2010.*

Director's name Principal position	First elected	Term ends	**2010**	2009	2008	2007	2006
Philippe Purdy 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 Company Director	1996	2013	Chairman of the Supervisory Board: Gimar Finances SCA. Director: France Télécom. Censor: Eurazeo.	Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: France Télécom. Censor: Thomson.	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.
Peter Shawyer Company Director	2005	2013	Independent Director and member of the Audit Committee: HSBC Bank plc. Chairman: British International, Ingenious Media Holdings, Ingenious Asset Management Limited. Director: Ingenious Solar UK VCT 1 plc.	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. 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.
Brigitte Taittinger Chairman and CEO, Annick Goutal	2008	2012	Chairman and CEO: Annick Goutal Director: Ensemble Orchestral de Paris, Opéra Comique.	Chairman and CEO: Annick Goutal Director: Ensemble Orchestral de Paris, Opéra Comique. Member of the Board: Ensemble Intercontemporain	Chairman and CEO: Annick Goutal. Director: Ensemble Orchestral de Paris, Opéra Comique. Member of the Board: Ensemble Intercontemporain	–	–
Jacques Veyrat Chairman and CEO, Louis Dreyfus SAS	2009	2013	Chairman and CEO: Louis Dreyfus SAS. Director: Direct Energie, Imerys. Member of the Supervisory Board: Eurazeo. Chairman of the Supervisory Board: Kurosawa BV.	Chairman and CEO: Louis Dreyfus SAS. Director: Direct Energie, Imerys. Member of the Supervisory Board: Eurazeo. Chairman of the Supervisory Board: Kurosawa BV.	–	–	–

Under the Article L. 225-37 of the French Commercial Code, the Chairman of the Board of Directors of any French company issuing financial instruments admitted for trading on a regulated market is required to report to shareholders annually on the composition, 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 2010. 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 submitted to the Audit Committee on 11 February 2011 and approved by the Board of Directors on 15 February 2011.

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

CHAIRMAN'S REPORT ON CORPORATE GOVERNANCE

Corporate Governance Code

In accordance with law no. 2008-649 of 3 July 2008 concerning the adaptation to French law of Directive 2006/46/EC of 14 June 2006, the company shall, as a priority, refer to the Corporate Governance Code for listed companies published in December 2008, and amended in April 2010, 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. This code may be viewed at the head office.

The HSBC Group attaches a great deal of importance to respecting corporate governance rules, both for itself and for its subsidiaries. However, as HSBC France is a 99.9 per cent owned subsidiary of the HSBC Group and as its capital securities are not admitted to trading on a regulated market, some principles of the Corporate Governance Code have been adapted as for example some of the duties of the Nomination and Remuneration Committee. HSBC France's Board of Directors therefore no longer decides on share award plans as the shares awarded to HSBC France employees are now HSBC shares. HSBC France applies the British corporate governance rules (the Combined Code on Corporate Governance) referred to by parent company HSBC Holdings plc in certain areas, in particular as regards share awards.

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

Board of Directors

Composition of the Board

At 31 December 2010, the Board of Directors had 17 members, including:

– the Chairman of the Board of Directors; the Deputy Chairman; the Chief Executive Officer; two Deputy Chief Executive Officers;

– the Investment Banking Chairman;

– seven Directors having no special relationship with the company and who may be deemed independent with respect to all criteria defined in the AFEP/MEDEF report, particularly regarding banking relationships; however, one of their numbers has been serving as a Director for more than twelve years. Nonetheless, the Nomination and Remuneration Committee found that this criterion alone did not call into question his independence of judgement *vis-à-vis* the company, even though it constitutes an exception to the criteria defined in the AFEP/MEDEF report;

– four Directors elected or re-elected by the employees in 2008 for a term of four years, in accordance with the provisions of the French order of 21 October 1986.

Three Directors are non-French nationals. The average age of the Directors in office is 56.9.

There were several changes to the Board's composition in 2010:

– on 14 January 2010, the Board of Directors appointed Peter Boyles as Deputy Chairman and Christophe de Backer as Chief Executive Officer of HSBC France. In fact, as a consequence of his appointment as HSBC Group Chief Executive Officer for Continental Europe as of 1 February 2010, Peter Boyles stood down from his position as Chief Executive Officer of HSBC France. At this meeting, the Board of Directors also appointed Jean Beunardeau, who remains Head of Global Banking and Markets in France, as Deputy CEO, Deputy to the CEO. Gilles Denoyel was confirmed as Deputy CEO and Chief Risk Officer;

– on 16 February 2010, Stephen Green resigned from his directorship of HSBC France;

– on 11 May 2010, the Annual General Meeting (AGM) renewed the terms of office of Jean Beunardeau and Gilles Denoyel for a period of four years.

In accordance with the recommendations of the AFEP-MEDEF report, the Nomination and Remuneration Committee has examined the position of Directors whose terms of office expired at the AGM on 11 May 2010, 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.

Further to the AGM held on 11 May 2010 which renewed the directorships of Jean Beunardeau and Gilles Denoyel, the Board of Directors renewed their terms of office as Deputy CEOs.

Since the AGM held on 12 April 2000, the Directors' term of office has been four years. The expiry dates of the terms of office are staggered so as to ensure a smooth transition when they are renewed.

The Board's work in 2010

As a general rule, 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 five times during 2010, with an average attendance rate of 91 per cent compared with 83 per cent in 2009:

– 14 January 2010 (attendance rate: 83.3 per cent);

– 16 February 2010 (attendance rate: 77.8 per cent);

– 11 May 2010 (attendance rate: 94.1 per cent);

– 27 July 2010 (attendance rate: 100 per cent);

– 10 November 2010 (attendance rate: 100 per cent).

In 2010, the Board of Directors reviewed the quarterly, half-yearly and annual financial statements and approved the half-yearly and annual accounts. During each meeting, the Board reviewed operations and results for each business line. At the meeting held on 16 February 2010, the Board approved the budget for 2010.

At each of its meetings, the Board of Directors examined the group's results, business growth and position for each of its activities.

The Board of Directors examined the second phase of the Retail Banking's Strategic Plan, which is based around four main areas: development of the organisation of Professional Banking activities, a new agency organisation model with a view to giving the teams more selling time, simplification of administrative tasks and improvement of processes, and a real estate plan (meeting on 16 February 2010). It was briefed on these various projects and on the Personal Financial Services and Commercial Banking activities, at the meetings on 11 May and 27 July 2010. The Board of Directors was informed of the launch of new products and services by the Retail Banking, such as the Advance package (meeting on 10 November 2010) and the opening of the first two Premier Centres in Paris (meeting on 27 July 2010).

The Board of Directors also monitored the group's position in other business lines, in a context of very volatile financial markets. In particular, it was informed of the impacts on the organisation of the Asset Management business line in France, of the adoption, decided on by the HSBC Group, of a single "HSBC Global Asset Management" brand, for all the HSBC Group's Asset Management activities (meeting on 27 July 2010).

With respect to changes to organisational structures and real estate assets, the Board of Directors was informed of finalisation of the transfer of the Algerian branch to HSBC Bank Middle East and of the sale of buildings located at 103 avenue des Champs-Elysées and 15 rue Vernet (meeting on 16 February 2010), operations that were approved in 2009. At its meeting on 11 May 2010, the Board of Directors approved the planned merger by absorption of HSBC Financial Products (France) with HSBC France. The merger was then decided by HSBC France's Extraordinary General Meeting on 30 June 2010.

At each meeting, the Board of Directors discussed the consequences of the crisis, particularly affecting the Euro zone, and of the high volatility of the financial markets on the bank's various activities. It examined the group's situation with regard to risks: credit risk, market risk with, in particular, monitoring of exposure to Euro zone government bonds and the results of the internal stress tests conducted by HSBC France, as well as litigation, compliance and operational risks. The Board was regularly informed about progress made in the transition to the Basel II IRB Advanced Approach. At each of its meetings, the Board of Directors examined the risk appetite statement making it possible to assess performance as regards the level of risk accepted by the Board.

At its meeting on 11 May 2010, the Board reviewed the Annual Reports prepared in accordance with Articles 42, 43 and 43-1 of regulation 97-02, sent to the *Autorité de contrôle prudentiel*, and the findings, follow-up letters and replies following the audits carried out by the *Autorité de contrôle prudentiel* and the investigations conducted by the *Autorité des Marchés Financiers* (AMF). It approved the Chairman's report on corporate governance and internal control and risk management procedures (meeting on 16 February 2010). It also examined the mediator's report concerning his activity during 2009 (meeting on 11 May 2010).

In the area of human resources, at its meeting on 10 November 2010, the Board was informed of the results of the "Global People Survey", which measures every year the commitment of HSBC Group employees. This survey was conducted during the summer of 2010.

The work of the Board Committees was set out in periodic, detailed reports from their respective Chairmen and debated during Board meetings. Within this framework, the Board was kept informed about the various points of action identified by the Audit Committee, particularly as regards analysis and monitoring of administrative expenses, action plans on IT and information security, the bank's liquidity and funding management and risk control systems in certain areas.

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

Board committees

Nomination and Remuneration Committee

Composition of the Nomination and Remuneration Committee

Chairman:

– Philippe Houzé (independent)	Appointed 1999 and November 2009 as Chairman

Member:

– Stuart Gulliver	Appointed November 2009
– Jacques Veyrat	Appointed February 2010

In 2009, the Board appointed Stuart Gulliver as a member of the Nomination and Remuneration Committee because although he is Chairman of the Board of Directors, he is not an executive officer of HSBC France and receives no remuneration or directors' fees from HSBC France for serving in his capacity as Chairman of the Board. He can therefore be deemed to be independent for purposes of giving his opinion on HSBC France's remuneration policy and discussing the remuneration of its Executive Directors. Moreover, he lends the Committee his experience in the area of compensation of financial market professionals, among others, and his knowledge of the rules defined by the HSBC Group. He can also make valuable contributions in drawing up succession plans for the management team.

Moreover, in February 2010, the Board appointed Jacques Veyrat as a member of the Nomination and Remuneration Committee, which therein includes a new Independent Director.

The Nomination and Remuneration Committee's missions

The Committee's main tasks are as follows:

– making proposals to the Board of Directors regarding the appointment of Directors and members and Chairmen of the Board's specialist committees according to the desired balance in the composition of the Board as well as to the specific skills and reputation of the applicants;

– proposing a Chairman and a CEO to the Board, and proposing Deputy CEOs to the Board on the CEO's recommendation, for succession planning purposes or in the event of a vacancy;

– examining all remuneration of Executive Directors;

– making proposals and recommendations to the Board concerning remuneration, pension and protection plans, additional pension contributions, benefits in kind and various cash entitlements of Executive Directors;

– making recommendations on Directors' remuneration and, in particular, the distribution of Directors' fees;

– issuing opinions and recommendations on the executive remuneration policy and particularly on the remuneration structure;

– making preparations for the Board's examination of corporate governance issues;

– lastly, in accordance with regulation 97-02, carrying out an annual review of the remuneration policy and more particularly, the share of variable compensation paid to market professionals and Executive Directors, to ensure that they are consistent with the HSBC Group's policy and comply with French standards.

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

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

The Nomination and Remuneration Committee's work in 2010

The Committee met twice in 2010, with an attendance rate of 100 per cent. Its main work was as follows:

- it made proposals to the Board on changes in HSBC France Senior Management, further to the appointment of Peter Boyles as HSBC Group Chief Executive Officer for Continental Europe: appointment of Peter Boyles as Deputy Chairman, of Christophe de Backer as HSBC France Chief Executive Officer and of Jean Beunardeau as Deputy CEO and confirmation of Gilles Denoyel as Deputy CEO (meeting on 14 January 2010);
- it made proposals to the Board on amendments to adapt the rules governing the supplementary pension scheme for Corporate Executive Directors following the new organisation of HSBC France's Senior Management (meeting on 16 February 2010);
- it made proposals to the Board on renewing the terms of office of two Directors in the AGM. Proposals were made to renew the terms of office of Jean Beunardeau (Director since 2008) and Gilles Denoyel (Director since 2004) (meeting on 16 February 2010);
- it made proposals to the Board on changes in the composition of the Audit Committee and of the Nomination and Remuneration Committee (meeting on 16 February 2010);
- it made proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the 2010 remuneration of Peter Boyles, Christophe de Backer, Jean Beunardeau and Gilles Denoyel, setting out the fixed and variable elements of their remuneration and the number of shares without performance conditions, to be awarded to them (see section "Directors' remuneration") (meeting on 16 February 2010);
- it examined the salary review process, within the framework of the HSBC France group's general remuneration policy, approved in 2009 by the Nomination and Remuneration Committee, with review of the variable remuneration rules, particularly for Retail Banking;
- it reviewed the implementation of the remuneration policy within Global Banking and Markets, and in particular, remuneration of market professionals according to the new banking regulation introduced in regulation 97-02 by order on 5 November 2009;
- it made proposals on amending the Board's internal rules.

The new duties and responsibilities of the Nomination and Remuneration Committee, introduced in regulation 97-02 by order on 5 November 2009, were incorporated into the Board's Internal Rules. These amendments were approved by the Board at its meeting on 16 February 2010. The Chairman of the Committee reported to the Board on its work at the Board meeting on 16 February 2010. All of the Committee's work was submitted to the Board for approval.

Audit Committee

Composition of the Audit Committee

Chairman:

– Marcel Roulet (independent)	Appointed 2003 as Chairman from 2005 to May 2010
– Thierry Moulonguet (independent)	Appointed July 2009 and May 2010 as Chairman

Member:

– Peter Shawyer (independent)	Appointed May 2005

In order to comply with the HSBC Group rules, which provide that the Audit Committee is made up of three independent Directors, HSBC France is endeavouring to find another independent Director to become a member of the Audit Committee.

As of this date, the two Committee members are highly qualified in the areas of finance and accounting, in risk analysis and in internal control, as they are now serving or have in the past served in the capacity of audit committee member, finance director or auditor.

The Audit Committee's missions

The Audit Committee's main duties are defined in the Board's internal rules. These duties were reviewed in November 2010 to include assignments related to monitoring the risk management policy, procedures and systems, in accordance with the provisions of the law on banking and financial regulation of 22 October 2010. Following these changes, the Board of Directors, in its meeting on 15 February 2011, decided to change the name of the Committee to Audit and Risk Committee. The Committee is responsible for assisting the Board by supervising the following areas:

- accounts:
  - examining 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,

- discussing 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,
- reviewing the company's financial and accounting policies and practices, and to review financial internal control systems,
- making recommendations to the Board of Directors regarding the appointment, renewal or removal of external Auditors, their fees and any other issues concerning their duties,
- assessing the independence and objectivity of external Auditors, including supervision of the turnover of the signing partners and the effectiveness of the audit process,
- applying the code of conduct and the HSBC Group policy concerning the provision of non-audit services by the external Auditors,
- reviewing the external Auditors' management letter together with management's response to it, and to monitor the implementation of recommendations made in the letter,
- examining 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;

– risks:

- examining all important issues concerning risk,
- examining regular reports on risk management related to the group's activity, the way in which risks are controlled and monitored by Management, and on emerging risks,
- examining the effectiveness of the group's internal control and risk management framework in relation to the core strategic objectives,
- supervising the risk appetite of the Board of Directors, its risk tolerance and its strategy in this respect,
- reviewing the effectiveness of the risk management function and of the internal audit function,
- considering major findings of internal audits and regulatory reviews,
- examining the effectiveness of the internal control systems and procedures and the internal control programme and resources,
- examining management reports on the internal control system,
- answering requests from the Nomination and Remuneration Committee asking for advice concerning the alignment of remuneration to risk appetite.

The Committee meets the external Auditors and the internal audit officers in private at least once per year to ensure that no particular problems remain unresolved. In carrying out these duties and responsibilities, the Committee may consult any adviser or expert as it deems appropriate.

To give itself sufficient time to review the accounts before they are reviewed by the Board, the Audit Committee generally meets four days before the Board.

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 2010

The Audit Committee met four times in 2010, with an average attendance rate of 87.5 per cent, compared with 100 per cent in 2009:

– 12 February 2010 (attendance rate: 100 per cent);

– 7 May 2010 (attendance rate: 50 per cent);

– 23 July 2010 (attendance rate: 100 per cent);

– 5 November 2010 (attendance rate: 100 per cent).

Each meeting was also attended by the external Auditors, the Deputy CEO in charge of risk, the Chief Financial Officer, the Chief Accounting Officer and the Head of Audit. The Chief Executive Officer and the two Deputy Chief Executive Officers of HSBC France attended Committee meetings to answer any questions. The Chairman of the Board and the Deputy Chairman also attended some Committee meetings. HSBC France executives also attend Committee meetings covering any subjects falling under their responsibility. Audit Committee members met with the external Auditors in private sessions prior to the Board meetings held to review the half-yearly and year-end accounts (meetings of 12 February and 23 July 2010).

Against a backdrop of financial crisis and in compliance with regulation 97-02 and Basel II regulations, the Committee has considerably expanded, since 2009, the review of major risks which it is required to carry out and dedicated a substantial part of its work to this task in 2010. The Committee monitors the organisation of the risk control system on a regular basis.

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

– credit risk, with an individual review of major exposures, changes in and optimisation of risk-weighted assets, and the provisioning policy for all credit risks;

– market risk, including market risk trends compared with limits, the fixing of limits, control instruments and procedures in place. It specifically reviewed the bank's exposure to government bonds and the results of the internal stress tests conducted;

– legal and litigation risks;

– operational risks;

– other risks, and more specifically IT risks.

The Committee was informed, at each of its meetings, of the progress of the action plans undertaken by the Operational Risk and Internal Control Department, in response to the new provisions of regulation 97-02 and to the deployment, within the HSBC Group, of new operational risk management procedures. It reviewed the risk mapping updated by all the business lines (meeting on 23 July 2010). It examined, at each of its meetings, the scoreboard concerning the bank's risk adversity, particularly the indicators failing to comply with the established objectives.

In 2010, the Audit Committee continued to watch closely the progress of the Basel II project. Thus it was very regularly informed of the progress of the tasks carried out within the framework of the second phase of the transition to the advanced IRBA method for calculating Exposure At Default (EAD), after obtaining approval to calculate the Loss Given Defaults (LGDs) of Corporate clients in 2009.

At its meeting on 7 May 2010, it reviewed the Annual Report to the *Autorité de contrôle prudentiel* on risk monitoring and measurement, in accordance with regulation 97-02.

The second aspect of the Committee's work involved an in-depth review of the annual, half-yearly and quarterly financial statements prior to their presentation to the Board. The Audit Committee reviewed the parent-company and consolidated accounts and analysed the impact of changes in the accounting scope of consolidation on the results. The 2009 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 2009 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 2009 financial statements (meeting on 12 February 2010). They presented their limited review on the financial statements at 31 March 2010, 30 June 2010 and 30 September 2010 (meetings on 7 May, 23 July and 5 November 2010). The Committee discussed the audit programme and the external Auditors' budget for 2010. The Committee also examined, at each of its meetings, the bank's regulatory and liquidity ratios and its liquidity and funding situation.

The last aspect of the Committee's work was internal audit, internal control, compliance and relations with the regulatory authorities. The Audit Committee looked at the 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 2010 risk assessment and corrections of weaknesses previously identified. It reviewed the points raised in the quarterly suspense account reconciliation certificates prepared at the request of the HSBC Group. The Committee also verified the adequacy of provisions for identified risks.

It also regularly examined internal audit work and reviewed the main audit assignments, particularly those deemed insufficient. It was informed about audit recommendations, progress in implementing them and the monitoring of the recommendations not yet implemented. It approved the 2010 annual audit plan.

The Committee reviewed the Chairman's report on internal control and risk management procedures and the Review of Internal Control Framework (RICF), which meets UK and US requirements on corporate governance (meetings on 12 February and 5 November 2010). In its meeting on 7 May 2010, it conducted a review of the Annual Report to the *Autorité de contrôle prudentiel* on the functioning of the internal control systems (permanent control and periodic control), as required under regulation 97-02.

As part of compliance controls, the Committee reviewed quarterly compliance certificates, which state the main procedural breaches. 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 (regulation 2002-01). It examined the compliance action plan for 2010. It was informed of the findings of various audits carried out by the AMF and the *Autorité de contrôle prudentiel* and of the action plans initiated to implement their recommendations.

Finally, the Committee was regularly informed of the various regulatory reforms adopted or under discussion, particularly the Capital Requirements Directive 3 (CRD3), Basel III or the new rules and recommendations on remuneration, and initial estimations of their impact on HSBC France.

The Chairman of the Audit Committee reported on the key points of the Committee's work at the Board meetings held on 16 February, 11 May, 27 July and 10 November 2010.

Remuneration

Remuneration and advantages of Executive Directors

Remuneration policy

The remuneration of Executive Directors is adopted each year by the Board of Directors upon the recommendation by the Nomination and Remuneration Committee, after approval by the Remuneration Committee of HSBC Holdings plc. It includes a fixed component and a variable component. The fixed component is determined in accordance with 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 the budget for the year. The variable component also takes account of market practices and, if necessary, changes in regulations. In accordance with the HSBC Group's deferral rules, this variable component is paid partly in cash and partly in shares.

Award of shares

In 2010, 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 HSBC 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 HSBC Group at the end of a two or three-year period, which is the period in force for France.

With respect to 2010, no HSBC France Executive Directors, except Stuart Gulliver who does not receive any remuneration from HSBC France, were involved in the work of the Group Management Board and therefore 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 or three years.

Supplementary pension scheme

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

At 31 December 2010, Gilles Denoyel had accrued pension rights at HSBC France representing 25 per cent of his fixed 2010 salary and 13 per cent of his total 2010 cash remuneration. At 31 December 2010, Christophe de Backer had accrued pension rights representing 6 per cent of his fixed 2010 salary and 3 per cent of his total 2010 cash remuneration. At 31 December 2010, Jean Beunardeau had accrued pension rights representing 3 per cent of his fixed 2010 salary and 1 per cent of his total 2010 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 2010, for an amount of EUR 2.6 million.

Remuneration

Stuart Gulliver, Chairman of the Board of HSBC France, does not receive any compensation or fees from HSBC France and is not a beneficiary of the HSBC France supplementary pension scheme. He has an employment contract with another company of the HSBC Group and has access to a pension fund of the HSBC Group. Consequently, the information regarding the remunerations received by Stuart Gulliver, whatever their kind (fixed remuneration, differed variable remuneration in shares and benefits in kind) are available in the *Annual Report and Accounts** of HSBC Holdings plc (pages 220 to 234) or in the *Annual Review** published by HSBC Holdings plc (pages 30 to 39).

* *Available on www.hsbc.com/Investor Relations/Financial information.*

Peter Boyles, CEO of HSBC France until 31 January 2010, was seconded by the HSBC Group to HSBC France. Regarding his status as an 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. As he was appointed as HSBC Group Chief Executive Officer for Continental Europe from 1 February 2010, his Executive Director office by HSBC France ended on 31 January 2010.

Christophe de Backer was appointed Chief Executive Officer of HSBC France from 1 February 2010.

Jean Beunardeau was appointed Deputy CEO of HSBC France from 1 February 2010 and so benefits since this date from HSBC France supplementary pension scheme.

Their remunerations are detailed below.

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, with the exception of Jean Beunardeau who uses a car made available to him by the company for his professional needs

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)

	2009		**2010**	
(in euros)	Amounts paid in 2009	Amounts due in respect of 2009	Amounts paid in 2010	Amounts due in respect of 2010
Peter Boyles				
Chief Executive Officer[1]				
Compensation (detailed in table 2)	825,468	908,720	**38,769**	**90,326**
Value of the options awarded (detailed in table 4)	–	–	–	–
Value of the shares awarded (detailed in table 6)[2]	790,006	659,195	–	**54,291**
Total	1,615,474	1,567,915	**38,769**	**144,617**
Christophe de Backer				
Chief Executive Officer[3]				
Compensation (detailed in table 2)	869,680	886,605	**1,086,605**	**1,294,461**
Value of the options awarded (detailed in table 4)	–	–	–	–
Value of the shares awarded (detailed in table 6)[2]	1,016,925	1,000,000	**1,000,000**	**1,031,783**
Total	1,886,605	1,886,605	**2,086,605**	**2,326,244**
Gilles Denoyel				
Deputy CEO[4]				
Compensation (detailed in table 2)	657,820	666,745	**666,745**	**716,745**
Value of the options awarded (detailed in table 4)	–	–	–	–
Value of the shares awarded (detailed in table 6)[2]	328,975	320,000	**320,000**	**350,000**
Total	986,795	986,745	**986,745**	**1,066,745**
Jean Beunardeau				
Deputy CEO[4]				
Compensation (detailed in table 2)	–	–	**275,000**	**1,186,154**
Value of the options awarded (detailed in table 4)	–	–	–	–
Value of the shares awarded (detailed in table 6)[2]	–	–	–	**944,765**
Total	–	–	**275,000**	**2,130,919**

1 *Chief Executive Officer until 31 January 2010.*
2 *As the HSBC France Executive Directors are not awarded Performance Shares (see above page 26), this line shows the shares without performance conditions.*
3 *Deputy CEO until 31 January 2010 and Chief Executive Officer from 1 February 2010.*
4 *Deputy CEO from 1 February 2010.*

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

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

(in euros)	2009 Amounts paid in 2009	2009 Amounts due in respect of 2009	2010 Amounts paid in 2010	2010 Amounts due in respect of 2010
Peter Boyles				
Chief Executive Officer[1]				
Fixed remuneration	461,486	461,486	**38,122**	**38,122**
Variable remuneration	356,212	439,464	–	**51,557**
Exceptional remuneration[2]	–	–	–	–
Director's fees	–[3]	–[3]	–[3]	–[3]
Benefits in kind	7,770[4,5]	7,770[4,5]	**647**	**647**
Total	825,468	908,720	**38,769**	**90,326**
Christophe de Backer				
Chief Executive Officer[6]				
Fixed remuneration	400,000	400,000	**600,000**	**600,000**
Variable remuneration	463,075	480,000	**480,000**	**687,856**
Exceptional remuneration[7]	–	–	–	–
Director's fees	–[3]	–[3]	–	–
Benefits in kind	6,605[4]	6,605[4]	**6,605**[4]	**6,605**[4]
Total	869,680	886,605	**1,086,605**	**1,294,461**
Gilles Denoyel				
Deputy CEO				
Fixed remuneration	365,000	365,000	**365,000**	**365,000**
Variable remuneration	291,075	300,000	**300,000**	**350,000**
Exceptional remuneration[8]	–	–	–	–
Director's fees	–[3]	–[3]	–[3]	–[3]
Benefits in kind	1,745[4]	1,745[4]	**1,745**[4]	**1,745**[4]
Total	657,820	666,745	**666,745**	**716,745**
Jean Beunardeau				
Deputy CEO[9]				
Fixed remuneration	–	–	**275,000**	**275,000**
Variable remuneration	–	–	–	**911,154**
Exceptional remuneration	–	–	–	–
Director's fees	–	–	–[3]	–[3]
Benefits in kind	–	–	–	–
Total	–	–	**275,000**	**1,186,154**

1 *Chief Executive Officer until 31 January 2010.*
2 *In addition he received in 2009 EUR 96,900 for synthetic shares granted in 2005.*
3 *Renounced the payment of his fees by HSBC France (see page 30).*
4 *Company car.*
5 *In addition HSBC funded EUR 428,772 for other benefits due to his status as International Manager.*
6 *Deputy CEO until 31 January 2010 and Chief Executive Officer from 1 February 2010.*
7 *In addition he received in 2009 EUR 278,591 for synthetic shares granted in 2005.*
8 *In addition he received in 2009 EUR 314,935 for synthetic shares granted in 2005.*
9 *Deputy CEO from 1 February 2010.*

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

Number of the plan and date of award	Type of options	Value of the shares under the method used for the consolidated accounts	Number of options awarded during the year	Exercise price	Period of exercise

None (see page 26).

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

CCF options exercised in 2010

	Number of options exercised	Exercise price EUR/share	Date of award	Expiry date

None.

HSBC Holdings plc options exercised in 2010

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

Shares awarded to each Executive Director in 2010 in respect of 2009 (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
Christophe de Backer	01.03.2010	94,632	EUR720,000	01.03.2012 for 50% and 01.03.2013 for 50%	01.03.2014 for 50% and 01.03.2015 for 50%
Christophe de Backer	28.05.2010	37,152	EUR280,000	28.05.2012 for 50% and 28.05.2013 for 50%	28.05.2014 for 50% and 28.05.2015 for 50%
Gilles Denoyel	01.03.2010	39,430	EUR300,000	01.03.2012 for 50% and 01.03.2013 for 50%	01.03.2014 for 50% and 01.03.2015 for 50%
Gilles Denoyel	28.05.2010	2,654	EUR20,000	28.05.2012 for 50% and 28.05.2013 for 50%	28.05.2014 for 50% and 28.05.2015 for 50%
Jean Beunardeau	01.03.2010	189,323	EUR1,440,450	01.03.2012 for 50% and 01.03.2013 for 50%	01.03.2014 for 50% and 01.03.2015 for 50%

* *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 (see page 26).*

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 ten employees and former employees whose number of exercised shares is the highest	None			
HSBC options exercised during the year by the ten employees and former employees whose number of exercised shares is the highest	174,606	GBP6.3	2003 and 2004	2013 and 2014

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

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

Executive Director Function First appointed Term ends	Employment contract [1]	HSBC France supplemen-tary pension scheme [2]	Compensation or benefits due or that may be due upon termination or change in duties	Compensation due under terms of non-compete agreement
Peter Boyles Chief Executive Officer [3] 1 September 2007 31 January 2010	Yes [4]	No	No	No
Christophe de Backer Chief Executive Officer [5] 1 February 2010 2012	Suspended	Yes	No	No
Jean Beunardeau Deputy CEO [6] 1 February 2010 2014 [7]	Suspended	Yes	No	No
Gilles Denoyel Deputy CEO 1 March 2004 2014	Suspended	Yes	No	No

1 *See page 27.*
2 *See page 26.*
3 *Chief Executive Officer until 31 January 2010 and Deputy Chairman since 1 February 2010.*
4 *Employment contract with another company of the HSBC Group.*
5 *Deputy CEO until 31 January 2010 and CEO since 1 February 2010.*
6 *Deputy CEO since 1 February 2010.*

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 recommendation has been implemented by the Executive Directors of HSBC France and its subsidiaries.

In 2010 (in respect of 2009), Christophe de Backer, Jean Beunardeau, Peter Boyles, Gilles Denoyel, Stephen Green and Philippe Pontet renounced the payment of their fees. It has to be noted that, according to this rule, Stuart Gulliver does not receive any fees from HSBC France for his office of Chairman of the Board of HSBC France.

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

Net total Directors' fees to be paid in May 2011 in respect of 2010 amount to EUR 0.29 million, stable against the amount paid in 2010 in respect of 2009.

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 2009 in respect of 2008	Directors' fees paid in 2010 in respect of 2009	Other compensation paid in 2009 [1]	Other compensation paid in 2010 [1]
Executive Directors of HSBC Group companies				
Jean Beunardeau	–	–	EUR780,870	EUR980,300[2]
Peter Boyles			[3]	EUR822,184 (from 01.02.2010)
Charles-Henri Filippi[4]	EUR122,000	–	–	–
Stephen K Green[5, 6]	–	–	GBP1,262,106	GBP1,194,000
Stuart Gulliver[7]	–	–	GBP825,526	GBP3,905,000
Philippe Pontet	–	–	EUR718,000	EUR976,756
Directors elected by the employees				
Evelyne Cesari	EUR22,000	EUR22,000		
Michel Gauduffe[8]	EUR22,000	EUR22,000		
Thierry Jacquaint[8, 9]	EUR5,500	EUR22,000		
Philippe Purdy[8]	EUR22,000	EUR22,000		
Joyce Semelin[8, 10]	EUR16,500	–		
Independent Directors				
Paul Dubrule[11]	EUR32,000	EUR5,500	–	–
Philippe Houzé	EUR32,000	EUR32,000	–	–
Igor Landau	EUR22,000	EUR22,000	–	–
Thierry Moulonguet[12]	–	EUR35,250	–	–
Marcel Roulet	EUR47,000	EUR47,000	–	–
Peter Shawyer	EUR88,200[13]	EUR87,500[13]	–	–
Brigitte Taittinger[14]	EUR11,000	EUR22,000	–	–
Jacques Veyrat[12]	–	EUR16,500	–	–

1 *Fixed and variable remuneration and benefits in kind.*
2 *Deputy CEO since 1 February 2010. See page 27.*
3 *Chief Executive Officer until 31 January 2010. See page 27.*
4 *Chairman of the Board of Directors until 31 December 2008.*
5 *Emoluments shown are paid by other HSBC Group companies in respect of their executive functions within the Group.*
6 *Appointment ended on 16 January 2010.*
7 *Appointed as a Director and Chairman of the Board on 1 January 2009. Does not receive any compensation or fees from HSBC France. See page 26.*
8 *Directors' fees paid to a trade union organisation.*
9 *Elected on 26 September 2008.*
10 *Appointment ended on 26 September 2008.*
11 *Appointment ended on 27 May 2009.*
12 *Appointment on 27 May 2009.*
13 *Of which EUR 27,750 paid by HSBC France, excluding withholding tax.*
14 *Appointment on 31 July 2008.*

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

Conflicts of interest

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

For information, it has to be noted that Stuart Gulliver is Chairman of the Board of HSBC France and was, in 2010, Director and then Chairman of HSBC Bank plc, which owns 99.99 per cent of the issuer, and Director of HSBC Holdings plc, which owns 100 per cent of HSBC Bank plc. On 1 January 2011, Stuart Gulliver has been appointed Group Chief Executive of HSBC Holdings plc and has since this date ceased to hold office with 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 have been updated several times. The latest adjustments, which were submitted to the Board in its meetings on 16 February and 10 November 2010, aimed to incorporate:

- the new duties and responsibilities of the Nomination and Remuneration Committee introduced in regulation 97-02 by order on 5 November 2009, and in particular, the annual review of the remuneration policy;
- the assignments and terms for exercising the duties of Deputy Chairman, further to the appointment of Peter Boyles as Deputy Chairman by the Board on 14 January 2010;
- the assignments of the Audit Committee related to the monitoring risk management policy, procedures and systems.

These rules specify the Board's main duties:

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

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

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

The Board's internal rules define the procedures for conducting Board meetings and providing information to the Board. 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 (as stipulated above in the parts related to these Committees' assignments). They also incorporate a code of conduct to be followed by the Directors of HSBC France, setting out their rights and duties. Lastly, they define intervention rules on the HSBC Group listed securities for HSBC France directors.

Self-assessment

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 renew this procedure in 2011.

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 Christophe de Backer (Chief Executive Officer), Jean Beunardeau 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. These powers were modified on 1 February 2010 to take into account the changes in the Senior Management.

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 the HSBC Group principles and practices. A person with delegated powers may not individually commit HSBC France to sums above EUR 1,500,000.

There are specific delegated powers concerning credit 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

The general framework of internal control and risk management

Context

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

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

Internal control at HSBC France relies on:

- clear articulation of control levels and responsibilities;
- clear organisation charts and job descriptions with appropriate delegations of authority and functional and hierarchical line of report;
- segregation of duties;
- monitoring of the resources dedicated to internal control;
- risk and control maps covering the entire scope of HSBC in France;
- comprehensive procedures covering all activities and more particularly specifying control responsibilities;
- clear outsourcing management policy;
- a sound process on new products or services;
- a code of conduct established by the governance bodies and imposed on all staff;
- the existence of rules, tools and an organisation to assess, supervise and control the major risks;
- quality, security and integrity of information systems;
- quality and integrity of accounting and management information, based on accounting controls and an audit trail;
- business continuity plans and IT contingency plans;
- a reporting and committee framework ensuring effective coordination between different levels of control as well as a summary of assessments for the executive and decision-making bodies;
- the assessment of this permanent control framework by an independent third-level control (periodic control).

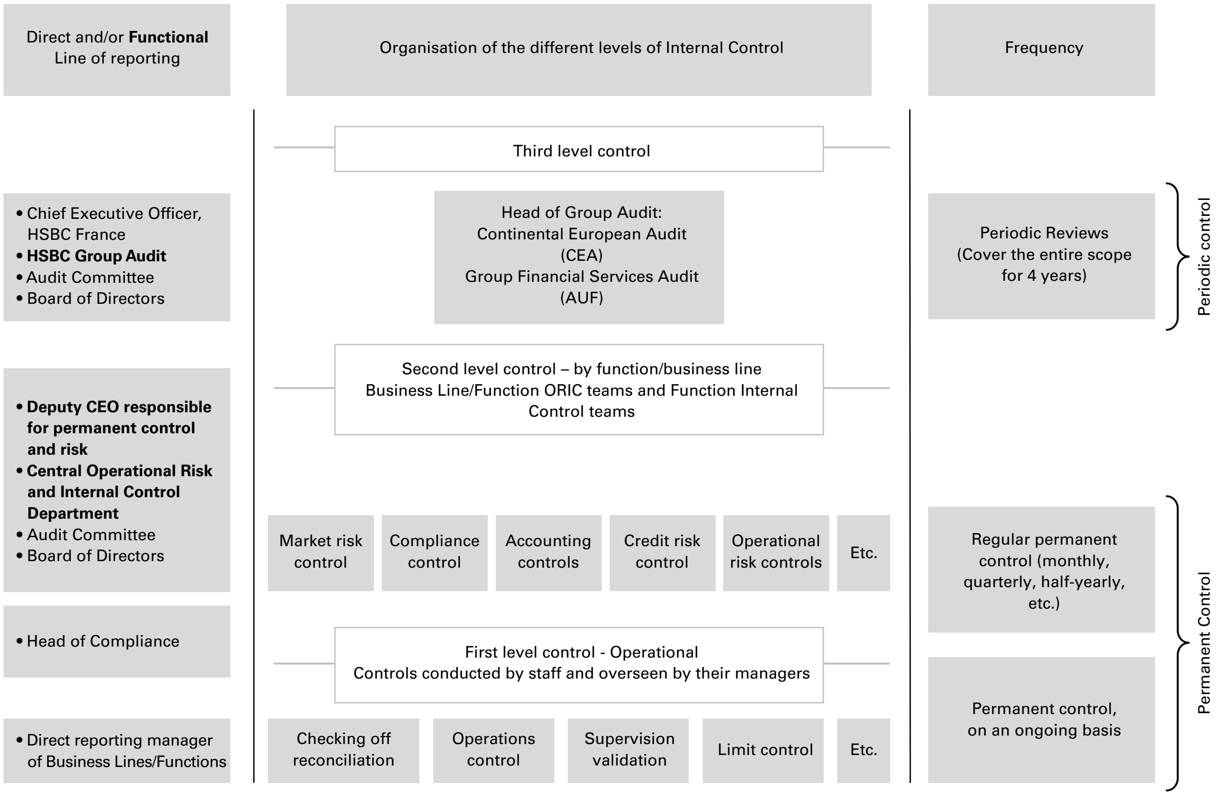
Chairman's report on corporate governance and internal control and risk management procedures (continued)

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

– the operational units themselves;

– dedicated second level control teams;

– the periodic control teams, which assess the efficiency of permanent control.



Permanent control relies both on business lines and functions with their own ORIC (Operational Risk and Internal Control) teams and on risk functions, the whole system being coordinated by the Central ORIC Department.

Risk management is organised into ten risk functions that have a transverse view across all HSBC France's business lines[1]:

– market function;

– credit function;

– structural interest rate, forex and liquidity risk function;

– compliance function;

– accounting function;

– legal affairs function;

– tax function;

– IT function;

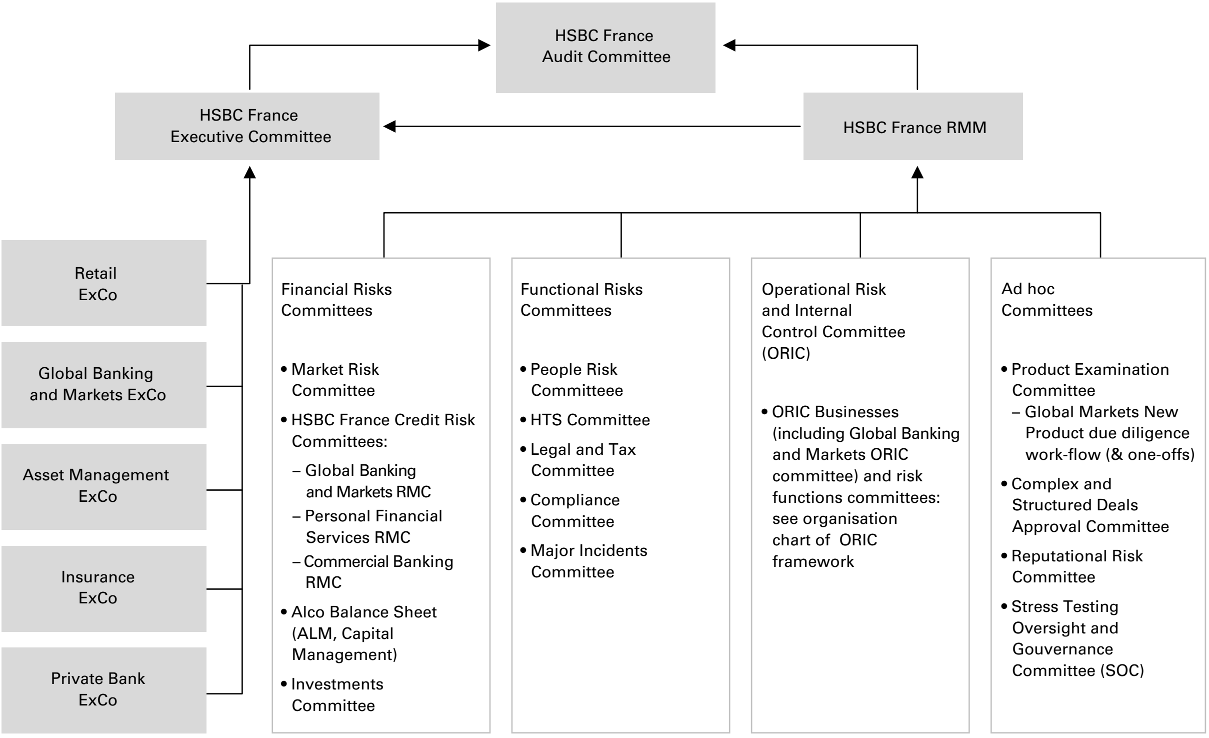
– business continuity function;

– human resources function.

1 *The management of each risk by its function is described in detail in the Risk Management section.*

The internal committees

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



Senior management is kept regularly informed of the organisation and findings of permanent and periodic controls, in particular through committees, the following ones playing a key part in coordinating the control framework, summarising controls and monitoring risks:

– Risk Management Meeting (RMM);

– Operational Risk and Internal Control (ORIC) Committee;

– Compliance Committee;

– other specialist committees.

This framework is completed by special committees in each entity, business line and function in order to manage, monitor and control the risks specific to each HSBC activity in France and combining the three levels of Internal Control.

The Risk Management Meeting (RMM)

The RMM, which is chaired by the Deputy CEO in charge of risks and includes most of the Executive Committee, as well as managers in charge of risk functions, is an overaching committee overseeing risk management and permanent control. It meets every month to analyse HSBC France's main risks, as established by a previously agreed agenda.

The RMM reports functionally to its European equivalent in the HSBC Group (European Risk Management Committee) through its minutes and with the participation of the Deputy CEO in charge of the risks and of permanent control. All risk assessments presented to the RMM are also used by HSBC France's Audit Committees.

The RMM makes use of the work of a series of dedicated committees and summarises their findings. In particular, these committees include:

– for credit risks:

  • the Risk Management Committees dedicated to each Customer Group (Personal Financial Services and Commercial Banking, Global Banking and Markets);

- for market, liquidity and global interest rate risks:
  - the Market Risk Committee,
  - the ALM Committee ("Balance Sheet ALCO");
- for "non-financial" risks:
  - the Legal and Tax Risks Committee,
  - the Compliance Committee,
  - the Accounting Committee,
  - the People Risk Committee,
  - the IT Committee,
  - the Major Risks and Security Committee,
  - the Operational Risk and Internal Control Committee (ORIC HSBC France);
- special committees:
  - the Complex and/or Structured Deals Approval Committee,
  - the Product Examination Committee,
  - the Investments Committee.

A report on ressources dedicated to second level controls is submitted to the RMM on a regular basis to check their adequacy in terms of skills and number.

The ORIC Committee (Operational Risk and Internal Control)

Drawing on the operating rules laid down by the HSBC Group, those of the ORIC (Operational Risk and Internal Control) Committee have been adapted to meet the provisions of regulation 97-02 and are reviewed annually. The ORIC Committee convenes every month under the chairmanship of the Deputy CEO in charge of risks and permanent control. Its purpose is to ensure that the HSBC France group's permanent control and operational risk management procedures meet the requirements of the Prudential Supervisory Authority and those of the HSBC Group. Within this framework, it is responsible for the following with regard to operational risk:

- promoting an organisation that is aware of risk management, involving all entities in a formally defined and evolving process analysing, assessing and managing operational risk;
- reporting on the HSBC Group's organisation and procedures in terms of operational risk management and internal control, and ensuring that these are effectively reflected in local procedures;
- reviewing the compliance of operational risk management procedures in relation to regulatory requirements or demands of the HSBC Group (as defined in the Group manuals or Group Circular Letters);
- reviewing transverse matters relating to operational risk management or methodology issues (such as critical levels or reassessment of risks after the completion of plans of action);
- managing and periodically reviewing the risk profile within business lines, focusing in particular on pro-active management and emerging risks;
- analysing the operational risks presented by business lines and risk functions (in particular major risks) by validating or developing, if necessary, permanent controls with a view to mitigating risks;
- reviewing the progress made in action plans, in particular those relating to risks deemed the most critical (Top Risks);
- reviewing significant incidents (operating losses and "near misses"), in terms of amount or type of incident, as reported by the business lines;
- defining and then conducting periodical reviews of statements of operational risk-monitoring indicators.

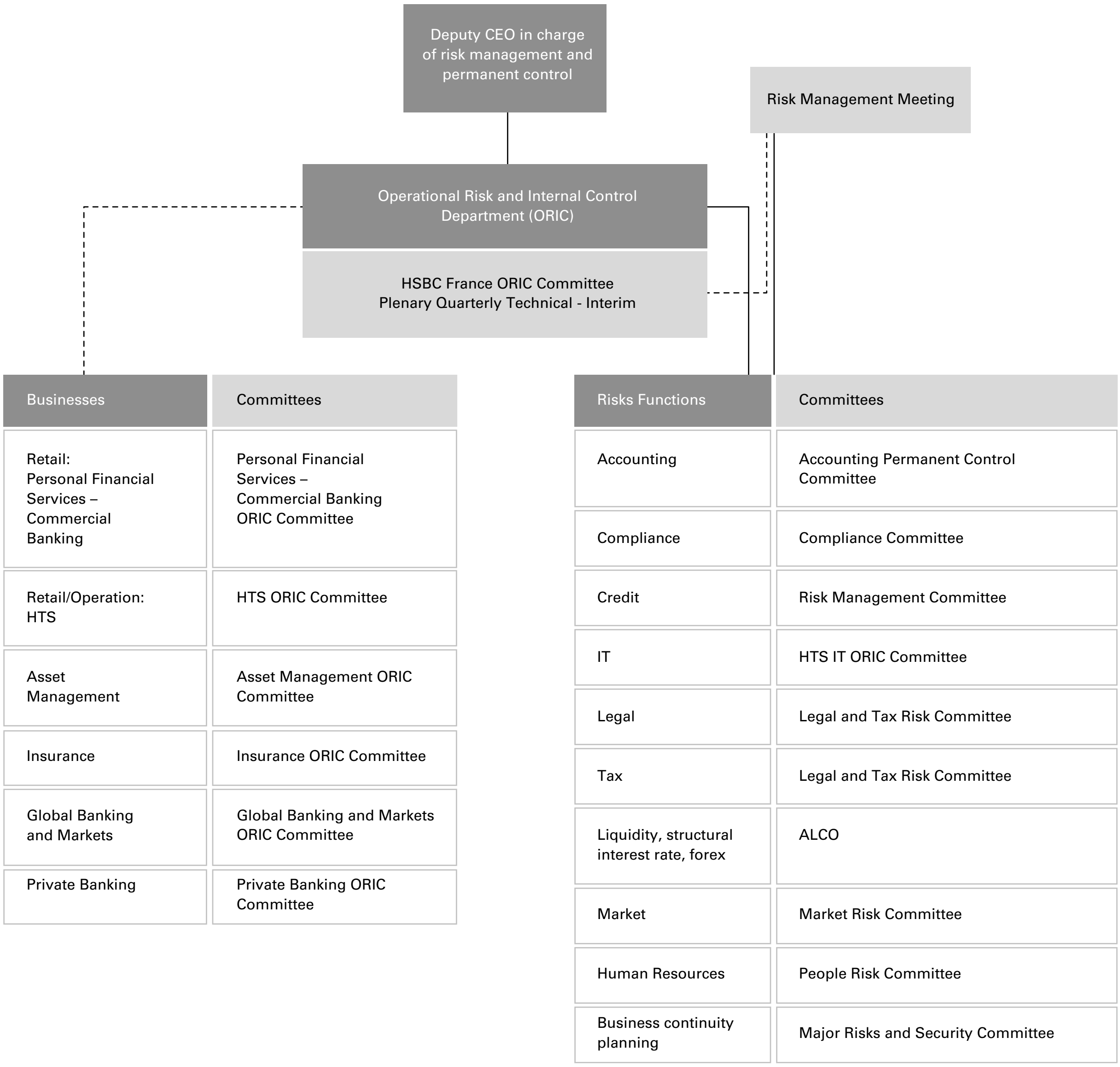
The ORIC Committee convenes quarterly in plenary session and organises more restricted "technical" sessions twice quarterly to conduct a detailed review of risks, losses, action plans, indicators and controls for a specific business line and/or risk function, or specific transverse issues (theme committee).

The quarterly plenary session of the committee is attended by:

- representatives of HSBC France business lines/functions (Personal Financial Services and Commercial Banking, HSBC Technology and Services (HTS), Global Banking and Markets, Asset Management, Private Banking and Insurance);
- representatives of the ten risk functions (IT, business continuity plan, human resources, credit risk, market risk, structural interest rate/forex/liquidity risks, compliance, legal, tax and accounting);
- the Head of Group Audit, in charge of the Continental European Audit (CEA);
- members of the ORIC Department, which coordinates the committee and acts as secretary.

Members of the thematic committee are the same as those of the plenary committee sessions. Among those who attend are representatives of the business lines or functions concerned or experts on the transverse issues in question.

A summary of the committee's work and findings is sent periodically to the Risk Management Meeting and to the Audit Committee of the HSBC France group.



Each business line has an ORIC committee, which convenes at least once quarterly. The permanent members of the business line's ORIC committee include at least one manager of HSBC France's executive body or the main entity of the business lines and the managers of the various functions contributing to the risk and permanent control framework. A Central ORIC representative attends the committee's meetings.

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

The Compliance Committee

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

HSBC Group Manuals

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

All the HSBC Group's business activities must be fully documented in manuals or compendia of procedures. Functional Instruction Manuals (FIMs) contain detailed policies and procedures relating to a specific function, product or activity, which must be adhered to throughout the HSBC Group, barring dispensation granted by the FIM's owner for the HSBC Group. In addition, HSBC France and its subsidiaries are required to document operating procedures and practices in Business Instruction Manuals (BIMs).

The adequacy and effectiveness of these manuals have to be reviewed at least once a year; managers are required to report annually on the implementation thereof, to confirm that their business activities are fully covered by them, that they are comprehensive, and that existing procedures have been reviewed over the past year.

Handbook and Codes of Conduct

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

Internal circulars

Internal circulars are the key vehicle for communicating internal standards and rules derived from French regulatory requirements or HSBC Group standards that apply to several or all HSBC Group structures operating in France. They are available online on the HSBC France Intranet, and are listed by nature, type and recipient. The drafting, circulation and storing of circulars are governed by precise rules (also formally set out in a circular) and are regularly updated.

Permanent control

Principles

Permanent control is primarily based on controls carried out by the managers responsible for each activity. The purpose of these controls is to ascertain that the activity is conducted in accordance with all internal and external rules and is up to standard. The key responsibility for permanent control falls to the managers of the various business lines and functions, who must ensure that level-1 controls are conducted in a proper manner. This organisation complies with the HSBC Group Standards Manual (GSM), which states that "it is the responsibility of management at all levels to ensure that efficient internal controls are in place for all the activities and services of which it is in charge".

Beyond the first level controls, HSBC France group's permanent control relies on level-2 controls conducted by four types of agents:

- the Operational Risk Internal Control (ORIC) Department oversees the work carried out on the one hand by the ORIC (Operational Risk and Internal Control) teams in the business lines reporting to their manager, and on the other hand by the second level control teams in the specialised risk functions (excluding Compliance). Central ORIC also monitors and summarises the permanent control tasks devolved on the ten risk functions. The hierarchical positioning of this department matches the organisation recommended by the HSBC Group, which coordinates the permanent control system (internal control) and oversees the operational risk management system with a single central team;
- the ORIC teams in each business line coordinate permanent control on behalf of the business line managers, to whom they report directly, and also control operational risk, which must be an integral part of the daily management of activities;
- the ten risk functions in charge of specific risks (Accounting, Compliance, Credit, Tax, IT, Legal, Markets, Human Resources, Business Continuity Plan, Structural interest rate, forex and liquidity).

  In particular, the Compliance function is responsible for ensuring that all HSBC France group entities control the risk of non-compliance as defined in article 4 p) of regulation 97-02.

Pursuant to article 11 of the regulation, the Chief Compliance Officer ensures the consistency and efficiency of compliance control;

– and lastly, a number of committees that examine the results of controls and the main incidents.

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

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

Twice a year, the "SOX 4 Way Meeting", chaired by the Chief Financial Officer, and primarily comprising the Statutory Auditors, the Periodic Control Officer and the Chief Technology & Services Officer, reviews:

– any deficiencies revealed by SOX control measures (documentation and "self-assessment" of business lines and function within the scope);

– the result of tests run by the Statutory Auditors;

– the progress made in action plans.

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

The ORIC framework

The Operational Risk and Internal Control (ORIC) Department is responsible for coordinating permanent control and for providing a forward looking and transverse overview of risks. This department oversees operational risk management and supervises the internal control work of the ORIC teams of the various business lines and departments with which a functional link has been formed.

Central ORIC keeps an up-to-date reference framework of permanent control and particularly ensures comprehensive coverage of risks.

This organisational structure, based on the model adopted by the HSBC Group, also meets specific French regulation requirements (regulation 97-02 in particular).

The Central ORIC department team works closely with the ORIC teams of the business lines and with the various specialist risk functions; its role is to consolidate and harmonise, covering all entities or structures reporting to HSBC France on key issues such as reviews of risk and control maps, the design and monitoring of action plans, elaboration of stress scenarios, incident declaration, monitoring the introduction of risk indicators, and even reviewing control plans, coordinating the formal definition of key controls and the contents of reports.

This team also acts as an interface with the HSBC Group, particularly on the European level. Notably, it is involved in the consolidation and dispatch of required reports, as well as disseminating instructions and best practices.

The functional relationship between the ORIC Department and the business line ORIC teams or internal controllers of the risk functions hinges on the following four factors:

– monthly two-way meetings between the Central ORIC Department and the ORIC of the business line or internal control function, at which the subjects discussed, among others, include developments in the activity and risk trends, the progress of the annual control programme, the major incidents (losses and "near misses"), etc. At least once a year, risks and controls map (operational risks in particular) is more specifically reviewed, as is the draft control programme for the following year, and an overall assessment of the resources dedicated to second level control;

– ORIC's participation in the committees, which include:

  • the ORIC committees of the business lines,

  • the specialised risk function committees (Legal and Tax Risk, Compliance, IT, Permanent Control, Finance, etc.),

  • the business line and function ORIC teams' submission of reports to Central ORIC, such as risks and controls maps (on an ongoing basis and at least once a year), support documents and minutes of the Audit Committees of HSBC France subsidiaries, annual contributions on internal control and risk management for the reports to be submitted to the Prudential Supervisory Authority (articles 42 and 43 of regulation 97-02);

– other "meeting points" between the business line or function ORICs and the ORIC department:

  • dedicated groups (methods, indicators, risk scenarios, etc.),

  • training and awareness-raising schemes (technical and regulatory watch, "workshops" and seminars, etc.).

The highlights of financial year 2010 were:

- the consolidation of achievements further to a major overhaul in 2009 and compliance achieved with the provisions of regulation 97-02, published in the ministerial order of 19 January 2010 on risk management;
- the launch of the Enhanced Risk Framework Project, which aims to improve operational risk management throughout the HSBC Group and targets a very high degree of compliance with the standard method as regards operational risk;
- implementation of a series of measures relating to information security in all HSBC Group entities and departments in France.

Consolidation of control measures more particularly focused on the following points:

- further reinforcement of the permanent control framework of the Central ORIC department and the business lines/functions;
- further work on updating and standardising circulars and procedures;
- development of functional links between Central ORIC and the business line/function teams;
- more resources dedicated to permanent control in the Central ORIC department and the business line/function teams;
- enhancement of staff awareness, among other things through compulsory e-learning modules for all staff (operational risk, compliance, information security, etc.) and a Risk Functions Convention, held in mid-2010;
- improvement of the existing maps:
  - continued standardisation and harmonisation of risks and controls maps of the business line, function and other central departments based on a single framework categorised by risk function (legal, IT, etc.),
  - creation of a overaching risks and controls map of all risks the HSBC Group is exposed to in France, including the main ongoing action plans. Updated twice a year, this risks and controls map is presented to the Board of Directors and the Audit Committee of HSBC France;
- a redefined Vendor Management Policy, involving the deployment of a standardised method for assessing the main service providers and the setting up of provider monitoring committees in the business lines;
- strengthening the control framework for new products with more stringent due diligence requirements, and the introduction of a post-implementation review within 6 months of new product launches;
- assessment of risk functions taken into account in the determination of variable compensation.

For its part, the Enhanced Risk Framework (ERF) project took on multiple facets, including:

- implementation of a new risks and controls mapping method called Risk and Control Assessment (RCA), focusing on the main risks and integrating an extreme scenario (1 in 100): RCAs are currently being finalised in all the business lines in France and will be formally approved at a plenary meeting of the ORIC committee early in 2011. The RCAs, which provide an assessment of the key controls in place (effective, needs improvement, ineffective) and explaining the main action plans, serve as a basis for the ORIC teams' annual control programme;
- participation in defining the functional requirements of the HSBC Group's tool (ORION), which will replace the GORDON system currently in use for operational risk management;
- consolidation of the process of managing new products, more particularly by instituting a detailed ex-post review called "Post-Implementation Review" (PIR), subject to the approval of the "risk" function manager;
- development of a pilot with regard to operational risk appetite;
- more detailed reporting and better formatted reports for the HSBC Group.

The ERF project will continue actively throughout 2011, more particularly with the updating of the RCAs and the scheduled deployment of ORION during the second half of the year.

Finally, the business lines and their Business Information Risk Officers (BIRO) have implemented (or are currently implementing) numerous measures to strengthen the information security system:

- an inventory of all sensitive information exchanged with third parties;
- design of an information classification policy;
- inventory and assessment of End User Computing (EUC) with a view to their possibly being taken over by the central IT department;
- enhancement awareness among all staff of the information security issue;

– provision of tools (paper shredders, e-mail encryption);

– appointment of an “archiving” coordinator.

Even through the HSBC France group has not experienced any significant incidents in this respect, stronger information security remains a central concern for 2011.

Compliance function

The HSBC France group’s permanent control framework of the risks of non-compliance is coordinated by the Compliance Department. Since March 2006, all compliance personnel within the HSBC France group report to the Compliance Department so as to ensure full independence of the compliance function from operational activities, as required by regulation 97-02. The HSBC France group’s compliance control framework and the internal organisation of the Compliance Department are set out in two general implementation circulars that were respectively updated on 13 October 2010 and 30 September 2010.

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

The Compliance Department is responsible for overseeing control of the risk of non-compliance, as defined by article 4 p) of regulation 97-02, for all HSBC France group entities. Although his scope of intervention in that capacity extends to all measures applying to banking and financial activities, supervising due observance of regulations in certain specific areas devolves on other risk functions in the HSBC France group, at level one, which have the necessary expertise and means (accounting standards, capital ratios, control of major counterparty risks, recommendations on the security of information system, etc.). In these specialised areas, compliance is controlled within the framework of the HSBC France group’s ORIC (Operational Risk and Internal Control) Committee, to which the risk functions are accountable for the smooth running of the control framework in place and for any identified weaknesses and failures thereof, as well as at the Risk Management Meeting (RMM), which is attended by the Chief Compliance Officer.

The Compliance Department’s area of competence does not extend to enforcing rules outside the sphere of banking and finance, which are supervised by specialised entities of HSBC France (labour and social security law, regulations on the safety of people and property, etc.).

Identification of non-compliance risks

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

The analysis of non-compliance risks is documented in risk assessments listing the laws, regulations, professional rules and the HSBC Group internal rules that apply to each business line or activity, and the procedures and controls that ensure compliance with these rules. Non-compliance risks affecting the HSBC France group’s activities concern the following areas in particular: the struggle against money laundering, terrorist financing 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 maps are updated at least every six months.

Compliance review procedures

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

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

Controlling compliance of operations generally relies on recurrent controls carried out by the Compliance Department and internal control services, as well as on control duties performed by Compliance Department teams (called compliance reviews) aimed at ensuring due observance of regulatory provisions and the applicable internal rules within a particular activity. Since 2010, new products or services approved by the Product Examination Committee undergo a formal ex-post review within less than 6 months of their launch, coordinated by the ORIC function, to ensure they are marketed under the same conditions as those initially proposed to the Product Examination Committee, and that the related risks were fully comprehended during the approval process. Special compliance control procedures for operations, adapted to their nature and the risks incurred, are in place in certain activities. In Global Banking and Markets activities, complex and structured transactions are thus the subject of a formal annual review, including an examination of the risks of non-compliance, by an *ad hoc* committee, the Annual Transactions Review Committee.

Procedures guaranteeing segregation of duties and prevention of conflicts of interest

The measures aimed at preventing conflicts of interest and guaranteeing segregation of duties are more particularly the subject of a general implementation circular and of formally defined procedures specific to each HSBC France business line. These measures are reviewed on a regular basis.

Overseeing the activities and results of compliance control

Operational oversight of the compliance control framework and follow-up on any identified discrepancies relies first of all on periodic and specific reporting procedures in the Compliance channel. The Compliance Officers of each HSBC France group entity prepares a quarterly 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 concerned.

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

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.

Organisation of accounting

Accounting control procedures

The Finance Department is responsible for the proper application of the HSBC 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. This more particularly concerns accounting and reconciliation procedures designed to verify the existence and validity of balance sheets, off-balance sheet statements and income statements.

The Finance Department maintains accounting control manuals featuring procedures and instructions which comply with French accounting standards.

The main accounting principles applicable within the HSBC Group in France are available for consultation by all accounting departments on the HSBC France Intranet. These principles are based essentially on the French Commercial Code, the fourth European Directive, IFRS and all CRC texts and recommendations.

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

Oversight of the accounting and regulatory audit trail is formally defined in a number of procedures and documents relating to the accounting architecture of HSBC France and in the "Datawarehouse". These procedures are formally drafted in the Finance Department by the teams of the "Standards, MOA and Tools" and "Accounting, Reporting and Regulatory Affairs" departments. These are documents of varying natures relating to accounting tools and interfaces, accounting charts, statements of user requirements, methods of operation for the audit trail, etc. The updating of this documentation is part of the annual review of the procedures and circulars of the HSBC France group.

This system aims to ensure the effectiveness and quality of internal controls over the preparation of accounting and financial information throughout the HSBC France group.

Organisation of accounting production

All business units have a finance function that reports monthly to the Finance Department. Most reporting documents are produced monthly and on both a non-consolidated and consolidated basis.

These departments are responsible for drawing up budgets and action plans in line with guidance provided by Senior Management. As it is responsible for managing accounting, the Finance Department organised a number of meetings in 2010 to discuss the budget procedure, certification of the financial statements and Sarbanes-Oxley measures.

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 entries in the accounting system.

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

HSBC France's banking operations are heavily automated using internally and externally developed software systems to provide consistent, reliable and timely processing of information. The 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.

The introduction of IFRS means that accounting systems are being adapted to allow HSBC France and its main subsidiaries to produce financial statements compliant with both French GAAP and IFRS, and to create common tools (provisions, etc.). The HSBC Group's integrated System 9 consolidation software produces IFRS-compliant consolidated financial reporting statements that also meet all the requirements of the *Autorité de Contrôle Prudentiel* and the parent company.

The introduction of a financial and balance sheet datawarehouse in early 2005 has facilitated reconciliation and ensures that accounting, financial, regulatory and management reports are consistent with financial accounting. The datawarehouse stores data from both HSBC France and its subsidiaries. It contains various types of data: accounting data, inventories, or detailed breakdowns of carrying values depending on the information required for internal and external disclosure. Consistency controls have been established within the datawarehouse, which feeds the System 9 consolidation software and is used to produce the various French regulatory reports via the Evolan Report software.

In early 2008, the accounting and regulatory services developed a tool to make use of the audit trail produced by HSBC France's information system, in particular the "datawarehouse". This tool makes it possible to track down the initiating event of a transaction in the operating system. Furthermore, since mid-2009, this tool has been in place for the accounting audit trail and used for financial statements (balance sheet and income statement) and for the SURFI "Situation" (financial position) and "Cpte-Resu" (earnings) statements. The tables that have been put in place and tested allow for the production of the book-keeping vouchers for all the aforesaid statements contract by contract on demand. Archiving procedures have been specified: financial position statements available online: M (current month), M-1, M-2, MAR (quarterly), JUN (half-yearly), SEP (quarterly), DEC (annual). The other financial position statements remain stored in the databases and are available on demand (36 months of history).

Accounting production controls

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 HSBC 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 summarises 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 irregularities revealed by the reconciliation certificate are used as a basis for corrective action by the entities concerned. The Finance Department's accounting control service conducts reviews in HSBC France departments to ascertain due application of control procedures and the quality of the supporting documents.

The Finance Department also receives audit reports from Continental Europe Audit (CEA) and Group Financial Services and European Audit (AUF), and uses them to follow up on accounting and finance-related recommendations.

Statements to the supervisory authorities that contain accounting information are prepared directly by the operational departments and subsidiaries. Each accounting or finance officer examines and validates the information. 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 HSBC Group Management Board and HSBC Bank plc's Executive Committee.

Within the HSBC France group, 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.

The Audit Committee examines the quarterly, interim and annual financial statements submitted to the Board of Directors.

In order to comply with the American Sarbanes-Oxley Act of 2006, HSBC France's management must carry out an in-depth assessment of the internal control procedures used in drawing up financial statements. The most significant processes in this respect are thus the subject of detailed documentation and specific controls, supervised on a regular basis as part of the quarterly review system. These detailed analyses of flows of transactions to accounts help improve audit trail control. Weaknesses identified by such controls must be corrected as soon as possible and a dedicated team has been set up to oversee and coordinate all such work.

The Audit Department also contributes to these controls with independent tests relating to Sarbanes-Oxley (SOX) controls. The Statutory Auditors conduct an annual review of the work carried out on behalf of the HSBC Group Auditors, who in turn give their opinion on the SOX 404 report prepared by the management of HSBC Holdings plc. The Statutory Auditors are therefore involved in each quarterly review of SOX risks and audit SOX processes at the end of the year.

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

Periodic controls

In accordance with regulation 97-02, periodic controls aim to ascertain the compliance of operations, the levels of risk actually incurred by the bank, due observance of the procedures and the efficiency and appropriateness of the permanent control frameworks, by means of independent investigations.

By virtue of article 10 of the aforementioned regulation, the periodic control framework applies throughout the company, including its branches, and to all the companies it exclusively or jointly controls.

The periodic control of HSBC France is thus carried out by two separate yet closely coordinated teams:

– firstly, Continental European Audit (CEA, ex-Group Audit France), which primarily audits the central Functions, Retail Banking, Banking and IT operations;

– secondly, Group Financial Services and European Audit (AUF), in charge at the global level, for the entire HSBC Group, of auditing the "Global Businesses" that comprise Markets activities, Investment Banking, Insurance, Asset Management, Private Banking and Accounting. AUF has a team of auditors in Paris, based at the CEA.

Its role is to check and assess the quality of risk management and control systems by ascertaining both due observance of national regulations applicable to the audited area and the correct application of standards and procedures in force within the HSBC Group. In the hierarchy of HSBC Group controls, Internal Audit embodies the "third line of defence", intervening after the business lines themselves and the permanent control teams.

Audits aim to assess the degree of risk control of the audited entities or processes, by examining the permanent control framework as a matter of priority and ascertaining due implementation of the recommendations made by prior internal or external audits (conducted by the Regulators or the Statutory Auditors).

Audit work is done in accordance with the HSBC Group's audit standards, described in the Group Audit Standards Manual (GASM). The GASM is updated yearly on a consolidated basis and should be re-read by the auditors each year and implemented during each audit.

In addition, the HSBC Group's auditing standards are set forth, in CEA, in internal procedures or appropriate operating procedures. The reference framework formed by all these documents is used by the audit teams to conduct their audits. These procedures, which evolve to meet regulatory and HSBC Group requirements, are updated on a regular basis and were extensively revised in 2010.

The audit approach is based on an assessment of all risk components specific to each auditable entity or process, and is implemented with the Audit Information System (AIS) tool developed by the HSBC Group. In 2010, as in 2009, CEA audit schedule was prepared primarily on the basis of the results of the "Risk Calculator" tool, one of the key components of this system, which classifies entities according to the degree of risk to which they expose the bank. Themed audits were also performed, either at the request of the HSBC Group or due to specific events affecting the life of the bank.

Audited entities or processes are given an overall rating based on the inherent risk and the quality of internal controls they undergo. Audit reports are sent to the entity's next level of management or the manager of the audited process, responsible for implementing CEA's recommendations, as it is for implementing any made by the supervisory authorities or the Statutory Auditors.

Audit recommendations are monitored rigorously: quarterly progress reports must be sent to CEA by each audited entity until they have been fully implemented, at which time they are formally closed.

CEA reviews these progress reports on implementation of high and medium risk recommendations and approves the audited entities' responses to any recommendations on high risks. The process is supported by a tool that automatically sends audited entities reminders of their obligations seven weeks in advance then closely monitors implementation times. Audited entities can report directly on progress made in implementing audit recommendations by using the Audit Issues Database (AID) feature of the AIS tool.

Major risk or repeated recommendations, and recommendations with an implementation lead time of more than six months (high or medium risk), are reported monthly to the management committee (Risk Management Meeting) and quarterly to HSBC France's Audit Committee. In 2010, CEA actively supported the bank's various business lines in implementing recommendations of high risk with a view to reducing the most significant risks as quickly as possible.

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

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

Stuart Gulliver
Chairman

Paris, 15 February 2011

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

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

Year ended 31 December 2010

To the shareholders,

In our capacity as Statutory Auditors of HSBC France, and in accordance with Article L. 225-235 of the French Commercial Code ("*Code de commerce*"), we hereby report on the report prepared by the Chairman of your company in accordance with Article L. 225-37 of the French Commercial Code ("*Code de commerce*") for the year ended 31 December 2010.

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

It is our responsibility:

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

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

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

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

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

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

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

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

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

Other disclosures

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

Paris-La Défense and Paris, 19 April 2011

KPMG Audit
Department of KPMG S.A.
Pascal Brouard
Partner

BDO France – Léger & Associés
Michel Léger
Partner

Sustainability

HSBC Group's commitment to sustainability

As one of the world's largest banks, HSBC accompanies the development of local economies throughout the world, at the individual, company or state level. HSBC actions can have major economic, social and environmental impacts and those impacts, both positive and negative, need to be anticipated for the long-term benefit of both the bank and customers. The sustainability policy contributes to this process both globally and locally by providing input for risk management and helping identify opportunities for new business development.

HSBC is often recognised as a leader in this respect by the markets as well as by the rating agencies and is included, amongst others, in the FTSEE4GOOD, DJSI and Carbon Disclosure Project's Leadership indexes. The HSBC Group's ambition is to remain at the forefront.

Guiding principles

HSBC was one of the first signatories to the Equator Principles in 2003; the bank is now a member of the EPFI Steering Committee and subscribed, with other major financial institutions, to the revised version of the Principles issued in July 2006. The HSBC Group is also involved in the United Nations Environment Programme Finance Initiative (UNEP FI) and has signed the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the Global Sullivan Principles for Corporate Responsibility.

Helping build a more carbon-free world

One of the HSBC Group's aims is to reduce its environmental impact. HSBC has adopted the Equator Principles, a framework for managing the impacts of large-scale financed projects. Additionally, HSBC's sector risk policies provide guidance on managing the potential environmental and social impacts of the bank's customers. These policies are applied regardless of the value of the transaction or size of the business. HSBC has five sustainability risk policies relating to "sensitive" sectors: Forest land and forest products; Mining and metals; Chemical industry; Freshwater infrastructure; and Energy, a revised version of which was issued in 2010. There is also a Defence Equipment policy which clarifies the approach to companies involved with weapons.

The HSBC Climate Change Centre of Excellence allows the Group and its customers to anticipate the likely economic risks and opportunities, by sector and region, associated with lower carbon economies. In 2010, the Centre published more than 40 studies distributed to the bank's teams and customers as a means of supporting their investment decisions.

The HSBC Global Climate Change Benchmark Index, launched in 2007, lists companies focused on developing solutions to combat the effects of climate change across many business sectors and includes sub-indices focusing on low carbon energy production, energy efficiency and water, waste and pollution control.

In 2005, HSBC was the first FTSE 100 bank to achieve carbon neutrality, which means that the HSBC Group's worldwide operations produce net zero CO_2 emissions.

Accompanying our staff

The HSBC Group employs 307,000 staff in 87 countries and territories, and serves approximately 95 million customers. Together, they mirror the world's diversity and provide a source of energy and creativity which enables the HSBC Group to adapt to its environment and anticipate future trends.

Talent

HSBC sees identifying and developing talent as a priority. The HSBC Group has implemented a strategy with two focuses: creating conditions facilitating in-house promotion and encouraging its employees' professional development.

Commitment

To measure its employees' satisfaction, their commitment, their pride in belonging to HSBC and their will to promote its businesses, the HSBC Group has, for the past four years, performed an annual Global People Survey (GPS), reaching out in 26 languages to all HSBC Group employees. In 2010, a new "Diversity and Integration Index" was added to this survey.

Training

Training is a key means of accompanying staff development, helping people support the successive changes in the company's businesses and incarnate its values. To this end and to ensure overall consistency, HSBC has created the HSBC Business School, whose programmes are deployed worldwide.

Sustainability (continued)

Encouraging staff awareness of and involvement in sustainability issues

To ensure that each employee understands the Group's sustainability policy and the issues it addresses, HSBC informs and involves them in particular *via* the partners it supports through its community investment programmes. HSBC France devoted 0.34 per cent of its pre-tax profit to gifts mainly devoted to education and the environment, in line with the HSBC Group's policy and objectives in this area.

HSBC France's contribution

Flag-bearer for the HSBC Group's commitment

HSBC France supports the HSBC Group's commitment to placing sustainability at the heart of its activities. This commitment is illustrated by the HSBC Group initiatives deployed in France as elsewhere, but also by local initiatives that form an integral part of each business line's day to day activity and contribute to the achievement of the institutional undertakings provided by the HSBC Group.

Distribution of economic benefit

The most fundamental contribution HSBC makes to the economy, the environment and society is through delivering a sound business and sustainable revenues. This allows HSBC to pay dividends to its shareholders, salaries to its employees, payments to its global suppliers, and tax revenues to governments in the countries and territories where the bank operates.

HSBC France: profit distribution

(in millions of euros)	**2010**
Net cash paid in taxes (including EUR147 million in corporate income tax)	**586**
Distribution to shareholders and non-controlling interests	**720**
Employee compensation and benefits	**1,039**
General and administrative expenses	**615**

Banking operations

HSBC France finances the development of large corporations in France, applying the HSBC Group's sector risk policies, presented in the *Helping build a more carbon-free world* section above. The performance indicators table on page 54 discloses the number of related projects that meet the criteria set by the Equator Principles.

A consolidated presentation of HSBC France loans and advances to customers by industry sector is presented in the dedicated section of this Registration Document [1].

HSBC France offers its customers products and services that can help them build a lower carbon world.

HSBC France hopes in this way to preserve its customers' confidence in order to retain them and attract new customers, develop new market segments, improve its risk management and strengthen its licence to operate.

To support SME business leaders in their implementation of sustainability policies for their companies, HSBC France has developed a complete range of specific products and services: HSBC Living Business, Credit, Employee Savings Plan, Insurance, Investment and socially responsible UCITS.

HSBC France's priority is to develop the quality of its services and increase its customers' satisfaction: the bank has therefore invested in multi-channel service delivery, a Customer Satisfaction and Quality Department, quality standards for receiving customers, assessment of customer satisfaction and follow-up of recommendations, diligent processing of complaints, a mediation department with wide-ranging powers and appraisal of customers' satisfaction with the solutions proposed to them.

Responding to local expectations of the bank's commitment to sustainability

Customers and citizens

In 2010, TNS Sofres performed a survey on behalf of HSBC France with as its subject "*Comment les banques peuvent-elles contribuer à construire un monde durable ?*" ("How can banks contribute to sustainability?") [2]. The results were presented to customers in branch and via the Internet, and to stakeholders at public events and in-house events. The results showed that the main expectation of private bank customers (96 per cent of the individuals surveyed) is to be provided with honest and transparent information.

87 per cent of the people surveyed considered that sustainability is an important and even an essential topic, and 76 per cent of the French respondents wished their bank to be committed to sustainability.

75 per cent of the respondents would like their bank to keep them informed of its initiatives, offer them ethical or environmentally friendly investment opportunities and advise them on ways to make a personal commitment to sustainability.

1 *See pages 190 to 191, Note 3 of the Consolidated financial statements..*

2 *The TNS Sofres survey had two phases: a qualitative exploration based on group meetings (students and upper social category representatives) held at the end of February 2010; a telephone survey of 1,000 persons contacted between 2 and 16 March 2010. The complete results may be consulted in French version only at the following address:* http://www.hsbc.fr, A propos d'HSBC/Communiqués de presse/liste des communiqués de presse/8 avril 2010.

In response to this survey, HSBC France has reinforced its communication towards personal customers with a focus on both its overall commitment to sustainability and the range of products it offers. The resulting change in customer perception is beginning to bear fruit (see the performance indicators table, page 54).

Employees

HSBC France aims at continuous improvement of its employee relationships. The annual Global People Survey (GPS) provides a means of assessing the degree of employee commitment, determining the actions required to increase the bank's performance *via* staff commitment, performing internal and external benchmarking, measuring yearly progress achieved and compensating the bank's management in consequence.

In June 2010, 88 per cent of HSBC France employees responded to the GPS survey compared with 86 per cent in 2009. Two thirds of them expressed appreciation of HSBC's commitment to sustainability and said they were proud to work for the HSBC Group.

The bank's Sustainability Department provides the bank's staff with information *via* in-house competitions, a dedicated Intranet, awareness-raising conferences and weekly newsletters.

The HSBC Group's sustainability policy is also reflected in HSBC France's decision, since 2009 to include sustainability criteria in the basis of calculation of incentives. This measure benefits all employees and encourages them to achieve targets for their own direct environmental footprint at work.

Suppliers

HSBC France asks its suppliers to provide information on their sustainability policies; suppliers committed to sustainability are more likely to be selected as suppliers of the HSBC Group than those that are not. A history of responsible practices backed up by appropriate certifications (ISO, FSC, AFNOR's Diversity label) are determining factors of choice for HSBC.

All the bank's suppliers are required to take note of and sign the HSBC France group's code of conduct.

Community representatives and charitable partners

During 2010, HSBC France supported more than 70 charities or similar bodies, with which it initiates and maintains close partnerships, which contribute day by day, year after year, to developing a more responsible, equitable and sustainable society.

Sustainable Development Clubs

HSBC France is an active member of ORSE (*Observatoire sur la Responsabilité Sociétale des Entreprises* – the French Study Centre for Corporate Social Responsibility) and of the IMS Steering Committee – *Entreprendre pour la cité*. Both these institutions are independent and work in conjunction with their member companies, civil society and similar foreign bodies in order to identify the most relevant issues and develop best practices in the area of corporate social responsibility.

The HSBC France group is also a member of the *Collège des Directeurs du Développement Durable*.

Ensuring business integrity *via* governance and compliance

Compliance

HSBC France's compliance function dates from 2001 and its purpose is to ensure that its business is conducted with integrity and professionalism and in conformity with the laws, regulations and best practices applicable in France.

In 2010, the bank remained closely focused on the customer claims and disputes arising as a direct or indirect consequence of the crisis in the financial markets. Compliance teams worked in conjunction with the other bank business lines and departments, and with HSBC Group management in order to deal appropriately and equitably with each situation as it arose, in the interest of all the parties.

Specialised committees continued their comprehensive examination of each issue; in parallel, progress on the major projects of 2009, such as a complete review of the sales documentation for investment products, also continued to be closely monitored throughout the year.

Corporate Governance

Corporate governance is at the heart of HSBC France's strategy. Since it joined the HSBC Group, the bank has continued to apply corporate governance rules, allowing for its status as a non-listed subsidiary. As required by French law no. 2008-649 dated 3 July 2008, transposing the provisions of European directive 2006/46/EC dated 14 June 2006, the bank refers primarily to the Corporate Governance Code for Listed Companies published in December 2008, and revised in April 2010, by AFEP and MEDEF.

Sustainability (continued)

However, as HSBC France is a 99.9 per cent subsidiary of HSBC Group, and its shares are not listed in an organised market, certain principles of that code have been adapted; with respect to certain points, HSBC France applies the British Combined Code on Corporate Governance, as refered to by its parent, HSBC Holdings plc.

Further, as a supplier of financial services, HSBC France must be attentive to any risk of involuntarily supporting controversial manoeuvres. As an integral part of the bank's Strategic Plan, sustainability is a tool in that process and the Board of Directors is kept regularly informed as to HSBC France's sustainability initiatives.

At 31 December 2010, HSBC France's Board of Directors was comprised of 17 directors, of whom 2 have other functions within the HSBC Group, 4 are members of HSBC France's Executive Committee, 7 are independent Directors and 4 are elected by the bank's employees. The Board of Directors has also created an Audit Committee comprising independent Directors and a Nomination and Remuneration Committee chaired by an independent Director.

HSBC France's sustainability policy has three main dimensions that echo the Group's worldwide policy:

– integration of societal and environmental issues into its business approach;

– control and improvement of its direct societal and environmental impacts;

– employee awareness and commitment, and corporate philanthropy.

Managing sustainability

The Sustainability Department

In 2008, HSBC France transformed the mission of Corporate Social Responsibility (CSR) into a Sustainability Department placed under the authority of the bank's CEO. The department's role is to implement the HSBC Group's initiatives within France. A team of 10 persons coordinate the action plans developed in conjunction with a network of colleagues covering all the bank's business lines.

Each year, HSBC France publishes a sustainability report in parallel with the sustainability report of the Group, HSBC Holdings plc. In France, these both reports are exclusively available online on: http://www.hsbc.fr/rapportsdd.

The HSBC France Sustainability Committee

Set up in 2003 and chaired by the CEO, the HSBC France Sustainability Committee is comprised of 20 directors and representatives of the bank's principal functional and operating departments. The committee meets each quarter to review progress made and any problems with deployment of the chosen strategies.

The Direct Impact Committee

In 2009, HSBC France reinforced its approach by creating a committee dedicated to managing direct environmental impact, by defining and coordinating action plans dedicated to controlling the bank's environmental impact and achieving the defined environmental targets. The committee is comprised of representatives of the bank's Purchasing, IT, Operating Property and Human Resources departments and meets every two months. Progress on the action plans is reported quarterly to the HBSC France Sustainability Committee.

The Diversity and Integration Committee

In 2010, the Human Resources Department created the HSBC France Diversity and Integration Committee, which meets twice yearly to review and comment on the Group's action plans implemented at the worldwide and/or European levels and determines priorities for the actions required in France.

The Committee of the *Fondation HSBC pour l'Education*

This committee is chaired by the CEO and is comprised of representatives of HSBC France and qualified persons. It meets twice yearly to determine the theme for the annual call-for projects and then selects the associations to be supported by the *Fondation HSBC pour l'Education* based on their project proposals.

Main events of 2010

Business line involvement in sustainability

The results of the TNS Sofres survey of individuals on the theme "*Comment les banques peuvent-elles contribuer à construire un monde durable ?*" ("How can banks contribute to sustainability?") have provided the framework for the bank's action since March 2010.

Sustainability brochure

In response to customers' desire for more information by the bank as to its involvement in sustainability, HSBC France has reinforced the information provided *via* its customer newsletters and websites, as well as in branch where a brochure entitled *"HSBC s'implique, je m'implique, on avance"* [1] ("HSBC gets involved and so do I. We are moving ahead") provides a clear and simple guide to sustainable development and explains the focus of HSBC's own initiatives aimed at building a sustainable world.

Socially responsible investment (SRI)

HSBC's SRI offering is available throughout the Group's French branch network to institutional customers, asset managers, businesses and individuals.

Funds under management have risen sharply, reaching EUR 1.85 billion at end-December 2010 as a result both of the transformation of a monetary fund into an SRI fund complying with ESG criteria, and of renewed investment in the bank's existing SRI funds. The *HSBC Actions Développement Durable* and *HSBC Obligations Développement Durable* funds saw their assets under management rise, compared to those of 2009, by respectively 20 per cent and 190 per cent during 2010. The new investment was largely stimulated by the two funds' integration as part of HSBC France's core offering, and by promotional activities such as HSBC Global Asset Management (France)'s participation alongside HSBC France during the SRI Week organised from 4 to 10 October 2010.

HSBC France's SRI employee savings scheme

Employee savings under SRI asset management rose again to EUR 79.3 million at the end of 2010 (by 32 per cent over the year) compared with total employee savings (SRI and non SRI) of EUR 3.8 billion.

Living Business

HSBC France continued to raise the awareness of its business clientele to sustainability issues *via* its Living Business programme (which includes a financing component offered in partnership with OSEO) and *via* its participation in events organised for the benefit of its target customers: *le forum international des Ateliers de la Terre, Produrable, Génération Responsable* and the Green Dating encounters.

Solidarity

HSBC France has increased the credit line granted to ADIE *(Association pour le droit à l'initiative économique)*, which currently stands at EUR 3 million. The bank also has stakes in the equitable venture capital funds FinanCités (EUR 1 million invested) since 2008 and *Business Angels des Cités* (BAC) (EUR 0.5 million invested) since 2010.

Private banking

As a prelude to the deployment of a service dedicated to assisting the philanthropic commitment of private banking customers, a conference was organised to raise the awareness of our private bankers, and a qualitative review of our customers' expectations has been performed.

Customer service and customer satisfaction

In 2010, the bank introduced a measure of customer-complaint satisfaction designed to assess the quality of the service provided in addressing customer complaints, customers' perception of the quality of this process and the solutions found.

The number of complaints registered in 2010 rose overall by 2 per cent, down 10 per cent at our head office, but up 6 per cent within the branch network.

The number of letters addressed to the mediator by our customers fell by 26 per cent compared with 2009, whilst the number of complaints giving rise to effective action by the mediator fell by 39 per cent.

Control and improvement of environmental impacts

Over the period 2008-2011, HSBC France aims to 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 arising as a result of energy consumption in buildings by 1.4 per cent.

Results achieved in 2010

- Energy: 2 million kWh were saved in 2010 and 5 million kWh over the period 2007-2010.
- Water: HSBC France pursued its plan to do away with its open circuit air conditioning systems, 40 of which have been removed during the last three years.
- Waste: the indicator only covers non-recycled waste. A substantial improvement in waste sorting at branches was noted in 2010, particularly in the provinces. More than 90 per cent of building site waste is now recycled.
- Paper: the HSBC Group achieved the goal for 2010 fixed in 2009. More than 90 per cent of its purchases of paper have FSC or PEFC accredited sources. 100 per cent of cheques are printed on FSC paper.

1 *The French brochure is also available online at* http://www.hsbc.fr/A propos d'HSBC/Développement Durable/

Sustainability (continued)

- Air travel: the activity increase in 2010 is the reason behind the 30 per cent rise in air travel, calling for increased vigilance and adherence to best practices.
- Company cars: HSBC France is in the process of replacing its fleet with more recent, low-CO_2 emission (150 g/km at most) models. 50 vehicles were replaced in 2010 and the process will have been completed at the end of 2011.
- Office supplies: the procedure requiring orders for a minimum of EUR 50, as a means of limiting small deliveries, has been very beneficial with a further fall in smaller orders of 56 per cent to 316 in 2010 compared with 2,948 in 2007. 99 per cent of office supplies are equally FSC or PEFC accredited.

Assisting employees

Employee commitment

The 2010 French Global People Survey showed a 10 per cent increase commitment on the part of employees providing voluntary assistance for a sustainability initiative than on the part of other employees. The former employees are equally 21 per cent more satisfied by the HSBC Group's sustainability initiatives and pay particular attention to the HSBC Group's sustainability policies.

Diversity

- At the end of 2009, the group signed a new career development agreement (taking effect in 2010) designed to encourage the continued employment of senior employees.
- The action undertaken by the bank has enabled an increase in the proportion of positions of responsibility occupied by women who, at 31 December 2010, constituted 48 per cent of the bank's managers as a whole and 34 per cent of the bank's branch managers including its *Centres d'Affaires Entreprises* and Corporate Banking Centres.
- For the past six years, the bank's salary agreements have provided for a budget designed to achieve equal pay for men and women. In 2009 and 2010, this budget amounted to EUR 3 million and was employed for the benefit of 1,700 women. In 2010, HSBC France's Diversity and Integration Committee decided to dedicate its first initiatives to women's careers *via* a series of measures scheduled for implementation in 2011.
- In 2010, HSBC France reinforced its commitment to disabled employees: 200 disabled employees, or close relatives of disabled persons, were given CESU-Handicap tickets paid for by the bank.
- HSBC France also participates in the Phénix project designed to diversify recruitment by extending the bank's reach to Master-2 in human and social science laureates. Nine such candidates have been recruited over the past four years and are pursuing careers within the HSBC Group.
- In the framework of its partnership with the *IMS-Entreprendre pour la Cité* association, HSBC France is a participant in an employment diversity programme. Over the past five years, HSBC France has recruited 95 young people originating from deprived urban areas.

Training and tutoring

The bank's training strategy in France, combining e-learning and face-to-face training, is described in the employee section of this Registration Document [1].

The Group's Discovery induction programme is designed to improve the integration of new employees and includes a sustainability module.

Moreover, HSBC France focuses particularly on degree courses, with sandwich education and higher education dedicated to banking studies such as *Brevet Professionnel de Banque, BTS Banque, ITB, CESB.*

Over the past five years, about sixty students representing almost 10 per cent of the preferential intake of *Instituts des Sciences Politiques*, have been sponsored by HSBC France executives, twenty of whom have undergone practical training at the bank and three of whom have been recruited. In 2010, this action was rewarded by the attribution to HSBC France of the "Equal Chance" prize awarded by *Action Entreprise et Diversités.*

Talent

HSBC France is a participant in the HSBC Group's Next Generation Development Programme, under which about fifteen young individuals are invited to meet in order to work on an HSBC Group project. In 2010, the students examined the bank's credit process and suggested tools and procedures which have since been implemented.

1 *See pages 230 and 231.*

Salaries and incentives
In 2010, HSBC France paid out almost EUR 1.04 billion in salaries and benefits. At the end of 2010, Executive Management took the following decisions effective from 1 January 2011:

– the annual minimum salary was raised to EUR 22,000;
– the annual minimum salary for managerial personnel was raised to EUR 32,000;
– employees with basic annual salaries not exceeding EUR 35,000 will receive minimum annual gross basic pay rises;
– a budget of EUR 600,000 will be devoted to pursuing HSBC France equal pay initiatives.

In total, almost half HSBC France's employees will receive the benefit of one or other of these measures, in addition to which Executive Management continues to provide the bank's Managers with substantial allocations allowing them to grant individual pay rises to their staff.

In 2011, profit-sharing and incentive payments to employees with respect to 2010 will amount to EUR 29.6 million, with a contractual bias towards the least remunerated employees.

The bank's company savings scheme also provides for top-up payments by the bank rewarding investment of profit-sharing or incentive bonuses or voluntary payments into the scheme.

The bank's incentive agreement also contributes to its environmental thrust by including indicators covering the year-on-year decrease in water and energy consumption. Incentive bonuses are increased if the defined targets are met [1].

Finally, HSBC France initiated in 2010 the establishment of a grant proposal for employees for the benefit of the French Red Cross on the occasion of the Participation and Profit 2009 payment. Nearly 400 employees participated in the operation with an equivalent amount auctioned by the bank. EUR 102,000 have been collected on behalf of educational projects for disadvantaged children.

Flexiwork
This project was launched during the second half of 2009 and its deployment started in 2010. The aim is to enable employees, on a voluntary basis, to achieve a better balance between professional and personal life, to retain talents by offering innovative working practices and to reduce the bank's carbon footprint.

Employee awareness and sponsoring
In 2010, HSBC France devoted more than EUR 1.8 million to charitable programmes which benefited, amongst others, more than 10,000 children. In 2010, 4,394 voluntary missions were filled, involving approximately 40 per cent of employees. Programmes were designed to facilitate access to education by children with underprivileged backgrounds, promote young talents and preserve the environment.

2010 was distinguished in particular by:

– assistance provided by the *Fondation HSBC pour l'Education* which, in its fifth year of activity, helped 37 associations and engaged in fourteen new projects. Between June 2009 and 2010, almost 6,000 children received assistance;
– the launch, in November 2010, of an environmental sponsorship programme covering three objectives:
    - *educating young people in environmental protection* by encouraging local initiatives in their schools and increasing their awareness of the importance of respecting environment and safeguarding biodiversity,
    - *promoting and organising ecological initiatives in the field*, on an individual, family or team basis, in order to raise employee awareness of the issues involved in biodiversity and climate change,
    - *supporting research on the impact on financial services of climate change* as a means of better understanding how to adapt in the future. In particular, in conjunction with the Europlace Institute of Finance (EIF), the bank supports such research *via* its financing of the Chair of Sustainable Finance and Socially Responsible Investment and, since 2010, of the "Carbon Finance" research project engaged by the Chair of Climate Economics.

1 *See page 233.*

Sustainability (continued)

HSBC Group in France performance indicators

	Indicator	Trend 2010	2009	2008	Unit of measure	Scope*	GRI 3	ISO 26000	Global Compact
1	Profit before tax	**628**	548	301	EURm	HSBC in France			
	Total equity	**4,832**	5,060	5,228	EURm	HSBC France group			
	Cost efficiency ratio	**71**	71	80	%	HSBC in France			
	Core tier one ratio (Basel II)	**12.1**	12.2	9.5	%	HSBC France group			
Sustainable business									
2	Loans granted to SMEs (European definition)	**907**	Change in basis of calculation	Change in basis of calculation	Total loans (EURm)	HSBC France	FS 6		
	– Investment in SFEF (acquired in 2009)	**–**	9.43%	–	%	HSBC France	FS 6		
3	– Loans to eco-industry SMES [1]	**37.6**	28.5	–	Total loans (EURm)	HSBC France	FS 8	6.5.6	Principle 9
4	Equator Principles – Category A - number and value of projects financed	**0 and 0**	0 and 0	0 and 0	Total number of loans and EURm	HSBC in France			
	Equator Principles – Category B - number and value of projects financed	**2 and 132**	1 and 438	2 and 174	Total number of loans and EURm	HSBC in France	FS 3	6.3.5 ; 6.6.3	Principle 2
	Equator Principles – Category C - number and value of projects financed	**3 and 215**	1 and 60	3 and 250	Total number of loans and EURm	HSBC in France			
	Advisors	**4**	5	4	Number	HSBC in France			
5	Credit facilities granted to ADIE	**3**	3	2	EURm	HSBC France			
	Microfinance loans granted *via* the ADIE partnership	**1.948**	1.564	0.833	Total loans (EURm)	N/A	FS7		
	Number of ADIE micro-loans paid	**770**	427	280	Number	N/A			
	Investment in venture capital funds	**0,5/BAC**	–	1/Financités	EURm	HSBC France			
6	SRI assets under management	**1,846**	250	345	EURm	HSBC Global Asset Management (France)	FS 10, 11, 12		
7	Customer complaints submitted to the mediator	**502**	683	410	Number	HSBC France	PR 8	6.7	
	Number of complaints processed and signed by the mediator	**84**	138	92	Number	HSBC France			
8	Trend in the sustainability perception of HSBC by its customers (brand tracker: "A bank respectful of the environment and involved in ecological initiatives")	**13.25**	9	–	%	Individual customers	PR 5	6.7	
	Trend in the sustainability perception of HSBC by its customers (brand tracker: "An ethical bank in principle and in practice")	**25.5**	21.25	–	%	Individual customers			

	Indicator	Trend 2010	2009	2008	Unit of measure	Scope*	GRI 3	ISO 26000	Global Compact
Environmental footprint									
9	Energy consumption	**74**	76	78	GWh	HSBC in France	EN 3, EN 4	6.5.5	Principle 7 & 8
	Energy consumption (mWh/FTE [2])	**7.48**	7.39	6.99	mWh/FTE [2]	HSBC in France			
10	Transport	**36.61**	28.33	28.33	Millions of km	HSBC in France	EN 16	6.5.5	Principle 7 & 8
	– Direct CO_2 emissions (energy)	**6.45**	6.62	6.42	Thousands of CO_2 equivalent tons	HSBC in France			
	– Direct CO_2 emissions (transport)	**4.5**	3.5	3.43	Thousands of CO_2 equivalent tons	HSBC in France			
11	Water consumption	**160**	166	196	Thousands of m^3	HSBC in France	EN 8	6.5.4	Principle 7 & 8
	Water consumption per person	**16.17**	16.02	16.66	m^3	HSBC in France			
12	Paper consumption	**1,847**	1,874	2,170	Tons	HSBC in France	EN 1, EN 2, EN 22	6.5.4	Principle 7 & 8
	% of FSC accredited paper	**86**	52	29	%	HSBC in France			
13	Waste production	**2,224**	2,211	2,070	Tons	HSBC in France	EN 1, EN 2, EN 22	6.5.4	Principle 7 & 8
	Waste production/FTE [2]	**224**	214	185	kg	HSBC in France			
	% of recycled waste	**68**	60	55	%	HSBC in France			
Human resources and security									
14	Total employees[3]: Men/Women	**5,969 W/ 4,510 M**	6,072 W/ 4,605 M	6,393 W / 4,834 M	Number	HSBC France group	LA 14	6.3.7	Principle 6
	% of employees aged under 30	**18.1**	17.8	20.2	%	HSBC France group			
	% of employees aged over 50	**29.1**	29.1	28.7	%	HSBC France group			
	% of women executive managers	**15**	19	–	%	HSBC France group			
15	Handicapped persons	**250**	245	310	Number	HSBC France/ social report		6.3.7	Principle 6
16	Hires *via IMS-Entreprendre pour la Cité*	**33**	31	16	Number	HSBC France		6.3.7	Principle 6
17	% of non executive directors (not otherwise employed by the HSBC Group at 31 December)	**41**	39	35	%	HSBC France		6.2	
18	Health & safety: fatal accidents at work	**0**	0	0	Number	HSBC France	LA 7	6.4.6	
	Health & safety: accidents giving rise to more than 3 days' inability to work	**52**	100	29	Number	HSBC France			
19	Amount and % of incentive bonuses paid on the basis of ESG criteria	**0.8 and 2.7%**	1.9 and 4.8%	–	EURm and %	HSBC France		6.2	
Community investment									
20	Corporate sponsorship budget	**1.8**	1.2	0.8	EURm	HSBC in France		6.8	
	Corporate sponsorship budget as a % of profit before tax	**0.34**	0.22	0.27	%	HSBC in France			
	Approx. % of employees with voluntary involvement in a sustainability initiative	**40**	23	8	%	HSBC in France			
21	Employee commitment score	**61**	52	50	%	HSBC in France		6.4.5, 6.4.3	Principle 3
	HSBC respondents to the Global People Survey	**88**	86	78.2	%	HSBC in France			
	Employee satisfaction with HSBC's business approach to corporate sustainability	**71**	66	–	%	HSBC in France			

1 *Eco-industry activity code, cf. http://www.stats.environnement.developpement-durable.gouv.fr/uploads/media/etudes_documentsN10.pdf (pages 33 to 36).*
2 *Full Time Equivalent.*
3 *See also page 106.*

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

Risk management

All the HSBC France group's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of different types of risks.

In compliance with the requirements of regulation 97-02, HSBC France group has strengthened its permanent control and risk management system as set out in the Chairman's report on the internal control procedures and risk management procedures[1].

This control and risk management framework is structured into ten risk function areas:

- *financial risks:*
  - *credit,*
  - *markets,*
  - *structural interest rate/forex/liquidity risk;*
- *other operational risks:*
  - *legal,*
  - *tax,*
  - *information technologies,*
  - *business continuity plan,*
  - *human resources,*
  - *compliance (set out in the Chairman's report*[2]*),*
  - *accounting (set out in the Chairman's report*[3]*).*

FINANCIAL RISK

Credit risk

In the HSBC France group, credit risk management is overseen by the Credit Risk and Recovery Department (DRCR). Independently of the business line it relates to, this department reports directly to the Deputy CEO in charge of risks, and reports functionally to the HSBC Group Risk Department "Europe".

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

Governance

HSBC Holdings plc is responsible for the design of credit risk policies and provides centralised oversight and management of credit risk for its subsidiaries worldwide. In addition, each HSBC entity is accountable for:

- monitoring exposures to sovereign entities, banks and other financial institutions. HSBC's credit and settlement risk limits for counterparties in these sectors are approved and overseen by Group Credit Risk, to optimise the use of credit availability and avoid excessive risk concentration;
- monitoring intra-group exposures to ensure they are maintained within regulatory limits;
- controlling cross-border exposures, through the imposition of country limits with sub-limits by maturity and type of business. Country limits are determined by taking into account economic and political factors, and applying local business knowledge. Transactions with countries deemed to be at high risk are considered on a case-by-case basis.

Credit risk management for each of the main business lines (Global Banking and Markets, Commercial Banking, Personal Financial Services) is supervised by dedicated Risk Management Committees (RMC) which meet monthly, chaired by the Deputy CEO in charge of risks.

Decisions and information concerning credit risk from the various RMC meetings are reported to the HSBC France Risk Management Meeting[4] (held monthly) as is the case with other risk categories. Minutes of these committee meetings accompanied by a summary are then sent to the monthly European Risk Management Committee.

RMC meetings, which are attended by Senior Management, are the main bodies responsible for lending policy and permanent control for the Credit Function in the HSBC France group. Their responsibility is to monitor the DRCR's and the Credit Function's activities, and to define the strategic direction of the HSBC France group's policy as part of the HSBC Group's general directives. They are informed by the DRCR of the main lending decisions, the state and development of the various lending portfolios, the efficiency of the Basel II framework it uses to define its lending policy, and the permanent control results reported.

RMC attendees are informed of any incidents in the credit function and of the corrective measures taken. A summary of this information is presented to the quarterly plenary session of the ORIC Committee (Operational Risk and Internal Control).

1 *See Chairman's report pages 33 to 45.*
2 *See Chairman's report pages 41 to 42.*
3 *See Chairman's report pages 42 to 44.*
4 *See Chairman's report pages 35 to 36.*

The control framework

The head of Credit Department (DRCR) is accountable for the permanent control in the HSBC France group's credit function.

The DRCR and its members are the hub of the credit function, which had two main local sub-functions in 2010: the retail network of HSBC France and its subsidiaries (HSBC Private Bank France and HSBC Factoring (France)), and the Wholesale Banking and the Global Banking and Markets subsidiaries. To ensure that information flows efficiently to all levels, controls are managed and adapted to the staff involved in the credit function according to pre-established intervention thresholds for monitoring, provisioning, level of credit authority, etc.

Controls are performed by dedicated internal controllers but also by staff that carry out operational activities (credit managers, credit analysts, monitoring analysts).

Any failure relating to the Credit Function is reported to the head of permanent control of the credit function.

Tools

In compliance with regulation 97-02, the DRCR has set up a system to cover all risks: generic risks inherent in lending activities have been listed in a risk map covering the entire Credit Function, and corresponding controls have been defined.

This map sets out the required checks and reports.

This structure is complemented by a permanent control framework for the central coordination of Basel II lending, involving:

- dataquality (quality of the data used);
- Basel II monitoring (assessment of Use Test);
- compliance with governance rules for models.

Internal control procedures are updated annually and validated by the RMCs. They are also updated whenever a major change is made requiring the revision of controls or coverage of new risks.

Description of lending procedures

Lending powers

The power to grant loans is limited to those holding lending powers. Beneficiaries are notified in writing according to precise standards. Powers are allocated to individuals by name and not position. There is no lending committee: decisions are made individually.

HSBC France's CEO holds powers granted by HSBC Bank plc. He has delegated his powers to the Deputy CEO in charge of risks and to the Chief Credit Officer who, for amounts in excess of these limits, refer applications to the HSBC Bank plc Credit Department for approval and, above a certain threshold, to the HSBC "Group" (HSBC Holdings plc) Risk Department for approval.

The Head of Credit has in turn partly delegated his powers, depending on counterparty quality as determined by Basel II ratings. The main recipients of these powers are:

- DRCR members in charge of lending decisions;
- the CEOs of the HSBC France subsidiaries;
- direct line managers of the retail network.

A holder of lending powers is able to grant loans in compliance with the HSBC Group and HSBC France group lending directives. If the requested loan exceeds his/her lending powers, or falls outside the directives, the decision must be deferred up to the level above.

The risk measurement and monitoring framework

The objectives of the monitoring and control of lending are:

- to anticipate adverse changes in our counterparties in order to enable us to take all steps to safeguard the interests of the HSBC France group;
- to pinpoint within the branch network the main areas of risks according to the main risk indicators;
- to conduct credit reviews in the branch network.

The identification, measurement, monitoring and control of credit risk are carried out in compliance with the HSBC Group directives (Group Standards Manual and Functional Instruction Manuals), local directives (Business Instruction Manuals) and the policy laid down by the RMC risk management committees (Global Banking and Markets, Commercial Banking and Personal Financial Services).

Everyone involved in the lending process is part of credit risk control; everyone involved in the decision-making process is accountable. However, the responsibility for overseeing a loan falls mainly on the entity that granted the loan. Furthermore, the management structure in that entity must play its part in monitoring and managing credit risk.

Risk management (continued)

Second level of controls are carried out by dedicated credit risk monitoring staff and the credit review team whose approach is based on risks pertaining to the selection of Global Banking and Markets, Commercial Banking and Personal Financial Services entities to be audited and the credit files samples to be examined on site.

Credit quality

The HSBC Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of losses. For individually significant exposures, risk ratings are reviewed regularly and amendments are implemented promptly when necessary. Within the HSBC Group's retail portfolios, risk is assessed and managed using a wide range of risk and pricing models.

This risk rating system is based on the probability of default and loss estimates, in accordance with the internal rating methods required by the Basel II framework for calculating regulatory capital.

Guarantees received and other mitigating credit risk factors

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

Loans and advances

Securities received are an important factor in mitigating credit risk. It is however the HSBC Group's policy to ensure that customers have the resources to repay their loans rather than to rely on securities. In certain cases, depending on the customer's standing and the type of product, facilities may be unsecured.

The principal types of security are as follows:

– in the personal sector, mortgages over residential properties;

– in the commercial and industrial sector, pledges on the business assets being financed;

– in the commercial real estate sector, pledges on the properties being financed;

– in the financial sector, pledges on financial instruments such as debt securities and equities in support of financial transactions;

– in the credit sector, credit derivatives including credit default swaps (CDS) are also used to manage credit risk in the HSBC Group's loan portfolio.

The HSBC France group does not disclose the fair value of collaterals held as security on unpaid but not depreciated loans and advances or depreciated debts, as it is not available.

Other securities

Other securities held as guarantees for financial assets other than loans and advances are determined by the structure of the instrument. Debt securities, treasury and other eligible bills are generally unsecured with the exception of Asset-Backed Securities (ABS) and similar instruments, which are secured by portfolios of financial assets.

Derivatives [1]

The ISDA (International Swaps and Derivatives Association) master agreement is the HSBC 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 if other pre-agreed termination events occur. It is common, and the HSBC Group's preferred practice, for the parties to execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions.

Deposit accounts

Settlement risk on multiple transactions, particularly those involving securities and equities, is substantially mitigated through assured payment systems or delivery versus payment mechanism.

Concentration risk

HSBC France puts the greatest emphasis on the quality and integrity on its risky assets base (including off-balance sheet commitments) and has introduced strict safeguards to avoid undue concentration of risk.

Risk diversification is a core principle within the HSBC Group. Risk concentration can come in a number of forms, including: a large concentration on a single counterparty, excessive commitment to geographical areas or business sectors, as well as from risk deriving from a lending portfolio that is too concentrated or that has correlated exposures.

1 *See the Consolidated financial statements, Note 2 l pages 98 to 99 and Note 13 pages 119 to 123.*

The LCEP document (Large Credit Exposure Policy) sets out the policy of the HSBC France group on controlling Large Risks, and it also forms part of the policy of HSBC Bank plc, HSBC Holdings plc and meets the requirements of the French banking regulator, the *Autorité de Contrôle Prudentiel*.

The purpose of the LCEP is to ensure that:

– all HSBC France subsidiaries scrupulously adhere to both current policy and local regulatory requirements on large lending commitments in the jurisdictions in which they operate, and that they also apply the rules established by the local supervisory organisations;

– there is an appropriate framework procedure by which large commitments and concentrations of risk can be monitored and controlled;

– commitment to one individual borrower, or to a group of closely connected borrowers, should not become excessive in comparison to the capital base of HSBC France or HSBC Bank plc;

– the portfolio of risky assets should not contain an excessive concentration or large correlated commitments;

– commitments to geographical areas or business sectors should be strictly monitored to ensure that risky assets are diversified;

– reports to the Boards of Directors of HSBC France group subsidiaries, to HSBC France group Senior Management, and to the Boards of HSBC Bank plc and HSBC Holdings plc, and to also all supervisory bodies are compliant, consistent and in line with the HSBC Group policy.

To facilitate effective oversight and control, HSBC France, HSBC Bank plc and HSBC Holdings plc all hold centralised databases of information into which commitments are entered and by which they ensure that LCEP requirements are satisfied. At DRCR level, the risk concentration is monitored using the supervision software programs: CARM and Vigirisk which recover the authorisations and the balances outstanding from the operational systems and prepare monitoring reports.

Concentration risk by counterparty

Risk exposure limits are classified into three categories:

– category A: all loans recognised on the balance sheet and trade facilities such as guarantees and standby letters of credit;

– category B: off-balance sheet treasury risks such as currency and interest rate swaps;

– payment: principally intraday risk on payment commitments and foreign exchange business with or in the name of our customers.

Commitments to a single counterparty or group of counterparties, excluding financial institutions and central governments/central banks

• Requirements of the HSBC Group and the Financial Services Authority (FSA)

No exposure (total of categories A and B) may exceed 25 per cent of applicable capital, individual company or consolidated, of HSBC Bank plc without the prior agreement by the FSA.

To ensure that HSBC Bank plc complies with the FSA and LCEP requirements:

– authorisations (total of categories A and B), for HSBC France on the same counterparty or the same group of counterparties, in the normal course of its business may not exceed 25 per cent of HSBC France consolidated capital;

– HSBC France must obtain approval from HSBC Bank plc before taking additional authorisation exceeding 25 per cent of HSBC France consolidated capital.

There may be occasions or transactions exceeding this total (to a maximum of 50 per cent of HSBC France consolidated capital), which may be considered on condition that:

– the risk relates to foreign exchange transactions or interest-rate products;

– the counterparty groups have an acceptable risk profile, have close relations with the HSBC Group, and are of significant importance to it;

– the risk is short-term.

If risk exceeds 10 per cent of HSBC Bank plc capital, it must obtain the necessary approval from HSBC Holdings plc before a formal commitment can be made to the counterparty.

For LCEP limits, directives are sent by the HSBC Group and are transposed at DRCR level, then approved by the Chief Credit Officer and the Deputy CEO in charge of risks.

A quarterly report on all risks (the total of categories A and B, and payment risk on an individual basis) exceeding 10 per cent of HSBC France's capital must be submitted to HSBC France Senior Management, HSBC France Board of Directors, HSBC Bank plc and HSBC Holdings plc. This quarterly report must also be submitted to RMC Global Banking and Markets and to the HSBC France Audit Committee.

Risk management (continued)

- *Autorité de contrôle prudentiel* (the French banking regulator) requirements

HSBC France group's net weighted risks (as defined by the *Autorité de contrôle prudentiel*) in the course of its ordinary business must not exceed 20 per cent of HSBC France group capital as based on external investment-grade ratings and internal counterparty ratings and 15 per cent where the counterparties are not of investment-grade.

In no case, even if the commitment is compliant with *Autorité de contrôle prudentiel* requirements, can any HSBC France group commitment be authorised if it would result in the requirements of either the HSBC Group or FSA being exceeded.

In addition to quarterly monitoring, a daily control procedure has been introduced at relationship manager level to ensure that no accounts for which they are responsible exceed the limits.

Commitments to financial institutions

- Requirements of the HSBC Group and FSA

HSBC France's policy sets risk exposure limits (total of categories A and B, or a single payment risk) for banks at a ceiling of 25 per cent of HSBC France's capital.

Exceptions to this rule must be duly authorised, documented and reviewed annually and must in no case result in breaches of the Large Risks Control Policy applicable to the HSBC Group.

A quarterly report of the 50 largest HSBC France commitments to financial institutions (excluding non-bank financial institutions) must be submitted to Senior Management and to the Boards of Directors of HSBC France, HSBC Bank plc and HSBC Holdings plc.

Sectorial concentration risk

It is an HSBC France group principle to avoid excessive concentration in any business sector, and to take corrective measures if necessary. The DRCR is responsible for supervising compliance with this principle.

Some business sectors are governed by their own Caps and business sector directives laid down by HSBC France and/or the HSBC Group.

The software application used for monitoring industry concentration risk is Vigirisk, which centralises the balances outstanding from the various information systems.

The Caps are monitored quarterly and notified to Risk Management Global Banking and Markets. Any modifications to Caps must be approved by RMC Global Banking and Markets.

Geographical area concentration risk

The overall risk limits for countries and central governments/central banks are determined by experience, current events and local knowledge as well as by the latest political, economic and market information. Consideration of the duration of the exposure is also very important in setting overall limits.

The amount of risk (the total of categories A and B) other than in local currency, for a central government/central bank located in a country that does not have a nil-weighting may not exceed 25 per cent of HSBC France's capital without the prior approval of the *Autorité de Contrôle Prudentiel*.

The exposure risk on countries, central governments and central banks is monitored by the HSBC Group Risk Department, which establishes all overall limits. Overall limits for single countries are revised at least annually or at short intervals depending on circumstances. These limits are monitored continuously and adjustments may be made at any time.

A quarterly report on country cross-border risk exposure (categories A and B grouped) in excess of 10 per cent of HSBC France capital is given to Senior Management and the Board of Directors of HSBC France, HSBC Bank plc and HSBC Holdings plc.

Market risk

Market risk monitoring system

Details of the system for monitoring market risk are set out in a circular specifying the mechanisms that apply to the various levels of market risk mandates, the governance applicable for authorisation processes, the role of each party and committee involved, and control methods.

The risk management policy determined by HSBC France Senior Management oversees market risk by global limits, which it reviews, and also validates the proposals made by Market Risk Management in Market Risk Committee.

The HSBC Group assigns these global limits to HSBC France using the process described in the section on Wholesale and Market Risk (WMR) (see page 61). These global limits are divided by business line and translated into operational limits within each entity by the Market Risk Managers.

These global limits are defined in terms of lists of authorised instruments, underlying assets, markets and maturities, Value at Risk limits, sensitivity levels, maximum loss and stress tests. They are revised at least once a year by the Market Risk Committee. The committee can amend them as required.

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

Types of limits

The maximum exposure and risk that HSBC France intends to bear are defined in a set of limits.

Local mandate limits, or Room Mandates

The HSBC Group annually allocates HSBC France and HSBC Bank plc Paris Branch a local room mandate per entity. It covers the most significant limits in terms of:

- Value at Risk, overall, total trading, sub-limits of VaR on interest rates, foreign exchange, equities;
- sensitivity to risk factors including option factors (interest rates, government curve, inflation, volatility, exchange rates), including various "spread" factors;
- Exposure At Default (EAD) by bond issuers;
- maximum daily and monthly losses, referred to as "max-loss";
- instruments authorised, by maximum maturity, market/currency and pay-off category.

A "one pager" summary version for each Entity Mandate (HSBC France and HSBC Bank plc Paris Branch) is submitted for approval by the Deputy CEO in charge of risks and reviewed annually at the HSBC France Market Risk Committee.

There is also a more detailed version of each Entity Mandate, with greater granularity.

The limits set by HSBC France Market Risk Committee

Annually, this Committee reviews and sets "one pager" entity mandate limits for HSBC France and HSBC Bank plc Paris Branch on the recommendation of the Head of MRMaC France (Market Risk Management and Control).

In addition, HSBC France Market Risk Committee lays down VaR and max-loss limits for the main activities of the HSBC France Global Banking and Markets fixed-interest desk: Balance Sheet Management - Money Market (BSM-MM), Balance Sheet Management - Treasury Market (BSM-TM), Vanilla Rates and Structured Rate Products. Any substantial modification to the types of instruments authorised, their maturities and the type of markets traded on must also be submitted for prior approval by this committee.

Operational limits

Market Risk Management and Control (MRMaC) issues the Room Mandate limits for HSBC France and HSBC Bank plc Paris Branch as detailed operational limits or "desk mandates". These limits are allocated to each Business Unit (Management Unit) and, if necessary, broken down by sub-business. They cover the following indicators:

- sensitivity to risk factors including option factors (interest rates, government curve, inflation, volatility, exchange rates), including various "spread" factors;
- instruments authorised:
  - by maximum maturity,
  - by pay-off category;
- additional limits governing specific activities.

These limits are set to be consistent with the VaR limits allocated by the HSBC France Market Risk Committee and with those allocated overall to HSBC France.

Governance at the HSBC Group level

Wholesale and Market Risk (WMR)

In the HSBC Group, market risk supervision is carried out within the Wholesale and Market Risk Department. Its Head reports to the HSBC Group Chief Risk Officer. This department is responsible, *via* the Market Risk Management and Control (MRMaC) entity, for allocating risk limits to the various HSBC Group entities by means of Site Entity Room Mandates once they have been approved by the HSBC Bank plc ALCO and RMM bodies. Similarly, this department is responsible for monitoring exposure at the HSBC Group level and for authorising temporary limits. The Wholesale and Market Risk has a European dimension.

Europe Middle-East Africa Market Risk Management and Control: MRMaC EMEA

The head of MRMaC EMEA, who reports directly to Global Head MRMaC and to European Head Wholesale Credit and Market Risk, supervises the Room Mandates review process. He submits them for review by WMR. He is the functional superior of the Head of MRMaC France.

HSBC France bodies and persons responsible for market risk monitoring

The HSBC France Market Risk Committee

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

Risk management (continued)

HSBC France Market Risk Committee is chaired by the Deputy CEO in charge of risks and meets monthly. It includes the heads of the main business lines concerned by these risks and the main heads of the associated control functions: the Head of MRMaC France, the Head of Quantitative Risk and Valuation Group (QRVG) and the Global Banking and Markets Chief Operating Officer. The following are also members of the HSBC France Market Risk Committee: the Global Banking and Markets Finance Officer, the Counterparty Traded Risk (CTR) Officer and the Global Banking and Markets Product Control Officer.

MRMaC France acts as secretary of the Committee.

The HSBC France Market Risk Committee reviews summary risk and results indicators, analyses any significant events observed during the previous month, including any breaches of "one-pager" mandate limits, (see page 61 "Types of limits"), instructs requests for permanent limits, and reviews temporary limits.

The committee also validates changes to calculation methods and risk measurement methods relating to secured funds.

All entities generating market risks must apply for renewal or extension of limits annually.

The Risk Management Meeting

The minutes of the Market Risk Committee are attached to the monthly RMM file, during which the Global Banking and Markets Chief Operating Officer (see below) establishes the main points to be raised in terms of market risk.

The Global Banking and Markets Chief Operating Officer

The Global Banking and Markets Chief Operating Officer is responsible for permanent control of market risks, as defined by regulation 97-02. In this function, he reports to the Deputy CEO in charge of risks. The following departments report to him: MRMaC, QRVG, Product Control, ORIC. His mission is to ensure that the market risks monitoring system is consistent and effective. He is responsible, along with the MRMaC, for notifying Senior Management of the situation and changes in market risk exposure. In particular, for this purpose he and the heads of the MRMaC France control functions arrange regular meetings to keep the Deputy CEO in charge of risks informed. These are attended by the Heads of QRVG, CTR and Global Banking and Markets Product Control.

In general, the Global Banking and Markets Chief Operating Officer or, in his absence, the Head of MRMaC France, is accountable for providing comments and explanations to Senior Management on any significant breach of the "max-loss" and the limits (HSBC France One pager Room Mandate or additionally set up by Market Risk Committee) or on any position that he considers appropriate to draw Senior Management's attention to.

Market Risk Management and Control

Within Wholesale and Market Risk (WMR), MRMaC designs, develops and implements the market risk management policy. This in particular covers:

- permanent monitoring of market risks;
- the development and implementation of procedures complying with regulatory requirements and with best practices;
- allocation of market risk limits within the HSBC Group compatible with the HSBC Group's strategy and risk appetite;
- approval of new products;
- consolidation of exposure at HSBC Group level to market risks and Value at Risk (VaR) calculations.

The Head of MRMaC France reports directly to the Global Banking and Markets Chief Operating Officer and functionally to MRMaC EMEA.

The Head of MRMaC France is a member of the HSBC France Market Risk Committee, the HSBC France Balance Sheet ALCO and the HSBC France Capital Management Committee. He takes part in the periodic Senior Management information meeting organised by the Chief Operating Officer of Global Banking and Markets and presents a review of market risks to the HSBC France Audit Committee.

MRMaC is made up of two teams: the Market Risk Management (MRM), a team of 8 people, and the Market Risk Control (MRC), a team of 18 people.

Market Risk Management (MRM)

Market Risk Management (MRM) defines market risk mandate limits, deals with breaches of limits and exceptional situations, analyses positions, monitors intraday positions as a function of market movements, analyses the appropriateness of risk metrics (sensitivity, VaR, stress scenarios), defines and prepares a summary analysis of market risks for Senior Management, is involved in improving risk monitoring procedures and implements new indicators, as required by market developments.

MRM prepares with its team the annual review of Room Mandates and, after in-depth analysis and approval from the HSBC France Market Risk Committee, submits it to WMR for approval *via* the head of MRMaC EMEA.

Market Risk Management then defines "one-pager" and detailed Room Mandates, together with the desk mandates that apply to each business unit or management unit.

Market Risk Control (MRC)

The Market Risk Control teams are responsible on a day-to-day basis for checking adherence to all of the various market risk limits, regardless of the level of the market risk mandate and the nature of the limit in question. They report any breaches of these limits and also any consumption in excess of a warning threshold set at 80 per cent of the limit. They are responsible for reporting on weekly stress tests. They also carry out the backtesting.

The backtesting compares the *ex ante* calculated VaR figures with *ex post* daily P&L figures. This comparison tests the ability of VaR to control the expected P&L variations and therefore helps assess the quality of the internal model. Any shortcomings in the VaR model will particularly come to light if the day's P&L figures exceed 99 per cent VaR or where VaR systematically and overwhelmingly exceeds daily P&L figures.

Backtesting is carried out both on profits and losses, using extreme quantiles (1 per cent and 99 per cent) of theoretical VaR distributions. The "backtesting violation" exceptions are reported and analysed.

The model is backtested by taking 99 per cent, one-day VaR figures and comparing them with daily results determined from changes in market prices assuming constant positions. Backtesting is done daily. Its results are reviewed monthly in a special HSBC Group committee and notified quarterly to the regulator.

The Market Risk Control structure is in line with that of the business lines.

A dedicated team produces and distributes HSBC France's consolidated market risk reports for Senior Management Paris and the HSBC Group Consolidation. The team is also responsible for producing the various periodical summary statements required for both internal needs (RMM pack, annual reports, etc.) and external needs, such as supervisory authorities.

Market Risk Control reports hierarchically to the Head of MRMaC France and functionally to the Head of MRC EMEA.

Quantitative Risk and Valuation Group (QRVG)

Models developed by the front office research team are used in managing, valuing and assessing the risks of some derivative products. These models as well as VaR models are validated by an independent, specialist unit, the Quantitative Risk and Valuation Group (QRVG). Its manager reports on a local level to the Head of MRMaC France and functionally to the Head of QRVG EMEA. It has a staff of 10 people.

Valuation Committee (formerly Parameters Committee)

Reporting to the Head of Product Control, it includes QRVG, Product Control and MRMaC members, and representatives of the financial functions of Global Banking and Markets and front office representatives. It meets within the first two weeks of the following month for discussion between all parties of the parameters of the models used by the front office. Also examined during these meetings are changes in the main calibration and price control indicators. A review is carried out of operations that are specifically modelled in Front Office/Back Office systems: "booking" by the custodian, specific features not modelled in the systems.

This committee also examines the methods for calculating provisions.

Conclusion

In 2009, HSBC France operated on the basis of a market risk mandate which significantly reduced the limits on the main risk indicators. This mandate was much more restrictive than that issued for 2008. Following very good results in 2009 and with the financial markets settling down, these limits were reviewed upwards in the 2010 mandate, bringing them back to 2008 levels. Throughout 2010, HSBC France continued to play a major role as the HSBC Group's platform for Eurozone government bonds and the Euro derivatives businesses.

New limits were introduced during 2010 so as to better capture the exposures to various Eurozone countries, in particular, the measured exposures to default of bond issuers. These limits were reviewed from time to time during the year, in close cooperation with the HSBC Group, to ensure that they were properly in line with the HSBC Group's general sovereign risk appetite.

Exposure to the debt of the various Eurozone countries, particularly peripheral country debt, was steadily and continuously reduced from spring 2010. The sensitivity limits on interest-rate movements which measure P&L volatility were reduced as a result.

The utilisation of the principal limits turned out to be relatively high throughout the year with the exception of the VaR, which had been configured in anticipation of new activities that, because of the market conditions at the time, did not materialise.

Risk management (continued)

Throughout 2010, HSBC France operated with a no-penalty multiplier factor for calculating regulatory capital requirements. This followed a steady reduction in the number of VaR market risk backtesting exceptions in the rolling one year track record.

Interest-rate risk

Structural interest-rate risk is managed centrally by the ALM Department (DGFB) which is part of the Finance Department.

Structural interest rate risk affects banking operations and structural components of the balance sheet and does not affect market operations. The main objective of HSBC France structural rate risk management is to suppress the sensitivity of net income to interest rates by managing the fixed interest rate gap (imbalance between expected fixed interest inflows and outflows).

Structural interest rate risk arises mainly from the changes in disparities between future returns on assets and future costs of liabilities stemming from variations in interest rates. Analysis of this risk is complicated, as a result of the need to make assumptions, partly due to the options available to borrowers on some products, for instance early repayment of property loans, but also because of the behaviour of depositors with regard to balances that by contract are withdrawable on demand, such as current accounts. When necessary, behavioural features, which are different from contractual features, are assessed to determine the actual underlying interest rate risk.

Governance

The body responsible for monitoring risks is the Balance Sheet ALCO which is headed up by the DGFB which 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 and regulatory environment relating to these risks.

Its duty is to supervise balance sheet risks in a systematic manner, to ensure that appropriate controls exist, to approve on an annual basis the main management rules and limits included in the supervision framework and to regularly monitor each behaviour assumption and the interest rate risk positions. HSBC France analyses many indicators monthly, on a consolidated basis, for efficient interest rate risk monitoring. These include static gaps, calculating the sensitivity of results, stress scenarios, etc.

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

The DGFB coordinates the work of the TALCO Committee which meets monthly to supervise structural interest-rate risk management in the retail business lines (Commercial Banking and Personal Financial Services). The TALCO meeting minutes and all the above mentioned interest-rate risk indicators are submitted monthly to Balance Sheet ALCO for approval.

Interest-rate risk measurement and supervision system (and methods)

The evaluation process is performed monthly and is based on Retail Banking interest rate gap analysis. Each month, a gap is calculated reflecting assumptions on changes in assets and liabilities, based on which hedges are set up.

Actually on the basis of information produced indirectly by the central systems and/or reports provided by the entities, DGFB measures and supervises structural interest-rate risk on an individual entity basis, where the risk is significant and on a consolidated basis for the other entities.

Centralising the process enables DGFB to manage risk in the best way possible and to lay down rules for transferring this risk to the department responsible for market activities (Global Markets).

The net interest rate risk exposure is transferred to dedicated trading books managed by the trading room through a series of internal deals (cash or swap) between the business units and the trading room. Net exposure is managed through the use of derivatives to close the market positions. The breakdown of derivative instruments by types of contract used is set out in Note 13 of the Consolidated financial statements [1].

The structural interest-rate risk management model sets out a framework of operational limits to be adhered to in deciding upon new hedging transactions. As such, the new gap after hedging must ensure that the staggered residual exposure is kept to within the limits.

A principal management tool for this structural interest-rate risk is the control of the interest-rate sensitivity of the projected net margin under varying interest rate scenarios. In addition, following simulation work carried out to comply with Basel II pillar 2 requirements on the Economic Value of Equity, each month HSBC France also measures the impact on equity of an across-the-board rise or fall of 200 basis points.

1 *See page 119.*
The principal accounting policies relating to derivatives are presented in Note 2 l of the Consolidated financial statements, pages 98 to 99.

Risk is measured and hedging transactions are carried out centrally by the DGFB: these activities rely on a set of controls for which a monthly certificate is required. 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 the HSBC Group standards, in accordance with Sarbanes-Oxley Act.

Liquidity risk

Liquidity risk is managed centrally by the ALM Department (DGFB) which is part of the Finance Department. It is defined as the risk of the company not having sufficient financial resources to honour its obligations as they fall due or of it having to obtain these resources at excessive cost. This risk results from the different cash flows maturities.

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.

The liquidity steering committee, chaired by the DGFB, closely monitors the liquidity risk measuring systems and coordinates short-term management. This committee, which is a sub-committee of the Balance Sheet ALCO, is attended monthly by those responsible for carrying out operations (Balance Sheet Management), preparing reports and monitoring (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.

HSBC France adapts its liquidity and funding management policy to respond to developments in the HSBC Group's business activities and changes in the markets in which HSBC France operates. In 2010, HSBC France continued with its balanced strategy of raising the funds needed to develop its business activities.

HSBC France maintains a diversified and stable source of funding made up of retail and corporate customer deposits, debt and interbank borrowings. The funding follow-up is performed monthly by updating a funding plan one of the main purposes of which is to ensure that a broad range of funding sources are available. Limits in terms of renewal and maturity have been set by HSBC to manage concentration and the debt repayment profile.

Furthermore, HSBC France holds a portfolio of very 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.

Most of the bank's asset base is euro-based but it may also be in sterling, 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.

Liquidity risk is monitored by tracking a number of indicators which are updated monthly for the liquidity steering committee and for Balance Sheet ALCO. These indicators are as follows:

– the monitoring of balance sheet liquidity indicators, as required by reinforced French regulations as of June 2010. These require banks to maintain a regulatory capital ratio of greater than 100 per cent at all times, to make sure that their liquid assets are sufficient to cover their liabilities as they fall due. In 2010, the average liquidity ratio of HSBC France was 124 per cent on an individual basis. HSBC France adhered to all regulatory ratios throughout the crisis, usually by a very wide margin.

The Finance Department also produces regulatory reports for the Financial Services Authority (FSA) on:

– the capacity of stable funding resources, particularly stable deposits and long-term finance, to finance customer lending. The HSBC Group prefers to finance customer loans with customer deposits and aims to be independent of the short-term capital markets. To do so, the HSBC Group imposes limits on the banking entities with the purpose of restricting growth in customer lending that is not funded by the growth in stable resources through use of a ratio called the Advance to Core Funding ratio or the ACF ratio;
– Operational Cash Flow Projections (OCP): cash flow projections and the calculation of the liquid assets needed to achieve balance per two stress scenarios (HSBC specific crisis and bank systemic crisis), particularly taking contingent liquidity lines into account;
– monitoring depositor concentration in order to avoid undue reliance on large individual depositors and to ensure a satisfactory overall funding mix;
– in addition to monitoring the concentration of deposits, the concept of stable/non-stable deposits by business lines introduced by HSBC Group in January 2010, involving monthly monitoring of changes in these deposits.

Risk management (continued)

In addition to the various existing indicators, HSBC France also has a liquidity crisis management plan for invoking a response strategy should a liquidity crisis occur. This plan is reviewed regularly by Balance Sheet ALCO and the last approval date was May 2010.

Activation of the liquidity crisis management plan would be decided upon by a crisis management committee made up of Senior Management, business line Managers, the Chief Financial Officer, the Treasury Officer and the Heads of the main support departments, as laid down by the HSBC Group procedures.

Foreign exchange risk

As HSBC France is part of the HSBC Group, its exchange rate positions are now limited. Foreign exchange trading positions arising from banking operations are systematically transferred to the Trading Room which manages exchange rate risk according to the limits set by ALCO Market.

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

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

HSBC Holdings plc terms this risk as "structural", and monitors it through exposure and capital adequacy sensitivity indicators calculated by the Finance Department. The analysis of these ratios is presented to Balance Sheet ALCO on a quarterly basis.

Capital management [1] (audited information except where stated)

In compliance with the European Union's Banking directive, the *Autorité de contrôle prudentiel* (ACP – French banking regulator) requires each bank and banking group to maintain a specific ratio of total capital to risk-weighted assets. Data on capital adequacy are sent to the ACP that lays down the minimum capital adequacy requirements for the HSBC Group.

Governance

The Board of Directors has the ultimate responsibility of managing HSBC France group's capital base. A number of committees help the Board of Directors in this role. These are the Executive Committee, the Risk Management Meeting (RMM), the ALCO Balance sheet Committee, the Capital Management Committee (CMC) and the governance and supervision of resilience tests committee (SOC). A Capital Management Department has also been set up within the Finance Department to improve coordination between the various aspects of capital management. These are regulatory reporting, capital adequacy planning, assessment of resilience to stresses and management of sources of capital.

Methods

The HSBC France group's capital resources policy is to conserve its capital base through the diversification of its sources of capital and efficient allocation of capital. The HSBC Group ensures that at all times it maintains a prudent relationship between its total capital, as measured according to the criteria used by the ACP for supervisory purposes, and the varied risks of its business.

Regulatory capital

HSBC France group capital is divided into two tiers. Tier 1 capital comprises only common equity as no innovative Tier 1 securities have been issued by the HSBC France group. Core Tier 1 capital is comprised of shareholders' funds attributable to the group and minority interests, after adjusting for items reflected in shareholders' funds which are treated differently for the purposes of capital adequacy (mainly cash flow hedge reserves, reserves arising from revaluation of property 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, in addition to qualifying subordinated loans, is comprised of part of the property revaluation reserves and part of the unrealised gains on the fair valuation of instruments held as available-for-sale. To calculate the total amount of regulatory capital, the carrying value of financial investments in banks and insurance companies is deducted from these two categories of capital, plus any items specified by regulations.

1 *See Note 33 of the Consolidated financial statements, "Risk cover and regulatory ratios" pages 160 to 161.*

Regulatory capital requirements

Pillar 1

Basel II provides three approaches of increasing sophistication for the calculation of pillar 1 credit risk capital requirements. The basic approach (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 second approach, the Internal Ratings-Based ("IRB") foundation approach, allows banks to calculate their credit risk regulatory capital requirement on the basis of their internal assessment of the probability that a counterparty will default (Probability of Default, "PD"), with quantification of Exposure At Default ("EAD") and an estimate of loss in the event of default (Loss Given Default, "LGD"), the two latter being subject to standard supervisory parameters. Lastly, the advanced IRB approach allows banks to use their own internal assessment of not only PD, but also the quantification of EAD and LGD. Expected losses are calculated by multiplying EAD by PD and LGD. The capital requirement under the IRB approach is intended to cover unexpected losses and is derived from a formula specified in the regulatory rules, which incorporates these factors and other variables such as maturity and correlation.

To assess its credit risk, with ACP approval, the HSBC France group has been using since the end of 2009 the Advanced IRB approach for sovereign risk and bank, corporate and retail exposure, covering the majority of its business (in 2008, the HSBC France group used the Foundation IRB approach for its corporate exposures). Only a few residual exposures are still exceptionally assessed using the foundation or the standardised approach.

Market risks are measured, with ACP approval, using Value at Risk (VaR) models or standard rules laid down by the ACP. As regards the counterparty risk, four calculation approaches are defined by Basel II to determine exposure values: the standardised method, mark to market, initial risk and internal model methods.

These exposure values are then used to determine Risk Weighted Assets ("RWAs") using one of the credit risk approaches: standardised, foundation IRB and advanced IRB. The HSBC France group uses both the VaR and standardised approaches to assess market risk, and the mark to market approach for counterparty credit risk.

Basel II also introduced capital requirements for operational risk which, again, contains three levels of sophistication. The capital required under the foundation approach is a simple percentage of income, whereas under the standardised approach banks apply one of three different percentages of income allocated to each of eight business lines defined by the regulations. Lastly, the advanced approach uses the banks' own statistical analysis and operational risk data modelling to determine capital adequacy requirements. The HSBC France group has adopted the standardised approach.

Pillar 2

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

Pillar 3

Pillar 3 of Basel II is related to market discipline and aims to make banks more transparent by requiring them to publish more details on their risks, capital and risk management. The HSBC Group does not publish in France its own set of Pillar 3 disclosures but these are included in the disclosures that HSBC Holdings plc makes available on the investor relations section of its website.

Resilience testing

The resilience testing exercises required by the supervisory authorities assess the impact on capital and liquidity of very adverse but plausible scenarios, and so come up with measures to mitigate these effects. They are also a tool that the bank's management can use in its task of managing capital and liquidity, to enable it to consider corrective measures if the early signs of such scenarios emerge. The testing programme carried out by HSBC France meets the requirements of the French regulator (ACP) and in addition includes certain specific scenarios required by Senior Management, the HSBC Group or its supervisory authority (Financial Services Authority).

Regulatory capital position

The table below sets out the analysis of regulatory capital.

Composition of regulatory capital

(in millions of euros)	**2010**	2009
Tier 1:		
Shareholders' funds of the parent company	**4,832**	5,060
Non-controlling interests	**48**	48
Less: dividends to be paid to the parent company	**–**	–
Less: items treated differently for the purposes of capital adequacy	**(99)**	(76)
Less: goodwill capitalised and intangible assets	**(367)**	(370)
Less: goodwill on adjustments and impairment charges on internal ratings-based approaches	**(99)**	(101)
Less: surplus goodwill limited to 10% of capital	**(281)**	(202)
Total qualifying Tier 1 capital	**4,033**	4,359
Tier 2:		
Reserves arising from revaluation of property and unrealised gains on available-for-sale securities	**70**	112
Perpetual subordinated loan and term subordinated loan	**121**	181
Less: goodwill on adjustments and impairment charges on internal ratings-based approaches	**(99)**	(101)
Less: surplus goodwill limited to 10% of capital	**(93)**	(192)
Total qualifying Tier 2 capital	**–**	–
Total qualifying Tier 3 capital	**–**	–
Investments in other banks and other financial institutions	**(4)**	(4)
Other deductions	**–**	–
Total capital	**4,029**	4,355
Total risk-weighted assets *(unaudited)*	**33,451**	35,592
Capital ratios: ***(unaudited)***		
Total capital	**12.0%**	12.2%
Tier 1 capital	**12.1%**	12.2%

The above figures were computed in accordance with the EU Banking Consolidation Directive and the ACP Prudential Standards. The group complied with the ACP's capital adequacy requirements throughout 2010 and 2009.

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; at 31 December 2010, EUR 281 million was deducted from Tier 1 capital (EUR 202 million at 31 December 2009) and EUR 93 million from Tier 2 capital (EUR 192 million at 31 December 2009).

Tier 1

Taking into account the impact of the deduction of Expected Loss under Basel II and the deduction of investments in banks in excess of 10 per cent of capital, the net change in Tier 1 capital is primarily due to net profit for the year of EUR +454 million minus interim dividends paid equalling EUR 720 million.

Tier 2

Taking into account the impact of the deduction of Expected Loss under Basel II and the deduction of investments in banks in excess of 10 per cent of capital, Tier 2 capital decreased mainly due to the discount to the subordinated debt equalling EUR 60 million.

Risk-weighted assets

The reduction in risk-weighted assets is due to the decline in credit risk, including the result of data quality enhancement.

OPERATIONAL RISKS

Operational risk is the risk of losses arising from shortcomings or failings attributable to internal staff processes or IT systems, or external events including those that are unlikely to occur but which present a significant risk of loss, including the risks of internal and external fraud.

Identification and management of operational risks

Governance

The operational risk management framework is the responsibility of a Central team: The Operational Risk and Internal Control Department (DCIRO).

This department, which reports to the Deputy CEO in charge of risk management and permanent control, centralises work relating to operational risk management and supervision of permanent control framework.

The operational risk management and control framework is structured into ten risk functions. The supervision of the main risk functions is set out below. The management of the risk of non-compliance and the accounting risk control framework are described in the Chairman's report on pages 41 to 44.

Within this framework, a specific Operational Risk and Internal Control (ORIC) Committee has been set up for the entire HSBC France group to conduct regular reviews of business lines and risks functions operational risks, the results of controls carried out, and progress made in action plans implemented to mitigate identified risks and operational losses.

ORIC Committees within the business lines and risk functions are responsible for overseeing management of the entity's operational risks and permanent controls.

The HSBC France group has procedures covering the process for the identification, reporting, management, control and prevention of operational risks, specifying in particular that:

– operational risk management is first and foremost the responsibility of managers through how they run their operations;

– IT systems are used to identify and report operational risks and generate regular and appropriate reports;

– identified risks for the entire scope are updated regularly, at least once a year, in order to identify any major changes;

– operational losses are collated and reported.

The HSBC Group uses the standardised approach for calculating the regulatory capital needed to cover operational risks. To estimate economic capital, the HSBC Group uses the same concept, but as applied to certain specific businesses in the HSBC Group's structure instead of the 8 business lines of the regulatory approach. The HSBC Group has, however, started work centrally on developing an economic capital model which it hopes to roll out during 2011-2012. To date, the HSBC Group has taken no decision on a possible transition to the advanced method (AMA) for calculating the regulatory capital required to cover operational risks. This decision will be taken later in the year.

Identification and risk measurement through risk and controls mapping

HSBC France and its businesses are exposed to all the types of operational risks that banks face, particularly:

– risk of mistakes in processing transactions, particularly market transactions;

– risk of fraud, internal and external (in particular bank card fraud, Internet fraud, fraudulent transfers, etc.);

– risk related to information security;

– risk related to customer relations.

Businesses ORIC teams 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 those risks. This risk map covers the whole operational risks exposure of the business including the first and second level of key controls required to monitor these risks. Action plans are drawn up for all risks identified as significant according to its grading, and progress made is monitored by ORIC teams.

Each risk function also lists the risks for which it is responsible and to which it is exposed in its day-to-day operations.

To prepare risk maps, the ORIC units in the businesses and functions comply in particular with the provisions of the Operations FIM Group manual using, where appropriate, a process-based approach.

Operational risk and incident analyses and reports

DCIRO prepares monthly reports for the HSBC France and HSBC Group Senior Management, and presents summary reports to the relevant bodies (the HSBC France ORIC Committee, Risk Management Meeting, and the Audit Committee).

These reports in particular cover:

– an executive summary explaining movements on losses over the past period and the principles of the operational risks management framework;

– a "heat map" covering indicators of exposure to each type of operational risk (*i.e.* excluding credit and market risk);

– the main incidents in the past period and the associated action plans.

Risk management (continued)

The reports are prepared from returns made in the HSBC Group's GORDON (Group Operational Risk Database Online Network) incidents reporting package. This IT application, which was developed by the HSBC Group, has been used at HSBC France since 2006. This package is a decentralised way of managing the process of identifying and updating risks, reporting operational losses, and monitoring the plans of action decided upon for the purpose of reducing the criticality of risks categorised as major.

Legal risks and potential litigation

The HSBC France Legal Department (DAJ) is responsible for the HSBC France group's legal function, and has analysed and mapped this function's major risks.

This department helps the various HSBC France group businesses to prevent and control legal risk and is in charge of litigation follow-up.

Prevention of legal risks

The DAJ is responsible for running the Legal and Tax Risks Committee. This meets quarterly to examine situations likely to give rise to specific and significant legal or tax risks. It also runs the Complex and Structured Transactions Committee which examines the legal, accounting, tax and financial and reputational risks arising from complex structured transactions. The DAJ is also involved in the 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 for market operations, structured transactions and any new acquisition (or disposal) of an entity by the HSBC France group.

The DAJ is responsible for managing risks directly or indirectly connected with all contentious matters. It is involved in dealing with credit files requiring special management or in default. It also monitors other risks that might have a legal impact.

Legal risk monitoring system

The Legal and Tax Risks Committee, chaired by the Deputy CEO in charge of risks, meets quarterly to ensure that the risks framework 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 activities to the HSBC France group ORIC Committee.

Each HSBC France subsidiary that is directly affected by 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 matters revealed by controls, or any control deficiencies and proposed action plans to resolve any incidents observed during controls. Compliance certificates covering tax obligations and operational taxes are also prepared twice a year.

At the HSBC France level, the corporate lawyers responsible for legal risk in the various business lines prepare continuous legal control certifications which, taken as a whole, cover all major legal risks identified for all HSBC France entities in their entirety.

On the basis of these reports and certificates, HSBC France's Head of Legal prepares a half-yearly general certification on the legal function's permanent control.

The whole of this framework is effective and a detailed description of it is given in a regularly updated circular.

Litigation

The situation of the risks arising from significant litigation in progress against the HSBC France group is examined quarterly. It is examined by a committee chaired by the Deputy CEO in charge of risks and is made up of representatives of Finance Department, Credit Department and the DAJ. This committee gives a considered opinion on the basis of which Senior Management decides upon the amount of the provision to be charged or written back.

Cases in progress at 31 December 2010 involving legal risks likely to have an adverse influence on the HSBC France group net assets are set out below.

Interbank fees relating to electronic cheque processing ("CEIC")

In 2002, a number of banks with retail networks, including HSBC France, forming part of an interbranch committee sponsored by the French Banking Federation, introduced a system of interbank fees applying to the new electronic cheque processing termed the "*Echange d'Images Chèques*" (EIC), the cheque image exchange system.

In March 2008, the French Competition Authority sent notification of a complaint to the twelve members of the committee – including HSBC France – for the introduction of interbank fees when the EIC was set up.

On 20 September 2010, the French Competition Authority took an unfavourable decision as regards the scheme introduced in 2002. In substance, it found that the CEIC constituted an illegal scheme, the purpose of which included effects on the cost of processing cheques causing an increase in costs charged on "major remitter" customers. The banks involved in setting up this charging system were fined a total of EUR 384.9 million. HSBC France was ordered to pay a fine of EUR 9.05 million.

HSBC France, together with the other banks that were fined, except the Bank of France, decided to appeal this unfavourable decision. The banks actually contest as much the purpose as the anticompetitive effect of the CEIC and argue that it has no significant effect on the costs of banking services. The banks and HSBC France in particular further question the method used in calculating the fines imposed upon them. As the appeal does not suspend execution of the decision, the fine was paid.

The full hearing is expected on 6 October 2011 and the decision of the court of appeal will be taken at the end of 2011 or the beginning of 2012.

Enquiry by the French Competition Authorities on the interbank fees relating to all means of payment other than cheques

On 16 April 2009 and 22 September 2010, HSBC France along with some ten other banks received questionnaires from the French Competition Authorities on the interbank fees applied to means of payments used in France. This followed a complaint made by the "*Fédération des Entreprises du Commerce et de la Distribution*" *(FCD)* due to the existence, or due to levels considered excessive, of multilateral or bilateral interbank commissions related to the usage of means of payment. The French Competition Authority decided to conduct research into the practices of the largest French banks and bank card networks operating in France (Visa Europe, Mastercard Europe SPRL, Mastercard France, Mastercard International Inc., the GIE Cartes Bancaires CB and the GIE Carte Bleue Visa) on interbank fees paid and received for all means of payment used in France (direct debits, transfers, debit and credit cards) between 2000 and 2008.

The French Competition Authority, having expressed, "competition concerns," with regard to the GIE Cartes Bancaires, in light of the replies to the questionnaires as much from the GIE as from the banks and having accepted the opening of commitment proceedings, the GIE Cartes Bancaires made an offer of commitments on 24 March 2011. These proceedings do not imply any admission as to liability on the part of anyone and should allow for setting the level of interbank commissions concerning cards according to costs borne by the banks for the next 5 years. Said commitments shall initially be limited to operations performed using bank cards, the French Competition Authority having preferred to study interbank commissions related to the usage of other means of payment (other than cheques) in a separate procedure.

The consequences of the commitments made by the GIE should be very limited for HSBC France which is a net payer of interbank commissions pertaining to bank cards due to the structure of its clientele.

On 5 April 2011, the French Competition Authority submitted the offer of commitments to a "market test" intended to gather third party opinions concerning the content of said offer. This test shall end on 5 May 2011 and should allow the Authority in concert with the GIE Cartes Bancaires to adjust the level of the commitments as required.

The Apollonia case

As about twenty banks, HSBC was led to work during a limited period of time (from early 2006 to April 2007) and mainly in one branch, with a financial adviser and estate agent, Apollonia. The latter offered its clients (mainly independent professionals) "turnkey" tax efficient products of the "*Loueur Meublé Professionnel (LMP)*" (professional lessor of furnished accommodations) type and for a small number of investors "*Loi Robien*" type tax efficient products. Between April 2006 and April 2007, 184 property loan applications were approved, for a total of EUR 29 million, bearing in mind that different media have said the total amount of operations by Apollonia with all banks would be around EUR 2 billion.

At the end of September 2008, HSBC France became aware of the use of reprehensible marketing methods by Apollonia. Moreover, it appeared that most of the borrowers took out several loans through Apollonia from various banks without notifying HSBC France.

Five notaries have been indicted for conspiracy to commit organised fraud, forgery and use of forgeries. HSBC France is involved as a civil law party, giving it access to the criminal file. From this, it has become apparent that a very large proportion of the official agency authorisations signed by the buyers giving authority to sign purchase and sales deeds were not properly prepared.

Risk management (continued)

HSBC France has systematically brought proceedings against those investors with loan repayments due but the hearings are in abeyance because of the criminal procedure underway. Instead, a negotiated settlement is now being sought with the interested borrowers, to settle the financial aspect of this matter without awaiting the outcome of the criminal procedure. A case has also been brought against the MMA, the insurer for the notaries.

Adequate provisions have been recorded for the Apollonia case in the light of information available to Senior Management.

To date, as far as HSBC France is aware, it is not threatened by any other regulatory, civil law or arbitration proceedings, including any proceedings that are in progress or in suspense against it, that might have, or over the last 12 months have had, any significant effect on the financial situation or the profitability of the company and/or of the group.

Tax risk

The HSBC France Tax Department (DAF), which is responsible for the HSBC France group tax risk function, was set up at the beginning of 2010 by splitting the former Legal and Tax department. It reports directly to the Deputy CEO in charge of risks.

The department has analysed the major risks in the function and has mapped them.

It assists the various HSBC France group businesses in preventing and monitoring tax risks.

Prevention of tax risks

The DAF attends to the Legal and Tax Risks Committee, which is run by the DAJ, and also to the HSBC France group Complex and Structured Transactions Committee, the Product Examination Committee, and the ORIC (Operational Risk and Internal Control) and RMM (Risk Management Meeting) Committees.

Tax risk monitoring system

Each of HSBC France's subsidiaries, directly covered by regulation 97-02, prepares tax certificates half yearly for itself and for the companies that it controls.

On the basis of these certificates, HSBC France's Head of Tax draws up a half-yearly general certificate on the tax function's permanent control.

The whole of this framework is effective and a detailed description of it is given in a regularly updated circular.

IT systems risk

The responsibility of the IT systems risk function is to manage IT systems risks in the following number of fields:

- governance of the IT function;
- IT research;
- IT operations;
- IT projects management;
- the applications delivered by HTS;
- IT systems security.

To do this, the IT systems risk function has set up a permanent framework for analysing and supervising IT risks. This covers the generic risks inherent in this activity, which are:

- legal risk arising from non-compliance with legal and regulatory provisions;
- risk of non-retention of key data;
- risks arising from IT projects management, managing change, managing incidents or issues;
- risk of absence or failure of the IT or Business Recovery Plan;
- risk of failure in IT system security;
- risk of failure by main suppliers to provide essential IT services.

The system for supervising IT risks is set out in a circular that gives details of the governance of the function, the role of each person involved and of each committee, and the general structure of the permanent control framework for IT risks applicable to all entities in the HSBC Group in France.

Framework structure

In the HSBC Group, control of IT systems risk is the responsibility of the HSBC Technologies and Services Department (HTS), under the authority of the Chief Technology and Services Officer (CTSO). The head of HTS permanent control is the Head of HTS Finance and Controls Department. For all IT matters, he relies on the Head of HTS Internal Control (ORIC team), who reports to him. Within HTS Internal Control, the Head of HTS IT Internal Control defines and regularly maintains the control framework.

HTS IT internal control is intended to provide HTS IT management with reasonable assurance that the two following objectives are being achieved :

- compliance of the IT system with French laws and regulations;
- reliability, security and integrity of data processed.

The HTS IT ORIC approach to the IT system is wide-ranging and applies to a number of fields.

The Head of HTS IT Internal Control coordinates the identification of major IT risks and the key controls to be implemented to mitigate each of them. He relies on the heads of the IT processes and on those at the level of the functions/businesses, and on the IT managers in the functions/businesses who have to focus and identify the key controls identified.

The Internal Control framework for the IT function was set up observing the COSO concept – taking into account the IT system (software and infrastructure) administered by HTS France. To define the scope of IT controls that are most appropriate for achieving the HSBC Group control objectives, HTS ORIC IT has selected the COBIT referential as the framework of recognised standards. In this set of standards, the IT system is broken down into 34 processes grouped into four governance and control areas.

The information as regards permanent control in the IT function (results of audits, progress of the control Plan, changes in the assessments of risk and the effectiveness of controls, potential identified failures and corrective measures taken) are presented monthly to the governance bodies, that is, to the HTS and the IT committees (IT Steering Committee, HTS Executive Board) and to the IT function governance bodies (ORIC IT committees). A summary of this information is presented to the RMM and plenary ORIC committees.

To comply with the provisions of the US Sarbanes-Oxley (SOX) law of 2006, the HSBC Group, in coordination with the Finance Department, has introduced a system of documenting and assessing internal control as it relates to procedures and transactions which form part of preparation of the financial statements.

As regards IT systems specifically, the SOX IT coordinator role is:

- to coordinate all the transverse IT test processes and IT governance;
- to coordinate all the update works relating to automatic controls that need to be performed for key IT applications that provide financial statements in conjunction with the businesses;
- to inform HTS Management, Finance Department, Head of Internal Audit and Statutory Auditors about the results of these works.

Risk monitoring and measurement

Non-compliance with legal and regulatory provisions

To guard against these risks, HTS IT:

- has formally mapped the legal risks inherent in the IT system;
- has attached IT Compliance Responsibility to the Head of HTS IT Internal Control;
- has given the task of coordinating HTS IT relationships with the specialist departments of the Compliance and Legal to a special Business Analysts team "Compliance and Legal" within HTS Change Delivery department;
- has applied permanent control to appropriately categorising the measurement of the level of compliance of project deliverables.

Non-retention of key data

To guard against these risks, HTS ORIC carries out checks intended to:

- identify the daily backups in order to ensure that data can be restored in the event of a major incident;
- identify periodical backups in order to comply with legal and regulatory obligations;
- certification that backups can be correctly restored.

Risks relating to IT projects management, managing change, managing incidents and issues

Project management

The Group project management method adopted by the HSBC Group and used to acquire and develop information systems is the RBPM (Risk-Based Project Management). This method requires control points throughout project life-cycle (from initiation by the Businesses requesting them through to going live). These control points ensure that each stage of the cycle has been completed and approved by all stakeholders. Project risks are reassessed at each key stage.

HTS has created *ad hoc* control bodies (Steering and Projects Committees) to ensure that projects comply with Business Line requirements, with the HSBC Group IT planning and architecture rules, but most importantly with security and regulatory compliance rules. Flagship IT projects involve Project Quality Planning.

Risk management (continued)

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 HSBC Group IT validation management tool (Quality Center), which makes all validation information available consistently to all staff involved in projects. There must be certification at each testing phase: 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 on, certifying that all the project steps 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.

Incident and issues project management

To guard against risks arising from deterioration or modification of production data, worsening downtime or impaired software functionality, HTS Quality has formally documented a system for managing incidents and problems by use of specific procedures, the adherence to which is supervised by HTS Internal Control. Particular attention is paid to supervising the action taken by HTS Software Delivery to deal with incidents that need manipulation of production data in order to be resolved. The rules for emergency action are also looked into and scrutinised.

Risk of absence or failure of the IT and Business Recovery Plan

Back-up procedures ensure the continuity of IT programmes in case of system failure. In particular, an IT Recovery Plan (IRP), also called the "Disaster Recovery Plan", is in place and is tested periodically to ensure that the bank's key IT functions can be resumed, in line with business line requirements and system criticality. There are regular technical and functional emergency plan exercises, and the results are transmitted to HTS management. Furthermore, BRP (Business Recovery Plans) are in place to cover all IT activities, and regular tests are carried out to ensure they work. Test certificates are collected by HTS Security and Fraud Risk Business Continuity.

Risk of failure in IT system security

System access control

There are authentication controls in place for the accounts and passwords of employees with access to IT resources. This access is allocated after approval by the line manager and is managed by the administrators of the respective system environments.

Access to the production environment is restricted and requires substantiation. All requests for access for HTS employees are met by the use of "emergency" accounts. Allocation of these must be accepted in advance by the Business line that owns the data and must be granted for a fixed time period (emergency action). The activities carried out with these accounts/rights are trailed and checked.

Physical security

IT equipment must be installed in IT premises meeting the standards required in terms of secure environment, performance and resilience. Regular exercises contribute to assuring the effectiveness and proper working of the production centre and its emergency centre.

Risk of service providers failing to provide essential IT services

Since HSBC France is dependent on services carried out by external suppliers, it is necessary to assess and manage the associated risks to ensure that appropriate controls and coverage measures are in place. Outsourcing service provision is therefore done using a formally documented policy in which the respective roles and tasks of the Business lines, of HTS Purchases and ORIC teams are formally set out, and which consist of:

– laying down a procedure for outsourcing and measuring the related risk;

– checking, after outsourcing, observance of the provisions and contractual obligations.

The following are excluded from the scope of this policy: services subscribed with market bodies, or government or other official bodies.

Services outsourced intra-Group are covered by specific measures.

Information security policy

The information security policy includes information both in electronic and paper format, and must cover technological, organisational and human risks.

Data security is an ongoing concern for the HSBC Group, which is continuously strengthening protection measures and the associated controls.

The security measures applicable within the HSBC Group are laid out in a set of standards, made up of various documents such as the Functional Instruction Manuals (FIM) and the Security Secondary Standards. These standards apply to all HSBC France employees and are based on industry best practice, unless they are more restrictive. Each entity, business or department is responsible for applying the standards and incorporating them into the everyday work of their employees.

Data security is the responsibility of the Information Security Risk (ISR) unit, within the Security and Fraud Prevention Department. It forms part of the HSBC Technology & Services (HTS), which reports to the Chief Technology and Services Officer (CTSO).

ISR's objectives are particularly to monitor the data security risks borne by the bank, to reduce security risks to an acceptable and/or accepted level, to safeguard the HSBC brand and its reputation, to minimise losses arising from the security incidents, to ensure that security measures are consistent throughout all entities and to ensure that the system works effectively at reasonable cost.

To achieve these objectives, it is necessary to lay down the data security requirements in local policies and procedures, to ensure that everyone knows the data security requirements and that the business lines incorporate the data security requirements in their day-to-day work, to reduce the cost of the control measures by automating them centrally, by deploying secondary lines of defences for ensuring that the bank is compliant with the HSBC Group's safety standards and, finally, to provide "expert" assistance on ISR matters to all entities.

The ISR team has six different sections to ensure that it covers all aspects of data security: access management, software security, incidents and threats, infrastructure security, service provider risk and business controls.

Access management

The purpose of this section is to ensure that HSBC's systems are properly protected against unauthorised access or modification. This section therefore provides access management to the various systems or checks on this access management when it is delegated to other operating units in IT production.

Software security

This section supports IT projects carried out by the bank, to ensure that security requirements are incorporated into the development of new software and into modifications made into existing software.

The ISR team is therefore involved in IT projects from the outset and ensures that the technologies used, the developments made and the functionalities provided are compliant with the HSBC Group standards in terms of security.

Incidents and threats

The role of this ISR team is to implement processes for identifying risks and for dealing with security incidents. In particular, it watches out for threats against the HSBC Group. It helps establish best practices for the prevention and management of incidents, and rolls out detection and protection measures, as a function of the risks to which the HSBC Group is exposed.

It ensures that a clear process for identifying and managing incidents is in place. It makes sure that everybody knows about this process. It coordinates the handling of incidents and makes sure that the progress of investigations is reported to the management level that is appropriate, given the criticality of the incident. For each incident, it ensures that an appropriate action plan is drawn up, to ensure that such an incident will never happen again.

Infrastructure security

This section ensures that HSBC's infrastructure is secure. This ISR team in particular has to produce indicators for assessing the security of the various parts of the infrastructure. It monitors changes in hardware security and ensures that weaknesses observed are corrected within a reasonable length of time.

It also provides support to project teams in rolling out infrastructure so as to improve data security.

Risk management (continued)

Service provider risk

The task of this ISR team is to oversee the risk arising from delegating certain services to external service providers. In particular, it must satisfy itself as to the security level that the service providers are able to guarantee, so as to assure the confidentiality and integrity of the data of HSBC and of its customers.

This ISR team studies the various services that have been delegated and meets with the relevant service providers, to ensure compliance with best industry practice in terms of security.

Business controls

This section manages the data protection programme within the business. This programme identifies and manages all business data security risks. It is based on a structure referred to as the Business Information Risk Officer (BIRO) structure, made up of a Chief Information Security Officer (CISO), of a BIRO and several deputy BIROs within each entity, business line or department. The CISO is the head of the entity, business line or department, or one of his colleagues reporting to him directly, and he is directly responsible for data security within his organisation. The BIRO reports functionally to the CISO and is responsible for coordinating action taken to strengthen security within that entity, business line or department. He heads up a team of deputy BIROs, one for each department, who are responsible for data security in that department. The bank's various action priorities are laid down by this "Business controls" section within ISR. Furthermore, this section is responsible for consolidating actions progress made within all departments, on behalf of Senior Management.

Fraud prevention

The Security and Fraud Risk (SFR) Department covers the management of risks arising from physical security, IT security, data protection, business recovery and fraud.

Within this department, the anti-fraud unit's main task is to ensure that the measures for protecting the group against internal and external fraud are comprehensive and appropriate.

This involves:

– preventative action, incorporating special anti-fraud controls into procedures identified as sensitive to the risk of fraud;

– detection work, using software or reports for detecting fraud;

– investigation or enquiry work where internal or external fraud is identified.

In terms of governance, fraud prevention requires coordination between all parties involved: businesses, ORIC teams, Compliance, Credit and Human Resources. An anti-fraud Committee therefore meets every 2 months. This committee also meets for special purposes at other times, particularly in the case of internal fraud. Furthermore, an SFR representative attends all ORIC business committees.

Amongst the activities carried out regularly within the unit are:

– involvement at an early stage in installing systems and designing processes to cut down vulnerability to fraud;

– making employees and clients more aware of fraud;

– analysing trends in fraud and the ways in which it is carried out, as well as gathering information;

– investigations on the basis of reports received, alerts generated by systems or other detection methods;

– funds recovery actions;

– support in instigating legal proceedings;

– monitoring corrective actions taken on detecting a fraud.

Amongst the priority areas covered within this unit are systems, procedures and controls relating to:

– recruitment of permanent or temporary employees, including service providers;

– client identification and authentication, whatever the service channel: Internet, branches, call centres, mobiles;

– the collection and update of sensitive customer information in databases;

– instructions in connection with means of payment;

– opening accounts by means of any of the service channels, in cooperation with Compliance and Credit Risk Departments;

– the existence of the segregation of duties principle and of traceability of transactions to deter the internal frauds by whatever process.

Rogue trading and counterparty fraud are covered by the Global Banking and Markets control units and therefore do not fall directly within the anti-fraud unit remit. Instead, it becomes involved at the stage of investigation when an internal fraud has been detected or is suspected in connection with counterparty risk.

2010 cost of fraud report

The total for internal and external frauds (excluding bank cards) represents under 10 per cent of the total of operational losses. This total has been fairly stable for three years.

The number of cases in the year was around 1,000, of which 250 were frauds and 750 attempted frauds.

Customer frauds

These are frauds carried out by our customers in particular "credit" frauds defined as deliberately deceiving the bank by any means: taking out loans to repay other loans, drawing funds after paying in cheques or bills that are returned unpaid, and loans obtained through false documentation.

In 2010, these frauds represented around 55 per cent of the total by amount.

External frauds

These are frauds committed by third parties against our customers' accounts or against the bank: opening an account with identity dissimulation, identity theft or false documentation, presenting falsified or fake cheques, fake payment transfers.

In 2010, these frauds represented around 35 per cent by amount.

The Internet service channel, in particular distance banking, is considered high risk in terms of fraud; consequently, the anti-fraud unit is very much involved in introducing new customer authentication systems for controlling Internet fraud.

Internal frauds

These are frauds committed by employees with or without outside complicity, including frauds committed by our service providers and our temporary staff.

In 2010, these frauds represented around 10 per cent by amount. In general, we have one to two large internal frauds per year. 2010 was no exception.

Business continuity

The Recovery Plan

The purpose of the Business Recovery Plan (BRP) is to ensure that business can carry on or continue to run at the minimum level considered necessary to safeguard the interests of the business, its employees and its customers, in the event of a major disaster or disruption likely to have a significant impact on the business of HSBC France and/or of its subsidiaries, or to produce a significant deterioration in the image of the business.

The HSBC Group's Operations FIM (Functional Instruction Manual) specifies: "Plans to ensure an appropriate response to major incidents must be in place. They must set out the measures that the major incident committees, the crisis committees and the key individuals must take, both to deal with the immediate crisis and to oversee the implementation of recovery plans.

A number of events might upset normal working conditions. Many of them have foreseeable impacts: understanding them contributes to designing responses that could contribute to a rapid resumption of business".

The FIM puts forward a number of scenarios which closely match those suggested within the French banking industry groups (*Fédération bancaire française* (FBF) – *Autorité de contrôle prudentiel* (ACP) – robustness group). These various scenarios have therefore been used to analyse the impact of the HSBC France business recovery plans.

The list of potential incidents covered by the FIM includes:

– natural disasters – earthquakes, hurricanes and floods;

– disasters of human origin – buildings must comply with the HSBC Group health, safety and fire standards, helping reduce fire risk. Evacuation procedures must be worked out, publicised and tested regularly;

– contagious diseases – for example, SARS and flu pandemics;

– terrorist attacks – producing explosions in buildings, designed to attract attention or to cause massive damage;

– power cuts – sporadic, limited to particular buildings, or systemic;

– transport problems – prepare plans in advance when employee transport is critical to carry out the business;

– fuel strikes – impact on emergency generators;

– kidnapping and hostage taking – special procedures should be devised for dealing with incidents of this type.

Plans covering major incidents should cover a building, a city or even an entire country. They are mandatory wherever HSBC has a significant presence.

Risk management (continued)

HSBC France's Business Recovery Plans cover the following FBF scenarios in particular:

- once in a hundred year events;
- accidents, nuclear, radio, biological, and chemical attacks;
- health risks;
- multiple bomb attacks;
- widespread EDF breakdown;
- general transport strike;
- service provider failure;
- cyber attack.

The HSBC Group standards (GSM section 10.5 and Operations FIM) provide that each department or entity must have a business recovery plan which is kept updated and which is tested at least annually (more frequently in the event of major changes). The plan must describe how normal activity is to be resumed after a major incident.

Regulation 97-02 requires that each main establishment should lay down a business recovery plan which should be updated twice per year and should be tested at least once per year.

Because of the size of HSBC in France and the large number of its geographical locations and businesses to be covered, each business, subsidiary, and function has prepared a business recovery plan appropriate to its business according to its assessment of the risk of the unavailability of a property and also of the absence of all or some of its employees.

Within each of the units, depending on their size, a Business Recovery Plan coordinator is appointed. He intervenes under the authority of the head of his unit, department, division or subsidiary.

He is responsible for the detailed assessment, drafting and updating of the Business Recovery Plan. He arranges and carries out the annual tests. He checks the preparation of, or prepares, a report on the tests and initiates any process or change or correction needed.

A central structure for organising and managing these plans (RPCA), located within the Security Department, ensures that the exercise is comprehensive, that the plans are held centrally so as to be accessible by the various departments involved in implementing them, and that the system is consistent throughout.

All important documents, the detailed business recovery plans for departments and subsidiaries, and the necessary technical documents are held in a central "documents database", which can be accessed by authorised employees from all the company's locations.

The Major Incident Group

The activation of business recovery plans is based on a system located at the level of the HSBC France group Senior Management called GIM (*Groupe Incident Majeur*).

GIM is made up of around twelve operational managers from the various functions throughout the group needed to manage a major incident or crisis (Communication – Human Resources – Property – Information systems – Markets – Operations – Security – Logistics).

This committee is chaired by the Chief Executive Officer of HSBC France and assisted by four special workgroups (Communication – Human Resources – Property and Information systems – Business Recovery). It is activated by an escalating alert process initiated from a security control station (PCT: operational 24/24 – 7/7) and if necessary after evaluation, triggers all or part of the business recovery plan.

Emergency measures are laid down for managing an incident from the time it occurs to protect people and communications and to safeguard and restore property.

The detailed structure of GIM and its workgroups, the principles and structure established, the description of the contacts and the escalation process, the contact details of those involved, and the "reflex" files to be implemented in case of activation are contained in a reference document called MIM (Major Incident Manual) which is continuously updated by the HSBC France group business recovery manager. This manual together with a reference card (major incident card) are provided regularly to the members of the crisis system.

The resources and fallback site

HSBC France Management have approved an internal-fallback site solution and authorised the resources for implementing it.

The main special fallback site, located in a Parisian suburb, is fitted with shared, general-use workstations, as well as trading stations.

A secure site is opened and made accessible to personnel on the decision of GIM or during programmed tests. It resembles a normal group operations site and is made up of a number of open plan office areas together with the necessary technical resources (computer terminals, telephones, printers, faxes and special equipment – scanners, specialist readers) for continuing to carry out the business activities decided upon in the appendices of the business recovery plans.

In the event of a crisis, priority will be given to Markets, Asset Management, bank transactions processing and non-production IT facilities managed by the Information Systems Security Plan (PSI).

All essential activities are covered by business recovery plans.

Human resources

Human resources risk management and control system

HSBC France's Human Resources Department is responsible for the permanent control of the Human Resources (HR) risk of the HSBC France group. For this purpose, it has mapped the function's risks to serve as a basis for the business lines and other risk functions in preparing their own risk maps in terms of risks arising from human resources.

At the same time, the HR Department has prepared a map of the risks borne by the Department itself. This is updated regularly and is used in support of the annual control plan made up of slightly more than 20 key controls.

The internal controller also relies on risk indicators (People Risk Heat Map) which are distributed monthly at the Risk Management Meeting.

The People Risk Committee was set up in 2009 and is chaired by the Head of Human Resources. It meets quarterly to review the continuing appropriateness of the permanent control system of the Human Resources risk function. The members of this Committee, other than the main heads of HSBC France's Human Resources Department, are the heads of HSBC France's subsidiaries' Human Resources Departments and the head of the HR Operations Department, which has formed part of HTS since January 2011.

The Committee reviews progress on points previously put forward for improvement, the results of controls and new plans of action arising from them. It approves the due diligence work on new procedures or products introduced. It reports on its activities to the HSBC France group ORIC Committee.

The Committees

Role of the HSBC France People Committee

The purpose of the People Committee is to enable the main HSBC France Senior Managers (CEO, Deputy CEO in charge of Global Banking and Market, Deputy CEO in charge of risks, and the Head of Human Resources) on a monthly basis to tackle all Human Resources issues of strategic importance, in accordance with the HSBC Group HR policy and developments in it. On the subject of compensation, the People Committee carries out various roles both on the overall and individual aspects.

Compensation policy

It examines the main thrust of the Compensation Policy put forward by HR for France and approves it.

It ensures that this policy fits in with the general principles of the compensation policy set out by the HSBC Group for all of its subsidiaries, in accordance with the specific directives set by the global business lines.

It gives its opinion on whether this policy complies with local industry standards and the recommendations of the French bank supervisory bodies (*Autorité de Contrôle Prudentiel, Autorité des Marchés Financiers, Fédération Bancaire Française*).

Variable compensation arrangements

It checks that all variable compensation arrangements in place in the bank's various businesses are in line with the general principles set out in the compensation policy for France, the HSBC Group and the worldwide business lines and comply with the requirements of the supervisory bodies.

It reviews the variable compensation packages awarded either locally or by worldwide business lines to French staff on the basis of the performance of each business line, while taking risk and compliance into account.

It approves the structure of these packages, *i.e.* the split between fixed and variable salary, between immediate compensation and deferred compensation in application of the HSBC Group rules, particularly in connection with deferred compensation and local industry standards on the subject.

Individual awards

It reviews and approves the consistency of remuneration of the Group Grades 2 and 3 HSBC France Senior Managers (except for the members of the People Committee) before submitting them to the appropriate HSBC Group decision-making bodies.

It reviews the business' 20 highest earners (except the members of the People Committee) and also the compensation of the CEOs of the Private Bank and the Asset Management subsidiaries in conjunction with the HSBC Group's decision-making bodies and the worldwide business lines.

Risk management (continued)

It ensures that proposed individual compensation packages take account of any individual failures to meet the bank's credit risk, compliance and reputation criteria.

At the end of the meeting, the Committee prepares a summary of the decisions taken on compensation. This summary is presented at the Nomination and Remuneration Committee of the Board of Directors that follows the "People Committee".

Role of the Nomination and Remuneration Committee

On the basis of a summary produced by the People Committee, the Nomination and Remuneration Committee gives its opinion on the bank's compensation policies and practices, ensuring they are consistent with the HSBC Group policy and that they comply with applicable local standards. It also ensures that risk management and compliance issues are taken into account.

Its scope of responsibility covers all compensation policies and practices in place within the company, with a more in-depth review of market professionals and Executive Directors.

Role of the Risk and Compliance functions

The Risk and Compliance functions are, in accordance with the HSBC Group rules (Functional Instruction Manual – FIM and Group Standards Manual – GSM) referred to for advice on laying down compensation policies and introducing new variable compensation systems.

Since 2009, situations of failure of compliance and infringements of internal rules of procedure, identified by the Risk and Compliance functions have been taken into account when awarding variable compensation.

To strengthen the Risk and Compliance functions, throughout the year and especially during the annual salary review process when individual variable compensation is decided, certain changes were made in 2010.

On a practical level, these functions are responsible, in their respective fields of operation, for:

– listing, throughout the year, all instances of non-adherence to compliance rules and/or rules of internal procedure and/or rules concerning risk;

– notifying the cases listed to the direct manager and to the manager of the business line involved or to his deputy;

– advising the HR managers involved of cases observed that are likely to lead to disciplinary proceedings;

– listing and summarising all problems of breaches of compliance regulations and/or internal procedures and/or risk procedures and notifying them to the Head of the "risk" function;

– keeping a record of each of the breaches and any resolution of them;

– if necessary, providing feedback to management for possibly making changes to the "balanced scorecard" of the employees involved in the breaches.

During the salary review process, these functions must especially:

– take part in the meetings organised by the HR Department in the presence of the managers concerned to evaluate whether the most significant cases of non-adherence to compliance rules and/or internal procedures and/or risk procedures as identified throughout the year:
  - are expected to have a significant, marginal or nil impact on the variable compensation of the employees concerned,
  - should, given the seriousness of the fact, result in application of the clawback rule cancelling of all or part of the shares previously allocated;

– ensure that the managers involved and Human Resources have properly incorporated, if the particular case requires it, the obligation to make adjustments to the variable compensation of the employees concerned;

– to contribute, in cases where proposed variable remuneration requires it (above a certain threshold) to the calculation and recording of a "business case" giving details of the instance of breach of compliance and/or the internal rules and its impact on variable compensation.

The Head of Human Resources notifies the People Committee of the list of decisions giving a summary of the individual and/or group behaviour that breached internal rules in terms of risk or compliance.

Dependency

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

Insurance and risk coverage

The HSBC Group in France is covered by the main global insurance programmes taken out by HSBC Holdings plc in London regarding the coverage of the major risks (fraud, professional liability, directors' and officers' liability).

As regards the specific insurance requirements of its operations and in compliance with French regulations, HSBC France organises local insurance programmes centrally, *via* its Insurance 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.

Generally, the levels of coverage, retentions and excesses are:

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

– appropriate to the value of the assets and the potential impact on the balance sheets of HSBC France and HSBC Holdings plc.

The total amount of insurance premiums paid in 2010 represented 0.24 per cent of the 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 chosen 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)	**2010**	2009	2008	2007	2006
Profit before tax	**512**	406	1,744	1,051	801
Profit attributable to shareholders	**454**	347	1,764	975	613
At year-end					
Shareholders' funds	**4,832**	5,060	5,228	5,064	5,406
Loans and advances to customers and banks	**95,291**	80,485	78,556	88,279	62,855
Customers' accounts and deposits by banks	**86,055**	90,373	95,927	93,083	57,336
Total assets	**210,836**	213,444	266,025	198,627	132,847
Number of employees (full-time equivalents)	**10,121**	10,350	10,886	14,279	14,379
Capital ratios					
Total capital [1]	**12.0%**	12.2%	9.6%	9.8%	9.6%
Tier One capital [1]	**12.1%**	12.2%	9.5%	8.8%	9.9%
Cost efficiency ratio	**73.0%**	73.9%	48.5%	64.3%	69.7%

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

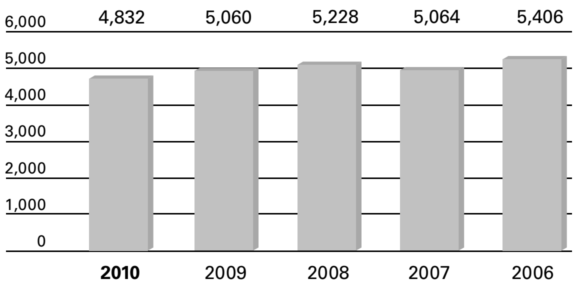
– in 2007: disposal of the participation in HSBC Private Banking Holdings (Suisse) SA to HSBC Europe (Netherlands) BV. Acquisition of 50.01 per cent of the share capital of Erisa and Erisa IARD and transfer of these two entities to HSBC Bank plc Paris Branch;

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

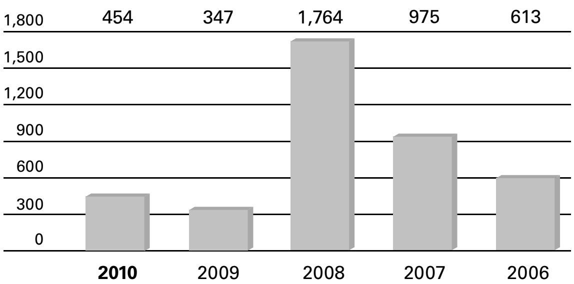
– in 2009: disposal by HSBC France of its equity derivatives business to HSBC Bank plc Paris Branch;

– in 2010: disposal by HSBC France of HSBC Securities Services (France) to CACEIS.

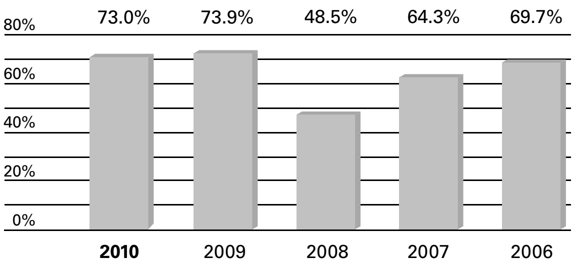
Shareholders' funds (in millions of euros)



Profit attributable to Shareholders (in millions of euros)



Cost efficiency ratio



* *Published consolidated financial information – HSBC France legal perimeter. In accordance with IFRS as endorsed by the EU.*

1 *Capital ratios under Basel I until 2007 and under Basel II from 2008.*

Ratings

HSBC France is rated on its financial performance by three main agencies: Standard & Poor's, Moody's and Fitch.

	Standard & Poor's	Moody's	Fitch
Long-term rating	AA	Aa3	AA
Rating confirmed on	20 August 2010	18 January 2010	11 November 2010
Outlook	Stable	Negative	Stable
Outlook revised on	20 August 2010	–	–
Outlook confirmed on	–	18 January 2010	11 November 2010
Short-term rating	A-1+	P-1	F1+

Consolidated financial statements

Consolidated income statement for the year ended 31 December 2010

(in millions of euros)	Notes	31.12.2010	31.12.2009
Interest income		**1,671**	1,945
Interest expense		**(806)**	(1,335)
Net interest income		**865**	610
Fee income		**1,004**	1,047
Fee expense		**(253)**	(306)
Net fee income		**751**	741
Trading income		**455**	985
Net income from financial instruments designated at fair value		**25**	(147)
Gains less losses from financial investments		**59**	17
Dividend income		**6**	10
Other operating income		**188**	25
Total operating income before loan impairment (charges)/release and other credit risk provisions		**2,349**	2,241
Loan impairment charges and other credit risk provisions		**(122)**	(178)
Net operating income	*4*	**2,227**	2,063
Employee compensation and benefits	*5*	**(1,039)**	(1,009)
General and administrative expenses		**(615)**	(578)
Depreciation of property, plant and equipment	*18*	**(52)**	(60)
Amortisation of intangible assets and impairment of goodwill	*17*	**(9)**	(10)
Total operating expenses		**(1,715)**	(1,657)
Operating profit		**512**	406
Share of profit in associates and joint ventures		**–**	–
Profit before tax		**512**	406
Tax expense	*7*	**(57)**	(52)
Net profit of discontinued operations		**–**	(6)
Profit for the period		**455**	348
Profit attributable to shareholders		**454**	347
Profit attributable to non-controlling interests		**1**	1

(in euros)			
Basic earnings per ordinary share	*9*	6.73	5.15
Diluted earnings per ordinary share	*9*	6.73	5.10
Dividend per ordinary share	*9*	10.67	9.94

Consolidated statement of comprehensive income for the year ended 31 December 2010

(in millions of euros)	**31.12.2010**	31.12.2009
Profit for the period	**455**	348
Other comprehensive income		
Available-for-sale investments:		
– fair value gains/(losses) taken to equity	**81**	107
– fair value gains/(losses) transferred to the income statement on disposal	**(66)**	(52)
– amounts transferred to/(from) the income statement in respect of impairment losses	**5**	32
– income taxes	**(11)**	(25)
Cash flow hedges:		
– fair value gains/(losses) taken to equity	**45**	126
– fair value (gains)/losses transferred to income statement on disposal	**17**	26
– income taxes	**(22)**	(52)
Actuarial gains/(losses) on defined benefit plans	**(4)**	(6)
Exchange differences	**1**	5
Other comprehensive income for the period, net of tax	**46**	161
Total comprehensive income for the period	**501**	509
Total comprehensive income for the year attributable to:		
– shareholders of the parent company	**500**	508
– non-controlling interests	**1**	1
	501	509

Consolidated financial statements (continued)

Consolidated balance sheet at 31 December 2010

ASSETS

(in millions of euros)	*Notes*	**31.12.2010**	31.12.2009
Cash and balances at central banks	32	**980**	586
Items in the course of collection from other banks	32	**944**	1,079
Trading assets	12	**53,979**	61,529
Financial assets designated at fair value		**595**	595
Derivatives	13	**53,616**	55,957
Loans and advances to banks	28	**37,346**	30,705
Loans and advances to customers	28	**57,945**	49,780
Financial investments	14	**2,588**	5,148
Interests in associates and joint ventures	16	**6**	6
Goodwill and intangible assets	17	**382**	385
Property, plant and equipment	18	**233**	258
Other assets	20	**990**	461
Deferred tax assets	23	**135**	78
Prepayments and accrued income		**1,092**	1,277
Assets classified as held for sale	20	**5**	5,600
TOTAL ASSETS		**210,836**	213,444

LIABILITIES AND EQUITY

(in millions of euros)	*Notes*	**31.12.2010**	31.12.2009
Liabilities			
Deposits by banks	28	**36,861**	41,035
Customer accounts	28	**49,194**	49,338
Items in the course of transmission to other banks	32	**851**	959
Trading liabilities	27	**42,770**	35,154
Financial liabilities designated at fair value	21	**5,616**	3,881
Derivatives	13	**53,347**	55,608
Debt securities in issue	28	**14,285**	14,769
Retirement benefit liabilities	5	**106**	98
Other liabilities	22	**1,225**	857
Current taxation		**20**	13
Accruals and deferred income		**1,453**	1,224
Provisions for liabilities and charges	24	**62**	78
Deferred tax liabilities	23	**–**	–
Subordinated liabilities	26	**166**	166
TOTAL LIABILITIES		**205,956**	203,180
Equity			
Called up share capital	31	**337**	337
Share premium account		**16**	16
Other reserves and retained earnings		**4,479**	4,707
TOTAL SHAREHOLDERS' EQUITY		**4,832**	5,060
Non-controlling interests		**48**	48
TOTAL EQUITY		**4,880**	5,108
Liabilities classified as held for sale	22	**–**	5,156
TOTAL EQUITY AND LIABILITIES		**210,836**	213,444

Consolidated statement of changes in equity for the year ended 31 December 2010

31.12.2010

(in millions of euros)	Called up share capital	Share premium	Retained earnings	Other reserves: Available-for-sale fair value reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Share-based payment reserve	Other reserves: Associates and joint ventures	Total share-holders' equity	Non-controlling interests	Total equity
At 1 January 2010	**337**	**16**	**4,566**	**37**	**(18)**	**(3)**	**121**	**4**	**5,060**	**48**	**5,108**
Share capital issued, net of costs	–	–	–	–	–	–	–	–	–	–	–
Dividends to shareholders	–	–	(720)	–	–	–	–	–	(720)	–	(720)
Net impact of equity-settled share-based payments	–	–	–	–	–	–	(13)	–	(13)	–	(13)
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–
Other movements	–	–	45	–	–	1	(41)	–	5	(1)	4
Total comprehensive income for the period	–	–	450	9	40	1	–	–	500	1	501
At 31 December 2010	**337**	**16**	**4,341**	**46**	**22**	**(1)**	**67**	**4**	**4,832**	**48**	**4,880**

31.12.2009

(in millions of euros)	Called up share capital	Share premium	Retained earnings	Other reserves: Available-for-sale fair value reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Share-based payment reserve	Other reserves: Associates and joint ventures	Total share-holders' equity	Non-controlling interests	Total equity
At 1 January 2009	337	16	4,874	(23)	(118)	(7)	145	4	5,228	48	5,276
Share capital issued, net of costs	–	–	–	–	–	–	–	–	–	–	–
Dividends to shareholders	–	–	(670)	–	–	–	–	–	(670)	–	(670)
Net impact of equity-settled share-based payments	–	–	–	–	–	–	(24)	–	(24)	–	(24)
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–
Other movements	–	–	21	(2)	–	(1)	–	–	18	(1)	17
Total comprehensive income for the period	–	–	341	62	100	5	–	–	508	1	509
At 31 December 2009	337	16	4,566	37	(18)	(3)	121	4	5,060	48	5,108

Consolidated financial statements (continued)

Consolidated cash flow statement for the year ended 31 December 2010

(in millions of euros)	*Notes*	**31.12.2010**	31.12.2009
Cash flows from operating activities			
Profit before tax		**512**	406
Net profit on discontinued operations		**–**	(6)
– non-cash items included in net profit	*32*	**102**	183
– change in operating assets	*32*	**13,857**	(8,283)
– change in operating liabilities	*32*	**(2,339)**	(8,101)
– change in assets/liabilities classified as held for sale (including cash flows)		**–**	(459)
– elimination of exchange differences		**(20)**	88
– net (gain)/loss from investing activities		**(215)**	(61)
– share of profits in associates and joint ventures		**–**	–
– dividends received from associates		**–**	–
– tax paid		**(160)**	(189)
Net cash flows from operating activities		**11,737**	(16,422)
Cash flows (used in)/from investing activities			
Purchase of financial investments		**(1,083)**	(3,159)
Proceeds from the sale of financial investments		**3,742**	1,253
Purchase of property, plant and equipment		**(52)**	(45)
Proceeds from the sale of property, plant and equipment		**447**	2
Purchase of goodwill and intangible assets		**(6)**	(5)
Net cash outflow from acquisition of and increase in stake of subsidiaries		**–**	–
Net cash inflow from disposal of subsidiaries		**2**	8
Net cash outflow from acquisition of and increase in stake of associates		**–**	–
Proceeds from disposal of associates		**–**	–
Net cash flows (used in)/from investing activities		**3,050**	(1,946)
Cash flows (used in)/from financing activities			
Issue of ordinary share capital		**–**	–
Net purchases of own shares		**–**	–
Increase in non-equity non-controlling interests		**–**	–
Subordinated loan capital issued		**–**	–
Subordinated loan capital repaid		**–**	(40)
Dividends paid to shareholders		**(720)**	(670)
Dividends paid to non-controlling interests		**–**	–
Net cash flows (used in)/from financing activities		**(720)**	(710)
Net increase in cash and cash equivalents		**14,069**	(19,073)
Cash and cash equivalents at 1 January		**15,993**	34,963
Effect of exchange rate changes on cash and cash equivalents		**29**	103
Cash and cash equivalents at 31 December		**30,091**	15,993

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"). IFRSs comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2010, there were no unendorsed standards effective for the year ended 31 December 2010 affecting the consolidated financial statements at that date, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC France.

The consolidated financial statements of HSBC France are available upon request from the HSBC France registered office at 103, avenue des Champs-Elysées – 75419 Paris Cedex 08 or on the website www.hsbc.fr.

These consolidated financial statements were approved by the Board of Directors on 15 February 2011.

During the year ended 31 December 2010, HSBC France adopted the following significant amendments to standards and interpretations:

On 1 January 2010, the group adopted the revised IFRS 3 "Business Combinations" and the amendments to IAS 27 "Consolidated and Separate Financial Statements". The main changes under the standards are that:

- acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred;
- all assets and liabilities transferred, including contingent assets and liabilities, is recognised and measured at fair value at the acquisition date;
- equity interests held prior to control being obtained are remeasured to fair value at the date of obtaining control, and any gain or loss is recognised in the income statement;
- changes in a parent company's ownership interest in a subsidiary that do not result in a change of control are treated as transactions between equity holders and are reported in equity; and
- an option is available, on a transaction-by-transaction basis, to measure any non-controlling (previously referred to as minority) interests in the entity acquired either at fair value, or at the non-controlling interests' proportionate share of the net identifiable assets of the entity acquired.

These changes had no significant effect on HSBC France's consolidated financial statements for the period ended 31 December 2010.

During the year 2010, in addition to the above, the group adopted a number of standards and interpretations, and amendments thereto which had an insignificant effect on these consolidated financial statements.

HSBC France 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"). Indeed, the amendment to IAS 39 and to IFRS 7 "Reclassification of Financial Assets – Effective Date and Transition" which clarifies the effective date of the Reclassification Amendment, has no effect on the consolidated financial statements of HSBC France.

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 at which control passes to HSBC France until the date on which this control ends. As allowed under IFRS 1, HSBC France has opted not to restate business combinations that took place before 1 January 2004, the date at which it adopted IFRS.

HSBC France's acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is recognised at fair value at the date on which HSBC France takes control, taking into account the costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities are recognised at fair value at the acquisition date. The difference between the acquisition cost and fair value of the portion of identifiable net assets attributable to HSBC France is recognised as goodwill if positive and immediately taken to income if negative.

1 Basis of preparation *(continued)*

Consolidation methods

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

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

– the power to appoint, remove or gather a majority of members of the subsidiary's Board of Directors or equivalent governing bodies;

– the power to govern the financial and operating policies of the entity under a statute or an agreement.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity.

Jointly controlled companies are reported using the equity method. HSBC France has joint control over a company when, as part of a contractual agreement, strategic financial and operating decisions relating to the company's activity require the unanimous consent of all the venturers sharing control.

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

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

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

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

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

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

Elimination of internal transactions

All transactions internal to the HSBC France group are eliminated on consolidation.

Share of the results and reserves of joint ventures and associates

The consolidated financial statements include the attributable share of the results and reserves of joint ventures and associates owed to HSBC France, based on financial statements updated not earlier than three months prior to 31 December.

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c The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from those reported.

Management believes that HSBC France's critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans and advances, goodwill impairment, the valuation of financial instruments, the impairment of available-for-sale financial assets and deferred tax assets.

In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of HSBC France's net income, financial position and cash flows have been made.

Consolidated financial statements (continued)

1 Basis of preparation *(continued)*

d *Future accounting developments*

Standards and Interpretations issued by the IASB and endorsed by the European Union (EU)

At 31 December 2010, a number of standards and interpretations, and amendments thereto, were issued by the IASB, which had no effect on the group's consolidated financial statements or the separate financial statements of HSBC France as at 31 December 2010. Those which are expected to have a significant effect on the group's consolidated financial statements and the separate financial statements of HSBC France are discussed below.

Standards and Interpretations issued by the IASB but not endorsed by the European Union (EU)

In November 2009, the IASB issued IFRS 9 "Financial Instruments" ("IFRS 9"). This introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 dealing with financial liabilities. These represent the first instalments in the IASB's planned phased replacement of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") with a less complex and improved standard for financial instruments.

The standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRS 9 is required to be applied retrospectively. If the standard is adopted prior to 1 January 2012, an entity will be exempt from the requirement to restate comparative information prior to this period. IFRS 9 is subject to EU endorsement, the timing of which is uncertain. Accordingly, the group is unable to provide a date by which it plans to apply IFRS 9.

The main changes to the requirements of IAS 39 are summarised below:

– all financial assets that are currently in the scope of IAS 39 will be classified as either amortised cost or fair value. The available-for-sale held-to-maturity and loans and receivables categories will no longer exist;

– classification is based on an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Reclassifications between the two categories are prohibited unless there is a change in the entity's business model;

– a financial asset is measured at amortised cost if two criteria are met: (i) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows; and (ii) the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. Movements in the fair value of financial assets classified at fair value are recognised in profit or loss, except for equity investments where an entity takes the option to designate an equity instrument that is not held for trading at fair value through other comprehensive income. If this option is taken, it is irrevocable and all subsequent changes in fair value are recognised in other comprehensive income with no recycling of gains or losses to the income statement. Dividend income would continue to be recognised in the income statement;

– an entity is only permitted to designate a financial asset otherwise meeting the amortised cost criteria at fair value through profit or loss if doing so significantly reduces or eliminates an accounting mismatch. This designation is made on initial recognition and is irrevocable;

– financial assets which contain embedded derivatives are to be classified in their entirety either at fair value or amortised cost depending on whether the contracts as a whole meet the relevant criteria under IFRS 9;

– most of IAS 39's requirements for financial liabilities are retained, including amortised cost accounting for most financial liabilities with bifurcation of embedded derivatives. However, fair value changes attributable to changes in own credit risk for financial liabilities designated under the fair value option, other than loan commitments and financial guarantee contracts, are to be presented in the statement of other comprehensive income. These amounts are not subsequently reclassified to the income statement but may be transferred within equity.

The next steps in the IASB's project will address the impairment of financial assets measured at amortised cost and hedge accounting. The IASB has indicated that it aims to finalise the replacement of IAS 39 by June 2011. In addition, the IASB is working with the US Financial Accounting Standards Board to reduce inconsistencies between US GAAP and IFRS in accounting for financial instruments. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's financial instruments project. As a result, it is impracticable to quantify the impact of IFRS 9 at the date of publication of these 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);
- 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".

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 and manages its business through the following customer groups: Personal Financial Services (including Insurance), Commercial Banking, Global Banking and Markets, Private Banking.

HSBC France's operations include a number of support services and head office functions. The costs of these functions are allocated to business lines, where it is appropriate, on a systematic and consistent basis.

The reporting of financial information by segment required by IFRS 8 is disclosed in Note 10.

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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 current market transactions in the same instrument, or on valuation techniques including 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.

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.

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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.

The collective impairment loss is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product, etc);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and,
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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 at trade date when HSBC France enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, their fair values are remeasured; all subsequent gains and losses from changes in the fair value of these assets and liabilities, together with related interest income and expense and dividends, are recognised in the income statement within “Trading income” as they arise.

i *Financial instruments designated at fair value*

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

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

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

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

The fair value designation, once made, is irrevocable. Designated financial assets and financial liabilities are recognised at trade date when HSBC France enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured and, except for interest payable on debt securities in issue designated at fair value, gains and losses from changes therein are recognised in “Net income from financial instruments designated at fair value”.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are also included in “Net income from financial instruments designated at fair value”. Interest on these derivatives is also included in this line, except for interest on derivatives managed with debt securities in issue designated at fair value, which is included in net interest income. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities and loans and receivables that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions.

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 at 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 2009 or 2010.

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 until the sale of this instrument.

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.

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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

l *Derivatives and hedge accounting*

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

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

As required in IAS 39, HSBC France documents, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Therefore it is also required to measure, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective. Interest on designated qualifying hedges is included in "Net interest income".

Fair value hedge

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

2 Principal accounting policies *(continued)*

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.

Consolidated financial statements (continued)

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.

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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.

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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.

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q *Property, plant and equipment*

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

– land is not depreciated;

– acquisition-related expenses on buildings are expensed in the year in which they occur, as are preliminary costs;

– depreciation of buildings is calculated on a straight-line basis over their estimated useful lives which are generally between 25 and 75 years.

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

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

r *Finance and operating leases*

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

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

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

s *Income tax*

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

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

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

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

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)*

In 2010, the French Tax *"taxe professionnelle"* was replaced by a new tax *"contribution économique territoriale"* (CET) composed of the *"cotisation foncière des entreprises"* (CFE) based on the rental value of taxable property, and the *"cotisation sur la valeur ajoutée des entreprises"* (CVAE) corresponding to 1.5 per cent of added-value of the year.

The HSBC France group has treated the CVAE as income tax, in application of IAS 12. Deferred CVAE contributions are accounted for on the basis of temporary differences between the book value of assets and liabilities and their tax value from a CVAE standpoint.

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 awarded share options on HSBC Holdings plc shares;
- from 2006, HSBC France implemented share plans on HSBC Holdings plc shares;
- employees can subscribe to HSBC Holdings plc shares within the employee share ownership plan.

Share option 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 at grant date, and the impact of any non-market vesting conditions such as option lapses. An option may lapse if, for example, an employee ceases to be employed by HSBC France before the end of the vesting period. Estimates of such future employee departures are taken into account when accruing the cost during the service period.

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.

2 Principal accounting policies *(continued)*

Employee share ownership plan

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

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

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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.

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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.

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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).

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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.

2 Principal accounting policies *(continued)*

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).

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;
- 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

HSBC Financial Products (France)

In the second quarter of 2009, the Management of HSBC France and HSBC Financial Products (France) announced the sale of the activity of HSBC Financial Products (France) to HSBC Bank plc Paris Branch.

This sale was effective in November 2009. At 31 December 2009, some operations remained on HSBC Financial Products (France)'s balance sheet and were transferred in the first half year of 2010. As required by IFRS 5, at 31 December 2009, HSBC Financial Products (France)'s assets and liabilities were recognised and measured respectively as "Assets classified as held for sale" and "Liabilities classified as held for sale". Its results for the second half of 2009 are presented separately in the line item "Net profit on discontinued operations".

HSBC Financial Products (France) merged with HSBC France on 30 June 2010, with effect from 1 January 2010. This merger had no impact on the HSBC France group consolidated statements.

4 Net operating income

Net operating income for the year ended 31 December 2010 amounts to EUR 2,227 million and includes income, expense, gains and losses as follows:

(in millions of euros)	**31.12.2010**	31.12.2009
Income		
Fees earned on financial assets not held for trading nor designated at fair value and not included in their effective interest rates	**622**	633
Fees earned on trust and other fiduciary activities where HSBC France holds or invests assets on behalf of its customers	**293**	275
Income from listed investments [1]	**1,401**	1,750
Income from unlisted investments [1]	**94**	147
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	**(720)**	(1,241)
Fees payable on financial assets or liabilities not held for trading nor designated at fair value and not included in their effective interest rates	**(252)**	(249)
Gains/(losses)		
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	**153**	2
– gain on disposal of HSBC France Headquarters	**141**	–
– other	**12**	2
Gains/(losses) on financial investments	**59**	17
– equity securities	**58**	58
– debt securities	**5**	7
– impairment of available-for-sale equity shares	**(4)**	(48)
Loan impairment charges and other credit risk provisions	**(122)**	(178)
– net impairment charge on loans and advances	**(120)**	(178)
– impairment of available-for-sale financial investments: debt securities	**(1)**	–
– other credit risk provisions	**(1)**	–

1 *Dividends and interest.*

5 Employee compensation and benefits

(in millions of euros)	**31.12.2010**	31.12.2009
Wages and salaries	**712**	684
Social security costs	**254**	264
Post-employment benefits	**73**	61
	1,039	1,009

In 2010, the French government levied a one-off tax in respect of certain bonuses payable by banks and banking groups. The tax, a liability of the employer, was levied at 50 per cent on bonuses, whether in cash or shares, awarded in a certain period and over a threshold amount.

In 2010, HSBC France paid a one-off tax of EUR 24 million.

Consolidated financial statements (continued)

5 Employee compensation and benefits *(continued)*

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

	31.12.2010	31.12.2009
Personal Financial Services and Commercial Banking	**5,269**	5,238
Global Banking and Markets	**1,425**	1,503
Asset Management	**576**	596
Private Banking	**273**	303
Support Functions and Others	**2,936**	3,037
Total	**10,479**	10,677

a *Post-employment benefit plans*

Provisions for employee benefits cover commitments relating to end-of-career bonuses and long-service awards and commitments relating to supplementary pension schemes and early retirement plans (*Cessation d'activité des travailleurs salariés* (CATS)).

In 2009, HSBC France signed a new agreement concerning long-service awards and long service award bonuses, commitments relating to end-of-career bonuses and long-service awards have been adjusted accordingly.

The CATS agreement on early retirement ended in 2009. The provisions relating to this agreement were released in 2009.

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

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2010, and the 2011 periodic costs, were:

(in %)	*Discount rate*	*Expected rate of return on plan assets*	*Inflation assumption*	*Rate of increase for pensions in payment and deferred pensions*	*Rate of pay increase*	*Mortality rate*
At 31.12.2010						
France	**4.75**	**–**[1]	**2**	**2**	**3**	**–**[2]
At 31.12.2009						
France	5.5	–[1]	2	2	3	–[2]

1 *Expected rate on equities. However, expected rate of return on bonds was 4 per cent for 2010 and 4 per cent for 2009.*
2 *HSBC France uses "mortality tables" TV88-90 for retirement compensation and long-service awards and TGH/TGF05 for pension obligations.*

HSBC France determines discount rates, in consultation with its actuary based upon the current average yield of high quality (AA rated) debt instruments, with maturities consistent with that of the pension obligations. 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.

5 Employee compensation and benefits *(continued)*

c *Defined benefit pension plans*

Value recognised in the balance sheet

(in millions of euros)	**31.12.2010** ***HSBC France Pension Plan***	31.12.2009 *HSBC France Pension Plan*
Equities	**11**	9
Bonds	**21**	20
Property	**–**	–
Other	**14**	17
Fair value of plan assets	**46**	46
Present value of funded obligations	**(45)**	(29)
Present value of unfunded obligations	**(114)**	(121)
Defined benefit obligation	**(158)**	(150)
Unrecognised past service cost	**6**	6
Net liability	**(106)**	(98)

Changes in the present value of the defined benefit obligation

(in millions of euros)	**31.12.2010** ***HSBC France Pension Plan***	31.12.2009 *HSBC France Pension Plan*
At 1 January	**150**	151
Current service cost	**4**	3
Interest cost	**8**	9
Contributions by employees	**–**	–
Actuarial (gains)/losses	**7**	4
Benefits paid	**(10)**	(18)
Past service cost – vested immediately	**–**	(4)
Past service cost – unvested benefits	**–**	–
Acquisitions	**–**	–
(Gains)/losses on curtailments	**(1)**	–
(Gains)/losses on settlements	**–**	–
Exchange and other movements	**–**	5
At 31 December [1]	**158**	150

1 *Of which non post-employment benefit obligations for EUR 7.6 million (2009: EUR 7.5 million) and post-employment benefit obligations for EUR 150.4 million (2009: EUR 142.5 million).*

Consolidated financial statements (continued)

5 Employee compensation and benefits *(continued)*

Changes in the fair value of plan assets

(in millions of euros)	**31.12.2010** ***HSBC France Pension Plan***	31.12.2009 *HSBC France Pension Plan*
At 1 January	**46**	42
Expected return	**2**	2
Contributions by the group	**–**	–
Contributions by employees	**–**	3
Actuarial gain	**1**	1
Benefits paid	**(4)**	(4)
Acquisitions	**–**	–
(Gains)/losses on settlements	**–**	–
Exchange and other movements	**1**	2
At 31 December	**46**	46

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

(in millions of euros)	**31.12.2010** ***HSBC France Pension Plan***	31.12.2009 *HSBC France Pension Plan*
Current service cost	**4**	3
Interest cost	**8**	9
Expected return on plan assets	**(2)**	(2)
Past service cost	**–**	(4)
(Gains)/losses on curtailments	**(1)**	–
(Gains)/losses on settlements	**–**	–
Total net expense	**9**	6

In 2010, total net actuarial losses included in the statement of comprehensive income were EUR 4 million in respect of defined benefit pension plans (2009: EUR 6 million).

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 options and share policy for its employees. The new rules for share options 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. Since 2006, the general policy of the HSBC Group is to award shares instead of share options (except in the case of specific legal and tax regulations).

Share Option Plan

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

6 Share-based payments *(continued)*

Share Options without performance conditions [1]

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

	31.12.2010		31.12.2009	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**45,699**		46,661	
Granted in the year	**–**		–	
Exercised in the year	**(249)**	**6.22**	(721)	6.09
Transferred in the year	**–**		–	
Expired in the year	**(477)**	**7.08**	(241)	7.16
Outstanding at 31 December	**44,973**		45,699	

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

Share Options with performance conditions

Share options with performance conditions were granted in 2003 and 2004 under the Rules of The HSBC Share Plan to senior executives in France.

	31.12.2010		31.12.2009	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Granted in the year	**–**		–	
Forfeited in the year	**–**		(9)	
Outstanding at 31 December	**215**		215	

The amortisation of these plans was based on the fair value of the share-based payments transactions when contracted and runs over the three-year vesting period. These plans were completely amortised in 2008.

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

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;

– "Restricted Shares" without performance conditions.

Consolidated financial statements (continued)

6 Share-based payments *(continued)*

"Performance Shares"

	31.12.2010	31.12.2009
	Number (000)	*Number (000)*
Outstanding at 1 January	**–**	239
Capital increase	**–**	35
Granted in the year	**–**	–
Vested in the year	**–**	–
Transferred in the year	**–**	(50)
Expired in the year	**–**	(224)
Outstanding at 31 December	**–**	–

Performance Shares, allocated in 2006 for 2005 year are subject to a three-year vesting period and to performance conditions that have changed over the period.

These Performance Shares were subject to two performance conditions relating to the HSBC Group:

– 50 per cent of the awards were subject to the level of the Total Shareholder Return, measured against a comparator group of 28 major banks;

– 50 per cent of the awards were subject to growth of the earnings per ordinary share published by the Group relating to the 3 years of the vesting period.

The first condition was partially achieved and allowed the vesting of 39.46 per cent of the first half of the awards. The second condition failed; the second half of the awards was not vested.

"Restricted Shares"

These shares vest definitely after a two-year period and according to the rules of the plan. Shares granted in 2010 will vest 50 per cent after two years and 50 per cent after three years.

	31.12.2010	31.12.2009
	Number (000)	*Number (000)*
Outstanding at 1 January	**9,052**	6,020
Granted in the year	**5,884**	4,409
Vested in the year	**(3,488)**	(2,492)
Transferred in the year	**–**	–
Expired in the year	**(55)**	(50)
Shares issued	**–**	1,165
Outstanding at 31 December	**11,393**	9,052

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

In 2010, EUR 25 million were charged to the income statement in respect of amortisation of the 2007, 2008 and 2009 plans (2009: EUR 29 million). This amortisation runs over a vesting period, *i.e.* a three-year period for Performance Shares and a two-year period for Restricted Shares.

Employee share offering

In 2010, HSBC made an employee share offering open to current employees. Employees of the HSBC France group took up a total of 2,928,134 HSBC Holdings plc shares, representing a total capital amount of EUR 18.1 million.

The cost of the discount based on the share price at the opening of the offer period amounted to EUR 4 million.

In 2009, HSBC did not make an employee share offering.

7 Tax expense

(in millions of euros)	**31.12.2010**	31.12.2009
Current tax	**113**	153
Deferred tax	**(56)**	(101)
Tax expense	**57**	52
Effective tax rate (per cent)	**11.1**	13.2

As mentioned in Note 2 s, page 101, the CVAE contribution recorded in 2010 is included in "Income Tax". The impact of this accounting position has been a classification of a charge of EUR 26 million on the "Tax Expenses" and the recognition of a deferred tax liability of EUR 11 million in 2010.

The deferred tax charge includes the impact of the first time application of this new accounting policy, based on temporary differences as at 1 January 2010 for an amount of EUR 8 million.

Analysis of overall tax charges

	31.12.2010		31.12.2009	
(in millions of euros)	***Amount***	*%*	*Amount*	*%*
Taxation at French corporate tax rate	**176**	**34.43**	136	34.43
Impact of overseas profits in principal locations taxed at different rates	**(1)**	**(0.2)**	–	–
Operations taxed at reduced tax rate in France	**(51)**	**(2.0)**	(7)	(1.9)
Other items including result for tax Group integration	**(67)**	**(21.1)**	(77)	(19.3)
Overall tax charge	**57**	**11.1**	52	13.2

In 2010 and 2009, 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[1] per cent for Long Term (LT). The rates used for deferred taxes are based on 2010 tax rates.

1 *Except property company securities and securities with a cost price higher than EUR 22.8 million but lower than 5 per cent of capital and securities from FCPR and SCR.*

8 Dividends paid in 2010 and 2009

	31.12.2010		31.12.2009	
(in millions of euros)	***EUR per share***	***Amount***	*EUR per share*	*Amount*
First interim dividend for current year	**5.85**	**394.5**	3.70	249.5
Second interim dividend for current year	**4.82**	**325.1**	6.24	420.8
		719.6		670.3

Dividends related to 2010

On 27 July 2010, the Board of Directors approved a first interim dividend of EUR 5.85 per share. This dividend was paid with respect to the 67,437,820 shares in issue at that date, making a total payment of EUR 394.5 million. The first interim dividend was paid on 28 July 2010.

On 10 November 2010, the Board of Directors approved a second interim dividend of EUR 4.82 per share. This dividend was paid with respect to the 67,437,820 shares in issue at that date, making a total payment of EUR 325.1 million. The second interim dividend was paid on 10 November 2010.

On 15 February 2011, the Board of Directors proposed that at the Annual General Meeting, to be held on 4 May 2011, not to distribute any further dividend in respect of the 2010 results.

Consolidated financial statements (continued)

8 Dividends paid in 2010 and 2009 *(continued)*

Dividends related to 2009

On 29 July 2009, the Board of Directors approved a first interim dividend of EUR 3.70 per share. This dividend was paid with respect to the 67,437,820 shares in issue at that date, making a total payment of EUR 249.5 million.

On 18 November 2009, the Board of Directors approved a second interim dividend of EUR 6.24 per share. This dividend was paid with respect to the 67,437,820 shares in issue at that date, making a total payment of EUR 420.8 million.

On 16 February 2010, the Board of Directors proposed that at the Annual General Meeting, to be held on 11 May 2010, not to distribute any further dividend in respect of the 2009 results.

9 Earnings and dividends per share

(in euros)	**31.12.2010**	31.12.2009
Basic earnings per share	**6.73**	5.15
Diluted earnings per share	**6.73**	5.10
Dividend per share	**10.67**	9.94

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 454 million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 67,437,820 (full year 2009: earnings of EUR 347 million and 67,437,820 shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 67,437,820 (full year 2009: 68,042,070 shares).

10 Segment analysis

The HSBC Group in France provides a comprehensive range of banking and related financial services to its customers. The products and services offered to customers are organised by customer groups and global businesses:

– Personal Financial Services (including Insurance) offers a broad range of products and services to meet the personal banking and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, mortgages and personal loans, credit cards, insurance, wealth management and local and international payment services.

– Commercial Banking product offerings include the provision of financing services, payments and cash management, international trade finance, treasury and capital markets, insurance, wealth management and investment banking services.

– Global Banking and Markets provides tailored financial solutions to major government, corporate and institutional clients worldwide. The client-focused business lines deliver a full range of banking capabilities including investment banking and financing solutions; a markets business that provides services in credit, rates, foreign exchange, money markets and securities services; global asset management services and principal investment activities.

– Private Banking provides a range of services to meet the banking, investment and wealth advisory needs of high net worth individuals.

10 Segment analysis *(continued)*

The "Other" segment includes the fair value of own debt under fair value option for EUR 32 million (2009: EUR -145 million) and the gain on the disposal of headquarters for EUR 141 million.

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.

Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the group management.

No geographical information is given, as this information is not relevant for the HSBC France group which mainly operates in France.

Profit/(loss) for the year

	31.12.2010						
(in millions of euros)	*Personal Financial Services*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
Interest income	**892**	**476**	**726**	**28**	**59**	**–**	**2,181**
Interest expense	**(31)**	**(85)**	**(492)**	**(5)**	**(86)**	**(113)**	**(812)**
Net interest income	**861**	**391**	**234**	**23**	**(27)**	**(113)**	**1,369**
Other operating income	**(88)**	**218**	**741**	**52**	**191**	**113**	**1,227**
Total operating income	**773**	**609**	**975**	**75**	**164**	**–**	**2,596**
Loan impairment charges and other credit risk provisions	**(17)**	**(91)**	**(17)**	**4**	**–**	**–**	**(121)**
Net operating income	**756**	**518**	**958**	**79**	**164**	**–**	**2,475**
Total operating expenses	**(674)**	**(416)**	**(665)**	**(66)**	**(26)**	**–**	**(1,847)**
Operating profit	**82**	**102**	**293**	**13**	**138**	**–**	**628**
Share of profit in associates and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit before tax	**82**	**102**	**293**	**13**	**138**	**–**	**628**
Tax expense							**(117)**
Profit for the year - France							**511**
Perimeter differences[1]							**(56)**
Group Reporting differences							**–**
Profit for the year – Legal							**455**

1 *Mainly Insurance.*

Consolidated financial statements (continued)

10 Segment analysis *(continued)*

(in millions of euros)	31.12.2009 *Personal Financial Services*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
Interest income	886	526	1,070	31	(112)	–	2,401
Interest expense	(140)	(148)	(772)	(11)	1	(277)	(1,347)
Net interest income	746	378	298	20	(111)	(277)	1,054
Other operating income	(43)	213	1,056	48	(130)	277	1,421
Total operating income	703	591	1,354	68	(241)	–	2,475
Loan impairment charges and other credit risk provisions	(31)	(102)	(44)	–	–	–	(177)
Net operating income	672	489	1,310	68	(241)	–	2,298
Total operating expenses	(632)	(415)	(638)	(66)	1	–	(1,750)
Operating profit	40	74	672	2	(240)	–	548
Share of profit in associates and joint ventures	–	–	–	–	–	–	–
Profit before tax	40	74	672	2	(240)	–	548
Tax expense							(127)
Profit for the year - France							421
Perimeter differences[1]							(101)
Group Reporting differences							28
Profit for the year – Legal							348

1 *Mainly Insurance.*

10 Segment analysis *(continued)*

Other information about the profit/(loss) for the year

(in millions of euros)	*Personal Financial Services*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
31 December 2010							
Net operating income	**756**	**518**	**959**	**80**	**163**	**–**	**2,476**
– external	**778**	**513**	**570**	**58**	**307**	**(113)**	**2,113**
– inter-segment	**(22)**	**5**	**389**	**22**	**(144)**	**113**	**363**
Profit before tax includes the following significant non-cash items	**82**	**102**	**293**	**14**	**137**	**–**	**628**
– depreciation, amortisation and impairment	**(19)**	**(7)**	**(9)**	**(1)**	**(25)**	**–**	**(61)**
– loan impairment losses gross of recoveries and other credit risk provisions	**(17)**	**(92)**	**(17)**	**4**	**–**	**–**	**(122)**
– impairment of financial investments	**–**	**–**	**(2)**	**–**	**(2)**	**–**	**(4)**
31 December 2009							
Net operating income	672	489	1,310	68	(241)	–	2,298
– external	707	551	731	42	88	(277)	1,842
– inter-segment	(35)	(62)	579	26	(329)	277	456
Profit before tax includes the following significant non-cash items	40	74	672	2	(240)	–	548
– depreciation, amortisation and impairment	(31)	(22)	(15)	(2)	–	–	(71)
– loan impairment losses gross of recoveries and other credit risk provisions	(31)	(104)	(44)	–	–	–	(180)
– impairment of financial investments	–	–	(28)	(1)	(19)	–	(48)

Consolidated financial statements (continued)

10 Segment analysis *(continued)*

Balance sheet information

(in millions of euros)	*Personal Financial Services*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
31 December 2010							
Loans and advances to customers (net)	**13,310**	**9,145**	**34,740**	**750**	**–**	**–**	**57,945**
Investment in associates and joint ventures	**–**	**–**	**6**	**–**	**–**	**–**	**6**
Total assets	**13,951**	**10,357**	**191,903**	**1,096**	**326**	**(6,797)**	**210,836**
Customer accounts	**10,834**	**9,138**	**28,823**	**398**			**49,194**
Total liabilities	**13,951**	**10,357**	**191,903**	**1,096**	**326**	**(6,797)**	**210,836**
Capital expenditure incurred[1]	**25**	**15**	**17**	**1**	**–**	**–**	**58**
31 December 2009							
Loans and advances to customers (net)	13,638	7,851	27,586	706	–	–	49,780
Investment in associates and joint ventures	–	–	6	–	–	–	6
Total assets	14,845	9,040	193,937	1,225	329	(5,931)	213,444
Customer accounts	10,184	7,719	30,981	455	–	–	49,338
Total liabilities	14,845	9,040	193,937	1,225	329	(5,931)	213,444
Capital expenditure incurred[1]	24	15	8	–	–	–	47

1 *Expenditure incurred on property, plant and equipment and other intangible assets. Excludes assets acquired as part of business combination and goodwill.*

11 Analysis of financial assets and liabilities by measurement basis

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

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

	31.12.2010							
(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	–	–	–	–	**980**	–	–	**980**
Items in the course of collection from other banks	–	–	–	–	**944**	–	–	**944**
Trading assets	**53,979**	–	–	–	–	–	–	**53,979**
Financial assets designated at fair value	–	**595**	–	–	–	–	–	**595**
Derivatives	**53,197**	–	–	–	–	**38**	**381**	**53,616**
Loans and advances to banks	–	–	**37,346**	–	–	–	–	**37,346**
Loans and advances to customers	–	–	**57,945**	–	–	–	–	**57,945**
Financial investments	–	–	–	**2,588**	–	–	–	**2,588**
Other assets	–	–	–	–	**792**	–	–	**792**
Accrued income	–	–	–	–	**1,092**	–	–	**1,092**
Total financial assets	**107,176**	**595**	**95,291**	**2,588**	**3,808**	**38**	**381**	**209,877**
Assets classified as held for sale								**5**
Total non-financial assets								**954**
Total assets								**210,836**
Financial liabilities								
Deposits by banks	–	–	–	–	**36,861**	–	–	**36,861**
Customer accounts	–	–	–	–	**49,194**	–	–	**49,194**
Items in the course of transmission to other banks	–	–	–	–	**851**	–	–	**851**
Trading liabilities	**42,770**	–	–	–	–	–	–	**42,770**
Financial liabilities designated at fair value	–	**5,616**	–	–	–	–	–	**5,616**
Derivatives	**53,033**	–	–	–	–	**43**	**271**	**53,347**
Debt securities in issue	–	–	–	–	**14,285**	–	–	**14,285**
Other liabilities	–	–	–	–	**1,225**	–	–	**1,225**
Subordinated liabilities	–	–	–	–	**166**	–	–	**166**
Accruals	–	–	–	–	**1,453**	–	–	**1,453**
Total financial liabilities	**95,803**	**5,616**	–	–	**104,035**	**43**	**271**	**205,768**
Liabilities classified as held for sale								–
Total non-financial liabilities								**5,068**
Total liabilities								**210,836**

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

	31.12.2009							
(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	–	–	–	–	586	–	–	586
Items in the course of collection from other banks	–	–	–	–	1,079	–	–	1,079
Trading assets	61,529	–	–	–	–	–	–	61,529
Financial assets designated at fair value	–	595	–	–	–	–	–	595
Derivatives	55,329	–	–	–	–	44	584	55,957
Loans and advances to banks	–	–	30,705	–	–	–	–	30,705
Loans and advances to customers	–	–	49,780	–	–	–	–	49,780
Financial investments	–	–	–	5,148	–	–	–	5,148
Other assets	–	–	–	–	315	–	–	315
Accrued income	–	–	–	–	1,277	–	–	1,277
Total financial assets	116,858	595	80,485	5,148	3,257	44	584	206,971
Assets classified as held for sale								5,600
Total non-financial assets								873
Total assets								213,444
Financial liabilities								
Deposits by banks	–	–	–	–	41,035	–	–	41,035
Customer accounts	–	–	–	–	49,338	–	–	49,338
Items in the course of transmission to other banks	–	–	–	–	959	–	–	959
Trading liabilities	35,154	–	–	–	–	–	–	35,154
Financial liabilities designated at fair value	–	3,881	–	–	–	–	–	3,881
Derivatives	55,055	–	–	–	–	72	481	55,608
Debt securities in issue	–	–	–	–	14,769	–	–	14,769
Other liabilities (including current tax)	–	–	–	–	857	–	–	857
Subordinated liabilities	–	–	–	–	166	–	–	166
Accruals	–	–	–	–	1,224	–	–	1,224
Total financial liabilities	90,209	3,881	–	–	108,348	72	481	202,991
Liabilities classified as held for sale								5,156
Total non-financial liabilities								5,297
Total liabilities								213,444

12 Trading assets

(in millions of euros)	**31.12.2010**	31.12.2009
Trading assets:		
– which may be repledged or resold by counterparties	**32,220**	35,392
– not subject to repledge or resale by counterparties	**21,759**	26,137
	53,979	61,529

(in millions of euros)	**31.12.2010**	31.12.2009
Treasury and other eligible bills [1]	**1,679**	2,229
Debt securities [1]	**40,881**	46,311
Loans and advances to banks	**9,470**	10,734
Loans and advances to customers	**1,949**	2,255
	53,979	61,529

1 *The information reported in the above lines has changed as compared to the prior year. This item now breaks down into 1) "Treasury and other eligible bills", which includes securities eligible for refinancing by the central bank, and short-term government securities including certificates of deposit, treasury bills and public securities issued for less than one year, and 2) "Debt securities", which includes other fixed-income securities. The 2009 data have been restated to make all the data comparable.*

13 Derivatives

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

	31.12.2010					
	Assets			***Liabilities***		
(in millions of euros)	***Trading***	***Hedging***	***Total***	***Trading***	***Hedging***	***Total***
Exchange rate	**5,208**	**3**	**5,211**	**(5,331)**	**–**	**(5,331)**
Interest rate	**78,576**	**416**	**78,992**	**(78,864)**	**(314)**	**(79,178)**
Equities	**730**	**–**	**730**	**(86)**	**–**	**(86)**
Credit derivatives	**2**	**–**	**2**	**(71)**	**–**	**(71)**
Commodity and other	**–**	**–**	**–**	**–**	**–**	**–**
Gross total fair values	**84,516**	**419**	**84,935**	**(84,352)**	**(314)**	**(84,666)**
Netting			**(31,319)**			**31,319**
Net total			**53,616**			**(53,347)**

	31.12.2009					
	Assets			*Liabilities*		
(in millions of euros)	*Trading*	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*
Exchange rate	3,956	–	3,956	(3,956)	–	(3,956)
Interest rate	61,785	628	62,413	(62,422)	(553)	(62,975)
Equities	988	–	988	–	–	–
Credit derivatives	4	–	4	(81)	–	(81)
Commodity and other	–	–	–	–	–	–
Gross total fair values	66,733	628	67,361	(66,459)	(553)	(67,012)
Netting			(11,404)			11,404
Net total			55,957			(55,608)

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 in more detail 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 benefitting from favourable movements in prices, rates or indices; arbitrage involves identifying and profiting from price differentials between markets and products.

As mentioned above, other derivatives classified as held-for-trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. 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)	**31.12.2010**	31.12.2009
Exchange rate	**194,340**	81,557
Interest rate	**4,723,096**	3,570,489
Equities [1]	**1,883**	53,665
Credit derivatives	**1,023**	949
Commodity and other	**–**	–
Total	**4,920,342**	3,706,660

1 *In 2009, mainly derivatives of HSBC Financial Products (France). These derivatives were transferred to HSBC Bank plc Paris Branch in 2010.*

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 1,023 million (2009: EUR 949 million) listed above consists of protection bought for EUR 1,023 million (2009: EUR 949 million) and without protection sold.

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)	**2010**	2009
Unamortised balance at 1 January	**8**	47
Deferral on new transactions	**1**	58
Recognised in the income statement during the period:		
– amortisation	**–**	(33)
– subsequent to observability	**(1)**	(1)
– maturity or termination	**(2)**	(11)
– FX movements and other [1]	**–**	(52)
Unamortised balance at 31 December	**6**	8

1 *Includes transfer of the day one reserve of HSBC Financial Products (France) in 2009.*

c *Hedging instruments*

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

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

At 31 December 2009 and 31 December 2010, HSBC France does not hold derivatives designated as "net investment hedge".

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

	31.12.2010		31.12.2009	
(in millions of euros)	***Cash flow hedge***	***Fair value hedge***	*Cash flow hedge*	*Fair value hedge*
Exchange rate contracts	**–**	**100**	–	500
Interest rate contracts	**78,998**	**2,302**	55,252	4,496
Equity contracts	**–**	**–**	–	–

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

Fair value hedges

The group's fair value hedges principally consist of interest rate swaps that are used to protect against changes due to movements in market interest rates in the fair value of fixed-rate long-term financial instruments of AFS portfolio and lease operations. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in income. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to income as a yield adjustment over the remainder of the hedging period.

The fair values of outstanding derivatives designated as fair value hedges at 31 December 2010, were assets of EUR 38 million and liabilities of EUR 43 million (31 December 2009, assets of EUR 44 million and liabilities of EUR 72 million).

Consolidated financial statements (continued)

13 Derivatives *(continued)*

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

(in millions of euros)	**31.12.2010**	31.12.2009
– on hedging instruments	**14**	24
– on hedged items attributable to the hedged risk	**(16)**	(21)

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was a loss of EUR 2.2 million for the year ended 31 December 2010 (a gain of EUR 3.1 million for the year ended 31 December 2009).

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 2010, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of EUR 381 million and liabilities of EUR 271 million (at 31 December 2009, assets of EUR 584 million and liabilities of EUR 481 million).

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

	31.12.2010			
(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	**28,864**	**10,284**	**7,242**	**113**
Cash outflows from liabilities	**(24,393)**	**(8,227)**	**(2,049)**	**(634)**
Net cash inflows/(outflows)	**4,471**	**2,057**	**5,193**	**(521)**

	31.12.2009			
(in millions of euros)	*3 months or less*	*More than 3 months but less than 1 year*	*Less than 5 years but more than 1 year*	*More than 5 years*
Cash inflows from assets	8,434	14,619	5,261	27
Cash outflows from liabilities	(10,519)	(16,897)	(3,036)	(1,009)
Net cash inflows/(outflows)	(2,085)	(2,278)	2,225	(982)

Reconciliation of movements in the cash flow hedge reserve

(in millions of euros)	**2010**	2009
At 1 January	**(18)**	(118)
Amounts recognised directly in equity during the year	**45**	126
Amounts removed from equity and included in the income statement for the year	**17**	26
Deferred taxation	**(22)**	(52)
At 31 December	**22**	(18)

The amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was a loss of EUR 1 million (at 31 December 2009: a loss of EUR 0.1 million).

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 at the accounts-closing date:

- the model calculates the fair value of exceptional payment and deferred payment options granted to customers (for home purchase savings plans only),
- the model calculates the fair value of options to use acquired borrowing rights;

(iii) the calculation is dependent on customer behaviour, and is carried out separately for each issue of PELs and on a combined basis for CELs.

At 31 December 2010, derivatives embedded in home purchase savings products represented a liability of EUR 10 million (at 31 December 2009: a liability of EUR 7 million).

14 Financial investments

(in millions of euros)	**31.12.2010**	31.12.2009
Financial investments:		
– which may be pledged or resold by counterparties	**1,013**	3,220
– not subject to repledge or resale by counterparties	**1,575**	1,928
	2,588	5,148

	31.12.2010		31.12.2009	
(in millions of euros)	***Book value***	***Fair value***	*Book value*	*Fair value*
Treasury and other eligible bills [1]	**225**	**225**	2,012	2,012
– available-for-sale	**225**	**225**	2,012	2,012
– held-to-maturity	**–**	**–**	–	–
Debt securities [1]	**1,828**	**1,828**	2,477	2,477
– available-for-sale [2]	**1,828**	**1,828**	2,477	2,477
– held-to-maturity	**–**	**–**	–	–
Equity securities	**535**	**535**	659	659
– available-for-sale	**535**	**535**	659	659
Total financial investments	**2,588**	**2,588**	5,148	5,148

1 *The information reported in the above lines has changed as compared to the prior year. This item now breaks down into 1) "Treasury and other eligible bills", which includes securities eligible for refinancing by the central bank, and short-term government securities including certificates of deposit, treasury bills and public securities issued for less than one year, and 2) "Debt securities", which includes other fixed-income securities. The 2009 data have been restated to make all the data comparable.*

2 *Including EUR 266 million of underlying assets acquired from the dynamic money market funds (2009: EUR 238 million) and EUR 177 million of assets held by the funds consolidated since 2008 (2009: EUR 311 million).*

Consolidated financial statements (continued)

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 that did not qualify for derecognition during the year and their associated financial liabilities:

	31.12.2010		31.12.2009	
(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	**33,233**	**33,233**	38,612	38,612
Securities lending agreements	**–**	**–**	–	–
Total	**33,233**	**33,233**	38,612	38,612

16 Interests in associates and joint ventures

a *Principal associates*

At 31 December 2010, the HSBC France group only consolidated through equivalency a limited number of entities that had no significant impact on the consolidated financial statements.

b *Interests in joint ventures*

	31.12.2010		
	Principal activity	***Interest in equity***	***Capital***
HCM Holdings Ltd	**Holding**	**51%**	**–**

	31.12.2009		
	Principal activity	*Interest in equity*	*Capital*
HCM Holdings Ltd	Holding	51%	–

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

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

Summarised aggregate financial information on joint ventures

(Figures from local financial statements: 100%)

(in millions of euros)	**31.12.2010**	31.12.2009
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)	**2010**	2009
Cost		
At 1 January	**375**	375
Additions	**–**	–
Disposals	**–**	–
Exchange translation differences	**–**	–
Changes in scope of consolidation and other changes	**–**	–
At 31 December	**375**	375
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**	343

During 2010 and 2009, no goodwill impairment was recognised. Impairment testing in respect of goodwill is performed annually by comparing the recoverable amount of Cash-Generating Units ("CGUs"), based on a value-in-use calculation. This calculation uses cash flow estimates based on management's cash flow projections, extrapolated in perpetuity using a nominal long-term growth rate based on current market assessments of GDP and inflation. Cash flows are extrapolated in perpetuity due to the long-term perspective within the group of the business units making up the CGUs. The discount rate used is based on the cost of capital the group allocates to investments within which the CGU operates.

The cost of capital assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of capital percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk-free rate and a premium or discount to reflect the inherent risk of the business being evaluated. These variables are established on the basis of management judgement and current market assessments of economic variables.

The review of goodwill impairment represents management's best estimates of the factors. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects. The process of identifying and evaluating goodwill impairment is inherently uncertain because it requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used.

17 Goodwill and intangible assets *(continued)*

b *Other intangible assets*

The analysis of intangible assets movements at 31 December 2010, is as follows:

(in millions of euros)	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost				
At 1 January 2010	**143**	**59**	**34**	**236**
Additions	**2**	**4**	**–**	**6**
Disposals	**–**	**(3)**	**–**	**(3)**
Exchange translation differences	**–**	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**(3)**	**(3)**	**–**	**(6)**
At 31 December 2010	**142**	**57**	**34**	**233**
Accumulated impairment losses				
At 1 January 2010	**(143)**	**(42)**	**(9)**	**(194)**
Charge for the year [1]	**(2)**	**(7)**	**–**	**(9)**
Disposals	**–**	**3**	**–**	**3**
Impairment losses	**–**	**–**	**–**	**–**
Reversal of impairment losses	**–**	**–**	**–**	**–**
Exchange translation differences	**–**	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**3**	**3**	**–**	**6**
At 31 December 2010	**(142)**	**(43)**	**(9)**	**194**
Net book value at 31 December 2010	**–**	**14**	**25**	**39**

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 2009	142	58	35	235
Additions	1	4	–	5
Disposals	–	–	–	–
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes	–	(3)	(1)	(4)
At 31 December 2009	143	59	34	236
Accumulated impairment losses				
At 1 January 2009	(141)	(37)	(10)	(188)
Charge for the year [1]	(2)	(8)	–	(10)
Disposals	–	–	–	–
Impairment losses	–	–	–	–
Reversal of impairment losses	–	–	–	–
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes	–	3	1	4
At 31 December 2009	(143)	(42)	(9)	(194)
Net book value at 31 December 2009	–	17	25	42

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

17 Goodwill and intangible assets *(continued)*

c *Goodwill and intangible assets*

(in millions of euros)	**31.12.2010**	31.12.2009
Cost		
Goodwill – net book value (see Note 17 a)	**343**	343
Other intangible assets – net book value (see Note 17 b)	**39**	42
	382	385

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 2010	**129**	**300**	**429**
Additions at cost	**3**	**49**	**52**
Fair value adjustments	**–**	**–**	**–**
Disposals	**(2)**	**(2)**	**(4)**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes[1]	**(42)**	**(12)**	**(54)**
At 31 December 2010	**88**	**335**	**423**
Accumulated depreciation			
At 1 January 2010	**(21)**	**(150)**	**(171)**
Depreciation charge for the year[2]	**(7)**	**(45)**	**(52)**
Disposals	**1**	**2**	**3**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes[1]	**15**	**15**	**30**
At 31 December 2010	**(12)**	**(178)**	**(190)**
Net book value at 31 December 2010	**76**	**157**	**233**

1 *Includes amounts transferred to "non current assets held for sale", see Note 20.*
2 *Includes impairment on property: EUR 3.2 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 2009	397	312	709
Additions at cost	2	43	45
Fair value adjustments	–	–	–
Disposals	(1)	(1)	(2)
Exchange translation differences	–	–	–
Changes in scope of consolidation and other changes[1]	(269)	(54)	(323)
At 31 December 2009	129	300	429
Accumulated depreciation			
At 1 January 2009	(30)	(131)	(161)
Depreciation charge for the year[2]	(10)	(51)	(60)
Disposals	–	1	1
Exchange translation differences	–	–	–
Changes in scope of consolidation and other changes[1]	19	31	49
At 31 December 2009	(21)	(150)	(171)
Net book value at 31 December 2009	108	150	258

1 *Includes amounts transferred to "non current assets held for sale", see Note 20.*
2 *Includes impairment on property: EUR 2.5 million.*

b *Investment properties*

At 31 December 2010 and 31 December 2009, the HSBC France group did not own investment properties.

c *Property, plant and equipment*

(in millions of euros)	**31.12.2010**	31.12.2009
Property, plant and equipment goodwill – net book value (see Note 18 a)	**233**	258
Investment properties – net book value (see Note 18 b)	**–**	–
	233	258

19 Investments

Consolidated companies	Country	Consolidation method*	Main line of business	HSBC France group interest % 2010	% 2009
Retail and Commercial Banking					
COPARI	France	FC	Holding company	**100.0**	100.0
Financière d'Uzès	France	EM	Financial company	**34.0**	34.0
HSBC Factoring (France) (ex-Elysées Factor)	France	FC	Financial company	**100.0**	100.0
SARL Neuilly Valeurs	France	FC	Investment company	**100.0**	100.0
SCI Hervet Mathurins	France	FC	Holding company	**100.0**	100.0
SAPC Ufipro Recouvrement	France	FC	Bank	**100.0**	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
Global Banking and Markets					
Beau Soleil Limited Partnership	Hong Kong	FC	Financial company	**85.0**	85.0
CCF Charterhouse GmbH	Germany	FC	Service company	**100.0**	100.0
CCF Charterhouse GmbH & Co Asset Leasing KG	Germany	FC	Financial company	**100.0**	100.0
DEM 5	France	FC	Financial company	**100.0**	–
DEM 9	France	FC	Financial company	**100.0**	100.0
DEM 10	France	FC	Financial company	**100.0**	100.0
DEM 20	France	FC	Financial company	**100.0**	–
DEM 21	France	FC	Financial company	**100.0**	–
DEM 22	France	FC	Financial company	**100.0**	–
DEM 23	France	FC	Financial company	**100.0**	–
DEM 24	France	FC	Financial company	**100.0**	–
DEM 25	France	FC	Financial company	**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
FDM 1	France	FC	Financial company	**100.0**	100.0
FDM 2	France	FC	Financial company	**100.0**	100.0
FDM 3	France	FC	Financial company	**100.0**	100.0
FDM 4	France	FC	Financial company	**100.0**	100.0
FDM 5	France	FC	Financial company	**100.0**	100.0
FDM 6	France	FC	Financial company	**100.0**	100.0
FDM 7	France	FC	Financial company	**100.0**	100.0
FDM 8	France	FC	Financial company	**100.0**	100.0
FDM 9	France	FC	Financial company	**100.0**	100.0
FDM 10	France	FC	Financial company	**100.0**	100.0
Finanpar 2	France	FC	Financial company	**100.0**	100.0
Finanpar 5	France	FC	Financial company	**100.0**	100.0
Finanpar 6	France	FC	Financial company	**100.0**	100.0
Finanpar 7	France	FC	Financial company	**100.0**	100.0
Foncière Elysées	France	FC	Holding company	**100.0**	100.0
HSBC Covered Bonds (France) (ex-Hervet Participations)	France	FC	Financial company	**100.0**	100.0
HSBC Financial Products (France)[1]	France	FC	Financial company	**–**	100.0
HSBC Leasing (Belgium)	Belgium	FC	Financial company	**100.0**	100.0
HSBC Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC Middle East Leasing Partnership	Dubai	FC	Financial company	**85.0**	85.0
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

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

1 *Merger.*

Consolidated financial statements (continued)

19 Investments *(continued)*

Consolidated companies	*Country*	*Consolidation method**	*Main line of business*	HSBC France group interest % **2010**	% 2009
HSBC Securities Services (France)[3]	France	FC	Financial company	**–**	100.0
Immobilière Bauchard	France	FC	Holding company	**100.0**	100.0
Realimo Negociations	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 shi liu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi wu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang wu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang yi	France	FC	Financial company	**100.0**	100.0
SAF Guangzhou	France	FC	Financial company	**100.0**	100.0
SAF Palissandre	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang ba	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang er	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang jiu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang liu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang qi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang san	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi er	France	FC	Financial company	**100.0**	–
SAF Zhu jiang shi wu	France	FC	Financial company	**100.0**	–
SAF Zhu jiang shi liu	France	FC	Financial company	**100.0**	–
SAF Zhu jiang shi qi	France	FC	Financial company	**100.0**	–
SAF Zhu jiang shiyi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang wu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang yi	France	FC	Financial company	**100.0**	100.0
Société Financière et Mobilière (SFM)	France	FC	Financial company	**100.0**	100.0
Société Immobilière Malesherbes-Anjou	France	FC	Holding company	**100.0**	100.0
Sopingest	France	FC	Financial company	**100.0**	100.0
Thasosfin	France	FC	Financial company	**100.0**	100.0
Trinkaus Gesellschaft für KMI oHG	Germany	FC	Financial company	**90.0**	–
Asset Management					
HSBC Global Asset Management (Switzerland) AG	Switzerland	EM	Financial company	**50.0**	50.0
CCF & Partners Asset Management Ltd	United Kingdom	FC	Financial company	**100.0**	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	**76.4**	81.8
HSBC Eotop[4]	France	FC	Financial company	**–**	96.4
HSBC Epargne Entreprise (France)	France	FC	Financial company	**100.0**	100.0

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

3 *Disposal.*

4 *Deconsolidation.*

19 Investments *(continued)*

Consolidated companies	*Country*	*Consolidation method**	*Main line of business*	HSBC France group interest % **2010**	% 2009
HSBC Global Asset Management (France) (ex-HSBC Investments (France)	France	FC	Asset management	**100.0**	100.0
Isère 2010 [2]	France	FC	Financial company	–	95.0
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 Financial Services	France	FC	Financial company	**100.0**	100.0
Sinopia Société de Gestion	France	FC	Service company	**100.0**	100.0
Sinopia TRS [1]	France	FC	Financial company	**100.0**	100.0
SNC les Oliviers d'Antibes	France	FC	Financial company	**60.0**	60.0
Private Banking					
Byron Equilibre [1]	France	FC	Insurance broker	–	99.9
Delosfin SA	France	FC	Investment company	**100.0**	100.0
Eurofin Assurances [1]	France	FC	Insurance broker	–	100.0
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
LGI	Luxembourg	FC	Wealth management	**100.0**	100.0
Octogone Immobilier	France	FC	Holding company	**100.0**	100.0
Others					
Charterhouse Management Services Limited (CMSL)	United Kingdom	FC	Investment company	**100.0**	100.0
Contrarian and Value Fund	France	FC	Investment company	**100.0**	–
Elysées Forêts	France	FC	Service company	**75.3**	75.3
Elysées Formation	France	FC	Service company	**100.0**	100.0
Enership	France	FC	Investment company	**100.0**	100.0
Euro Stock Picking	France	FC	Investment company	**100.0**	–
Excofina	France	FC	Investment company	**100.0**	100.0
FinanCités	France	EM	Capital Risk company	**21.4**	21.4
Forepar [1]	France	FC	Financial company	–	100.0
HSBC PP1	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 2	France	FC	Financial company	**100.0**	45.4

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

1 *Merger.*

2 *Liquidation.*

Consolidated financial statements (continued)

19 Investments *(continued)*

Additions	*Year*
Contrarian and Value Fund	2010
DEM 5	2010
DEM 20	2010
DEM 21	2010
DEM 22	2010
DEM 23	2010
DEM 24	2010
DEM 25	2010
Euro Stock Picking	2010
SAF Zhu jiang shi er	2010
SAF Zhu jiang shi wu	2010
SAF Zhu jiang shi liu	2010
SAF Zhu jiang shi qi	2010
Trinkaus Gesellschaft für KMI oHG	2010
SAF chang jiang shi liu	2009
SAF chang jiang shi wu	2009
HSBC Global Asset Management (Switzerland) AG	2009

Mergers:

Merger of HSBC Financial Products (France) with HSBC France

Merger of Byron Equilibre with HSBC Private Bank France

Merger of Eurofin Assurances with HSBC Private Bank France

Merger of Forepar with Vernet Expansion

Deconsolidations:

HSBC Eotop

Disposals or liquidations:

HSBC Securities Services (France)

Isère 2010

20 Other assets and non-current assets held for sale

a *Other assets*

(in millions of euros)	**31.12.2010**	31.12.2009
Current taxation recoverable	**198**	144
Other accounts	**792**	317
	990	461

b *Non-currents assets held for sale*

(in millions of euros)	**31.12.2010**	31.12.2009
Assets held by HSBC Financial Products (France)	**–**	5,323
Property, plant and equipment	**5**	278
Investment properties	**–**	–
Total assets classified as held for sale	**5**	5,600

The assets classified as "Non-current assets held for sale" follow the conditions of the IFRS 5 (see Note 2 aa).

In December 2009, HSBC France entered into a contract for the sale of 103 avenue des Champs-Elysées and 15 rue Vernet for a combined consideration of EUR 400 million. The carrying amount of the buildings included in assets held for sale at 31 December 2009 was EUR 257 million. The transaction was completed in February 2010.

In 2010, HSBC Financial Products (France) merged with HSBC France (see Note 3).

21 Financial liabilities designated at fair value

(in millions of euros)	**31.12.2010**	31.12.2009
Deposits by banks	**–**	–
Customer accounts	**210**	183
Debt securities in issue	**5,392**	3,689
Subordinated liabilities	**14**	9
	5,616	3,881

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2010 was EUR 293 million (at 31 December 2009, EUR 284 million).

At 31 December 2010, the accumulated amount of the change in fair value attributable to changes in credit risk for the group was EUR -65 million (at 31 December 2009, EUR -97 million).

In 2010, the amount reported in the income statement in respect of HSBC France's own credit spread was a gain of EUR 32 million (2009: a loss of EUR 145 million).

Four covered bonds were issued in 2010 as part of the HSBC France EMTN program (EUR 1,5 billion in January; CHF 0,4 billion in April (two issues) and CHF 0,2 billion in November).

Consolidated financial statements (continued)

22 Other liabilities and non-current liabilities held for sale

a *Other liabilities*

(in millions of euros)	**31.12.2010**	31.12.2009
Amounts due to investors in funds consolidated by the group	**60**	65
Share-based payments	**46**	36
Obligations under finance leases	**–**	–
Other liabilities	**1,119**	756
	1,225	857

b *Non-current liabilities held for sale*

(in millions of euros)	**31.12.2010**	31.12.2009
Liabilities held by HSBC Financial Products (France)	**–**	5,156
Total liabilities classified as held for sale	**–**	5,156

23 Deferred taxation

	31.12.2010			31.12.2009		
(in millions of euros)	***Deferred tax asset***	***Deferred tax liability***	***Total***	*Deferred tax asset*	*Deferred tax liability*	*Total*
Temporary differences:						
– retirement benefits	**24**	**–**	**(24)**	22	–	(22)
– assets leased	**29**	**–**	**(29)**	1	–	(1)
– revaluation of property	**(12)**	**–**	**12**	(47)	–	47
– other temporary differences	**94**	**–**	**(94)**	102	–	(102)
	135	**–**	**(135)**	78	–	(78)

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

(in millions of euros)	**31.12.2010**	31.12.2009
Cash flow hedge	**12**	(10)
Available-for-sale reserve	**20**	13
Actuarial losses	**–**	(1)

24 Provisions for liabilities and charges

(in millions of euros)	***Provisions***
At 1 January 2010	**78**
Additional provisions/increase in provisions	**53**
Provisions utilised	**(56)**
Amounts reversed	**(14)**
Exchange, changes in scope of consolidation and other movements	**–**
At 31 December 2010	**62**

24 Provisions for liabilities and charges *(continued)*

(in millions of euros)	*Provisions*
At 1 January 2009	85
Additional provisions/increase in provisions	24
Provisions utilised	(21)
Amounts reversed	(22)
Exchange, changes in scope of consolidation and other movements	12
At 31 December 2009	78

25 Sale and repurchase and settlement accounts

(in millions of euros)	**31.12.2010**	31.12.2009
Assets		
Loans and advances to customers include:		
– assets under sale and repurchase agreements	**24,304**	17,390
– settlement accounts	**500**	428
Loans and advances to banks include:		
– assets under sale and repurchase agreements	**34,754**	27,951
– settlement accounts	**2,286**	3,839

(in millions of euros)	**31.12.2010**	31.12.2009
Liabilities		
Customer accounts include:		
– liabilities under sale and repurchase agreements	**20,733**	24,442
– settlement accounts	**1,144**	1,383
Deposits by banks include:		
– liabilities under sale and repurchase agreements	**25,362**	25,392
– settlement accounts	**1,095**	2,472

26 Subordinated liabilities

	Book value	
(in millions of euros)	**31.12.2010**	31.12.2009
Subordinated liabilities:		
– at amortised cost	**166**	166
– designated at fair value	**14**	9
	180	175

Subordinated borrowings issued by HSBC France:

		Book value	
(in millions of euros)		**31.12.2010**	31.12.2009
EUR150m[1]	Floating rate notes maturing 2014	**150**	150
EUR15m	Floating rate notes maturing 2015	**14**	9
EUR16m	Undated subordinated variable rate notes	**16**	16
		180	175

1 *Debt issued to HSBC Bank plc.*

Consolidated financial statements (continued)

27 Trading liabilities

(in millions of euros)	**31.12.2010**	31.12.2009
Other liabilities – short positions	**32,052**	24,490
Deposits by banks	**6,567**	7,495
Customer accounts	**2,519**	1,465
Debt securities in issue	**1,632**	1,704
Total	**42,770**	35,154

In 2010, the amount reported in the income statement with respect to HSBC France's own credit spread in the debt securities in issue was a gain of EUR 32 million (2009: a loss of EUR 87 million).

28 Fair value of financial instruments

The classification of financial instruments is determined in accordance with the accounting policies set out in Note 2. The use of assumption and estimation in valuing financial instrument is described in Note 1 c on page 91.

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

The following table sets out the financial instrument carried at fair value.

	Valuation techniques					
(in millions of euros)	*Level 1 - quoted market price*	*Level 2 - using observable inputs*	*Level 3 - with significant non-observable inputs*	*Third Party Total*	*Amounts with HSBC entities*	*Total*
At 31 December 2010						
Assets						
Trading assets	**48,211**	**783**	**–**	**48,994**	**4,985**	**53,979**
Financial assets designated at fair value	**–**	**591**	**–**	**591**	**4**	**595**
Derivatives	**3**	**38,498**	**2**	**38,503**	**15,113**	**53,616**
Financial investments available-for-sale	**1,614**	**804**	**–**	**2,418**	**170**	**2,588**
Liabilities						
Trading liabilities	**39,766**	**1,698**	**–**	**41,464**	**1,306**	**42,770**
Financial liabilities at fair value	**–**	**5,616**	**–**	**5,616**	**–**	**5,616**
Derivatives	**6**	**35,115**	**34**	**35,155**	**18,192**	**53,347**
At 31 December 2009						
Assets						
Trading assets	55,073	1,409	–	56,482	5,047	61,529
Financial assets designated at fair value	–	591	–	591	4	595
Derivatives	6	37,825	6	37,837	18,120	55,957
Financial investments available-for-sale	4,038	940	–	4,978	170	5,148
Liabilities						
Trading liabilities	32,185	1,791	–	33,976	1,178	35,154
Financial liabilities at fair value	–	3,881	–	3,881	–	3,881
Derivatives	1	35,342	3	35,346	20,262	55,608

28 Fair value of financial instruments *(continued)*

Control framework

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by a function independent of the risk taker. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is used. In less liquid markets, direct observation of a traded price may not be possible. In these circumstances, the group will source alternative market information to validate the financial instrument's fair value. Greater weight will be given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

– the extent to which prices may be expected to represent genuine traded or tradeable prices;

– the degree of similarity between financial instruments;

– the degree of consistency between different sources;

– the process followed by the pricing provider to derive the data;

– the elapsed time between the date to which the market data relates and the balance sheet date;

– the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of the logic within valuation models, the inputs to those models, any adjustments required outside the valuation models and, where possible, model outputs.

Determination of fair value of financial instruments carried at fair value

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

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

Fair values are determined according to the following hierarchy:

a *Level 1 – Quoted market price:* financial instruments with quoted prices for identical instruments in active markets.

b *Level 2 – Valuation technique using observable inputs:* financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or financial instruments valued using models where all significant inputs are observable.

c *Level 3 – Valuation technique with significant non-observable inputs:* financial instruments valued using models where one or more significant inputs are not observable.

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When a financial instrument has a quoted price in an active market and it is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price and no block discounts are made. In the event that the market for a financial instrument is not active, a valuation technique is used.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices necessary to measure the fair value of the instrument, requires additional work during the valuation process.

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations, including interest rate yield curves, exchange rates, volatilities, and prepayment and default rates.

28 Fair value of financial instruments *(continued)*

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. For these instruments, the fair value measurement derived is more judgemental. "Not observable" in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would likely occur, but it generally does not mean that there is absolutely no market data available upon which to base a determination of fair value (consensus pricing data may, for example, be used).

In certain circumstances, primarily where debt is hedged with interest rate derivatives, the group uses fair value to measure the carrying value of its own debt in issue. Where available, the fair value will be based upon quoted prices in an active market for the specific instrument concerned. Where not available, the fair value will either be based upon quoted prices in an inactive market for the specific instrument concerned, or estimated by comparison with quoted prices in an active market for similar instruments. The fair value of these instruments therefore includes the effect of applying the credit spread which is appropriate to the group's liabilities. For all issued debt securities, discounted cash flow modelling is utilised to isolate that element of change in fair value that may be attributed to the group's credit spread movements rather than movements in other market factors, such as benchmark interest rates or foreign exchange rates.

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

Gains and losses arising from changes in the credit spread of liabilities issued by the group reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

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

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

The valuation techniques used when quoted market prices are not available incorporate certain assumptions that HSBC believes would be made by a market participant to establish fair value. When HSBC considers that there are additional considerations not included within the valuation model, appropriate adjustments may be made. Examples of such adjustments are:

- credit risk adjustment: an adjustment to reflect the creditworthiness of OTC derivative counterparties;
- market data/model uncertainty: an adjustment to reflect uncertainties in fair values based on unobservable market data inputs (for example, as a result of illiquidity), or in areas where the choice of valuation model is particularly subjective.

However, in certain cases, the fair value of an instrument is determined in comparison with other observable market transactions concerning the same instrument or using a valuation method based solely on observable market data, in particular interest rate curves, volatility ranges deduced from option prices and exchange rates. Where such data is available, HSBC France recognises a gain or loss on trading portfolio transactions on the date the instrument is implemented.

If no observable market data is available, the profit generated from the trading of certain complex financial instruments (day-one profit corresponding to the difference between the trading price and the valuation obtained from the valuation model) is not recognised immediately as income but recognised over the life of the transaction on an appropriate basis, or recognised in the income statement when the parameters become observable, either on maturity or at the end of the transaction.

An analysis of the movement in the deferred day 1 gain or loss is provided on page 121.

Reported amounts as part of Level 3 category (unobservable parameters) are in line with the Day-1 policy. The underlying and structured products targeted by HSBC France are covered by products given by Mark-it consensus: this coverage is monitored in valuation committees for derivatives on rates and equities. When required, an analysis of the collateral and of broker quotes is completing the available market information, thus reducing products and parameters that could be considered as unobservable.

Trade origination costs such as brokerage, fee expense, and post-trade costs are included in operating expenses.

28 Fair value of financial instruments *(continued)*

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

(in millions of euros)	*Assets*				*Liabilities*		
	Available for sale	*Held for Trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
Private equity investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Asset-backed securities . . .	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Leverage finance	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans held for securitisation	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivatives with monolines	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other derivatives.	**–**	**–**	**–**	**2**	**–**	**–**	**34**
Other portfolio	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2010	**–**	**–**	**–**	**2**	**–**	**–**	**34**
Private equity investments	–	–	–	–	–	–	–
Asset-backed securities . . .	–	–	–	–	–	–	–
Leverage finance	–	–	–	–	–	–	–
Loans held for securitisation	–	–	–	–	–	–	–
Structured notes	–	–	–	–	–	–	–
Derivatives with monolines	–	–	–	–	–	–	–
Other derivatives.	–	–	–	6	–	–	3
Other portfolio	–	–	–	–	–	–	–
At 31 December 2009	–	–	–	6	–	–	3

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

(in millions of euros)	***Assets***				***Liabilities***		
	Available for sale	***Held for Trading***	***Designated at fair value through profit or loss***	***Derivatives***	***Held for trading***	***Designated at fair value through profit or loss***	***Derivatives***
At 1 January 2010.	**–**	**–**	**–**	**6**	**–**	**–**	**3**
Total gains or losses recognised in profit or loss [1]	**–**	**–**	**–**	**(4)**	**–**	**–**	**31**
Total gains or losses recognised in other comprehensive income . .	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Purchases	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issues.	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sales	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Settlements	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer out	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer in.	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2010	**–**	**–**	**–**	**2**	**–**	**–**	**34**

1 *Of which losses recognised in profit or loss relating to assets and liabilities held at the end of the reporting period for EUR 30 million.*

28 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.

Asset-backed securities (ABS)

Illiquidity and a lack of transparency in the ABS market have resulted in less observable data. While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required. For ABS, including residential mortgage backed securities, the valuation uses an industry standard model and the assumptions relating to prepayment speeds, default rates and loss severity based on collateral type, and performance, as appropriate. The valuations output is benchmarked for consistency against observable data for securities of a similar nature.

Derivatives

Over-the-counter (*i.e.* non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon "no-arbitrage" principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some divergence in practice.

Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices *via* model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historic data or other sources.

Loans

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

Structured notes

For structured notes whose fair value is derived from a valuation technique, the fair value will be derived from the fair value of the underlying debt security as described above, and the fair value of the embedded derivative will be determined as described in the section above on derivatives.

The table below provides an analysis of the various bases described above which have been deployed for valuing financial assets and financial liabilities measured at fair value in the consolidated financial statements. The movement in the balances of assets and liabilities measured at fair value with significant unobservable inputs was mainly attributable to a reclassification in level 2.

For assets and liabilities classified as held for trading, realised and unrealised gains and losses are presented in the income statement under "Trading income excluding net interest income". Fair value changes on long-term debt designated at fair value and related derivatives are presented in the income statement under "Changes in fair value of long-term debt issued and related derivatives". The income statement line item "Net income/(expense) from other financial instruments designated at fair value" captures fair value movements on all other financial instruments designated at fair value and related derivatives.

28 Fair value of financial instruments *(continued)*

Realised gains and losses from available-for-sale securities are presented under "Gains less losses of financial investments" in the income statement, while unrealised gains and losses are presented in "Fair value gains/(losses) taken to equity" within "Available-for-sale investments" in other comprehensive income.

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.

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.

28 Fair value of financial instruments *(continued)*

The following table provides an analysis of the fair value of financial instruments not measured at fair value in the balance sheet. For all other instruments the fair value is equal to the carrying value:

(in millions of euros)	**31.12.2010** Carrying value	**31.12.2010** Fair value	31.12.2009 Carrying value	31.12.2009 Fair value
Assets				
Loans and advances to banks	**37,346**	**37,352**	30,705	30,707
Loans and advances to customers	**57,945**	**58,231**	49,780	49,586
Liabilities				
Deposits by banks	**36,861**	**36,861**	41,035	41,035
Customer accounts	**49,194**	**49,209**	49,338	49,344
Debt securities in issue	**14,285**	**14,349**	14,769	14,778
Subordinated liabilities	**166**	**168**	166	169

29 Maturity analysis of financial assets and liabilities

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

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

	31.12.2010					
(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]	**747**	**41,905**	**4,298**	**1,304**	**606**	**48,860**
Customer accounts [1]	**19,755**	**38,626**	**5,541**	**738**	**217**	**64,877**
Trading liabilities	**42,770**	**–**	**–**	**–**	**–**	**42,770**
Financial liabilities designated at fair value	**–**	**–**	**123**	**4,274**	**2,658**	**7,055**
Derivatives	**34,850**	**–**	**–**	**304**	**–**	**35,154**
Debt securities in issue	**–**	**6,043**	**3,906**	**4,588**	**76**	**14,613**
Subordinated liabilities	**–**	**–**	**–**	**165**	**34**	**199**
Other financial liabilities	**1,152**	**851**	**370**	**1,067**	**–**	**3,440**
Loan commitments	**18,699**	**–**	**–**	**–**	**–**	**18,699**
Total	**117,973**	**87,425**	**14,238**	**12,440**	**3,591**	**235,667**

1 *Deposits by banks and customer accounts do not include netting of the repurchase agreements transactions.*

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

	31.12.2009					
(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]	571	49,469	8,130	2,325	734	61,229
Customer accounts[1]	18,135	50,675	4,550	616	224	74,200
Trading liabilities	35,154	–	–	–	–	35,154
Financial liabilities designated at fair value	–	46	–	4,233	549	4,828
Derivatives	55,064	–	139	405	–	55,608
Debt securities in issue	–	8,699	1,569	4,679	18	14,965
Subordinated liabilities	–	–	–	161	37	198
Other financial liabilities	810	1,342	670	200	–	3,022
Loan commitments	47	1,256	4,200	10,792	1,332	17,627
Total	109,781	111,487	19,258	23,411	2,894	266,831

1 *Deposits by banks and customer accounts do not include netting of the repurchase agreements transactions.*

The following is an analysis of assets and liabilities by remaining contractual maturities at the balance sheet date for assets and liability line items. The 2009 figures have not been changed from the 2009 annual report, and presents assets and liabilities by remaining contractual 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.

	31.12.2010						
(in millions of euros)	*Due within 1 month*	*Due between 1 month and 1 year*	***Subtotal due within 1 year***	*Due between 1 and 5 years*	*Due after 5 years*	***Subtotal due after more than 1 year***	***Total***
Assets							
Financial assets designated at fair value	–	–	**–**	595	–	**595**	**595**
Loans and advances to banks	24,555	10,617	**35,172**	1,492	682	**2,174**	**37,346**
Loans and advances to customers	20,015	14,279	**34,294**	12,633	11,018	**23,651**	**57,945**
Financial investments	24	804	**828**	1,439	321	**1,760**	**2,588**
Other financial assets	123	861	**984**	6	–	**6**	**990**
	44,717	26,561	**71,278**	16,165	12,021	**28,186**	**99,464**
Liabilities							
Deposits by banks	25,304	10,028	**35,332**	1,101	428	**1,529**	**36,861**
Customer accounts	38,702	9,574	**48,276**	775	143	**918**	**49,194**
Financial liabilities designated at fair value	–	96	**96**	5,169	351	**5,520**	**5,616**
Debt securities in issue	4,085	5,730	**9,815**	4,401	69	**4,470**	**14,285**
Other financial liabilities	818	365	**1,183**	12	30	**42**	**1,225**
Subordinated liabilities	–	–	**–**	166	–	**166**	**166**
	68,909	25,793	**94,702**	11,624	1,021	**12,645**	**107,347**

Consolidated financial statements (continued)

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

	31.12.2009		
(in millions of euros)	*Due within one year*	*Due after more than one year*	*Total*
Assets			
Financial assets designated at fair value	–	595	595
Loans and advances to banks	29,001	1,704	30,705
Loans and advances to customers	31,246	18,534	49,780
Financial investments	920	4,228	5,148
Other financial assets	458	3	461
	61,625	25,064	86,689
Liabilities			
Deposits by banks	38,466	2,569	41,035
Customer accounts	48,521	817	49,338
Financial liabilities designated at fair value	42	3,839	3,881
Debt securities in issue	10,236	4,533	14,769
Other financial liabilities	799	58	857
Subordinated liabilities	–	166	166
	98,064	11,982	110,046

Further information regarding the group's liquidity and funding management is available in the Risk Management section pages 56 to 81.

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

Financial assets pledged to secure liabilities are as follows:

(in millions of euros)	**31.12.2010**	31.12.2009
Treasury bills and other eligible securities	**584**	–
Loans and advances to banks	**–**	–
Loans and advances to customers	**–**	–
Debt securities	**32,649**	38,612
Equity shares	**–**	–
	33,233	38,612

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 2010, 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 85,461 million (EUR 89,273 million in 2009).

In 2010, the fair value of financial assets accepted as collateral that have been sold or repledged, was EUR 74,772 million (EUR 78,181 million in 2009). 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.

31 Called up share capital

The share capital of HSBC France at 31 December 2010 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 2010	**67,437,820**	**337**
Shares issued	**–**	**–**
At 31 December 2010	**67,437,820**	**337**
At 1 January 2009	67,437,820	337
Shares issued	–	–
At 31 December 2009	67,437,820	337

Consolidated financial statements (continued)

32 Notes on the cash flow statement

Non-cash items included in income

(in millions of euros)	**31.12.2010**	31.12.2009
Depreciation and amortisation	**60**	70
Share-based payments	**20**	21
Loan impairment losses	**122**	178
Loans written off net of recoveries	**(68)**	(89)
Provisions raised	**37**	2
Provisions utilised	**(56)**	(21)
Impairment of financial investments	**4**	48
Accretion of discounts and amortisation of premiums	**–**	–
Other	**(17)**	(26)
	102	183

Change in operating assets

(in millions of euros)	**31.12.2010**	31.12.2009
Change in prepayments and accrued income	**185**	481
Change in net trading securities and net derivatives	**14,188**	2,000
Change in loans and advances to banks	**8,187**	(18,052)
Change in loans and advances to customers	**(8,212)**	1,426
Change in financial assets designated at fair value	**1**	(79)
Change in other assets	**(492)**	5,941
	13,857	(8,283)

Change in operating liabilities

(in millions of euros)	**31.12.2010**	31.12.2009
Change in accruals and deferred income	**228**	(258)
Change in deposits by banks	**(4,174)**	(1,101)
Change in customer accounts	**(143)**	(4,454)
Change in debt securities in issue	**(484)**	(5,582)
Change in financial liabilities designated at fair value	**1,735**	1,620
Change in other liabilities	**499**	1,674
	(2,339)	(8,101)

Breakdown of cash and cash equivalents

(in millions of euros)	**31.12.2010**	31.12.2009
Cash and balances at central banks	**980**	585
Items in the course of collection from other banks	**944**	1,079
Loans and advances to banks due in one month or less	**28,005**	14,191
Treasury bills, other bills and certificates of deposit due in less than three months	**1,013**	1,096
Less: cash accounts (liabilities)	**(851)**	(958)
	30,091	15,993

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. Market risk includes foreign exchange, interest rate and equity price risk. In addition, risk also arises from transactions with special purpose entities, both on- and off-balance sheet, and other types of off-balance sheet arrangements, including financial guarantees, letters of credit and lending commitments.

The management of risks that are significant to the group is discussed in the Risk management section on pages 56 to 81.

Credit risk management

Initiatives undertaken and risks identified

The management of credit risk within the HSBC France is discussed in the Risk management section on pages 56 to 60.

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.

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk with respect to financial instruments, before taking account of any collateral held or other credit enhancements, unless such credit enhancements meet offsetting requirements as set out in Note 2. For financial assets recognised in the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

With respect to certain financial assets, the group typically has legally enforceable rights to offset certain credit exposures against amounts owing to the same counterparty. In normal circumstances, there would be no intention of settling net, or of realising the financial assets and settling the financial liabilities simultaneously. Consequently, for reporting purposes, the financial assets are not offset against the respective financial liabilities. However, the exposure to credit risk relating to the respective financial assets is reduced as tabulated below.

Consolidated financial statements (continued)

33 Risk management *(continued)*

	31.12.2010		
(in millions of euros)	*Maximum exposure*	*Offset*	*Net exposure to credit risk*
Cash and balances at central banks	**980**	**–**	**980**
Items in the course of collection from other banks	**944**	**–**	**944**
Trading assets	**53,979**	**–**	**53,979**
– treasury and other eligible bills	1,679	–	1,679
– debt securities	40,881	–	40,881
– loans and advances	11,419	–	11,419
Financial assets designated at fair value	**595**	**–**	**595**
– debt securities	5	–	5
– loans and advances	590	–	590
Derivatives	**53,616**	**(48,234)**	**5,382**
Loans and advances held at amortised cost	**95,291**	**(12,625)**	**82,666**
– loans and advances to banks	37,346	(2,259)	35,087
– loans and advances to customers	57,945	(10,366)	47,579
Financial investments	**2,053**	**–**	**2,053**
– treasury and other eligible bills	225	–	225
– debt securities	1,828	–	1,828
Other assets	**1,851**	**–**	**1,851**
Off-balance sheet	**24,062**	**–**	**24,062**
– financial guarantees and other credit-related guarantees	5,363	–	5,363
– loan commitments and other credit-related commitments	18,699	–	18,699
Total	**233,371**	**(60,859)**	**172,512**

33 Risk management *(continued)*

(in millions of euros)	31.12.2009 *Maximum exposure*	*Offset*	*Net exposure to credit risk*
Cash and balances at central banks	586	–	586
Items in the course of collection from other banks	1,079	–	1,079
Trading assets	61,529	–	61,529
– treasury and other eligible bills	38,125	–	38,125
– debt securities	10,415	–	10,415
– loans and advances	12,989	–	12,989
Financial assets designated at fair value	595	–	595
– debt securities	4	–	4
– loans and advances	591	–	591
Derivatives	55,957	(50,227)	5,730
Loans and advances held at amortised cost	80,485	(14,690)	65,795
– loans and advances to banks	30,705	–	30,705
– loans and advances to customers	49,780	(14,690)	35,090
Financial investments	4,489	–	4,489
– treasury and other eligible bills	2,012	–	2,012
– debt securities	2,477	–	2,477
Other assets	1,571	–	1,571
Off-balance sheet	25,976	–	25,976
– financial guarantees and other credit-related guarantees	6,845	–	6,845
– loan commitments and other credit-related commitments	19,131	–	19,131
Total	232,267	(64,917)	167,350

33 Risk management *(continued)*

Loans and advances to customers by industry sector

	31.12.2010		31.12.2009	
	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	**9,945**	**16.95**	10,097	20.01
Residential mortgages	**2,804**	**4.78**	3,002	5.95
Other personal	**7,141**	**12.17**	7,095	14.06
Corporate and commercial	**22,180**	**37.80**	21,612	42.83
Commercial, industrial and international trade	**10,818**	**18.44**	10,225	20.26
Commercial real estate (including private real estate companies*)	**6,358**	**10.83**	6,394	12.67
Other property-related	**252**	**0.43**	226	0.45
Government	**321**	**0.55**	171	0.34
Other commercial	**4,431**	**7.55**	4,596	9.11
Financial	**26,550**	**45.25**	18,753	37.16
Non-bank financial institutions	**26,527**	**45.21**	18,734	37.12
Settlement accounts	**23**	**0.04**	19	0.04
Total gross loans and advances to customers	**58,674**	**100.00**	50,462	100.00

* *SCI familiales.*

Loans and advances to customers by geographical areas (excluding Reverse repos and settlement accounts)

As at 31 December 2010, 87 per cent of loans to customers (excluding reverse repo transactions and settlement accounts) were to French counterparties (87 per cent as at 31 December 2009).

Reverse repo transactions amounted to 28 per cent with French counterparties and 72 per cent with counterparties in other European countries (primarily in the UK).

Credit quality of financial instruments

The five classifications below describe the credit quality of the group's lending, debt securities portfolios and derivatives. These categories each encompass a range of more granular internal credit rating grades assigned to wholesale and retail lending business, as well as the external ratings attributed by external agencies to debt securities.

There is no direct correlation between the internal and external ratings at granular level, except insofar as both fall within one of the five classifications.

Quality Classification

	Wholesale lending and Derivatives	*Retail lending*	*Debt securities / other*
Strong	CRR 1 and CRR 2	EL 1 and EL 2	A- and above
Good	CRR 3	EL 3	BBB+ to BBB-
Satisfactory	CRR 4 and CRR 5	EL 4 and EL 5	BB+ to B+ and unrated
Sub-standard	CRR 6 and CRR 8	EL 6 and EL 8	B and below
Impaired	CRR 9 and CRR 10	EL 9 and EL 10	Impaired

33 Risk management *(continued)*

Quality classification definitions

"Strong": exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Retail accounts operate within applicable product parameters and only exceptionally show any period of delinquency.

"Good": exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk. Retail accounts typically showing only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.

"Satisfactory": exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. Retail accounts typically showing only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.

"Sub-standard": exposures require varying degrees of special attention and default risk is of greater concern. Retail portfolio segments showing longer delinquency periods of generally up to 90 days; past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.

"Impaired": exposures have been assessed, individually or collectively, as impaired. The group observes the disclosure convention, reflected in the quality classification definitions above, that all retail accounts delinquent by 90 days or more (180 days for mortgage loans) are considered impaired.

Granular risk rating scales

The CRR (Customer Risk Rating) 10-grade scale maps to a more granular underlying 22-grade scale of obligor probability of default. The scales are used group-wide for all distinct customers, depending on the Basel II approach adopted for the exposure in question. The EL (Expected Loss) 10-grade scale for retail business summarises a more granular, group-wide, 29-grade scale combining obligor and facility/product risk factors in a composite measure. The composite EL measure enables the diverse risk profiles of retail portfolios across the HSBC Group to be assessed on a more comparable scale than through the direct utilisation of Probability of Default (PD) and Loss Given Default (LGD) measures. For consistency of disclosure and based on market practice for transactions in debt securities and certain other financial instruments, external ratings have been aligned as above, and in the table of "Distribution of financial instruments by credit quality" below, to the five quality classifications defined for internally-rated exposures, although it should be noted that there is no fixed correlation between internal and external ratings. The Standard and Poor's ratings are cited, along with those of other agencies being treated in an equivalent fashion. Debt securities with short-term ratings are reported below against the long-term rating of the issuer of the short-term debt securities. If major rating agencies have different ratings for the same debt securities, the securities are reported against the lower rating.

Impairment is not measured for assets held in trading portfolios or designated at fair value, as assets in such portfolios are managed according to movements in fair value, and the fair value movement is taken directly through the profit and loss statement. Consequently, all such balances are reported under "Neither past due nor impaired".

For details of impairment incurred on available-for-sale debt and equity securities, see "Accounting policies" in Note 2 j page 97.

Consolidated financial statements (continued)

33 Risk management *(continued)*

Distribution of financial instruments by credit quality

	31.12.2010							
	Neither past due nor impaired							
(in millions of euros)	*Strong*	*Good*	*Satis-factory*	*Sub-standard*	*Past due not impaired*	*Impaired*	*Impair-ment allow-ances*	*Total*
Cash and balances at central banks	980	–	–	–	–	–	–	980
Items in the course of collection from other banks	944	–	–	–	–	–	–	944
Trading assets	50,762	1,162	2,043	12	–	–	–	53,979
Treasury and other eligible bills and debt securities	41,384	647	529	–	–	–	–	42,560
Loans and advances to banks	8,781	460	217	12	–	–	–	9,470
Loans and advances to customers	597	55	1,297	–	–	–	–	1,949
Financial assets designated at fair value	595	–	–	–	–	–	–	595
Treasury and other eligible bills and debt securities	5	–	–	–	–	–	–	5
Loans and advances to banks	–	–	–	–	–	–	–	–
Loans and advances to customers	590	–	–	–	–	–	–	590
Derivatives	44,441	7,398	1,698	79	–	–	–	53,616
Loans and advances held at amortised cost	73,223	11,678	8,440	797	484	1,398	(729)	95,291
Loans and advances to banks	36,085	1,148	103	10	–	–	–	37,346
Loans and advances to customers	37,138	10,530	8,337	787	484	1,398	(729)	57,945
Financial investments	1,875	54	124	–	–	–	–	2,053
Treasury and other similar bills and debt securities	1,875	54	124	–	–	–	–	2,053
Other assets	47	–	1,804	–	–	–	–	1,851
Endorsements and acceptances	–	–	–	–	–	–	–	–
Accrued income and other	47	–	1,804	–	–	–	–	1,851
Total	176,617	17,295	13,388	856	484	1,398	(729)	209,309

33 Risk management *(continued)*

	31.12.2009							
	Neither past due nor impaired							
(in millions of euros)	*Strong*	*Good*	*Satis-factory*	*Sub-standard*	*Past due not impaired*	*Impaired*	*Impair-ment allow-ances*	*Total*
Cash and balances at central banks	586	–	–	–	–	–	–	586
Items in the course of collection from other banks	1,079	–	–	–	–	–	–	1,079
Trading assets	57,214	2,475	1,827	13	–	–	–	61,529
Treasury and other eligible bills and debt securities	46,859	1,454	227	–	–	–	–	48,540
Loans and advances to banks	9,572	909	240	13	–	–	–	10,734
Loans and advances to customers	783	112	1,360	–	–	–	–	2,255
Financial assets designated at fair value	595	–	–	–	–	–	–	595
Treasury and other eligible bills and debt securities	4	–	–	–	–	–	–	4
Loans and advances to banks	–	–	–	–	–	–	–	–
Loans and advances to customers	591	–	–	–	–	–	–	591
Derivatives	40,935	13,020	1,847	155	–	–	–	55,957
Loans and advances held at amortised cost	55,422	13,591	9,335	809	712	1,298	(682)	80,485
Loans and advances to banks	27,187	2,605	913	–	–	–	–	30,705
Loans and advances to customers	28,235	10,986	8,422	809	712	1,298	(682)	49,780
Financial investments	4,287	53	149	–	–	–	–	4,489
Treasury and other eligible bills and debt securities	4,287	53	149	–	–	–	–	4,489
Other assets	71	–	1,500	–	–	–	–	1,571
Endorsements and acceptances	–	–	–	–	–	–	–	–
Accrued income and other	71	–	1,500	–	–	–	–	1,571
Total	160,189	29,139	14,658	977	712	1,298	(682)	206,291

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 2010	**349**	**48**	**87**	**484**
As at 31 December 2009	623	59	30	712

Movement in allowance accounts for total loans and advances

	Year ended 31.12.2010		
(in millions of euros)	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January	**(604)**	**(78)**	**(682)**
Amounts written off	**70**	**–**	**70**
Release of allowances no longer required	**126**	**12**	**138**
(Charge) to income statement	**(258)**	**(2)**	**(260)**
Exchange and other movements	**5**	**–**	**5**
At 31 December	**(661)**	**(68)**	**(729)**

	Year ended 31.12.2009		
(in millions of euros)	*Individually assessed*	*Collectively assessed*	*Total*
At 1 January	(525)	(77)	(602)
Amounts written off	91	–	91
Release of allowances no longer required	103	7	110
(Charge) to income statement	(282)	(8)	(290)
Exchange and other movements	9	–	9
At 31 December	(604)	(78)	(682)

Impairment allowances against loans and advances to customers

(in %)	**31.12.2010**	31.12.2009
Total impairment allowances in percentage to gross lending[1]:		
– individually assessed impairment allowances	**1.92**	1.80
– collectively assessed impairment allowances	**0.20**	0.23
Total	**2.12**	2.03

1 *Net of repurchase agreements transactions and settlement accounts.*

33 Risk management *(continued)*

Loan impairment charges and other credit risk provisions

(in millions of euros)	**31.12.2010**	31.12.2009
Individually assessed impairment allowances		
New allowances	**258**	282
Release of allowances no longer required	**(126)**	(103)
Recoveries of amounts previously written off	**(2)**	(2)
Amount written off	**70**	91
Utilisation of allowance	**(70)**	(91)
	130	177
Collectively assessed impairment allowances		
New allowances	**2**	8
Release of allowances no longer required	**(12)**	(7)
Recoveries of amounts previously written off	**–**	–
	(10)	1
Total charge for impairment losses	**120**	178
– banks	**–**	–
– customers	**120**	178
Other credit risk provisions	**1**	–
Impairment charges on debt security investments available-for-sale	**1**	(1)
Loan impairment charges and other credit risk provisions	**122**	177
Customer charge for impairment losses as a percentage of closing gross loans and advances to customers	**0.21%**	0.35%
Balances outstanding		
Non-performing loans	**1,398**	1,298
Individually impairment allowances	**661**	604
Gross loans and advances	**96,021**	81,167
Total allowances cover as a percentage of non-performing loans and advances	**47.28%**	46.53%

Market risk management

The management of market risk within the HSBC France is discussed in the Risk management section on pages 60 to 64.

The one-day VaR on market exposures, including both trading and accrual portfolios, amounted to:

(in millions of euros)	*One-day VaR without Add-On perimeter*	*Add-On VaR*
At 31 December 2010	**25.33**	**6.13**
At 31 December 2009	15.08	6.9

	One-day VaR without Add-On perimeter			*Add-On VaR*		
(in millions of euros)	*Average*	*Minimum*	*Maximum*	*Average*	*Minimum*	*Maximum*
2010	**18.88**	**13.19**	**26.35**	**5.79**	**4.06**	**8.36**
2009	18.76	12.55	26.76	6.73	5.81	7.93

The VaR and the VaR Add-On remain stable on their average and their maximum.

Consolidated financial statements (continued)

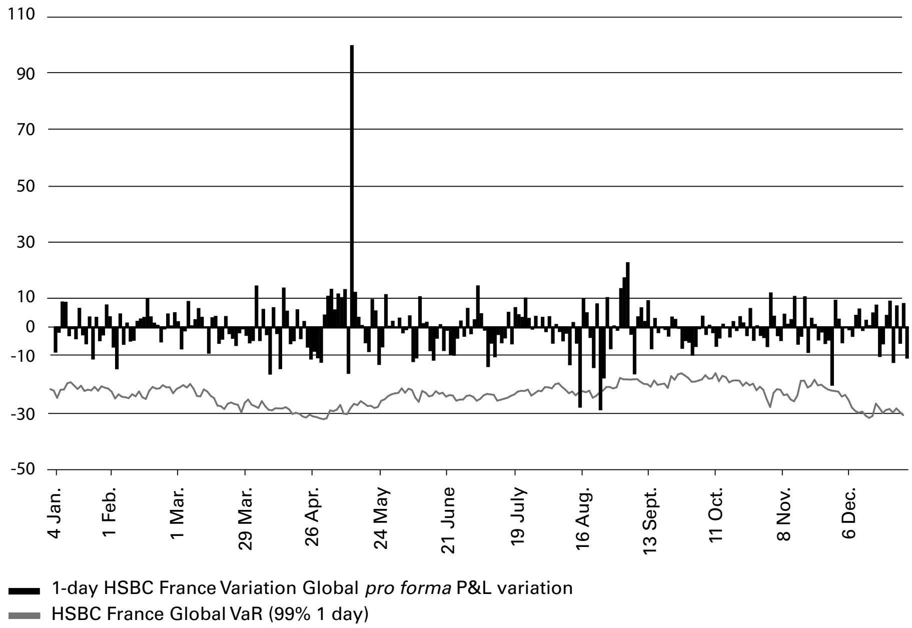
33 Risk management *(continued)*

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 2010–December 2010**
(in millions of euros)



In 2010, HSBC France recorded 2 back testing breaches (no breaches in 2009).

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 followed.

33 Risk management *(continued)*

Trading

Market risk in trading portfolios is monitored and controlled at both portfolio and position levels using a complementary set of techniques, such as VaR and present value of a basis point, together with stress and sensitivity testing and concentration limits. These techniques quantify the impact on capital of defined market movements.

Other controls include restricting individual operations to trading within a list of permissible instruments authorised by Wholesale & Markets Risk, and enforcing rigorous new product approval procedures. In particular, trading in the more complex derivative products is concentrated with appropriate levels of product expertise and sound 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 2010	**0.09**	**24.07**	**0.02**	**24.11**
At 31 December 2009	0.10	15.44	0.43[1]	15.51
Average				
2010	**0.10**	**18.81**	**0.12**	**18.78**
2009	0.30	19.51	3.86	18.60
Minimum				
2010	**0.01**	**12.18**	**0.005**	**12.33**
2009	0.03	12.90	0.30[1]	12.89
Maximum				
2010	**0.38**	**26.97**	**0.50**	**26.99**
2009	0.93	28.38	7.95	26.96

Positions taken with trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2010	**0.09**	**24.43**	**0.02**	**21.99**
At 31 December 2009	0.10	15.08	0.43[1]	13.92
Average				
2010	**0.10**	**18.74**	**0.12**	**17.36**
2009	0.30	19.43	3.86	17.19
Minimum				
2010	**0.01**	**12.75**	**0.005**	**11.55**
2009	0.03	13.23	0.30[1]	11.99
Maximum				
2010	**0.38**	**26.09**	**0.50**	**24.22**
2009	0.93	35.77	7.95	24.18

1 *As of 23 November 2009, nearly all equity derivatives positions and therefore new transactions have been recorded in the HSBC Bank plc Paris Branch balance sheet and no longer in HSBC Financial Products (France), a subsidiary of HSBC France. The above tables are therefore not like-for-like.*

33 Risk management *(continued)*

Positions taken without trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2010	**–**	**2.12**	**–**	**2.12**
At 31 December 2009	–	1.59	–	1.59
Average				
2010	**–**	**1.42**	**–**	**1.42**
2009	–	1.42	–	1.42
Minimum				
2010	**–**	**0.78**	**–**	**0.78**
2009	–	0.91	–	0.91
Maximum				
2010	**–**	**2.77**	**–**	**2.77**
2009	–	2.78	–	2.78

Sensitivity analysis

During the year 2010, HSBC France Global Markets was exposed to interest rate risk: directional, curve and spread (*i.e.* relative difference) for the various swaps and securities curves, denominated in euros, in the Eurozone, regardless whether these notes are from sovereign government issuers in the Eurozone, supranational issuers, government agencies or issuers of covered bonds. Among all of these sensitivities, the main exposures relate to total net sensitivity to the interest rate spread between all securities and swaps in euros, as well as sensitivities to the respective curves of European government notes.

Particular attention was paid to exposures (both in terms or sensitivity to yield curve and exposures at default) on Euro-peripheral sovereign debt during the Greek crisis and its contagion to Ireland and Portugal. Limits over the weakest countries have been regularly and periodically reviewed to align positions with the risk appetite of the HSBC Group. These limits and positions have been gradually reduced over the course of the year.

HSBC France Global Markets is also subject to sensitivities in terms of interest rate volatility and interest rate correlation, essentially in EUR and USD.

All these sensitivities reflect the fact that HSBC France Global Markets has been acting as a market-maker on the major Eurozone debt issuance programs, and has been managing structured transactions for its core clients.

All these sensitivities are assessed and measured on a daily basis using standard conventional methods as used by the industry.

These amounts are subject to market risk limits, which define the amount of residual exposure that is permitted in intraday trading and at the close of each trading session.

An aggregate representation is HSBC France Global Markets' 1-day 99% VaR at 31 December 2010: EUR - 25.3 million.

HSBC France Global Markets is exposed to a minimal, extremely negligable risk relating to residual equity markets following the transfer of the HSBC Financial Products (France) activity.

At 31 December 2010, HSBC France held in its non-trading portfolio a limited net exposure to the fixed income market with maturity of 1 year, and a limited debt securities position against interest rate swaps, with short maturity less than 2 years. Financial instruments of Global Banking and Markets non-trading portfolios are valued for financial reporting purposes, and the sensitivity of the value to these instruments to fluctuations in interest rates is also computed.

Capital adequacy reporting

The internal model allows the daily calculation of Value at Risk for all positions. It has been approved by the French *Autorité de contrôle prudentiel* for regulatory capital adequacy calculations. It covers 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.

33 Risk management *(continued)*

Capital requirements with respect to market risks break down as follows (in millions of euros):

	31.12.2010		31.12.2009	
(in millions of euros)	***BIS***	***CAD***	*BIS*	*CAD*
Internal Model[1]:	**273.49**	**273.49**	248.2	248.2
Foreign exchange risk	**1.15**	**1.15**	2.0	2.0
General interest rate risk	**272.89**	**272.89**	257.7	257.7
General equities risk[2]	**0.20**	**0.20**	33.6	33.6
Netting effet	**(0.75)**	**(0.75)**	(45.2)	(45.2)
Standards methods:	**83.18**	**83.18**	64.6	64.6
Foreign exchange risk	**–**	**–**	–	–
General interest rate risk	**–**	**–**	–	–
Specific interest rate risk	**83.18**	**83.18**	64.6	64.6
General equities risk	**–**	**–**	–	–
Specific equities risk	**–**	**–**	–	–
Total	**356.68**	**356.68**	312.8	312.8

1 *Including the Add-On perimeter.*
2 *As of 23 November 2009, nearly all equity derivatives positions and therefore new transactions have been recorded in the HSBC Bank plc Paris Branch balance sheet and no longer in HSBC Financial Products (France), a subsidiary of HSBC France. The above tables are therefore not like-for-like.*

Analysis of Asset-Backed Securities (ABS)

The table below shows the group's market risk exposure to Asset-Backed Securities.

	31.12.2010			
(in millions of euros)	***Gross principal[2]***	***CDS gross protection[3]***	***Net Principal exposure[4]***	***Carrying amount[5]***
– High grade[1]	**507**	**–**	**507**	**488**
– rated C to A	**26**	**–**	**26**	**19**
– not publicly rated	**4**	**–**	**4**	**4**
Total Asset-Backed Securities	**536**	**–**	**536**	**511**
Of which:				
– loans and advances to customers[6]	**275**	**–**	**275**	**275**
– available-for-sale portfolio	**261**	**–**	**261**	**236**

	31.12.2009			
(in millions of euros)	*Gross principal[2]*	*CDS gross protection[3]*	*Net Principal exposure[4]*	*Carrying amount[5]*
– High grade[1]	263	–	263	237
– rated C to A	24	–	24	21
– not publicly rated	19	–	19	17
Total Asset-Backed Securities	306	–	306	275
Of which:				
– loans and advances to customers	–	–	–	–
– available-for-sale portfolio	306	–	306	275

1 *High grade assets rated AA or AAA.*
2 *The gross principal is the redemption amount on maturity or, in the case of an amortising instrument, the sum of the future redemption amounts through the residual life of the security.*
3 *A CDS is a credit default swap. CDS gross protection is the gross principal of the underlying instruments that is protected by CDSs.*
4 *Net principal exposure is the gross principal amount of assets that are not protected by CDSs. It includes assets that benefit from mono-line protection except where this protection is purchased with a CDS.*
5 *Carrying amount of the net principal exposure.*
6 *ABS held by* HSBC Trinkhaus Gesellschaft für Kapitalmarketinvestments OHG. HSBC Trinkhaus Gesellschaft für Kapitalmarket-investments OHG *is a partnership created in 2010 and 90% held by HSBC France group, which object is to invest in securitisation transactions structured by HSBC Group and which hold mainly assets of german transferors.*

Consolidated financial statements (continued)

33 Risk management *(continued)*

(in millions of euros)	**31.12.2010** Gross fair value movements other comprehensive income[2]	**31.12.2010** Reclassified from equity on impairment, disposal or payment[3]	**31.12.2010** AFS impairment[4]	31.12.2009 Gross fair value movements other comprehensive income[2]	31.12.2009 Reclassified from equity on impairment, disposal or payment[3]	31.12.2009 AFS impairment[4]
– High grade[1]	**25**	**–**	**–**	36	5	–
– rated C to A	**1**	**–**	**–**	–	–	–
– not publicly rated	**2**	**–**	**–**	2	2	–
Total Asset Backed Securities	**28**	**–**	**–**	38	7	–

1 *High grade assets rated AA or AAA.*
2 *Fair value gains and losses on the net principal exposure recognised in equity at the end of the year as a result of the changes in fair value of available for sale assets.*
3 *Reclassification with respect to AFS assets, includes impairment losses recognised at the end of the year as a result of sale, disposal, accretion or payment.*
4 *Impairment losses recognised in the income statement with respect to the net principal amount (see footnote 4 on previous page) of available-for-sale.*

Risk cover and regulatory ratios

Large exposures

The HSBC France group complies with the French *Autorité de contrôle prudentiel*'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. 23 groups had individual exposures exceeding 10 per cent of net capital at 31 December 2010.

Loan loss provisions

At 31 December 2010, loan impairment represented 47.28 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 124.8 per cent in 2010 on an individual basis.

Basel II international solvency ratio

The HSBC France group's Basel II international solvency ratio was 12.0 per cent at 31 December 2010, compared with a minimum requirement of 8 per cent. The group's Tier 1 capital ratio was 12.1 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 billion at 31 December 2010, of which EUR 4 billion was Tier 1 capital.

33 Risk management *(continued)*

The corresponding risk-weighted assets broke down as follows:

(in billions of euros)	**31.12.2010**	31.12.2009
Credit risks	**25.0**	27.7
Market risks	**4.4**	3.9
Operational risks	**4.0**	4.0
Total	**33.4**	35.6

Commentaries related to the risk-weighted assets are disclosed in the Risk management section in page 68.

Special Purpose Entities

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

Transactions involving use of SPEs are authorised centrally upon establishment to ensure appropriate purpose and governance. The activities of SPEs administered by the group are closely monitored by Senior Management. The use of SPEs is not a significant part of the group's activities and the group is not reliant on the use of SPEs for any 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 in 2009 and 2010. As a result of continued redemptions by unit holders, the group's holding in the two funds increased to a level where it obtained the majority of the risks and rewards of ownership during the first quarter of 2008. These two funds were consolidated by HSBC France since 31 December 2008.

In August 2010, HSBC EOTOP was liquidated and its urderlying assets transferred to HSBC France as the last shareholder.

Asset finance transactions

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

Consolidated financial statements (continued)

34 Contingent liabilities and contractual commitments

a *Contingent liabilities and commitments*

(in millions of euros)	**31.12.2010**	31.12.2009
Contract amounts		
Contingent liabilities		
Acceptances and endorsements	**–**	–
Guarantees and assets pledged as collateral security	**5,326**	6,810
Other contingent liabilities	**37**	35
	5,363	6,845
Commitments		
Documentary credits and short-term trade-related transactions	**410**	302
Undrawn note issuing and revolving underwriting facilities	**–**	–
Undrawn formal stand-by facilities, credit lines and other commitments to lend:		
– 1 year and under	**4,123**	6,501
– over 1 year	**14,166**	12,328
	18,699	19,131

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)	**31.12.2010**	31.12.2009
Guarantee type		
Financial guarantees[1]	**1**	2
Stand-by letters of credit which are financial guarantees[2]	**535**	2,013
Other direct credit substitutes[3]	**705**	396
Performance bonds[4]	**1,505**	1,456
Bid bonds[4]	**25**	28
Stand-by letters of credit related to particular transactions[4]	**–**	–
Other transaction-related guarantees[4,5]	**2,555**	2,915
Other items	**37**	35
Total	**5,363**	6,845

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 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 283 million in 2010 (2009: EUR 257 million).*

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

34 Contingent liabilities and contractual commitments *(continued)*

The majority of the above guarantees have a term of more than one year. Those guarantees are subject to the group's annual credit review process.

When the group gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

Provisions with respect to the group's obligations under outstanding guarantees

(in millions of euros)	**31.12.2010**	31.12.2009
Acceptances and endorsements	**–**	–
Other items	**2**	2

35 Lease commitments

Finance lease commitments

	31.12.2010			31.12.2009		
(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	**–**	**–**	**–**	–	–	–
Later than one year and no later than five years	**–**	**–**	**–**	–	–	–
Later than five years	**–**	**–**	**–**	–	–	–
	–	**–**	**–**	–	–	–

There were no future minimum sublease payments expected to be received under non-cancellable subleases.

Finance lease receivables

	31.12.2010			31.12.2009		
(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	**428**	**(60)**	**368**	353	(34)	319
– later than one year and no later than five years	**1,518**	**(215)**	**1,303**	1,454	(226)	1,228
– later than five years	**1,275**	**(300)**	**975**	1,376	(363)	1,012
	3,221	**(575)**	**2,646**	3,183	(623)	2,559

At 31 December 2010, unguaranteed residual values of EUR 132 million (2009: EUR 117 million) had been accrued, and there was no accumulated allowance for uncollectible minimum lease payments receivable.

Consolidated financial statements (continued)

36 Litigation

As at 31 December 2010, there were 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 under IAS 24 "Related Party Disclosures" between HSBC France and the Key Management Personnel of HSBC France, and their connected persons or controlled companies.

	31.12.2010			31.12.2009		
(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	**4**	**4,940**	**4,280**	5	2,385	1,572
Credit cards	**4**	**54**	**34**	5	78	32
Guarantees	**4**	**–**	**–**	5	325	–

1 *The highest balance during the year and the balance at 31 December are considered to be the most significant information to show the transactions during the year.*

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

(in thousands of euros)	**31.12.2010**	31.12.2009
Short-term employee benefits	**161**	178
Post-employment benefits	**179**	168
Long-term benefits	**–**	1
Termination fees	**127**	165
Share-based payment	**3,701**	4,344
	4,168	4,856

37 Related party transactions *(continued)*

Directors and other Key Management Personnel shareholdings and options

	31.12.2010	31.12.2009
Number of share options from equity participation plans held by Directors and other key management personnel (and their connected persons)	**1,560,643**[1]	2,452,274[1, 3]
Number of shares held by Directors and other key management personnel (and their connected persons)	**2,091,545**[1,2]	2,133,439[1, 2, 3]

1 *The number of Directors and other key management personnel was four persons at 31 December 2010 compared to five persons at 31 December 2009.*
2 *The HSBC shares held through the mutual fund invested in HSBC shares and forming part of the group employee share ownership plan are not included.*
3 *2009 figures were adjusted for HSBC Holdings capital increase which took place in March/April 2009.*

The Annual Report and Accounts also includes a detailed description of Directors' remuneration (see pages 26 to 31 and 235 to 241).

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)	**31.12.2010**	31.12.2009
Assets		
Trading assets	**4,985**	5,047
Derivatives	**15,113**	18,120
Loans and advances to banks	**3,016**	7,638
Loans and advances to customers	**77**	311
Financial investments	**170**	170
Other assets[1]	**321**	2,698
Prepayments and accrued income	**76**	64
Financial asset designated at fair value	**4**	4
Liabilities		
Deposits by banks	**14,574**	8,459
Customer accounts	**288**	136
Trading liabilities	**1,306**	1,319
Derivatives	**18,192**	20,262
Other liabilities[1]	**159**	2,578
Accruals and deferred income	**38**	39
Subordinated liabilities	**150**	150
Income Statement		
Interest income[2]	**91**	150
Interest expense[2]	**59**	152
Fee income	**135**	95
Fee expense	**81**	111
Gains less losses from financial investments[3]	**–**	8
Other operating income	**(1)**	8
Dividend income	**1**	3
General and administrative expenses	**35**	52

1 *Including inter company of HSBC Financial Products (France) reported in the lines assets and liabilities classified as held for sale in 2009.*
2 *Including interests on trading assets and trading liabilities for EUR 20 million in 2010 (2009: EUR 10 million).*
3 *Gain on sale of Algerian branch to HSBC Bank Middle East Ltd in 2009.*

Consolidated financial statements (continued)

38 Audit fees

Auditors' fees paid in 2010 and 2009 within the HSBC France group

(in thousands of euros excluding VAT)	KPMG				BDO France – Léger & Associés				Others			
	Amount		*%*		*Amount*		*%*		*Amount*		*%*	
	2010	*2009*	***2010***	*2009*	***2010***	*2009*	***2010***	*2009*	***2010***	*2009*	***2010***	*2009*
Audit												
Statutory audit, certification, examination of Parent company and consolidated accounts	**1,651**	1,825	**82%**	78%	**388**	388	**100%**	100%	**248**	233	**100%**	100%
– issuer	**948**	948	**–**	–	**338**	339	**–**	–	**–**	–	**–**	–
– fully-consolidated subsidiaries	**703**	877	**–**	–	**50**	49	**–**	–	**248**	233	**–**	–
Related assignments	**360**	518	**18%**	22%	**–**	–	**–**	–	**–**	–	**–**	–
– issuer	**360**	518	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
– fully-consolidated subsidiaries	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Sub-total	**2,011**	2,343	**100%**	100%	**388**	388	**100%**	100%	**248**	233	**100%**	100%
Other services												
Legal, tax, social	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other (if > 10 per cent of audit fees)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Sub-total	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**2,011**	2,343	**100%**	100%	**388**	388	**100%**	100%	**248**	233	**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 2010 financial statements.

Statutory Auditors' report on the consolidated financial statements

This is a free translation into English of the statutory auditor's report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures. This report also includes information relating to the specific verification of information given in the group's management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2010

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended 31 December 2010, on:

– the audit of the accompanying consolidated financial statements of HSBC France S.A.;

– the justification of our assessments;

– the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I – Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2010 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

In accordance with the requirements of Article L. 823-9 of the French Commercial Code ("*Code de commerce*") relating to the justification of our assessments, we bring to your attention the following matters:

– Your company accounts for depreciations to cover the credit and counterparty risks inherent to its activities. We have reviewed the procedures implemented by the management to identify and assess these risks and to determine the amount of impairment it considers necessary, and we have verified that these accounting estimates were based on documented methods that comply with the principles described in the Note 2 g to the consolidated financial statements.

– Your company uses internal models and methodologies to value its positions on certain financial instruments which are not traded on active markets. We have reviewed the control procedures relating to the control of models, to the determination of the parameters used as well as to the assessment of associated risks.

Consolidated financial statements (continued)

- As mentioned in Note 28 to the consolidated financial statements, your company assessed the impact of changes in its own credit risk with respect to the valuation of issuances measured at fair value through profit and loss. We have assessed the appropriateness of the parameters used for this purpose.
- For the purpose of preparing the financial statements for the year ended 31 December 2010, your company has made other significant accounting estimates, related in particular to the valuation and impairment of Available-for-sale securities, the valuation of goodwills and pension plans and other post-employment benefits. 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 as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III – Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris-La Défense and Paris, on 19 April 2011

KPMG Audit
Department of KPMG S.A.
Pascal Brouard
Partner

BDO France – Léger & Associés
Michel Léger
Partner

Parent company financial statements

Balance sheets 2010-2009

ASSETS

(in thousands of euros)	*Notes*	**31.12.2010**	31.12.2009
Cash and amounts due from central banks and post office banks		**965,358**	573,033
Treasury bills and money-market instruments	*4*	**33,101,331**	40,186,866
Loans and advances to banks	*2*	**50,889,381**	52,644,706
Loans and advances to customers	*3*	**69,075,641**	72,353,911
Bonds and other fixed income securities	*4*	**12,156,631**	12,860,614
Equities and other variable income securities	*4*	**208,464**	414,230
Investments in subsidiaries and equity securities held for long-term	*5*	**324,847**	454,496
Interests in affiliated parties	*5*	**1,809,240**	1,860,290
Intangible fixed assets	*6*	**159,613**	160,934
Tangible fixed assets	*7*	**180,937**	339,359
Other assets	*9*	**20,551,980**	18,918,646
Prepayments and accrued income	*10*	**77,492,947**	61,113,880
TOTAL ASSETS		**266,916,370**	261,880,965
Off-balance sheet items			
Financing commitments received	*21*	**19,041,482**	19,300,700
Guarantees and endorsements	*21*	**5,419,624**	6,935,924
Securities commitments (other commitments received)		**3,683,243**	3,657,493

LIABILITIES

		31.12.2010		31.12.2009
(in thousands of euros)	*Notes*	Before appropriation	After appropriation[1]	After appropriation
Due to credit institutions	*11*	**49,818,140**	**49,818,140**	60,218,886
Customer accounts	*12*	**64,121,423**	**64,121,423**	73,728,079
Debt securities	*13*	**19,420,896**	**19,420,896**	20,392,440
Other liabilities	*15*	**50,727,801**	**50,727,801**	40,319,914
Accruals and deferred income	*16*	**77,893,138**	**77,893,138**	62,224,049
Provisions for liabilities and charges	*14*	**434,976**	**434,976**	388,914
Subordinated liabilities	*17*	**181,568**	**181,568**	181,556
Share capital	*18*	**337,189**	**337,189**	337,189
Additional paid-in capital		**16,139**	**16,139**	16,139
Reserves		**1,047,883**	**1,047,883**	1,047,926
Special tax-allowable reserves		**40,238**	**40,238**	37,377
Retained earnings		**2,972,870**	**2,876,979**	2,988,496
Net profit of the year		**623,671**		–
Interim dividend		**(719,562)**		–
TOTAL LIABILITIES		**266,916,370**	**266,916,370**	261,880,965
Off-balance sheet items				
Financing commitments given	*21*	**3,741,844**	**3,741,844**	2,376,475
Guarantees and endorsements	*21*	**6,760,512**	**6,760,512**	7,703,371
Securities commitments (other commitments given)		**4,339,987**	**4,339,987**	3,634,623

1 *Proposed appropriation.*

Parent company financial statements (continued)

Profit and loss accounts 2010-2009

(in thousands of euros)	*Notes*	**31.12.2010**	31.12.2009
Income/(Expenses)			
Interest and similar income	*23*	**1,871,790**	2,262,459
Interest and similar expenses	*23*	**(1,142,165)**	(1,719,830)
Income from equities and other variable instruments	*24*	**214,894**	119,557
Commissions received	*25*	**749,950**	816,298
Commissions paid	*25*	**(199,640)**	(212,538)
Dealing profits	*26*	**510,540**	1,028,809
Gains or losses on available-for-sale securities	*27*	**42,239**	57,396
Other banking operating income		**13,511**	19,793
Other banking operating expenses		**(21,837)**	(22,576)
Net banking operating income		**2,039,282**	2,349,368
General operating expenses	*28*	**(1,419,039)**	(1,338,165)
Depreciation, amortisation and impairment of fixed assets		**(51,204)**	(59,496)
Gross operating income		**569,039**	951,707
Cost of risk	*8*	**(141,662)**	(171,562)
Net operating income		**427,377**	780,145
Gains or losses on disposals of long term investments	*29*	**253,130**	(89,638)
Profit before tax		**680,507**	690,507
Exceptional items		**(2)**	8,445
Income tax	*30*	**(53,975)**	(150,181)
Gains and losses from regulated provisions		**(2,859)**	1,396
Net income		**623,671**	550,167

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 1976)

(in thousands of euros)	**31.12.2010**	31.12.2009
Net profit for the year		
– total	**623,670.7**	550,166.7
– per share (in euros) [1,2]	**9.25**	8.16
Movements in shareholders' funds and the reserve for general banking risks (after appropriation of 2009 and 2008 net profit and proposed appropriation for 2010 net profit)		
– change in revaluation difference	**(28.6)**	(58.3)
– transfer to reserves and change in retained earnings	**(120,165.3)**	–
– change in revaluation reserve and special tax-allowable reserves	**2,846.3**	(1,395.6)
– transition adjustment in respect of accounting for EIR	**(15,626.6)**	–
Change in shareholders' funds	**(132,974.2)**	(1,453.9)
– per share (in euros) [1,2]	**(2.0)**	(0.0)
Proposed dividend		
– total	**719,561.5**	670,331.9
– per share (in euros) [1,2]	**10.67**	9.94

1 *Number of shares outstanding at year end (excluding own shares held): 67,437,820 in 2010 and 67,437,820 in 2009.*
2 *Based on the weighted average number of shares outstanding (excluding own shares held), dividend per share amounted to EUR 10.67 in 2010 (67,437,820 shares) and EUR 9.94 in 2009 (67,437,820 shares).*

Appropriation of net profit

(in thousands of euros)	**31.12.2010**	31.12.2009
Results available for distribution		
– retained earnings	**2,988,496**	3,108,661
– transition adjustment in respect of EIR	**(15,626)**	–
Subtotal	**2,972,870**	3,108,661
Net profit for the year	**623,671**	550,167
TOTAL (A)	**3,596,541**	3,658,828
Appropriation of income		
– dividends	**719,562**	670,332
– legal reserve	**–**	–
– free reserve	**–**	–
TOTAL (B)	**719,562**	670,332
Retained earnings (A - B)	**2,876,979**	2,988,496

Information on supplier payable amounts schedule

(Articles L. 441-6-1 and D. 441-4 of the French Commercial Code)

At 31 December 2010, amounts payable to suppliers of HSBC France were EUR 73 million, of which 48 per cent were due within 30 days and 28.7 per cent were overdue.

Except for specific agreements with suppliers, payments are made within 45 days of invoice date.

At 31 December 2009, amounts payable to suppliers of HSBC France were EUR 46 million, of which 67.5 per cent were due within 30 days and 30 per cent were overdue.

Except for specific agreements with suppliers, payments are made within 45 days of invoice date.

Parent company financial statements (continued)

Five-year highlights

(Articles R. 225-81 and R. 225-102 of the French Commercial Code)

(in thousands of euros)	**2010**	2009	2008	2007	2006
Share capital at year end					
Called up share capital [1]	**337,189**	337,189	337,189	379,819	378,415
Number of issued shares	**67,347,820**	67,437,820	67,437,820	75,963,895	75,683,045
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)	**79,300,679**	44,033,730	121,969,321	150,090,552	30,470,306
Profit before tax, depreciation and provisions	**873,707**	949,898	2,415,956	1,347,356	515,192
Profit after tax, depreciation and provisions	**819,731**	550,167	1,985,603	1,357,460	434,366
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**12.2**	11.9	37.7	18.3	7.2
Profit after tax, depreciation and provisions	**9.2**	8.2	29.4	17.7	5.7
Dividend paid per ordinary share, eligible as of 1 January	**10.67**	9.94	–	3.04	8.10
Employees (France)					
Number of employees [2]	**9,694**	9,731	10,218	8,789	8,500
Average number of employees (excluding employees available) [3]	**9,615**	9,872	8,940	8,103	7,763
Salaries and wages	**535,533**	564,619	459,067	455,722	389,163
Employee benefits	**247,908**	252,768	231,279	206,607	167,936
Payroll and other taxes	**96,763**	63,502	65,481	46,694	49,134
Incentive schemes and/or employee profit-sharing plan [4]	**39,500**	17,695	27,610	25,728	21,380

1 *Capital increases pursuant to exercice of share options and, for 2008, increase of EUR 13,855 due to the merger, and capital reduction of EUR 43,750,000.*
2 *Banking status employees, registered as at 31 December of each year.*
3 *Of which 6,116 executives and 3,499 non-executives in 2010; of which 6,067 executives and 3,805 non-executives in 2009; 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.*
4 *Based on previous year's profits.*

List of equity shares and debt securities held at 31 December 2010 (excluding trading securities)

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

(in thousands of euros)

A – Held-to-maturity securities	**222,294**
Debt securities	**222,294**
Treasury bills and other eligible bills	–
Other public sector securities	–
Money market instruments	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Bonds and similar assets	221,912
Accrued interest	382
B – Available-for-sale and portfolio activity securities	**1,968,727**
Debt securities	**1,760,263**
Treasury bills and other eligible bills	224,612
Other public sector securities	301,630
Money market instruments	–
Commercial paper	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Asset-backed securities	139,329
Bonds and similar	1,094,692
Negotiable medium-term notes issued by banks	–
Accrued interest	–
Equity shares	**208,464**
Equity shares and similar	78
Mutual fund units	208,386
TOTAL HELD-TO-MATURITY, AVAILABLE-FOR-SALE AND PORTFOLIO ACTIVITY SECURITIES	**2,191,021**

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

(in thousands of euros)

A – Other participating interests and long-term securities	**324,847**
Securities listed on a recognised French exchange	1,847
Unlisted French securities	322,944
Foreign securities listed on a recognised French exchange	–
Foreign securities listed elsewhere	–
Unlisted foreign securities	–
Accrued income	56
B – Interests in related parties	**1,809,240**
Listed French securities	–
Unlisted French securities	1,776,146
Listed foreign securities	–
Unlisted foreign securities	33,094
Accrued income	–
TOTAL INTERESTS IN RELATED PARTIES, OTHER PARTICIPATING INTERESTS AND LONG-TERM SECURITIES	**2,134,087**

Parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2010

In accordance with the CNC opinion (*Avis no. 2009-11*) for the application of Article L. 511-45 of the French Monetary and Financial Code, HSBC France does not hold direct or indirect investments in non cooperative countries or territories.

(in thousands of currency units)	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
A – Information on companies whose book value at cost exceeds 1% of HSBC France's share capital				
1 – Subsidiaries (over 50%)				
HSBC Covered Bonds (France) 15, rue Vernet – 75008 Paris (France)	Financial company	EUR28,050	EUR(75)	100.00
HSBC Factoring (France) 103, avenue des Champs-Elysées – 75008 Paris (France)	Financial company	EUR3,800	EUR8,088	100.00
COPARI Société de Constructions et de Participations Immobilières 184, avenue Frédéric & Irène Joliot-Curie 92000 Nanterre (France)	Real estate	EUR50	EUR1,143	99.96
Société Française et Suisse 64, rue Galilée – 75008 Paris (France)	Investment company	EUR599	EUR9,050	100.00
FDM 6 39, rue Bassano – 75008 Paris (France)	Investment company	EUR139,052	EUR3,054	100.00
SAPC UFIPRO Recouvrement 186, avenue Frédéric & Irène Joliot-Curie 92000 Nanterre (France)	Financial company	EUR7,619	EUR1,243	99.98
HSBC Epargne Entreprise (France) 15, rue Vernet – 75008 Paris (France)	Financial company	EUR16,000	EUR31,457	100.00
HSBC Global Asset Management (France) 4, place de la Pyramide – La Défense 9 92800 Puteaux (France)	Investment company	EUR6,460	EUR54,272	92.11
HSBC Securities (France) 103, avenue des Champs-Elysées – 75008 Paris (France)	Financial company	EUR12,626	EUR18,895	100.00
Sinopia Asset Management 4, place de la Pyramide – La Défense 9 92800 Puteaux (France)	Financial company	EUR3,387	EUR25,752	100.00
HSBC Private Bank France 109, avenue des Champs-Elysées – 75008 Paris (France)	Bank	EUR43,047	EUR138,856	100.00
Nobel 1, avenue Franklin Roosevelt – 75008 Paris (France)	Investment company	EUR104,000	EUR98,565	100.00
SAF Palissandre 64, rue Galilée – 75008 Paris (France)	Financial company	EUR500,038	EUR21,636	100.00

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

Book value of securities held – Cost	Book value of securities held – Net	Loans and advances granted by HSBC France[1]	Guarantees given by HSBC France[1]	Last year's sales[2]	Last year's net profit or loss	Dividends received by HSBC France in the last financial year	Comments
EUR28,039	EUR28,039	–	–	EUR626	EUR216	–	–
EUR5,236	EUR5,236	–	–	EUR19,207	EUR2,367	–	–
EUR36,370	EUR1,184	–	–	EUR1	EUR(9)	–	–
EUR60,384	EUR8,260	–	–	EUR38	EUR(72)	–	–
EUR128,916	EUR128,916	–	–	EUR9,170	EUR624	–	–
EUR16,260	EUR8,917	–	–	EUR56	EUR180	–	–
EUR15,148	EUR15,148	–	–	EUR12,855	EUR(141)	EUR35,000	–
EUR72,146	EUR72,146	–	–	EUR125,122	EUR19,684	EUR37,191	–
EUR55,988	EUR29,162	–	–	EUR75	EUR(2,670)		–
EUR51,483	EUR51,483	–	–	EUR21,067	EUR2,619		–
EUR440,121	EUR260,458	–	–	EUR33,335	EUR6,602	EUR646	–
EUR168,099	EUR168,099	–	–	EUR11,933	EUR21,082	EUR96,351	–
EUR500,037	EUR500,037	–	–	EUR35,080	EUR22,722	EUR14,900	–

Parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2010 (continued)

(in thousands of currency units)	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
A – Information on companies whose book value at cost exceeds 1% of HSBC France's share capital				
1 – Subsidiaries (over 50%) (continued)				
HSBC Leasing (France) 39, rue Bassano – 75008 Paris (France)	Financial company	EUR281,760	EUR(24,503)	100.00
Société Financière et Mobilière 103, avenue des Champs-Elysées – 75008 Paris (France)	Financial company	EUR40,000	EUR9,254	100.00
Foncière Elysées S.A. 103, avenue des Champs-Elysées – 75008 Paris (France)	Holding company	EUR14,043	EUR20,486	99.99
Vernet Expansion 14, rue Vernet – 75008 Paris (France)	Investment company	EUR8,456	EUR(1,424)	100.00
Société Immobilière Malesherbes Anjou 103, avenue des Champs-Elysées – 75008 Paris (France)	Holding company	EUR13,412	EUR31,798	100.00
Charterhouse Management Services Ltd 8 Canada Square – London E14 5HQ (United Kingdom)	Investment company	GBP25,000	GBP935	100.00
HSBC Real Estate Leasing (France) 15, rue Vernet – 75008 Paris (France)	Financial company	EUR38,255	EUR17,374	80.98
CCF & Partners Asset Management Ltd 8 Canada Square – London E14 5HQ (United Kingdom)	Financial company	GBP5,000	GBP405	100.00
2 – Associated companies (10-50%)				
Lafarge Finance Limited Seaton House, 17 Seaton Place St Helier, Jersey (United Kingdom)	Financial company	GPB240,000	–	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)	–	–	–	–

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]	Last year's sales [2]	Last year's net profit or loss	Dividends received by HSBC France in the last financial year	Comments
Cost	Net						
EUR281,756	EUR281,756	–	–	EUR(61,925)	EUR(43,679)	–	–
EUR84,053	EUR84,053	–	–	EUR(3,484)	EUR8,123	EUR10,000	–
EUR44,476	EUR35,527	–	–	EUR1,166	EUR1,068	–	–
EUR8,519	EUR8,519	–	–	EUR3,274	EUR2,897	–	–
EUR49,385	EUR49,385	–	–	EUR15,376	EUR10,332	–	–
EUR29,044	EUR28,173	–	–	n/a	GBP(2,360)	–	–
EUR37,190	EUR37,190	–	–	EUR116,253	EUR4,549	EUR4,269	–
EUR4,920	EUR4,920	–	–	n/a	GBP6	–	–
EUR232,356	EUR232,356	–	–	GBP10,500	GBP10,500	GBP9,388	–
EUR50	EUR44	–	–	–	–	EUR487	–
EUR1,821	EUR1,819	–	–	–	–	–	–
EUR4	EUR4	–	–	–	–	–	–
–	–	–	–	–	–	–	–

Parent company financial statements (continued)

Notes on the parent company financial statements

2010 Highlights

On 1 January 2010, HSBC France sold its fund depositary and custodial activities and its subsidiary HSBC Securities Services (France) to CACEIS for EUR 8 million. The gain recognised in the HSBC France company accounts was EUR 6 million.

On 30 June 2010, HSBC France merged with HSBC Financial Products (France) under the French simplified merger regime, with backdated effect to 1 January 2010. The liquidation surplus totalled EUR 2.6 million.

There were no events after the closing of the period likely to have a significant impact on the financial statements.

On 21 December 2009, HSBC France signed a sale agreement over its properties at 103, avenue des Champs-Elysées and 15, rue Vernet with French Properties Management for a total consideration of EUR 400 million. This agreement is matched with a 9-year lease-back contract. The transaction was completed on 25 February 2010.

The French government levied a one-off tax on certain bonuses paid by banks and banking groups. The tax, at the expense of the employer, was set at 50 per cent on bonuses, whether in cash or shares, awarded in a certain period and over a threshold amount. The tax, amounting to EUR 24 million, was paid in April 2010.

Credit risk concentration

The group provides a diverse range of financial services predominantly in France. Its portfolio of financial instruments at the origin of causing credit risk is highly diversified and without exposure 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 exposure to the real estate sector. The majority of exposure to the real estate and construction industry and the residential mortgage market is secured on the underlying property.

Liquidity and funding management

HSBC France maintains a diversified and stable funding base comprising core retail and corporate customer deposits, portfolios of highly liquid assets, and debt instruments.

HSBC France adapts its liquidity and funding management policy framework in response to changes in the range of businesses that the group undertakes and to changes in the markets in which HSBC France operates.

Asset management

The group has set up and manages OPCVMs (French UCITS) covering all assets categories, providing its customers with investment solutions for their savings. The OPCVMs have specific and well-defined objectives. The group does not aim to have any holdings in the Special Purpose Entities ("SPEs") large enough to represent the majority of the risks and rewards of ownership.

In 2007 and 2008, the OPCVMs experienced high redemption requests caused by the investors' lack of confidence in funds which could contain exposure to mortgage-backed securities.

To provide liquidity for HSBC EOTOP and HSBC Duoblig (formerly HSBC Dynamic Cash), in 2007 HSBC France subscribed for units in both these funds and in 2007 and 2008 acquired assets from them. There were no further subscriptions or asset acquisitions for these two funds in 2009 and 2010.

Parent company financial statements (continued)

HSBC EOTOP was liquidated in August 2010 and its assets were transferred to HSBC France, which was the only remaining unit holder.

As third party investors exited their investments, HSBC France became the main unit holder, holding 76.40 per cent of HSBC Duoblig (formerly HSBC Dynamic Cash) at 31 December 2010.

The units subscribed for and the assets bought from the funds have been categorised as available-for-sale securities with an impairment loss equal to the unrealised losses recognised at the closing of the period.

1 Principal accounting policies

The principles adopted are those set out in the regulations of the "*Comité de la Réglementation Bancaire et Financière*", those of the "*Comité de la Réglementation Comptable (CRC)*", the "*Conseil National de la Comptabilité (CNC)*" opinions and French *Autorité de contrôle prudentiel* rulings. Transactions on which these various bodies have not given opinions are treated in accordance with generally accepted accounting principles in France.

The presentation of the HSBC France financial statements complies with the provisions of CRC regulation 2000-03, as amended relating to the individual financial reports of companies that are regulated by the *Comité de la Réglementation Bancaire et Financière*.

a *Recognition and depreciation/amortisation of fixed assets*

Since 1 January 2005, HSBC France applies CRC regulation 2002-10 of 12 December 2002 on the depreciation, amortisation and impairment of assets, as modified by CRC regulation 2003-07 of 12 December 2003.

This regulation makes the component approach mandatory in recognising, depreciating and amortising fixed assets. The details of the method are given in the French Urgent Issues Committee opinion CNC 2003-E of 9 July 2003.

Regarding recognition of the impact of first time adoption of the regulation, HSBC France opted for the prospective method of reallocating carrying amounts at 1 January 2005.

This method involves first breaking down the carrying amounts of fixed assets at 1 January 2005, among the new components that were identified, and then depreciating the carrying amounts thus calculated, less their residual values, over their remaining useful lives.

Operating and investment fixed assets

For operating and investment fixed assets, HSBC France adopted the components approach as a minimum floor using the following components, methods and useful lives:

Components	Depreciation and amortisation methods and periods
Infrastructure	
Buildings	25 and 50 years on a straight-line basis
Civil engineering works	25 years on a straight-line basis
Technical installations	
Air conditioning Ventilation Heating	10 years on a straight-line basis
Electrical installations	10 years on a straight-line basis
Telephone and electrical fittings	10 years on a straight-line basis
Security fittings	10 years on a straight-line basis
Fittings	
Improvements and internal fittings	10 years on a straight-line basis

1 **Principal accounting policies** *(continued)*

Fixed assets acquired on realising collateral on impaired lending facilities

The accounting treatment of repossessed fixed assets that came into HSBC France's ownership on default by debtors depends on whether the company plans to continue to hold them or not.

Properties that the bank intends to resell quickly are treated as inventories. As a result, they are not amortised, but impairment is recognised if necessary. They are recorded in the "Other Assets" account, with corresponding impairment appearing in miscellaneous impairment.

Fixed assets that are expected to be held long-term, and that the bank has leased, constitute non-operating fixed assets and are depreciated over the same periods as for operating fixed assets with similar characteristics. In compliance with instructions from the supervisory bodies, impairment is recognised when the market value of the non-operating properties falls below their carrying amount.

Goodwill

Purchased goodwill, if not made up of separately identifiable assets, is not amortised. Instead, impairment is recognised if necessary on the basis of objective indicators.

Other fixed assets

For other fixed assets, depreciation periods are determined according to the remaining useful lives of the assets concerned, which usually fall into the following brackets:

– office equipment: 5 years;

– furniture: 5 to 10 years;

– IT hardware: 3 to 5 years;

– software: 3 to 5 years.

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b *Securities portfolio*

In accordance with the provisions of CRC 90-01 as amended, securities are categorised as follows:

– trading account securities;

– available-for-sale securities;

– held-to-maturity securities;

– portfolio activity securities;

– other long-term securities;

– interests in subsidiaries and associates.

Trading account securities

Trading securities are securities that are tradable on a liquid market and which are originally acquired or sold with the intention that they should be resold or bought back within a short timescale.

Trading securities are stated at cost (including accrued interest for fixed-income securities). At the balance sheet date, the securities are valued at market price, and changes in value are recognised through profit or loss.

Available-for-sale securities

Securities acquired for purposes of income but intended in principle to be resold within a relatively short timescale are recorded under the heading "Available-for-sale securities".

On acquisition, they are recorded at cost price (excluding accrued income for fixed-income securities).

At the closing of the period, available-for-sale securities are valued individually at the lower of their cost price or market value. The market value of equity and similar securities is represented by quoted prices at 31 December for listed securities and by probable trading prices for unlisted securities. The market value of fixed-income securities is the quoted price on the last working day of the period.

1 Principal accounting policies *(continued)*

Realised or unrealised gains or losses on hedging instruments are taken into acount by instrument for the calculation of any impairment.

Held-to-maturity securities

Fixed-income securities that were acquired for holding long-term, and in principle to maturity, are categorised as held-to-maturity securities.

Held-to-maturity securities are valued at historical cost, with the premium or discount amortised over their residual life.

Impairment may, however, be charged in the event of counterparty risk.

Securities acquired for income or held for regulatory reasons in certain foreign subsidiaries are categorised as held-to-maturity securities.

Portfolio activity securities

This category regroups investments made under normal arrangements with the sole objective of making medium-term capital gains with no intention of investing long-term in the business of the issuing entity, nor of taking an active part in the management of its operations. This is particularly the case for securities held in venture capital businesses.

Portfolio activity securities are recognised individually at the lower of their historical cost or value-in-use, determined with regard to the issuer's general prospects and the anticipated holding period.

The methods for assessing value-in-use are set out below.

Other long-term securities

"Other long-term securities" are equity shares and similar securities that HSBC France intends to hold long-term to derive a satisfactory return within an undefined period of time, without however taking any part in managing the businesses in which the shares are held, but with the intention of fostering long-term business relationships by creating a special link with the issuing companies. The securities are recorded individually at the lower of their acquisition value or their value-in-use.

The methods for assessing value-in-use are set out below.

Interests in subsidiaries and associates

The heading "Interests in subsidiaries and associates" regroups securities held long-term (equity interests) and holdings in subsidiaries (shares in group companies).

Interests in subsidiaries and associates are valued individually at the lower of their cost and their value-in-use, as determined below.

The assessment of the value-in-use of portfolio activity securities, other long-term securities and interests in subsidiaries and associates is carried out using a comprehensive approach based on the combination of a number of criteria:

– economic and financial assessment of the company based mainly on the value of its revalued net assets;

– market appraisal based on research by financial analysts;

– movements in market prices for listed companies, and for interests in subsidiaries and associates consideration of the specific relationships that may exist between HSBC France and each of the companies involved.

Recognition of gains and losses

Gains or losses on sale and impairment charges are recognised under the heading "Net gains on fixed assets" in the income statement, except for capital gains realised as part of restructuring operations, which are recognised as exceptional items.

1 **Principal accounting policies** *(continued)*

Presentation of the portfolio in the published statements

The European Directive 86/635 as amended, aiming at harmonising the presentation and content of the annual accounts of all financial institutions within the European Union, did not recognise the concept of intention as a criterion for categorising portfolios. This breakdown is shown in the notes to the accounts (Notes 4 and 5).

In the balance sheet, the portfolio is broken down according to the legal nature of instruments:

- treasury bills and other eligible bills: tradable securities issued by governments irrespective of type (treasury bills, bonds, etc.);
- bonds and other fixed-income securities: securities issued by the private sector or by public bodies, where these are not admitted to the central bank refinancing facilities of the country of issue;
- equities and similar securities, including portfolio activity securities;
- interests in subsidiaries and associates and other long-term securities;
- shares in group companies.

Sale and repurchase agreements

Stock lending or temporary acquisition, governed for legal purposes by law no. 93-1444 of 31 December 1993, amended by law no. 2003-1311 of 30 December 2003, referred to as stock repurchase agreements, have no effect on the composition and valuation of the securities portfolio. For accounting purposes, in accordance with article 5 of regulation 89-07, amended by regulation 94-05 of the Banking Regulation Committee, they are treated as financing transactions, with the counter-entries to cash movements being receivables or payables, depending on whether they involve stock lending or borrowing. Income and expenses received or borne by the transferee or transferor are recognised as interest.

Securities received or given under repurchase agreements

Repurchase transactions that do not fall within the scope of law no. 93-1444 are categorised under this heading in the balance sheet. Their treatment for accounting purposes is similar to that described above for securities under sale and repurchase agreements.

Similar treatment is applied to “Buy and sell back” transactions.

Stock borrowed/lent against cash collateral

Stock borrowing/lending against cash collateral is similar, for accounting purposes, to repurchase agreements.

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c *Loans and advances*

Loans assessed individually

Charges for impairment against non-performing and impaired loans, included in the calculation of the banking result, are determined annually on the basis of the risk of non-recovery assessed by analysing each loan individually. Since 1 January 2005, impairment on non-performing and impaired loans has been calculated on the basis of the present value of expected future recoveries.

Non-performing loans include all types of receivables, even receivables with collateral, with a probable or certain risk of non-recovery, in full or in part.

The following are therefore categorised as non-performing loans:

- receivables overdue for more than three months for all types of loans and equipment leases, with this period rising to more than six months for property loans or leases and more than nine months for loans to local government bodies;
- receivables with known risk criteria;

Parent company financial statements (continued)

1 Principal accounting policies *(continued)*

– receivables which, before expiry of these time limits, appear to be at risk (insolvent administration, liquidation or personal bankruptcy, etc.);

– receivables deriving from debt restructuring for which the debtor is again in default.

HSBC France applies the provisions of CNC ruling 2007-06 on identifying overdrafts at risk of default. For overdrafts, the overdue period starts when:

– the debtor exceeds an authorised limit that has been notified to him by HSBC France;

– or the debtor is notified that the amount outstanding exceeds a limit set by HSBC France under its internal control system;

– or the debtor draws down sums without overdraft authorisation.

For lending granted to real estate industry borrowers, any categorisation to non-performing loans is decided upon, development by development, on the basis of criteria reflecting: project prospects, the ability of shareholders/partners to provide the necessary equity, and also their financial standing.

The downgrade to non-performing loans immediately applies to all amounts outstanding and commitments for that debtor that are in the same category, on the contagion principle and, if applicable, the downgrade of counterparties belonging to the same group to non-performing debtors, on a case-by-case assessment.

In application of CRC regulation 2005-03 amending CRC 2002-03 on the accounting treatment of credit risk in entities covered by the French Banking and Financial Regulation Committee, HSBC France has introduced a specific system for dealing with restructured debt and impaired loans.

Impaired loans are those for which the prospect of recovery is very remote and for which write-off is being considered. These include receivables which are long overdue, and also receivables that have been categorised as non-performing for more than one year, unless final write off is not being considered because of information on the prospects for recovery available at that stage. Interest on impaired loans is not recognised through profit or loss until the date of actual payment.

Furthermore, in line with banking industry practice, the bank raises provisions to cover the risks incurred in certain countries considered as high risk by the banking industry.

In the income statement, charges and write-backs to provisions, losses on irrecoverable receivables and recoveries on receivables that had been written down are recognised in the “Cost of risk” line.

Loans assessed on a portfolio basis

In application of IFRS standards, impairment on a portfolio basis is recognised in HSBC France consolidated accounts to reflect known credit risks, where these risks cannot be allocated to individual receivables at the year end.

Impairment of this type is not recorded in individual company accounts as there is no regulatory basis for it.

Discount on restructured debt

In application of CRC regulation 2002-03 as amended on the accounting treatment of credit risk in entities covered by the French Banking and Financial Regulation Committee, HSBC France has introduced a specific system for dealing with restructured debt.

On restructuring, any waived principal and interest, accrued or due, is written off.

Moreover, at the time of restructuring, a discount is provided for on the restructured debt for the difference between the present value of initially anticipated contractual cash flows and the present value of future flows of capital and interest arising from the restructuring plan. The discount rate used is the original effective interest rate for fixed interest loans, or the most recent effective rate before the restructuring calculated in accordance with contractual terms for floating-rate loans.

This discount is recognised in the net cost of risk on restructuring and is then written back through net interest income over the remainder of the period that the debt has to run.

1 Principal accounting policies *(continued)*

Application of the effective interest rate

HSBC France has applied the CRC ruling 2009-03 of 3 December 2009. HSBC France has recognised lending fees and costs on a time-apportioned basis, with effect to 1 January 2010.

This change in method produced an equity impact of EUR 15.6 million.

d *Provisions*

In accordance with CRC 2000-06, provisions are registered where it is probable that an outflow of resources, without at least equivalent inflow being expected from the beneficiary (whether known or not), will be required to extinguish a legal or implicit obligation arising from past events and where the amount of the obligation can be reliably estimated.

Retirement benefit liabilities

As of 1 January 2004, HSBC France has opted to adopt CNC recommendation 2003-R01 on the rules for recognising and measuring obligations for retirement and similar benefits.

HSBC France provides some of its employees with long term and post-employment benefits such as pension plans, termination payments and loyalty bonuses.

Moreover, some members of the Management Board have defined-benefits pension plans. The provision for this obligation amounted to EUR 2.6 million at 31 December 2010.

The costs recognised for funding these defined-benefit plans are determined using the projected unit credit method, with annual actuarial valuations being performed on each plan.

Actuarial gains or losses are recognised through profit or loss.

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.

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

Provisions held for HSBC France employee benefit commitments stood at EUR 101.3 million at 31 December 2010.

Provisions for French PEL and CEL home ownership plans and accounts

CEL home ownership accounts and PEL home ownership plans are special financial instruments introduced by law no. 65-554 of 10 July 1965. They combine a savings phase and a lending phase which are inextricably linked, the lending phase being contingent to the savings phase.

In accordance with CNC regulation 2007-01 on the accounting treatment of CEL and PEL home ownership plans and accounts with banks and institutions authorised to receive home ownership funds and to grant home ownership loans, HSBC France has provided against the adverse consequences of PEL/CEL commitments in its individual company accounts.

PEL commitments are measured by series, without any offset between series. CEL commitments are considered as one single series, different from the PEL series.

1 Principal accounting policies *(continued)*

Provisions for the adverse consequences of these commitments are calculated using a model which takes into account:

– an estimate of future customer savings and credit behaviour, based on historical data;

– the value of various market parameters, particularly interest rates and volatility, determined from data available at the date of assessment.

Provision for share-based payments

HSBC France has not entered into any specific arrangements for share-based payments. It benefits from HSBC Holdings Plc stock option plans (hereafter referred to as “HSBC share plans”) which set up awards of options and shares.

In 2005, the HSBC Group conducted an in-depth review of its policy for awarding options and shares to its employees. The new arrangements for free option and share plans were submitted to its Annual General Meeting in May 2005. These arrangements introduced a French sub-plan (Schedule 3 of the general regulations) which respected the legal and tax regulations applicable in France.

Since 2006, the HSBC Group set up free share award plans for certain employees, under which a fixed number of HSBC Holdings Plc shares are awarded. The shares vest in the employees’ ownership two years after they are awarded, conditional on continued employment within the HSBC Group (limited to three years for Performance Shares).

A system was in place for covering the 2006, 2007 and 2008 plans, which consisted of buying shares on the market when they were awarded. These purchases were made by a trust controlled by HSBC Holdings plc.

In contrast to previous plans, no cover arrangements were put in place for the plans granted in 2009 and 2010 by HSBC France. Delivery of the shares will therefore be made by purchasing the shares on the market, at the plan expiry date at the latest.

HSBC France will then be invoiced on the basis of the price at which the shares are bought, after deduction for the trust’s excess shares made up of shares not delivered and shares received as dividend remuneration and preferential subscription rights.

In accordance with CRC regulation 2008-15:

– the expense is recognised on a straight-line basis over the vesting period with the counter-entry going to a provision account which is cleared on final employee vesting. The measurement of the expense is based on assumptions on the number of beneficiaries leaving and on performance conditions;

– the provision recognised for the 2009 and 2010 plans is based on the closing quoted price of the HSBC Holdings Plc stock at 31 December 2010.

Group share option plans

The HSBC Group Share Option Plan was a long-term incentive plan available to certain Group employees between 2000 and 2005. The aim of the plan was to raise awareness of the best-performing employees about shareholders’ value-creation objectives. The options were awarded at market value and could normally be exercised from the third year and up to the tenth anniversary of being awarded, subject to vesting conditions.

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

Finally, share options with performance conditions were granted in 2005 under the HSBC Group Share Plan to senior executives in France. The award of these options is combined with a bonus to be paid at the exercise date of the options for an amount equal to the exercise price of the options awarded. 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 HSBC Group’s ranking against a comparative group of 28 major banks. The options vest on expiry of a period of three years and can be exercised up to the fourth anniversary of the date of grant, after which they become void.

1 **Principal accounting policies** *(continued)*

HSBC Group share plan

The HSBC Group share plan is a performance reward plan for retaining high-achieving employees.

The shares may come in one of two forms:

– "Performance Shares" subject to performance conditions;

– "Shares" not subject to performance conditions.

"Restricted Shares"

These shares vest after two years subject to the conditions laid down in the Plan.

No shares of any category can be sold until after the end of the tax retention period of two years from the vesting date.

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e *Reserve for general banking risks*

No reserve for general banking risks is held in the accounts of HSBC France at 31 December 2010.

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f *Foreign exchange position*

With the exception of structural foreign exchange positions valued at historical cost, the asset and liability foreign exchange positions are restated at the exchange rates applicable at the period end. The resulting gains or losses are included in operating banking income or expenses.

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g *Forward foreign exchange contracts*

Forward exchange contracts that are open at the closing of the period and hedged with spot transactions are valued at the spot rate at the period end. Differences between spot and forward rates calculated on close out are recorded on a time-apportioned basis in the income statement. Outright forward exchange contracts and those hedged by forward instruments are restated at the rate for the remaining period.

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h *Financial derivatives*

The HSBC France group operates on all new financial instruments markets, whether on behalf of its customers or for the purposes of hedging balance sheet items or for arbitration purposes.

The accounting principles applied vary according to the instruments and the intentions of the operators at the outset, either hedging or market operations. However, some general rules apply to all market positions. Other general rules are specific to certain instrument categories.

Interest-rate and currency options

Options are contracts entered into between two parties by which one, the buyer, is granted the right to buy or to sell an actual asset or another financial instrument called an "underlying asset" at the expiry of a certain time period, at a price agreed at the time the contract was concluded.

Option contracts result in a premium being paid by the buyer to the seller.

HSBC France has interest rate and currency options.

The basic accounting treatment principles for these various products are identical.

On closing out the contract, the notional amount of the "underlying asset" which is the subject of the option is recorded as an off-balance-sheet item.

1 Principal accounting policies *(continued)*

For income and expenses, a distinction is made between contracts for hedging, contracts entered into for market operations or for arbitration purposes:

– the income and expenditure on hedging operations is reported symmetrically to the income and expenditure of the item being hedged;

– for market transactions, the positions are revalued at each period end. For transactions quoted on an organised market or similar within the meaning of regulation 88-02 as amended of the Banking Regulation Committee, changes in the value of positions are recognised through profit or loss, either by means of margin calls, or directly by means of a mathematical calculation where the options are not quoted.

Options on indexes or on equities

Transactions involving index and equity contracts are entered into for purposes of market operations: changes in the value of contracts that have not been closed out at the balance sheet date are recognised directly through profit or loss.

Interest-rate futures (Tradable futures)

The accounting treatment is identical to that set out above for options, in compliance with ruling 94-04 as amended by ruling 2003-03 of the French Banking Commission.

Currency swaps and/or interest terms (swaps, FRAs)

In application of CRBF regulation 90-15 as amended, and the Ministry of the Economy, Finances and Industry decree of 20 February 2007, the accounting treatment of contracts will vary according to whether their purpose is to:

– hold stand-alone open positions to take advantage of any beneficial changes in interest rates;

– hedge, demonstrably from the outset, in accordance with the above-mentioned article 4 of CRBF regulation 88-02 as amended, interest-rate risk affecting an item or a group of similar items or credit risk in the case of Credit Default Swaps (CDS);

– hedge and manage the entity's overall interest rate risk on assets, liabilities and off-balance-sheet items, to the exclusion of the transactions specified in 2 or 4;

– to provide for specialist investment management of trading portfolios (trading business).

The accounting treatment varies depending on whether the transactions are for hedging or trading business purposes.

The gains or losses on asset or liability hedges are recognised in the appropriate accounting period, unless the items hedged are themselves stated at market value in the balance sheet. This is particularly the case for swaps entered into for purposes of asset-liability management of overall interest rate risk.

Gains or losses on positions managed as part of a trading swaps portfolio are valued at current value after allowing for a discount to reflect counterparty risk and future portfolio management expenses.

In market activities, the contracts negotiated by HSBC France are revalued at market conditions after the date of the trade; the corresponding commitments are shown as off-balance-sheet items between the trade date and the value date. As a general rule, that second date is the date the cash flows are swapped and then recognised in the ordinary way in the balance sheet.

The notionals are recorded as off-balance-sheet items, whether they are actually to be swapped or are simply to serve a benchmark.

Forward foreign exchange contracts that are not hedged through treasury operations are valued at market value, at the rate for the period remaining to run.

1 Principal accounting policies *(continued)*

i *Recognition of income and expenses*

All income and expenses are time-apportioned to the appropriate accounting period, except for most commissions and dividends which are recognised when the right to receive them arises.

Long and short market positions are normally valued at mid-bid/offer spread prices, as quoted on organised markets, or by a group of market makers. Some very specific derivatives, generally produced by combining several simple products, are measured by modelling using market data. However, their value always reflects the lower liquidity of these positions which, because of their specific features, could probably not be closed out at mid-spread prices.

The calculation of accrued interest recognised through profit or loss complies with the statutory rules for each instrument. Fixed-income securities, for example, are marked to market based on the coupon at the deal date through to that at the sale date. Interest is recognised for so long as the entity holds the instruments, that is from the purchase delivery date through to the sales delivery date. In the Paris markets, for paper of this type, there is an interval of three days between the deal date and the delivery date.

j *Exceptional items*

Items which are generated by or derive from exceptional circumstances, and not from ordinary operations, are recognised as exceptional items.

Gains or losses on disposals of holdings in subsidiaries and associates are categorised through pre-tax profit on ordinary operations.

k *Deferred taxation*

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

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

l *Segment reporting*

This information is not available for the single company accounts but details are given in the Notes to the consolidated accounts.

m *Combating tax evasion and avoidance*

In compliance with CNC recommendation 2009-11 and the decree of 6 October 2009 on the application of article L. 511-45 of the French Financial and Monetary Code, HSBC France does not have a direct or indirect presence in any of the specified states or territories.

Parent company financial statements (continued)

2 Loans and advances to banks

(in millions of euros)	31.12.2010	31.12.2009
On demand deposits [1]	**30,857.4**	1,480.1
Term deposits	**19,969.6**	51,086.9
< 3 months	**12,719.0**	36,698.9
> 3 months < 1 year	**4,037.8**	12,415.9
> 1 year < 5 years	**2,210.0**	1,128.4
> 5 years	**1,002.8**	843.7
Accrued interest	**62.4**	77.7
Overall total	**50,889.4**	52,644.7
Of which securities received under repurchase agreements	***45,834.2***	*47,409.3*
Of which subordinated loans	***712.3*** [2]	*723.0* [2]

1 *Including overnight stock lending.*
2 *Including subordinated debt granted in 2008 to HSBC Bank plc for EUR 650 million.*

3 Customers loans

Outstanding at 31 December

Breakdown of outstanding loans by type

(in millions of euros)	31.12.2010	31.12.2009
Commercial loans	**191.5**	210.2
Ordinary accounts – debit balances	**2,326.3**	2,311.5
Other customer facilities [1]	**66,557.9**	69,832.2
Total	**69,075.6**	72,353.9
1 *Including unspecified term lending*	***29.7***	*34.0*

Breakdown of outstanding loans by quality

(in millions of euros)	31.12.2010	31.12.2009
Retail loans	**8,794.9**	8,802.4
Financial customer loans	**120.7**	1,586.8
Non-financial customer loans	**20,524.7**	20,054.1
Securities received under repurchase agreements	**39,520.3**	41,774.3
Accrued interest	**115.0**	136.3
Total	**69,075.6**	72,353.9
Of which subordinated loans	***67.2***	*64.1*
Of which gross non-performing loans	***712.7***	*644.2*
Of which gross impaired loans	***658.3***	*603.9*
Of which impairment on gross non-performing loans	***170.7***	*133.7*
Of which impairment on gross impaired loans	***472.4***	*439.4*

Breakdown of outstanding loans by remaining contractual maturity

(in millions of euros)	31.12.2010	31.12.2009
Repayable on demand [1]	**2 848,4**	10 297,9
Term deposits	**66,112.2**	61,919.7
< 3 months	**38,243.3**	33,975.6
> 3 months < 1 year	**7,071.6**	11,930.4
> 1 year < 5 years	**11,162.5**	6,499.2
> 5 years	**9,634.8**	9,514.5
Accrued interests	**115.0**	136.3
Total	**69,075.6**	72,353.9

1 *Including overnight stock lending.*

3 Customers loans *(continued)*

Breakdown by business sector

(in millions of euros)	**31.12.2010**	31.12.2009
Retail	**9,600.2**	9,733.6
Industry	**1,341.5**	1,308.6
Commercial and Services	**8,219.5**	7,872.8
Real estate	**6,205.1**	6,206.7
Finance	**41,553.3**	45,307.0
Others	**2,156.1**	1,925.3
Total	**69,075.6**	72,353.9

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities

	31.12.2010	31.12.2009
(in millions of euros)	***Carrying amount***	*Carrying amount*
Treasury bills and other eligible bills	**33,101.3**	40,186.9
Trading account securities	**32,569.8**	38,159.6
Available-for-sale securities	**526.2**	1,990.5
Held-to-maturity securities	**–**	–
Accrued interest	**5.3**	36.8
Debt securities	**12,156.6**	12,860.6
Trading account securities	**10,835.2**	10,718.2
– Bonds and other quoted securities	**10,099.0**	10,232.1
– Unquoted bonds, interbank market securities and tradable debt securities	**736.2**	486.1
Available-for-sale securities	**1,085.3**	1,896.3
– Quoted bonds	**1,082.3**	1,876.8
– Unquoted bonds, interbank market securities and tradable debt securities	**3**	19.5
Held-to-maturity securities	**221.9**	225.9
– Quoted bonds	**221.9**	225.9
– Unquoted bonds, interbank market securities and tradable debt securities		–
Accrued interest	**14.2**	20.2
Of which subordinated debt	***221.0***	*200.4*
Equity shares and similar & portfolio equities	**208.5**	414.2
Trading account securities		
– Quoted shares	**–**	–
– Unquoted shares and similar	**–**	–
Available-for-sale securities	**196.7**	403.3
– Quoted shares	**–**	–
– Unquoted shares and similar	**196.7**	403.3
Portfolio activity securities	**11.8**	10.9
– Quoted portfolio activity shares	**–**	0.6
– Unquoted portfolio activity shares	**11.8**	10.3
Total	**45,466.4**	53,461.7

Parent company financial statements (continued)

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities *(continued)*

Breakdown by remaining contractual maturity of Treasury bills and government bonds

Type of security (in millions of euros)	31.12.2010	31.12.2009
Treasury bills and other eligible bills		
< 3 months	**1,980.2**	1,653.9
> 3 months < 1 year	**8,255.7**	5,387.0
> 1 year < 5 years	**7,897.2**	17,263.1
> 5 years	**14,962.9**	15,844.3
Accrued interest	**5.3**	38.6
Total	**33,101.3**	40,186.9
Debt securities		
< 3 months	**1,345.2**	1,663.6
> 3 months < 1 year	**3,498.7**	1,756.5
> 1 year < 5 years	**4,951.4**	8,129.1
> 5 years	**2,347.1**	1,291.5
Accrued interest	**14.2**	20.2
Total	**12,156.6**	12,860.9

Estimated value of the portfolio of available-for-sale and portfolio business securities

	31.12.2010		31.12.2009	
Type of security (in millions of euros)	***Net carrying amount***	***Estimated value***	*Net carrying amount*	*Estimated value*
Treasury bills and other eligible bills	**526.6**	**530.0**	1,990.5	2,011.5
Debt securities	**1,085.3**	**1,100.7**	1,896.3	1,932.0
Equity shares and similar and other portfolio equities	**208.5**	**208.6**	414.2	415.0
Total available-for-sale and portfolio activity securities (excluding related receivables)	**1,820.4**	**1,839.3**	4,301.0	4,358.5

The available-for-sale securities portfolio is made up mainly of fixed income securities for which the interest-rate risk is usually hedged. The portfolio valuation rules are given in Note 1 b of the notes.

(in millions of euros)	31.12.2010
Unrealised gains in available-for-sale securities	**22.5**
– Treasury bills and other eligible bills	5.5
– Bonds and other fixed-income securities	16.8
– Equity shares and similar & portfolio equities	0.2
Unrealised gains in portfolio activity securities	**–**
Unrealised losses in available-for-sale securities for which impairment has been recognised	**35.9**
– Treasury bills and other eligible bills	4.1
– Bonds and other fixed-income securities	25.4
– Equity shares and similar & portfolio equities	6.4
Unrealised losses in portfolio activity securities for which impairment has been recognised	**3.5**

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities *(continued)*

Additional information on the securities given in compliance with article 16 of Banking Regulation Committee regulation 90-01 of 23 February 1990

Total of held-to-maturity securities sold during the period

There were no sales during 2010, the objective being to no longer have a significant holding of securities of this type in the portfolio.

Unamortised difference between the acquisition price and the redemption price of held-to-maturity securities

This information is not material.

5 Investments in subsidiaries and equity securities held for long-term

(in millions of euros)	**31.12.2010** *Net carrying amount*	31.12.2009 *Net carrying amount*
Interests in subsidiaries and associates	**314.9**	444.5
Listed securities	**1.9**	1.9
– Banks	**–**	0.1
– Others	**1.9**	1.9
Non-listed securities	**313.0**	442.6
– Banks	**46.1**	46.5
– Others	**266.9**	396.1
Other long-term securities	**10.0**	10.0
Listed securities	**–**	–
– Banks	**–**	–
– Others	**–**	–
Non-listed securities	**10.0**	10.0
– Banks	**–**	–
– Others	**10.0**	10.0
Interests in group companies	**1,809.3**	1,860.3
Listed securities	**–**	–
– Banks	**–**	–
– Others	**–**	–
Non-listed securities	**1,809.3**	1,860.3
– Banks	**711.9**	711.8
– Others	**1,097.4**	1,148.5
Accrued interests	**–**	–
Total (including the 1976 statutory revaluation)	**2,134.2**	2,314.8

Parent company financial statements (continued)

5 Investments in subsidiaries and equity securities held for long-term *(continued)*

(in millions of euros)	**31.12.2010**
Gross amounts at 1 January (excluding advances and accrued interests)	**2,812.5**
Changes in the year	**(353.2)**
Acquisitions of securities/share issues	**0.8**
Disposals [1]	**(362.5)**
Effect of foreign exchange differences	**8.5**
Other movements	**–**
Gross amounts at 31 December (excluding advances and accrued interests)	**2,459.3**
Impairments at 1 January	**(497.7)**
Changes in the year	**172.5**
New allowances	**(6.9)**
Release of allowances no longer required [2]	**179.4**
Other movements	**–**
Effect of foreign exchange differences	**–**
Impairment at 31 December	**(325.2)**
Accrued interests	**0.1**
Net book value including accrued interests	**2,134.2**

1 *Relates mainly to the EUR 179.9 million HSBC Financial Products (France) merger, the EUR 39.5 million Nobel capital reduction and the disposal of the* Compagnie Financière de la Porte Neuve *for EUR 134.8 million.*
2 *Release of impairments mainly due to the HSBC Financial Products (France) merger.*

At 30 June 2010, HSBC France has absorbed its 100% subsidiary HSBC Financial Products (France). This merger, retroactive as of 1 January 2010, has generated a "*boni*" of EUR 2.6 million recognised in the income statement.

6 Intangible fixed assets

(in millions of euros)	**31.12.2010**	31.12.2009
Gross amounts at 1 January	**381.8**	378.3
Changes in the year:		
Transfers and other movements	**–**	–
Fixed asset acquisitions	**5.5**	5
Fixed asset disposals and other changes	**(0.3)**	(1.5)
Gross book value at 31 December	**387.0**	381.8
Amortisation at 1 January	**220.9**	213.3
Changes in the year:		
Charges for the period for amortisation and impairment	**6.5**	7.7
Transfers and other movements	**–**	–
Fixed asset sales, disposals and other changes	**–**	(0.1)
Amortisation at 31 December	**227.4**	220.9
Net book value of fixed assets at 31 December	**159.6**	160.9

6 Intangible fixed assets *(continued)*

In 2008, a badwill on merger of EUR 139.5 million, recorded during the merger with HSBC Hervet, was attributed proportionately to the unrealised gains (net of tax), without being reflected in the accounting records, to the following items:

(in millions of euros)	
The unrealised gain on the Baecque Beau HSBC securities	47.7
Unrealised gains in fixed assets	9.6
Unrealised gains in securities	0.2
Purchased goodwill (no attribution)	82.0
	139.5

Badwill on merger is written back through profit or loss as the gains or losses in the assets to which it was attributed are realised.

At the end of 2010, badwill on merger stood at EUR 89.9 million.

Badwill on merger is considered to be impaired when the current value of one or more underlying assets to which a portion of it was attributed falls below the carrying amount of the asset(s) plus the attributed badwill. The current value is the higher of the market value and the value-in-use (see article 322-1 of CRC regulation 99-03 as amended by regulation 02-10).

No impairment was recognised in 2010.

7 Tangible fixed assets

(in millions of euros)	**31.12.2010**	31.12.2009
Gross amounts at 1 January	**968.0**	935.0
Changes in the year:		
Transfers and other movements	**–**	–
Fixed asset acquisitions	**50.3**	43.4
Fixed asset disposals and other changes [1]	**(351.0)**	(10.4)
Carrying amount at 31 December	**667.3**	968.0
Depreciation at 1 January	**628.6**	586.0
Changes in the year:		
Charges for the period for depreciation and impairment	**44.5**	51.1
Transfers and other movements		
Fixed asset disposals and other changes [2]	**(186.7)**	(8.5)
Depreciation at 31 December	**486.4**	628.6
Carrying amount at 31 December	**180.9**	339.4
Operating land and buildings	**15.5**	159.5
Non-operating land and buildings	**1.0**	1.4
Other tangible assets	**164.4**	178.5
Carrying amount at 31 December	**180.9**	339.4

1 *Of which disposal of 103 Champs-Elysées and Vernet EUR 313.5 million, Reims EUR 14.4 million.*
2 *Of which disposal of 103 Champs-Elysées and Vernet EUR 152.9 million, Reims EUR 11.1 million.*

Parent company financial statements (continued)

8 Cost of risk

(in millions of euros)	*Balance at 31.12.2009*	*Charges*	*Utilised releases*	*Available releases*	*Other changes*	***Balance at 31.12.2010***
Impairment on interbank and customer non-performing loans (excluding doubtful interest) [2]	573.1	241.5	(50.3)	(116.0)	(5.2)[1]	**643.1**
Impairment on securities	4.2	0.6		(0.5)		**4.3**
Provisions for commitments by signature and disputes	12.6	1.8	(3.2)	(1.1)	0.1	**10.2**
Total of impairment and provisions recognised in cost of risk	590.0	243.9	(53.5)	(117.6)	(5.1)	**657.7**

1 *Of which accretion effect on impaired receivables recognised in banking income.*
2 *Excluding country risk provisions.*

Cost of risk

(in millions of euros)	**31.12.2010**	31.12.2009
Net impairment charge for the period		
Interbank and customer non-performing receivables (excluding doubtful interest) [1]	**(76.2)**	(77.1)
Impaired receivables [2]	**(57.8)**	(87.4)
Counterparty risk on securities	**(0.1)**	(3.7)
Commitments by issuer and disputes [3]	**(7.5)**	(2.9)
Recoveries of amounts previously written off	**2.0**	2.5
Total cost of risk excluding country risk	**(139.6)**	(168.7)
Country risk	**(2.1)**	(2.8)
Total cost of risk	**(141.7)**	(171.5)

1 *Of which unprovided losses*	*(5.8)*	*(17.9)*
2 *Of which unprovided losses*	*(2.7)*	*(1.5)*
3 *Of which unprovided losses*	*(6.8)*	*(0.6)*

9 Other assets

(in millions of euros)	**31.12.2010**	31.12.2009
Securities transactions settlement accounts	**396**	1,420
Sundry debtors and other receivables [1]	**20,156**	17,499
Total	**20,552**	18,919

1 *Changes in premiums and guarantee deposits on derivatives.*

10 Prepayments and accrued income

(in millions of euros)	**31.12.2010**	31.12.2009
Items in course of collection from other banks	**943**	1,078
Other prepayments and accrued assets [1]	**76,550**	60,036
Total	**77,493**	61,114

1 *Mainly due to the variations on derivative mark to market, principally explained by the large movements in the Euro yield curve (consequence of the financial crisis on the sovereign debt in Europe).*

11 Treasury and interbank transactions

Deposits by banks

(in millions of euros)	**31.12.2010**	31.12.2009
On demand deposits	**9,326.5**	2,710.6
Term deposits	**40,384.8**	57,446.3
< 3 months	**32,972.6**	47,748.5
> 3 months < 1 year	**4,761.3**	8,007.8
> 1 year < 5 years	**780.9**	1,640.0
> 5 years	**1,869.9**	50.0
Accrued interest	**106.9**	61.9
Overall total	**49,818.1**	60,218.8
Of which securities given under repurchase agreements	***36,566.3***	*44,915.5*

12 Customer accounts

Outstanding at 31 December

Breakdown of customer credit balances by type of deposit

(in millions of euros)	**31.12.2010**	31.12.2009
On demand deposits	**17,024.1**	16,664.8
Special demand accounts	**5,672.3**	4,828.7
Special term accounts	**816.8**	860.6
Term accounts	**4,631.4**	2,347.2
Certificates of deposit and savings certificates [1]	**2.1**	6.1
Total customer deposits (excluding repurchase agreements and including certificates of deposit and savings certificates)	**28,146.7**	24,707.4
Total deposits excluding certificates of deposit and savings certificates	**28,144.6**	24,701.3
Securities given under repurchase agreements	**35,865.9**	48,919.6
Accrued interest	**110.8**	107.2
Total customer credit balance accounts	**64,121.4**	73,728.1

1 *Certificates of deposit are categorised in the balance sheet under the heading "Debt securities".*

Breakdown of customer credit balances by remaining contractual maturities

(in millions of euros)	**31.12.2010**	31.12.2009
On demand deposits	**23,499.0**	21,888.6
Term deposits	**40,511.6**	51,732.3
< 3 months	**34,055.2**	46,427.6
> 3 months < 1 year	**5,521.5**	4,475.8
> 1 year < 5 years	**650.2**	558.6
> 5 years	**284.7**	270.3
Accrued interest	**110.8**	107.2
Total	**64,121.4**	73,728.1

13 Bonds and other fixed income securities

(in millions of euros)	**31.12.2010**	31.12.2009
Certificates of deposit (including accrued interest)	**2**	6
Interbank market securities and tradable debt securities	**7,275**	9,779
Bonds	**11,994**	10,466
Accrued interest	**149**	142
Total	**19,420**	20,393

Breakdown of debt securities by maturity

(in millions of euros)	**31.12.2010**	31.12.2009
Debt securities	**19,271**	20,251
< 1 year	**10,317**	10,663
of which up to 3 months	**6,513**	9,127
from 3 months to 1 year	**3,804**	1,536
> 1 year < 5 years	**7,655**	8,054
> 5 years	**1,299**	1,534
Accrued interest	**149**	142
Total	**19,420**	20,393

14 Provisions

(in millions of euros)	*Balance at 31.12.2009*	*Charges*	*Release for write off*	*Available releases*	*Other movements*	***Balance at 31.12.2010***
Provisions for commitments by signature and disputes	12.6	1.8	(3.2)	(1.1)	0.1	**10.2**
Provision for country risk	51.3	9.0		(6.9)		**53.4**
Provision on forward financial instruments	112.3	48.2		(37.6)	23.0[2]	**145.9**
Other provisions[1]	212.7	72.1	(29.5)	(30.8)	1.0[3]	**225.5**
Total	388.9	131.1	(32.7)	(76.4)	24.1	**435.0**

1 *Including employee benefits provision (see Note 20 "Pensions and post-employment benefits"), provision for the Employment Protection Plan and provision on PEL/CEL home ownership products.*
2 *HSBC Financial Products (France) merger for EUR 21.8 million/currency translation adjustment for EUR 1.2 million.*
3 *HSBC Financial Products (France) merger.*

CFCS (*Congé de Fin de Carrière et de Solidarité*) - Early retirement schemes

At 31 December 2010, the CFCS provision amounts to EUR 23.4 million. This provision mainly includes a provision on "*Livre 3*" of the network Strategic Plan initiated in 2008, on which the cost of carry has been extended in 2010, and provisions booked in 2010 concerning a reorganisation plan of the Human Resources Function and an additional plan related to the network development.

14 Provisions *(continued)*

Provision on PEL/CEL home ownership products

Provision at 31 December 2010, by age group:

- PEL: EUR 8 million (of which EUR 4.5 million of provision over 10 years old; EUR 3.0 million of provision between 4 and 10 years old and EUR 0.5 million of provision under 4 years old);
- CEL: EUR 1.6 million.

The movements on provisions recognised through profit or loss in 2010 relate to a charge of EUR 2.6 million (including a charge of EUR 1.0 million more than 10 years old, EUR 1.1 million between 4 and 10 years old and EUR 0.5 million under 4 years old).

Amounts collected at 31 December 2010, by age group:

- PEL: EUR 799.5 million, aged as follows:
  - 0-4 years: EUR 144.0 million,
  - 4-10 years: EUR 350.9 million,
  - more than 10 years: EUR 304.6 million;
- CEL: EUR 151.0 million.

Amounts collected at 31 December 2010, by age group:

- PEL: EUR 12.0 million:
  - 0-4 years: EUR 3.8 million,
  - 4-10 years: EUR 4.0 million,
  - more than 10 years: EUR 4.2 million;
- CEL: EUR 19.7 million.

15 Other liabilities

(in millions of euros)	**31.12.2010**	31.12.2009
Securities transactions settlement accounts	**122**	936
Sundry creditors [1]	**17,986**	14,804
Short position and securities received under repurchase agreements confirmed resold	**32,620**	24,580
Total	**50,728**	40,320

1 *Changes in premiums and guarantee deposits on derivatives.*

16 Accruals and deferred income

(in millions of euros)	**31.12.2010**	31.12.2009
Items in course of collection from other banks	**851**	958
Accruals and deferred income [1]	**77,042**	61,266
Total	**77,893**	62,224

1 *Mainly due to the variations on derivative mark to market, principally explained by the large movements in the Euro yield curve (consequence of the financial crisis on the sovereign debt in Europe).*

Parent company financial statements (continued)

17 Subordinated debt

(in millions of euros)	**31.12.2010**	31.12.2009
Subordinated notes	**165**	165
Undated subordinated notes	**16.2**	16.2
Accrued interest	**0.4**	0.4
Total	**181.6**	181.6

Securities issued by HSBC France

Subordinated securities issued by HSBC France, in euros and other currencies, are liabilities which, in the event of liquidation, will only be repaid after the interests of other creditors have been extinguished but before repayment of the holders of participating securities or equity.

The main issues are listed below:

Redeemable subordinated securities

(in millions of euros)	Date of issue	Date of maturity	Interest type	Currency of issue	**31.12.2010**	31.12.2009
Redeemable subordinated securities	25.03.2004	25.03.2014	Floating rate	EUR	**150.0**	150.0
Redeemable subordinated securities	15.12.2000	15.12.2015	Floating rate	EUR	**15.0**	15.0
Accrued interest					**0.1**	0.1
Total for securities issued by HSBC France (including accrued interest)					**165.1**	165.1

Participating securities: undated subordinated securities and debt

(in millions of euros)	Date of issue	Nominal rate	Issue currency	**31.12.2010**	31.12.2009
Undated subordinated securities	22.07.1985	Effective monthly rate - 0.25	FRF	**16.2**	16.2
Accrued interest				**0.4**	0.3
Total (including accrued interest)				**16.6**	16.5

18 Share capital

	31.12.2010		31.12.2009	
(shares of 5 euros)	***Number of shares***	***Total (in thousands of EUR)***	*Number of shares*	*Total (in thousands of EUR)*
At 1 January	**67,437,820**	**337,189**	67,437,820	337,189
– Subscription options exercised	**–**	**–**	–	–
– New capital issued – Merger	**–**	**–**	–	–
– Reduction of capital	**–**	**–**	–	–
At 31 December	**67,437,820**	**337,189**	67,437,820	337,189

18 Share capital *(continued)*

Share options

The last options still valid expired during 2010 without any options being exercised during 2010.

Voting rights

At 31 December 2010, the total of voting rights stood at 67,437,820; shares with double voting rights disappeared with the tender offer and the minority buyout launched by HSBC Holdings plc.

19 Equity

	31.12.2010		31.12.2009	
(in millions of euros)	***Before appropriation of profit***	***After appropriation of profit***	*Before appropriation of profit*	*After appropriation of profit*
Called-up share capital	**337.2**	**337.2**	337.2	337.2
Share premium account	**16.1**	**16.1**	16.1	16.1
Reserves	**1,047.9**	**1,047.9**	1,047.9	1,047.9
– Legal reserve	**38.1**	**38.1**	38.1	38.1
– Long-term gains reserve	**405.5**	**405.5**	405.5	405.5
– Revaluation reserve	**5.5**	**5.5**	5.5	5.5
– Extra-ordinary and other reserve	**304.7**	**304.7**	304.7	304.7
– Free reserve	**294.1**	**294.1**	294.1	294.1
Revaluation reserve	**–**	**–**	–	–
Retained earnings	**2,972.9**	**2,877.0**	3,108.7	2,988.5
Interim dividend	**(719.6)**		(670.3)	
Special tax-allowable reserves	**40.2**	**40.2**	37.4	37.4
Net Profit for the year	**623.7**		550.2	
Equity	**4,318.4**	**4,318.4,**	4,427.2,	4,427.1

Changes in equity in 2010

(in millions of euros)

Balance at 1 January 2010	**4,427.1**
Net Profit for the year	623.7
New shares issued upon exercise of stock options	–
Reduction of capital	–
Interim dividend	(719.6)
Others [1]	2.8
Retained earnings – first-time adoption of the new accounting policy of effective rate of interest	(15.6)
Balance at 31 December 2010	**4,318.4**

1 *Changes connected with regulated provisions and reevaluation surplus.*

Legal reserve

This reserve is built up by appropriating at least one-twentieth of the year's profit. This appropriation ceases to be mandatory once this reserve reaches one-tenth of share capital. It is not distributable.

Net long-term gains reserve

Distributing this reserve would lead to an additional tax charge equal to the difference between standard tax rate and reduced tax rate.

19 Equity *(continued)*

Revaluation reserve (1976 revaluation)

This reserve could be incorporated into capital, but it cannot be distributed or used to offset losses.

Other reserves

Amounts put into reserves over five years ago would be subject to a levy if they were to be distributed.

For distributions paid on or after 1 January 2000, HSBC France can charge the dividends against profits liable to corporate income tax for accounting periods ended at most 5 years ago, starting with the oldest, in application of the decree of 21 December 1999.

20 Pensions, post-employment benefits

(in millions of euros)	**31.12.2010**	31.12.2009
Provision for employee-related commitments	**101.3**	93.8

Principal actuarial assumptions of the post-employment defined benefit plans

The main actuarial assumptions used for measuring pension plan commitments and post-employment healthcare benefits, which serve as the basis for calculating the expense for the relevant accounting periods, are as follows:

(in %)	*Discount rate*	*Expected rate of return on plan assets*	*Inflation assumption*	*Rate of increase for pensions in payment and deferred pension*	*Rate of pay increase*	*Mortality rate*
At 31 December 2010	**4.75**	**–**[1]	**2**	**2**	**3**	**–**[2]
At 31 December 2009	5.5	–[1]	2	2	3	–[2]

1 *Expected rate on equities. The expected rate of return on bonds was 4% in 2010 and 4% in 2009.*
2 *HSBC France uses "mortality tables TV88-90" for retirement compensation and long-service awards and TGH/TGF05 for pension obligations.*

HSBC France determines discount rates in consultation with its actuary based upon the current average yield of high quality (AA-rated) debt instruments, with maturities consistent with that of the pension obligation. The expected rate of return on plan assets is determined in consultation with HSBC's actuaries, based on historical market returns, adjusted for additional factors such as the current rate of inflation and interest rates.

Provision recognised

(in millions of euros)	**31.12.2010**	31.12.2009
Present value of benefit obligations	**114.6**	108.8
Fair value of plan assets	**(13.3)**	(15.0)
Net liability recognised	**101.3**	93.8

21 Off-balance-sheet items

(in millions of euros)	**31.12.2010**	31.12.2009
Loan commitments		
Commitments given		
Refinancing agreements and other financing commitments in favour of banks	**1,840**	1,674
In favour of customers	**17,201**	17,626
– Confirmed credit facilities	**17,150**	17,583
– Acceptances payable and similar instruments	**51**	43
Total	**19,041**	19,300
Of which transactions with group companies	***513***	*322*
Commitments received		
Refinancing agreements and other financing commitments in favour of banks	**3,742**	2,376
Guarantee commitments		
Commitments given		
Guarantees, acceptances and other security to banks	**1,365**	991
Guarantees, acceptances and other securities to customers	**4,055**	5,945
Total	**5,420**	6,936
Of which transactions with group companies	***100***	*103*
Commitments received		
Guarantees, acceptances and other security from banks	**6,760**	7,703

22 Derivatives

Exchanges rate contracts

	31.12.2010				31.12.2009			
(in billions of euros)	***Fair value 31.12.2010***	***Hedging contracts***[1]	***Trading contracts***[1]	***Total***[1]	*Fair value 31.12.2009*	*Hedging contracts*[1]	*Trading contracts*[1]	*Total*[1]
Unconditional transactions	**(2.8)**	**9.1**	**4,530.3**	**4,539.4**	(0.8)	10.9	3,230.8	3,241.7
Exchange traded	**–**	**–**	**142.1**	**142.1**	–	–	138.4	138.4
– Interest rate			**142.1**	**142.1**			138.4	138.4
– Exchange rate								
– Equity								
Non-exchange traded	**(2.8)**	**9.1**	**4,388.2**	**4,397.3**	(0.8)	10.9	3,092.4	3,103.3
– Futures			**191.0**	**191.0**			160.5	160.5
– Interest rate	**0.4**	**3.2**	**3,981.3**	**3,984.5**	0.7	1.2	2,820.9	2,822.1
– Exchange rate	**(3.2)**	**0.7**	**58.0**	**58.7**	(1.4)	0.7	52.1	52.8
– Other contracts		**5.2**	**157.9**	**163.1**	(0.1)	9.0	58.9	67.9
Conditional transactions	**(1.30)**	**4.10**	**518.90**	**523.00**	(0.70)	2.30	536.90	539.20
Exchange traded	**–**	**–**	**33.5**	**33.5**	–	–	42	42
Interest rate			**0.3**	**0.3**			14.0	14.0
Exchange rate			**33.2**	**33.2**			28.0	28.0
Other contracts								
Non-exchange traded	**(1.3)**	**4.1**	**485.4**	**489.5**	(0.7)	2.3	494.9	497.2
Caps and floors	**0.7**	**2.4**	**232.9**	**235.3**	0.9	1.4	245.9	247.3
Swaptions and options	**(2)**			**–**	(1.6)			–
– bought		**1.7**	**122.9**	**124.6**		0.9	122.5	123.4
– sold			**129.6**	**129.6**			126.5	126.5
Total derivatives		**13.2**	**5,049.2**	**5,062.4**		13.2	3,767.7	3,780.9

1 *Notional contract amounts.*

22 Derivatives *(continued)*

Other informations on derivatives

(in billions of euros)	**31.12.2010**	31.12.2009
Microhedge contract	**3.2**	1.2
Macrohedge contract	**–**	–
Trading	**3,981.3**	2,820.9
Other	**–**	–

Derivatives: maturity analysis

	31.12.2010			
(in billions of euros)	***<= 1 year***	***<= 5 years***	***> 5 years***	***Total***
Derivatives:				
Exchange contracts	**15.2**	**27.9**	**15.6**	**58.7**
Interest rate contracts	**1,960.2**	**1,518.6**	**1,328.4**	**4,807.1**
Others	**163.4**	**33.2**	**–**	**196.6**
Total	**2,138.8**	**1,579.7**	**1,344.0**	**5,062.4**

Risk-weighted assets

Amount of Exposure At Default (EAD) for derivatives contracts

(in millions of euros)	**31.12.2010**	31.12.2009
A – Contracts concluded under Master agreement with close-out netting	**6,146.7**	5,977.6
1. Transactions with banks from OECD countries	**3,621.5**	4,120.0
2. Transactions with customers and banks localised outside OECD countries	**2,525.2**	1,857.6
B – Other contracts	**27.5**	21.7
1. Transactions with banks from OECD countries	**5.4**	0.3
– Interest rate contracts	**5.4**	0.2
– Exchange contracts	**–**	0.1
– Equity derivatives contracts	**–**	–
– Commodities contracts	**–**	–
2. Transactions with customers and banks localised outside OECD countries	**22.1**	21.4
– Interest rate contracts	**13.8**	14.7
– Exchange contracts	**8.3**	6.7
– Equity derivatives contracts	**–**	–
Total Exposure At Default	**6,174.2**	5,999.3
Corresponding risk-weighted assets (RWA)	***1,999.1***	*1,763.5*

Parent company financial statements (continued)

23 Net interest income

(in millions of euros)	**31.12.2010**	31.12.2009
Interest and similar income		
Banks and financial institutions [1]	**472.1**	615.4
Customers [1]	**1,212.4**	1,531.8
Bonds and other fixed-income securities [2]	**187.3**	115.2
Total	**1,871.8**	2,262.4
Interest and similar expenses		
Banks and financial institutions [1]	**335.2**	515.1
Customers [1]	**388.5**	630.1
Subordinated liabilities	**3.0**	5.6
Other bonds and fixed-income securities [3]	**415.4**	569.0
Total	**1,142.1**	1,719.8

1 *Reduction in interest on repurchase agreements deriving from the reduction in short-term interest rates.*
2 *Other fixed income securities.*
3 *Decrease in interest on TBs issued due to the decrease of TBs outstanding and to the reduction in interest rates.*

24 Fixed-income securities

(in millions of euros)	**31.12.2010**	31.12.2009
Income		
Available-for-sale and similar & portfolio activity securities	**–**	0.2
Interests in subsidiaries and associates and other long-term securities	**16.0**	18.7
Interests in group companies [1]	**198.9**	100.6
Total	**214.9**	119.6

1 *Nobel dividend EUR 96.4 million.*

25 Breakdown of fees

Breakdown of fees recorded as such in the published income statement

(in millions of euros)	**31.12.2010**	31.12.2009
Fees		
Income	**750.0**	816.3
On transactions with banks	**5.9**	6.3
On transactions with customers	**124.6**	126.8
On foreign exchange transactions	**2.5**	2.3
On primary securities market activities	**71.3**	129.2
On provision of services for third parties	**421.2**	419.6
On commitments	**81.6**	85.9
Other commission	**42.9**	46.2
Expenses	**(199.6)**	(212.5)
On transactions with banks	**(11.4)**	(9.3)
On corporate actions	**(28.7)**	(33.3)
On forward financial instrument activities	**(18.6)**	(14.0)
On provision of services for third parties	**(133.0)**	(134.0)
On commitments	**(1.0)**	(1.2)
Other commission	**(6.9)**	(20.7)
Total fees	**550.4**	603.8

26 Gains and losses on portfolio business transactions

(in millions of euros)	31.12.2010	31.12.2009
Gains or losses		
Trading securities	**694.1**	1,891.7
Foreign exchange transactions	**33.8**	64.7
Forward financial instruments	**(217.4)**	(927.6)
Total	**510.5**	1,028.8

27 Gains or losses on available-for-sale securities

(in millions of euros)	31.12.2010	31.12.2009
Results for available-for-sale securities		
Gains or losses	**15.7**	20.6
Impairment	**26.5**	37.4
Results for portfolio activity securities		
Gains or losses	**(1.2)**	0.4
Impairment	**1.2**	(0.9)
Total	**42.2**	57.4

28 General operating expenses

(in millions of euros)	31.12.2010	31.12.2009
Employee compensation and benefits		
Salaries and wages, social security, taxes and levies on compensation [1]	**(787.4)**	(791.4)
Pension expense	**(92.7)**	(89.5)
Profit sharing	**(20.3)**	(12.9)
Incentive plan	**(12.3)**	(33.0)
Compensation expense subtotal	**(912.7)**	(926.8)
Other administrative expenses	**(506.3)**	(411.4)
Total operating expenses	**(1,419.0)** [2]	(1,338.2) [2]

1 *Including EUR 16.4 million for Management Board compensation and EUR 0.3 million in attendance allowances paid to directors for 2010 and EUR 15 million for Management Board compensation and EUR 0.3 million in attendance allowances paid to directors for 2009.*
2 *Operating expenses in particular include the expenses of the HSBC Holdings plc share plan.*

2008 share award plan

The provision relating to this share plan was written back in full at EUR 23.4 million on award, in March 2010, of EUR 22.6 million in shares.

The final HSBC France expense (based on the cover price) was recognised on a straight-line basis over the employee vesting period. This amounted to EUR 2.0 million in 2010.

Parent company financial statements (continued)

28 General operating expenses *(continued)*

2009 and 2010 share award plans

The final expense for HSBC France is not known because the shares to be awarded have not been acquired by the trust. However, it is planned to at least use the shares remaining within the trust following forfeiture of awards, and to acquire the remainder between now and plan completion.

A provision set up for this plan is therefore charged on a straight-line basis over the employee vesting period, partly on the basis of the average purchase price of the spare share shares, and partly on the basis of the market price at 31 December 2010.

At 31 December 2010, the provision amounted to EUR 33.5 million for the 2009 plan and at EUR 12.8 million for the 2010 plan, with a P&L impact of EUR 31.2 million.

29 Gains or losses on disposals of fixed assets

(in millions of euros)	**31.12.2010**	31.12.2009
Gains or losses on held-to-maturity securities	**–**	–
Gains or losses on tangible and intangible fixed assets [1]	**236.9**	(0.3)
Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies [2]	**16.2**	(89.3)
Total	**253.1**	(89.6)

1 *Gain on disposal of 103 Champs-Elysées and 15 rue Vernet*	*236.7*	
Gain on HSS goodwill	*1.0*	
Gains on sale of Reims building	*(1.4)*	
Gain on sale of Gare du Nord branch	*1.0*	
Others	*(0.4)*	
	236.9	

2 *Premiums on merger*	*2.6*	*–*
Gains on sale of France Titrisation	*–*	*0.6*
Release of HSBC Financial Products (France) advance impairment	*–*	*16.2*
Impairment on interests in subsidiaries and associates and other group companies	*1.9*	*(106.1)*
Losses on disposal of BMSE	*(3.0)*	*–*
Losses on disposal of MIZUHO	*(1.7)*	*–*
Gains on sale of HSBC Securities Services (France)	*5.0*	*–*
Gain on Nobel disposal – capital reduction	*7.8*	*–*
Gains on sale of BNP Luxembourg	*4.1*	*–*
Others	*(0.5)*	*–*
Total	*16.2*	*(89.3)*

30 Corporate income tax

(in millions of euros)	**31.12.2010**	31.12.2009
Current tax		
At standard rate	**11.9**	138.2
At reduced rate	**54.2**	–
Deferred taxation	**(12.1)**	12.0
Total	**54.0**	150.2

Note: Deferred tax is calculated according to the principles set out in Note 1 k.

The rates used for calculating taxes are:

(in %)	**Payable 2011**	**Payable 2010**	Payable 2009
Standard rate	**34.43**	**34.43**	34.43
Reduced rate (LT gains rate)	**1.72**	**1.72**	1.72
Reduced rate (gains on disposal of property to SIIC)	**19.00**	**19.00**	19.00

Tax group

Since 2001, the lead company of the tax group has been HSBC Bank plc Paris branch.

In 2010, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 83 million. The proportion of benefits passed on to HSBC France rose to EUR 51.8 million.

In 2009, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 97.4 million. The proportion of benefits passed on to HSBC France rose to EUR 78 million.

These benefits are recognised in their entirety under the heading “Taxes”.

Deferred tax in the balance sheet

The net deferred tax receivable recognised in the balance sheet at 31 December 2010 was EUR 124.9 million compared with EUR 104.7 million at 31 December 2009.

At 31 December 2010 this receivable is made up of deferred tax assets of EUR 134.1 million against EUR 128.3 million at 31 December 2009 and a deferred tax liability of EUR 9.2 million compared with EUR 23.6 million at 31 December 2009.

31 Litigation

As at 31 December 2010, there were 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.

Parent company financial statements (continued)

Statutory Auditors' report on the annual financial statements

This is a free translation into English of the statutory auditor's report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures. This report also includes information relating to the specific verification of information given in the management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2010

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended 31 December 2010, on:

– the audit of the accompanying annual financial statements of HSBC France S.A.;

– the justification of our assessments;

– the specific verifications and information required by law.

These annual financial statements have been approved by the Board of Directors. Our role is to express an opinion on these annual financial statements based on our audit.

I – Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the annual financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2010 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to the matter set out in Note 1 c to the annual financial statements regarding the application of *Comité de la Réglementation Comptable (CRC)* Regulation 2009-03 concerning the recognition of fees received by credit institutions and incremental transaction costs incurred upon the granting or securing of loans.

II – Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code ("*Code de commerce*") relating to the justification of our assessments, we bring to your attention the following matters:

Accounting principles

The Note 1 c to the annual financial statements sets out a change in accounting methods regarding the application of *Comité de la Réglementation Comptable (CRC)* Regulation 2009-03 concerning the recognition of fees received by credit institutions and incremental transaction costs incurred upon the granting or securing of loans. As part of our assessment of the accounting policies applied by your company, we have verified the correct application of this change in accounting methods and the appropriateness of their presentation.

Accounting estimates

– Your company accounts for depreciations to cover the credit and counterparty risks inherent to its activities. We have reviewed the procedures implemented by the management to identify and assess these risks and to determine the amount of impairment it considers necessary, and we have verified that these accounting estimates were based on documented methods that comply with the principles described in the Note 1 c to the financial statements.

– Your company uses internal models and methodologies to value its positions on certain financial instruments which are not traded on active markets. We have reviewed the control procedures relating to the control of models, to the determination of the parameters used as well as to the assessment of associated risks.

– For the purpose of preparing the annual financial statements for the year ended 31 December 2010, your company has made other significant accounting estimates, related in particular to the valuation of investments in subsidiaries as well as pension plans and other post-employment benefits. 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 1 to the annual financial statements.

These assessments were made as part of our audit of the annual financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III – Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the annual financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to shareholders with respect to the financial position and the annual financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code ("*Code de commerce*") relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the annual financial statements or with the underlying information used to prepare these annual financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders (and holders of the voting rights) has been properly disclosed in the management report.

Paris-La Défense et Paris, on 19 April 2011

KPMG Audit
Department of KPMG SA
Pascal Brouard
Partner

BDO France – Léger & Associés
Michel Léger
Partner

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

HSBC France group's main subsidiaries at 31 December 2010

Retail Banking

Distribution	HSBC Factoring (France) (100%)

Global Banking and Markets

Real Estate	Foncière Elysées SA (100%) HSBC Real Estate Leasing (France) (100%) Immobilière Bauchart (100%) Réalimo Négociations (100%)
Structures financing and Global Banking	HSBC Covered Bonds (France) (100%) Société Financière et Mobilière (100%) HSBC Leasing (France) (100%) HSBC Leasing (Belgium) (100%) CCF Charterhouse GmbH (100%)
Markets	HSBC Securities (France) (100%) Financière d'Uzès (34%)

Asset Management

France	HSBC Global Asset Management (France) (100%) Halbis Capital Management (France) (100%) Sinopia Asset Management (100%) Sinopia Financial Services (100%) Sinopia Société de Gestion (100%) HSBC Epargne Entreprise (France) (100%) HSBC REIM (France) (100%)
Outside France	HSBC Global Asset Management (Switzerland) (50%) Sinopia Asset Management (Asia-Pacific) Ltd (100%) Sinopia Asset Management (UK) Ltd (100%)

Private Banking

France	HSBC Private Bank France (99.9%) HSBC Private Wealth Managers (99.9%)
Outside France	LGI (99.9%)

Subsidiaries & equity investments

France	Nobel (100%) Société Française et Suisse (100%) Elysées Formation (100%) Société Immobilière Malesherbes Anjou (100%) Excofina (100%)
Outside France	Charterhouse Management Services Ltd (100%)

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

Distribution

(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
HSBC Factoring (France)	**808,554**	498,740	**14,378**	12,011	**2,367**	943	**100.0**	100.0

HSBC Factoring (France) saw growth of 54% in 2010, with net turnover of EUR 3.6 billion, corresponding to the amount of factored receivables. Net operating income rose by 28% to EUR 19.2 million and the pre-tax contribution to group profit came to EUR 3.6 million. HSBC Factoring (France) benefited from the following growth drivers in 2010:

- market share of 1.9% at end-2010. At end-December, HSBC Factoring controlled 2.2% of the factoring market in France;
- managing and developing the Notified Invoice Discounting offer in 2010 and introducing two major products for 2011: the Paneuropean offer and the project of dematerialisation of incoming flows;
- developing a "Client Experience" approach with in particular the implementation of a quarterly quality committee and a study "Voc GN Research";
- optimising the internal organisational structure (merging of Financial and Reminder Departments) and management tools (overhaul of the tool of profitability calculation);
- improving profitability, with a target of reducing the cost efficiency ratio. At 31 December 2010, the cost efficiency ratio amounted to 69% compared with 76% in 2009.

Global Banking and Markets

(in thousands of euros)

	Total assets 2010	Total assets 2009	Shareholders' funds* 2010	Shareholders' funds* 2009	Net profit 2010	Net profit 2009	Holding 2010	Holding 2009
HSBC Securities (France)	**31,668**	207,630	**28,849**	31,159	**(2,670)**	595	**100.0**	100.0

The fall in total assets is essentially due to the reduction in the balance of custodian accounts. This fall had already occurred in part following the sale of HSBC Financial Products' Structured Equity Derivatives business in 2009. The regulatory capital position was down EUR 2.7 million, reflecting the results of financial year 2010. Net operating income fell from EUR 2.7 million in 2009 to EUR 0.08 million in 2010, mainly due to dividend income received from Financière d'Uzès company (EUR 0.06 million). Most of the net profit can be accounted for by operating expenses EUR -3.5 million and an exceptional item of +EUR 0.7 million for miscellaneous regularisations.

	Total assets 2010	Total assets 2009	Shareholders' funds* 2010	Shareholders' funds* 2009	Net profit 2010	Net profit 2009	Holding 2010	Holding 2009
HSBC Leasing (France)	**1,976,318**	1,982,724	**213,578**	257,257	**(43,679)**	(29,511)	**100.0**	100.0

HSBC Leasing (France) specialises in lease finance for major corporates. The company holds subsidiaries intended for leasing activities with a call option. It operates more particularly in the aeronautics sector by financing assets on behalf of airlines. The company's volume of business remained stable in 2010, its equity interests in 2010 totalling EUR 1.8 billion, on a par with 2009.

	Total assets 2010	Total assets 2009	Shareholders' funds* 2010	Shareholders' funds* 2009	Net profit 2010	Net profit 2009	Holding 2010	Holding 2009
HSBC Real Estate Leasing (France)	**1,118,661**	866,306	**60,177**	60,900	**4,548**	5,315	**100.0**	100.0

This real estate leasing specialist subsidiary continued to grow in 2010, its volume of gross lending exceeding EUR 200 million compared with EUR 42 million in 2009. Its commitments totalled EUR 1 billion for the first time since it started doing business. Despite a cost of risk under control and a reduction in operating expenses, net profit was down owing to non-recurring expenses.

* *Before net profit appropriation.*

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

Asset Management

(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
HSBC Global Asset Management (France)	**137,116**	145,398	**81,088**	102,434	**19,683**	25,714	**100.0**	100.0
Halbis Capital Management (France)	**57,240**	49,884	**28,809**	21,667	**6,794**	3,050	**100.0**	100.0
Sinopia Asset Management	**42,442**	43,188	**31,758**	29,139	**2,619**	1,701	**100.0**	100.0
HSBC Epargne Entreprise (France)	**84,432**	114,244	**47,316**	82,457	**(141)**	(6,030)	**100.0**	100.0
HSBC REIM (France)	**15,865**	11,579	**7,120**	4,565	**4,506**	2,168	**100.0**	100.0

HSBC Global Asset Management (France)

2010 was characterised by a marked upturn in a volatile and risk-averse market environment. The apparent fall in net accrual-based income is due to an internal restructuring operation that generated a gain in 2009. Excluding this effect, gross operating profit before provisions was up by more than 40%. Business growth was driven by the investment products offer in emerging countries, interest rate derivatives and the good performance of diversified funds and multi-management. Managed and distributed assets amounted to EUR 78 billion on 31 December 2010, up 12% compared with the end of 2009. This increase in assets is due to the positive price effect of EUR 3.5 billion and net new money of EUR 5 billion. There was a marked inflow of new money on products in the global "cross border" range and institutional mandates, offsetting significant withdrawals observed in funds controlled by French law, particularly monetary funds and guaranteed funds. 2010 saw increased commercial activity with major European institutional investors, in particular pension funds in France and Italy, attracted by long-term and diversified bond and diversified investments. In 2010, HSBC Global Asset Management (France) continued to invest in making its systems and processes more robust and mutualised, as well as improving its risk control.

Halbis Capital Management (France)

2010 was characterised by considerable development in a difficult and risk-averse environment. Assets under management rose by 10% to EUR 16.4 billion at 31 December 2010, an increase of EUR 1.4 billion compared with end-2009, comprising new inflows and a price effect in almost equal proportions. Diversified and equity funds made up the bulk of new money inflows, more particularly with major institutional clients. In addition, Halbis was entrusted with the management of 28% of the HGIF High Income fund distributed by the Personal Financial Services network in Hong Kong, its outstanding topping EUR 1 billion 2010. The absolute return HGIF Global Macro fund confirmed its success and brought in more than EUR 400 million, enabling it to increase its size threefold. 2010 was again an exceptional year in terms of both absolute and relative performance for numerous strategies. For example, small value equity management registered +34.8% (compared with +29.9% for its market index) in Europe, +28% (compared with +18.3% for its market index) in the Euro zone and +20.6% on small French capitalisations. As for Euro bond strategies, the HGIF Euro High Yield fund registered +13.7% over the year, in the 1st quartile of its category over 3 and 5 years. The HGIF Euro Bond fund was placed in the 1st decile of its category over 3 years, and the HSBC Euro Short Term fund retained its place in the 1st decile over 3 and 5 years.

Sinopia Asset Management

Sinopia Asset Management and its subsidiaries generated a cumulative loss before tax of EUR 3.3 million, severely affected by very significant capital expenditure on IT in the United Kingdom, a decline in revenues for banking subsidiary Sinopia Financial Services, as well as continuing unfavourable market conditions for alternative and structured products. Assets under management amounted to EUR 20.6 billion at 31 December 2010, a slight increase of 4% compared with end-2009, thanks to new money on interest rate products, in particular from major institutional clients, a positive price effect making up for negative net inflows into absolute return strategies, and the maturing of guaranteed/structured funds. In this difficult environment, Sinopia Asset Management continued to develop the HSBC ETF global offer it manages. Outstandings in this range, which was launched at the end of 2009, amounted to over EUR 400 million at 31 December 2010.

HSBC Epargne Entreprise (France)

HSBC Epargne Entreprise, a credit institution specialising for the HSBC Group in France in holding employee savings accounts and a wholly-owned subsidiary of HSBC France, has a clientele of 13,400 companies and manages 760,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totalling EUR 4.1 billion at 31 December 2010. At 30 June 2010, assets under management stood at EUR 3.8 billion, making the Group the sixth-largest employee savings company. Its products are distributed either directly or via the HSBC Group distribution network in France and partner networks, covering the needs of companies of all sizes.

HSBC REIM (France)

HSBC REIM (France) is the Asset Management subsidiary specialising in real estate management for third parties. At 31 December 2010, the market value of assets under management was EUR 950 million. The main fund managed, Elysées Pierre, with 124 properties, is a SCPI real estate investment trust invested primarily in offices in the Paris region. The fund has a yield-based strategy, which over the last five years has resulted in a growing or steady annual dividend. The HSBC REIM (France)'s net profit doubles in 2010 thanks to exceptional net inflows. Half of its net operating income of EUR 11.1 million came from commission income for property management services and the remainder from commission income within the framework of the capital increases of its non-trading property companies (SCPI).

* *Before net profit appropriation.*

Private Banking
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
HSBC Private Bank France	**1,037,852**	1,093,393	**188,506**	182,494	**6,602**	931	**99.9**	99.9

In a context of moderate recovery in the financial markets, Private Banking managed to boost the performance of its products in 2010. This expertise was once again recognised, the Head of equity management of HSBC Private Wealth Managers being ranked 6th out of 668 of the best European equity managers for Europe Value and *Grande Europe* funds by Citywire magazine (risk-adjusted performance). In commercial terms, greater dynamism and the confirmed success of the synergies with HSBC France resulted in a good level of gross inflows, in particular on life assurance products. Assets under management at 31 December 2010 stood at EUR 9.5 billion, up 2.4% compared with end-2009, despite the impact of the end of an institutional partnership. In terms of results, consolidated revenues (EUR 75.4 million) rose sharply compared with the previous year (+10.5%). Consolidated operating expenses (EUR 65.9 million) levelled off, thanks to continued efforts to cut costs. Profit before tax came to EUR 13.5 billion.

Own investments
(in thousands of euros)

Société Française et Suisse	**19,149**	27,338	**9,576**	9,649	**(72)**	9,578	**100.0**	100.0

SFS's 2010 results have sharply declined compared with 2009. This is mainly explained by two factors which had a favourable impact on SFS's 2009 accounts, as opposed to 2010:
– the significant rebound in the financial markets, which contributed to the reversal of investments impairments;
– the sale of a large portion of the portfolio of listed securities held by SFS (Rhodia and Swiss Life).

Nobel	**239,172**	349,953	**202,565**	325,181	**21,082**	33,661	**100.0**	100.0

Nobel, a holding company for the group's proprietary participating interests, pursues an investment strategy focusing on listed mid-caps 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 20% without use of leverage, while the various equity market indices have delivered performances close to zero over the same period. Nobel generated gross operating profit of EUR 37 million in 2010 and benefited fully from the market upturn, with a performance of over 25% for its listed portfolio. The HSBC Group has decided in 2009 to discontinue Nobel's activities and now manages the portfolio on a run-off basis.

Other subsidiary of the HSBC Group in France
(in thousands of euros)

HSBC Assurances Vie (France)	**17,691,095**	16,148,990	**521,385**	487,799	**30,847**	35,690	**100.0**[1]	100.0[1]

HSBC Assurances Vie (France)'s gross reinsurance premiums amounted to EUR 2.3 billion, up 7.3% compared with 2009. Technical reserves in euros rose 10.1% (EUR 13.5 billion), and those in unit-linked products are in line (EUR 2.8 billion). Net profit totalled EUR 31 million in 2010, down 13.6% relative to 2009.

* *Before net profit appropriation.*

1 *100% held by HSBC Bank plc Paris Branch.*

Investment policy

2006

- Acquisition of minority interests in HSBC Private Bank France by HSBC France.
  Cost: EUR 31.3 million.
- Disposal by HSBC France of its participation in Aurel Leven.
  Proceeds: EUR 1.3 million.
- Disposal by HSBC France of its participation in Schneider.
  Proceeds: EUR 24.5 million.
- Disposal by HSBC France of its participation in Lafarge.
  Proceeds: EUR 86.5 million.
- Partial disposal by HSBC France of its participation in Altadis.
  Proceeds: EUR 22.3 million.
- Acquisition by HSBC France of 2 per cent of MTS spa.
  Cost: EUR 4.9 million.
- Investment by SAF Palissandre in a partnership set up by Deutsche Bank.
  Cost: EUR 500 million.

2007

- Acquisition by HSBC France of 50.01 per cent of Erisa and Erisa IARD 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.

2009

- Subscription by HSBC France to capital increase made by HSBC Financial Products (France).
  Cost: EUR 75 million.
- Disposal by HSBC France of its participation in Visa.
  Proceeds: EUR 2.8 million.
- Disposal of Swiss Life shares by SFS.
  Proceeds: EUR 13.6 million.

2010

- Disposal by HSBC France of its fund depositary and custodial activities and its subsidiary HSBC Securities Services (France).
  Proceeds: EUR 8 million.
- Disposal by HSBC France of its participation in Servair.
  Proceeds: EUR 3.3 million.
- Capital decrease of Nobel.
  Proceeds: EUR 46.9 million.

Other legal documents relating to the Annual General Meeting to be held on 4 May 2011

Agreements governed by Article L. 225-38 of the French Commercial Code

Article L. 225-38 of the French Commercial Code requires that any agreement entered into directly or indirectly between a company and one of its Directors or Chief Executives, or between a company and one of its shareholders owning at least 10 per cent of the voting rights, or, in the case of a corporate shareholder, the company which controls it, must first be authorised by the Board of Directors and subsequently approved at the Annual General Meeting of Shareholders. It also prohibits certain types of agreement between those parties, such as loans or guarantees.

Agreements entered into in 2010

No agreement subject to the provisions of Article L. 225-38 of the French Commercial Code was entered into in 2010.

Agreements entered into in prior years and still in force and effect during 2010

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 2010. 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 2010.

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 2010.

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 2010 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 2010.

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 2010.

The agreement entered into in 2009, and confirming decisions previously adopted by the Board of Directors, concerning the supplementary defined benefit pension scheme for Senior Executives of HSBC France, remained in full force and effect during 2010.

The agreement entered into in 2009 with HSBC Global Asset Management (France), regarding the delegation of financial management of asset management mandates allocated by clients of the HSBC France network to HSBC Global Asset Management (France), came into effect on 1 January 2010.

Statutory Auditors' report on regulated agreements and commitments

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

Year ended 31 December 2010

To the shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with Article R. 225-31 of the French Commercial Code ("*Code de Commerce*"), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R. 225-31 of the French Commercial Code ("*Code de Commerce*") concerning the implementation of the agreements and commitments already approved by the General Meeting of Shareholders.

We performed those procedures which we considered necessary to comply with professional guidance issued by the National Auditing body (*Compagnie nationale des Commissaires aux comptes*) relating to this type of engagement.

I – Agreements and commitments submitted for approval by the General Meeting of shareholders

We hereby inform you that we have not been advised of any agreements or commitments authorised in the course of the year to be submitted to the General Meeting of Shareholders for approval in accordance with Article L. 225-38 of the French Commercial Code ("*Code de Commerce*").

II – Agreements and commitments already approved by the General Meeting of shareholders

Continuing agreements and commitments which were entered in the prior years

In accordance with Article R. 225-30 of the French Commercial Code ("*Code de Commerce*"), we were informed that the following agreements, which were entered into in prior years, have continued during the year.

Agreement and commitments relating to the supplementary defined benefit pension scheme for Senior Executives

The agreement, adopted in 2009, confirmed the decisions previously adopted by the Board of Directors concerning the updating of the rules governing the supplementary defined benefit pension scheme for four Senior Executives of CCF, subsequently HSBC France, as well as the payment of these supplementary pensions to Charles-Henri Filippi, Christophe de Backer and Gilles Denoyel.

With respect to this agreement, an additional provision for pension commitments has been recorded in HSBC France accounts at 31 December 2010 for EUR 0.8 million.

With HSBC Holdings plc

- Head-office costs agreement: services provided by central departments of HSBC Holdings plc are invoiced to HSBC France with respect to the agreement settled in 2005. With respect to this agreement, the invoices represented a charge of GBP 7.9 million in 2010.
- "Group Software" agreement: HSBC Holdings plc invoices the expenses engaged by the Group regarding IT developments, in accordance with the agreement entered into in 2006. With respect to this agreement, a charge of USD 18 million has been recorded in 2010.
- Agreement renewed in 2007 and giving HSBC France and its subsidiaries the free use of the HSBC brand.

Other legal documents relating to the Annual General Meeting to be held on 4 May 2011 (continued)

With HSBC Bank plc

– Head-office costs agreement: services provided by central departments of HSBC Bank plc are invoiced to HSBC France with respect to the agreement settled in 2005. This agreement had no financial impact in 2010.

– Service level agreement for all market activities of HSBC France group: HSBC Bank plc invoices to HSBC France services covering all the market activities in accordance with the agreement settled in 2003. This agreement had no financial impact in 2010.

– Group Financial Services & European Audit terms of involvement agreement: in 2007, HSBC France and HSBC Bank plc have, further a request of the *Autorité de contrôle prudentiel*, entered into an agreement setting out the scope of the Group Financial Services & European Audit's involvement in internal audits in some of HSBC France group's business areas. With respect to this agreement, a charge of GBP 0.1 million has been recorded in 2010.

With HSBC Bank plc Paris Branch

Three agreements have been entered into during 2001 by HSBC France and HSBC Bank plc Paris Branch and remained in full force and effect during 2010:

– A group wide service agreement for the purpose of rendering services to its members at cost concerning diverse activities of the two entities.

– Service level agreement issued by HSBC France to HSBC Bank plc Paris Branch concerning various activities.

– With respect to these two agreements, the income recorded for 2010 amounted to EUR 7.9 million.

– Tax integration agreement between HSBC Bank plc Paris Branch and HSBC France. With respect to this agreement, a tax income of EUR 51.8 million has been recorded in 2010.

With HSBC Global Asset Management (France)

Agreement approved in 2009 and effective from 1 January 2010 regarding the delegation to HSBC Global Asset Management (France) (HGAM) of financial management of asset management mandates allocated by clients of the HSBC France network. With respect to this agreement, a charge of EUR 3.6 million has been recorded in 2010.

Paris-La Défense and Paris, 19 April 2011

KPMG Audit
Department of KPMG S.A.
Pascal Brouard
Partner

BDO France – Léger & Associés
Michel Léger
Partner

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 2010, and the Chairman's and the Statutory Auditors' reports on corporate governance, internal control and risk management procedures, the shareholders hereby approve the company's financial statements for that year as presented, together with the business operations reflected therein and summarised in the reports.

Second resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby approve the following proposed distribution of net profit for the year:

Net profit for the year	EUR623,670,762.87
Plus retained profits	EUR2,972,870,058.52
Total sum available for distribution	EUR3,596,540,821.39

To be distributed as follows:

Dividend of EUR10.67 per share to be paid to the shareholders	EUR719,561,539.40
Retained earnings	EUR2,876,979,281.99

According to the decisions of the Board of Directors on 27 July and 10 November 2010, advance dividends amounting to EUR 5.85 and EUR 4.82 per share have already been paid to the 67,437,820 shares issued at these dates, for a total amount of EUR 719,561,539.40.

As these advance dividends equal to the total amount of the dividend, no new payment will be made.

Dividend paid is eligible for the tax deduction referred to in Article 158 paragraph 3.2 of the General Tax Code.

The shareholders duly note that dividends paid in respect of the three previous financial years were as follows:

Year	Net dividend per share
2007	EUR3.04
2008	–
2009	EUR9.94

Dividends paid in respect of the three previous years are eligible for the tax deduction referred to in Article 158 paragraph 3.2 of the General Tax Code.

Third resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors and the report of the Statutory Auditors regarding the consolidated statements for the year ended 31 December 2010, the shareholders hereby approve the consolidated financial statements for that year as presented.

Fourth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the Statutory Auditors' report on regulated agreements governed by Article L. 225-38 of the French Commercial Code, the shareholders hereby approve successively the agreements described therein under the conditions referred to in Article L. 225-40 of said Code.

Fifth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Philippe Pontet, who is retiring by rotation, as Director for a further term of four years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2014.

Special Business

Sixth 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.

Other legal documents relating to the Annual General Meeting to be held on 4 May 2011 (continued)

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 27 May 2009.

Seventh 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 Articles L. 3332-18 and following 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.

Eighth 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 Monetary and Financial Code, and more generally, to conduct within the limits permitted by law any and all commercial, industrial or agricultural, securities or real estate, financial or other operations as well as to provide any and all services directly or indirectly connected with or which may facilitate the achievement of the foregoing object.

Trade and companies Register and APE code
775 670 284 RCS Paris – APE 6419Z.

Legal and regulatory framework
Subject to the laws and regulations relating to credit institutions, including articles in the French Monetary and Financial Code applicable to them, the company is governed by commercial law, including Articles L. 210-1 and following of the French Commercial Code and its Articles of Association.

HSBC France is a credit institution licensed as a bank. As such, the company may conduct all banking operations. It is, moreover, authorised to perform any services or related investment mentioned in Articles L. 321-1 and L. 321-2 of the French Monetary and Financial Code, with the exception of operating a multilateral trading facility. In its capacity as provider of investment services, it is subject to the regulations applicable to them under the supervision of the *Autorité des Marchés Financiers*. It is particularly subject to compliance with a number of prudential rules and controls by prudential authorities. Its Senior Management and all the people it employs are bound by professional secrecy, violation of which is punishable by law. It is also an insurance broker.

Documents and information on display
Any person requiring additional information on the HSBC France group may, without commitment, request documents by mail from:

HSBC France – 103, avenue des Champs-Elysées, 75419 Paris Cedex 08 – France.

Financial year
From 1 January to 31 December.

Distribution of profits
A minimum of 5 per cent of the net profit for the year, less any prior year losses, is transferred to the legal reserve until such time as it has reached one tenth of the company's share capital and at any time after that should it fall back below the minimum requirement.

The balance, plus any retained earnings, less any sums which the shareholders deem expedient to transfer to new or existing reserves or to retained earnings, comprises the profit available for distribution among the shareholders.

However, except in the event of a reduction of the company's share capital, no distribution may be made if total shareholders' funds are, or would as a result, become lower than the amount of the company's share capital plus any non-distributable reserves.

By way of derogation to the provisions of this article, sums may be transferred to a special employee profit-sharing reserve, as provided for by law.

Form of shares
Shares are obligatorily registered. They result in registration on an individual account pursuant to the conditions and according to the methods stipulated by the legal and regulatory provisions in force.

Voting rights
Each fully paid up share entitles the holder to one vote.

Transfer of shares
The transfer of shares takes place by way of a transfer from one account to another.

Information on HSBC France and its share capital (continued)

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 names, forenames, profession and address of the purchasers, or of the company name and registered office in the case of a company. The sale price shall be fixed by agreement between the purchasers and the transferor.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by the company, the Board of Directors must first ask for the transferor's consent. The transferor must give his answer within eight days of receiving this request.

In the absence of agreement between the parties, the price of the shares and negotiable securities giving access to the capital shall be determined by an expert valuation, under the conditions provided by Article 1843-4 of the Civil Code.

If, upon the expiry of a period of three months, the purchase has not been completed, approval shall be deemed to have been given. However, this period may be extended by the courts on an application by the company.

The transferor may, at any time, and at the latest within a period of eight days of determination of the price by the expert, abandon the disposal of his shares or negotiable securities giving access to the capital.

Disposals to the purchaser or purchasers nominated by the Board of Directors shall be completed by means of a transfer order signed by the Chairman of the Board of Directors, who shall serve it to the transferor within eight days of its date, with an invitation to attend the registered office to receive the sale price, which shall not bear interest.

All notices, requests, answers, opinions, waivers, information and consents provided for by this Article shall be validly given if sent by extrajudicial instrument or by registered letter with proof of receipt requested.

When an expert is used to determine the price of the shares or negotiable securities giving access to the share capital under the conditions provided by Article 1843-4 of the Civil Code, the expert's fees shall be paid in equal shares by the assignor and assignee.

This approval clause, which is the purpose of this Article, also applies to disposals of allocation rights in the event of capital increases by way of incorporation of reserves, profits or issue premiums, and disposals of subscription rights in respect of capital increases in cash or individual waivers of subscription rights in favour of named individuals.

In these cases, the rules governing approval and the buyback conditions shall apply to the securities subscribed, and the time given to the Board of Directors to notify the third party subscriber whether it accepts him as a shareholder shall be three months from the date of final completion of the capital increase.

In the event of a buyback, the price shall be equal to the value of the new shares or negotiable securities giving access to the capital determined under the conditions provided by Article 1843-4 of the Civil Code.

Custodian and financial service

HSBC France.

History of the company

1894: The Banque Suisse et Française (BSF) is founded. It will become the Crédit Commercial de France.

1965: First CCF advertising campaign.

CCF keeps growing, particularly on an international level. Its presence outside of France is strengthened with the opening of branches, subsidiaries and representative offices abroad.

From 1982 to 1987, CCF creates a European investment bank and the acquisition of interests in Union de Banque à Paris, Européenne de Banque and Banque Chaix is the basis of the future CCF group.

1987: CCF privatisation. Apart from its national network, CCF has progressively created a group of regional banks operating under their own brand.

1990: Crédit Commercial du Sud-Ouest is created with the CCF branches located in Gironde département.

1992: CCF acquires Banque Marze in Ardèche département.

1993: CCF acquires Banque de Savoie.

1994: Centenary of CCF.

CCF develops its activities in Investment Banking, International Private Banking, Asset Management, and French retail banking with the acquisition of other regional banks.

During the 90's, Asset Management activity becomes the third main activity in CCF group.

1995: CCF acquires Banque Dupuy, de Parseval.

1998: Société Marseillaise de Crédit joins CCF group.

1999: CCF acquires 100 per cent of Banque de Picardie.

April 2000: CCF joins the HSBC Group and becomes the European platform of the HSBC Group.

August 2000: CCF acquires Banque Pelletier.

2001: CCF acquires Banque Hervet.

June 2002: Crédit Commercial de France changes its legal name to CCF.

November 2005: CCF becomes HSBC France and certain of its subsidiaries change their legal name and adopt the HSBC brand. HSBC France, HSBC Hervet, HSBC 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 2010, 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	27 May 2009
Expiry date	27 July 2011
Maximum nominal amount	EUR100 million
Used amount	EUR0

The renewal of this authority for EUR 100 million until 4 July 2013 will be proposed to the Annual General Meeting to be held on 4 May 2011.

Information on HSBC France and its share capital (continued)

Movements in share capital

	2010			2009		
	Number of shares	**Share capital in euros**	**Share premium in euros**	Number of shares	Share capital in euros	Share premium in euros
At 1 January	**67,437,820**	**337,189,100**	**—**	67,437,820	337,189,100	—
Exercise of share options[1]	**—**	**—**	**—**	—	—	—
Reduction of share capital by cancellation of own shares held	**—**	**—**	**—**	—	—	—
Capital increase	**—**	**—**	**—**	—	—	—
At 31 December	**67,437,820**	**337,189,100**	**—**	67,437,820	337,189,100	—

1 *Of which:*

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.*

2008			2007			2006		
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
75,963,895	379,819,475	—	75,683,045	378,415,225	—	75,237,930	376,189,650	—
221,154	1,105,770	16,138,604.17	280,850	1,404,250	20,508,296.50	445,115	2,225,575	34,307,829.70
(8,750,000)	(43,750,000)	(834,122)	—	—	—	—	—	—
2,771[2]	13,855	—	—	—	—	—	—	—
67,437,820	337,189,100	—	75,963,895	379,819,475	—	75,683,045	378,415,225	—

100,379 shares issued at EUR 73.48
120,775 shares issued at EUR 81.71

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

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

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 31.12.2010	Expiry date
2000	909,000	EUR142.50	–	2010

Ownership of share capital and voting rights at 31 December 2010

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

	2010	2009	2008	2007	2006
Number of shares at 31 December	**67,437,820**	67,437,820	67,437,820	75,963,895	75,683,045
Average number of shares outstanding during the year	**67,437,820**	67,437,820	75,020,854	75,698,434	75,262,320
EPS[1]	**EUR6.73**	EUR5.15	EUR23.51	EUR12.88	EUR8.14
Net dividend	**EUR10.67**	EUR9.94	EUR0	EUR3.04	EUR8.10
Exceptional dividend	**–**	–	–	EUR6.54	–
Dividend + tax credit	**–**	–	–	–	–
Payout[2]	**158.5%**	193%	0%	74.4%	100%

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 4 May 2011, the Board will propose a net dividend of EUR 10.67 per EUR 5 nominal share. As the proposed amount equals the advance dividends decided by the Board on 27 July and 10 November 2010, there would be no new payment.

Dividends which are not claimed within five years of the payment date lapse and become the property of the French Treasury.

Employees, remuneration, share offering and incentive schemes

The following information is provided in compliance with the provisions of Article 1 of the decree no. 2002-221 of 20 February 2002, in application of Article L. 225-102-1 of the French Commercial Code inserted by the law no. 2001-420 (the "New Economic Regulations" Act).

Employees at 31 December

Number of staff members

	2010 [1]	2009 [2]	2008 [3]	2007	2006
Total HSBC France group	**10,479**	10,677	11,227	14,795	14,901
HSBC France	**9,706**	9,748	10,218	8,789	8,503
Subsidiaries and branches	**773**	929	1,009	6,006	6,398

Full time equivalents

	2010 [1]	2009	2008	2007	2006
Total HSBC France group	**10 121**	10,350	10,886	14,279	14,379
HSBC France	**9 365**	9,435	9,892	8,486	8,204
Subsidiaries and branches	**756**	915	994	5,793	6,175

1 *In 2010, disposal of HSBC Securities Services (France), specialising in fund administration activities.*
2 *During 2009, most HSBC Financial Products (France) employees were integrated into HSBC Bank plc Paris Branch, which is excluded from the scope presented above.*
3 *2008 was subject to two major events : the sale by HSBC France of its seven regional banking subsidiaries and the legal merger of the four banks (HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie) with HSBC France.*

2009/2010 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 slightly decreased in 2010

2010 headcount: 9,706, a decrease of 0.4 per cent or 42 employees on 2009.

New employees (excluding Group mobility): 979 in 2010, of which 503 new permanent employees and 476 contract staff, including 242 young people on work placements.

Departures: 1,078. Resignations accounted for 23 per cent of total departures and retirement for 17 per cent.

The structure of the workforce was not significantly different from previous years: there was a slight increase in the proportion of management staff, and there is an increasing proportion of women in managerial roles

The proportion of management staff is now 64 per cent. Within this management staff group, the percentage of women has reached 48 per cent.

At 31 December 2010, 925 employees were working part time under flexible working agreements, representing 9.5 per cent of total staff.

HSBC France employed 250 staff with disabilities at the end of 2010.

Employees, remuneration, share offering and incentive schemes (continued)

Employee relations and collective bargaining agreements

- amendments no. 2 and no. 3 to the HSBC France agreement establishing a group benefits scheme for the reimbursement of medical expenses;
- amendment no. 1 on the exercise of trades union activities within HSBC France;
- agreement relating to employees in the reserve staff pool;
- amendment no. 2 to the 15 October 2008 agreement on bonuses, benefits in kind and employee welfare benefits - childcare;
- 2010 agreement on end-of-career leave and voluntary service leave;
- agreement on the monetisation of rest days saved on the time savings account;
- minutes of disagreement relating to the 2011 annual pay negotiations for HSBC France;
- amendment no. 1 to the HSBC France agreement setting up a group benefits plan “Incapacity, Disablement and Death”.

Pay

In 2010, Senior Executive Management unilaterally decided to apply the following measures:

- a minimum pay rise for employees whose annual salary is EUR 35,000 or less;
- minimum annual gross basic salary for technician grade staff increased to EUR 22,000;
- minimum annual gross basic salary for management grade staff increased to EUR 32,000;
- a budget for individual pay increases in the following situations:
  - to encourage equal treatment between men and women,
  - for employees having taken long-term maternity, adoption or parental education leave,
  - for employees aged over 50 who have not had a selective pay rise in the last five years,
  - for the annual examination and possible revision of the pay of employee representatives under the agreement for the exercise of trade union activities within HSBC France;
- budgets for individual pay revisions.

Training

HSBC France promotes training courses in the company’s main types of business, so that people can acquire the skills they need to do their jobs, in conjunction with practical on-the-job application. This approach shaped the training plan in 2010, as in previous years.

With the first HSBC Business School projects, the theme of 2010 was the modernisation and standardisation of the range of training throughout HSBC’s world.

Hence, the first training school for business banking advisers (the Business Banking Academy) was developed on the basis of the HSBC global model. From now on a consistent and shared set of professional values is built into the quality of the training. This academy now offers up-to-date and comprehensive training courses to support business advisers with the varied aspects of their jobs (technical skills, knowledge of products and services, customer approach and risk management/regulation) and through the various stages of their career development.

These developments form part of the on-going commitment to online training (e-learning) which is already deeply rooted in all parts of the business: English-language training for employees in all types of business, Performance Management, Leadership and Manager Coach Courses for managers, banking applications for business banking and new joiners, regulatory and risk training for everybody, the continuation of wealth management for branch customer advisers, and also selling, negotiation, quality of services, and products. Alongside e-learning modules lasting 30 to 45 minutes, there is also training by means of direct or pre-registered virtual classes.

Training through e-learning at HSBC is most often done using a “blended” learning approach where this is most suitable for acquiring knowledge, whereas for practical and behavioural subjects face-to-face teaching is indicated.

To foster the development of managerial skills, transition courses on Leadership have been adapted. These courses are for new managers at each stage of their progress in leadership. They are intended to provide maximum support to managers in learning about the behavioural changes needed in their new jobs and the practice of leadership in HSBC culture. The work particularly covers the incorporation of HSBC values (open, connected and reliable) into managerial practices and in the acquisition of leadership skills to be put into practice at all levels of the company, following a responsible leadership model. Managers of managers have also benefited from courses on leadership in times of change, which contributed to them becoming increasingly sensitive to the psychosocial risks that could potentially arise from changes in the organisation.

2010 also provided the framework for training projects with a more local focus designed around the 2011 Strategic Plan and the bank’s strategic guidelines.

Retail Banking saw the continuation of the work on specialisation that was initiated in 2009, with the introduction of the level 3 Premier Accreditation (around 800 employees – Premier advisers/deputy managers, wealth management advisers moving to Premier, business banking advisers with Premier customers and branch managers) and the foundations of support for professional advisers following the split into two separate markets (“Professionals” and “Entrepreneurs” segments). This support mirrors arrangements in Commercial Banking, with training initiatives and gateways brought in to support the creation of an Entrepreneurs’ segment and the associated adviser and business advice centre manager jobs.

Training courses for HSBC Technologies and Services technicians have been extended on credits commitment of Personal Financial Services and Commercial Banking services for Regional Commitments teams.

In 2010, Global Banking and Markets continued with its training work on advanced techniques, with increasing convergence between the financial centres of Paris, London, Hong Kong and New York.

Finally, for some of these types of business, a new training process was introduced to meet the new obligations laid down by the *Autorité des Marchés Financiers,* under regulations for professional certification.

Overtime, temporary staff and sub-contracting

The total number of overtime hours declared by employees in 2010 was considerably lower than in 2009 (-17 per cent), with total headcount down 3 per cent. Time worked outside normal hours fell, mainly because of fewer hours worked under the terms of the Exceptional Working Time Agreement. It was down 21 per cent on 2009, in which there was major work on IT systems.

2010 was notable for greater use of IT development provided by the HSBC Group’s Global Technology IT centres in Asia, which helped limited recourse to IT outsourcing in France. Work previously carried out in the back offices continued to be transferred to the HSBC Group Services Centres.

Health & safety

HSBC France has Health & Safety and Work Committees covering all its activities in France.

These Committees have resources above the minimum required by law, particularly in terms of inspections of the group’s premises and the number of representatives.

In 2010, the Committees were particularly involved in consultations relating to the many relocations at central sites, employee courses on the renovation and refurbishment of branches provided for in the 2011 Strategic Plan, as well as the consideration and support of reorganisation on the working conditions of employees.

Absenteeism

Maternity leave remained at a high level in 2010, since recruitment over the last few years resulted in a higher proportion of female and younger staff. Absences caused by sickness were fewer in 2010 than in the previous year.

Employees, remuneration, share offering and incentive schemes (continued)

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 3,0 million.

Since the legal merger in late July 2008, the subsidy previously paid to the mutual benefit society by HSBC France in respect of members' contributions has been replaced by an employer contribution to the financing of employees' individual mandatory contributions, which is calculated by payroll.

However, a new subsidy has been introduced. HSBC France pays the HSBC France employees' mutual benefit society fund an amount corresponding to 0.05 per cent of HSBC France base salaries. A joint committee for monitoring the plan defines the direction to be taken by the fund and decides on aid given to employees by this means. Within the framework of paying contributions into the healthcare expenses plan, the fund can provide financial support for single-parent families in difficulty due to their situation.

HSBC France contributed EUR 8,9 million to additional employee benefits (housing, compensation for children starting a new school year, travel, childcare, Mother's Day, loyalty and long-service awards).

Employee share capital issue for the employees of the HSBC France group ("the group")

In 2010, an HSBC Holdings plc share capital issue was proposed for employees, former employees in the company savings plan, and for employees of French subsidiaries owned more than 51 per cent.

HSBC France employees with at least three months' service were entitled to subscribe to the issue, investing the following:

- the full amount of their employee profit-sharing entitlement;
- the full amount of their incentive scheme entitlement (if any);
- their own personal contribution up to the statutory maximum.

The arrangements for this were as follows:

- subscription period: between 5 May and 27 May 2010;
- subscription price: the subscription price was based on the average HSBC Holdings plc share price during the twenty London Stock Exchange trading sessions preceding 31 March 2010, the date on which the Remuneration Committee of HSBC Holdings plc made its decision;
- investment options: only one investment option was available to employees. With their profit-sharing, incentive scheme and personal contributions they were able to acquire HSBC Holdings plc shares at a 20 per cent discount, up to a total investment of EUR 5,250. The share subscription price was EUR 6.1884;
- maximum investment: the maximum number of shares that group employees could subscribe for may not exceed 4,000,000 HSBC Holdings plc shares. In the event of oversubscription, applications would be reduced proportionately, starting with voluntary contributions.

Employees took up a total of 2,928,134 HSBC Holdings plc shares, amounting to EUR 18.1 million.

Incentive schemes

A three-year employee profit-sharing agreement and incentive scheme were created on 19 May 2009 for HSBC France, covering 2009, 2010 and 2011.

Profit-sharing agreements

HSBC France's profit-sharing entitlement is calculated using an alternative method rather than the standard method applicable under ordinary law. The alternative method is based on a sliding percentage scale of HSBC France's restated net profit.

Restated net profit is calculated as restated operating profit less various provisions and a standardised tax charge.

The total profit-sharing entitlement may not exceed accounting net profit less 5 per cent of equity.

In addition, the total profit-sharing and incentive scheme entitlement is capped at 8.25 per cent of the total payroll costs that serve as a basis for calculating social security contributions, as defined in the annual wage returns.

Incentive scheme

The HSBC France incentive scheme is based on three aggregates: restated operating profit, the cost efficiency ratio and two environmental indicators, water consumption and energy consumption.

For the two earnings indicators, the incentive entitlement is based on a sliding percentage scale of operating profit and the improvement in the cost efficiency ratio compared with the previous year. The cost efficiency ratio multiplier can increase the amount of the entitlement based on the percentage of operating profit by up to 20 per cent.

In addition, to take account of the growing importance of sustainability issues, the incentive scheme included two environmental criteria for the first time: the reduction in water consumption and energy consumption compared with the previous year. The improvement in these two indicators can increase the incentive entitlement based on a percentage of operating profit by up to 10 per cent.

As indicated above, the total profit-sharing and incentive entitlement is capped at 8.25 per cent of the total payroll costs that serve as a basis for calculating social security contributions, as defined in the annual wage return.

Collective bargaining agreement relating to regulations for the HSBC France company savings plan

The agreement signed in 2008 offered all HSBC France employees a new and improved company savings plan as of 1 January 2009.

Employee payments into the company savings plan and the long-term future retirement savings plan (*PERF*) will benefit from the following employer's top-up contributions:

– the company may make a top-up payment into the company savings plan of up to EUR 1,800 a year;

– the company may make a top-up payment into the future retirement savings plan of up to EUR 624;

– making a total contribution from the company of up to EUR 2,424 a year.

Share option policy

Pursuant to the authority granted by the shareholders at the Annual General Meeting of 22 July 1987, renewed at the Annual General Meetings of 13 May 1992 and 7 May 1997, the Board of Directors established a policy of awarding share options each year to the Executive Directors and Senior Managers of CCF group. At the proposal of the Nomination and Remuneration Committee, the Board gradually extended the share option policy with a view to retaining key employees and encouraging value creation.

Employees, remuneration, share offering and incentive schemes (continued)

CCF Options awarded (Table 8 [1])

Date of Annual General Meeting authority	07.05.1997
Date of Board meeting	12.04.2000
Total number of options awarded of which: number of options awarded to members of the Management Committee	909,000 161,000*
Total number of beneficiaries	502
Number of Management Committee beneficiaries	10*
First exercise date	01.01.2002
Expiry date	12.04.2010
Exercise price	EUR142.50**
Discount to average quoted share price	5%
Number of options exercised at 31 December 2010 Number of options lapsed Number of options outstanding	264,250 644,750 –

* *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 22 December 2008 recommendation 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.

The liquidity contract sets out the terms and conditions on which CCF employees undertook to sell or exchange their CCF shares, depending on the year in which the options were awarded.

Regarding options awarded from 1997 to 2000, upon expiry of the lock-up period or upon exercise of the options if later, beneficiaries will exchange all the CCF shares issued pursuant to the exercise of their options for a number of HSBC ordinary shares determined using the ratio applicable to the offer, adjusted for any changes in the share capital of either HSBC or CCF.

HSBC Holdings plc options and shares

Since 2001, following CCF's integration into the HSBC Group, CCF has no longer awarded CCF share options as employees can since then participate in the share option plan offered by the HSBC Group (part B) in the form of a French sub-plan which complies with the legal and tax regulations applicable in France.

Under this plan, HSBC Holdings share options were granted to a number of the HSBC France group's employees in 2001, 2002, 2003, 2004 and 2005.

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.

The aim of the HSBC Share Plan is to align the interests of executives to the creation of shareholder value and recognise individual performance and potential. Awards are also made under this plan for recruitment and retention purposes. From 2006, the general policy of the HSBC Group is to award shares instead of share options (except in case of specific legal and tax regulations).

The HSBC Group distinguishes three categories of shares:

– "Performance Shares" awarded under specific conditions detailed below,
  - a three-year vesting period;
  - two performance conditions relating to the HSBC Group, independent from each other:
    – 50 per cent of the award were subject to the level of the Total Shareholder Return (TSR), measure against a comparator group of 28 major banks,
    – 50 per cent of the award were subject to growth of the earnings per ordinary share published by the Group relating to the three years of the vesting period.

The "Performance Shares" granted in 2006 to the main HSBC France Senior Executives were reduced by around 80 per cent when definitively vested in April 2009. In fact, the condition relating to TSR was only partially achieved at 39.46 per cent. At the same time, the performance condition relating to the earnings per ordinary share failed.

– "Restricted Shares" awarded without particular performance conditions but which definitively vest for the employees still working for the Group after a two-year or three-year period;

– "Achievement Shares" awarded without particular performance conditions but which definitively vest for the employees still working for the Group after a two-year period. They are no longer awarded as of 2010.

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).

Employees, remuneration, share offering and incentive schemes (continued)

Information on shares awarded

HSBC Holdings plc shares awarded in 2010 in respect of 2009

In respect of 2009, no HSBC France Executive Director, except Stuart Gulliver who does not receive any remuneration from HSBC France, was involved in the work of the Group Management Board. Therefore, no shares with performance conditions were awarded.

– 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 (50% and 50%)		Date of availability (50% and 50%)	
Value of the shares awarded to Executive Directors							
P Boyles	01.03.2010	86,641	EUR659,195	01.03.2012	01.03.2013	01.03.2014	01.03.2015
C de Backer	01.03.2010	94,632	EUR720,000	01.03.2012	01.03.2013	01.03.2014	01.03.2015
C de Backer	28.05.2010	37,152	EUR280,000	28.05.2012	28.05.2013	28.05.2014	28.05.2015
G Denoyel	01.03.2010	39,430	EUR300,000	01.03.2012	01.03.2013	01.03.2014	01.03.2015
G Denoyel	28.05.2010	2,654	EUR20,000	28.05.2012	28.05.2013	28.05.2014	28.05.2015
Total value of the 10 highest awards of shares (employees or former employees)	01.03.2010	2,790,687	EUR21,232,642	01.03.2012	01.03.2013	01.03.2014	01.03.2015

1 *Including the shares awarded under the British plan, for which, dates and vesting rules are different (a third in 2011 – a third in 2012 – a third in 2013).*

HSBC Holdings plc shares awarded in 2011 in respect of 2010

In respect of 2010, no HSBC France Executive Director, except Stuart Gulliver who does not receive any remuneration from HSBC France, was involved in the work of the Group Management Board. Therefore, no shares with performance conditions are awarded.

– Shares without performance conditions

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date	Date of availability
Value of the shares awarded to Executive Directors					
C de Backer	15.03.2011	136,511	EUR1,031,783	15.03.2013 for 66% and 15.03.2014 for 34%	15.03.2015 for 66% and 15.03.2016 for 34%
J Beunardeau	15.03.2011	81,817	EUR618,392	15.03.2013 for 66% and 15.03.2014 for 34%	15.03.2015 for 66% and 15.03.2016 for 34%
J Beunardeau	15.03.2011	54,544	EUR412,261	15.03.2011	15.09.2011
G Denoyel	15.03.2011	46,307	EUR350,000	15.03.2013 for 66% and 15.03.2014 for 34%	15.03.2015 for 66% and 15.03.2016 for 34%
Total value of the 10 highest awards of shares (employees or former employees)	15.03.2011	1,183,362	EUR8,944,087	15.03.2013 for 66% and 15.03.2014 for 34%	15.03.2015 for 66% and 15.03.2016 for 34%

Information on options exercised and shares which became available in 2010

CCF options exercised

	Number of options exercised	Exercise price EUR/share	Date of award	Expiry date
Options exercised by Executive Directors	None			
Total 10 highest options exercised (employees or former employees)	None			

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)	174,606	6.02 to 7.22 (average weighted price: 6.34)	2003 and 2004	2013 and 2014

HSBC Holdings plc shares which became available

As shares were first awarded in 2006 and considering that the shares become available under the rules described above, the shares awarded in 2006 became available on 21 March 2010 or will be available in 2011 in case of "Performance Shares".

– Shares without performance conditions

	Date of award	Number of shares awarded [1]	Vesting conditions (in case of special conditions)
Value of the shares awarded to Executive Directors			
P Boyles	05.03.2007	34,223	
C de Backer	21.03.2006	41,937	
J Beunardeau	21.03.2006	38,442	
G Denoyel	21.03.2006	13,979	
Total value of the 10 highest awards of shares (employees or former employees)	21.03.2006	362,917	

1 *Including the shares awarded under the British plan, for which, dates and vesting rules are different (a third in 2011 – a third in 2012 – a third in 2013).*

Options granted by subsidiaries to their employees

Several of CCF's French subsidiaries have established their own share option plans. However, in order to comply with the regulations governing HSBC, CCF decided to cease this practice in 2001, with the exception of two subsidiaries, which were granted special dispensation. These were therefore the only two subsidiaries to have awarded share options during 2001. In 2002, only Banque Eurofin awarded options under the special dispensation granted by CCF. Since 2003, no subsidiary has awarded share options.

No Executive Director of HSBC France or member of the HSBC France's Executive Committee holds options in the HSBC France group's subsidiaries.

HSBC Private Bank France

Following the merger between HSBC Bank France, Banque Eurofin, Banque du Louvre and CCF Banque Privée Internationale on 1 October 2003, options over Banque Eurofin, Banque du Louvre and CCF Banque Privée Internationale shares have been exchanged for options over shares in the merged entity at a parity determined at the time of the merger.

In addition, a liquidity contract has been granted to beneficiaries of HSBC Private Bank France options, which sets out the terms and conditions for their exchange against HSBC Holdings plc ordinary shares on the basis of a parity of 1.83, fixed on 1 October 2003.

No Executive Directors of HSBC Private Bank France exercised any HSBC Private Bank France options in 2010.

	Options exercised	Exercise price EUR/share	Date of award	Expiry date
Total options exercised by 1 employee	4,420	12.44	2000	2010

Employees, remuneration, share offering and incentive schemes (continued)

Compensation policy

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

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

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

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

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

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

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

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

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

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

Main characteristics of the bank's compensation policy

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

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

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

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

Performance appraisal is based on achieving targets set for the employee by the manager at the start of the year. These targets include both collective and individual criteria (pre-tax profit, cost efficiency ratio, return on equity, and changes in costs) and more qualitative criteria covering three main areas:

- the process and risk area (observance of compliance and internal control rules, quality of service, amount of operational losses, follow-up of audit points, compulsory training attendance rate);
- the customer area (customer recommendations, cross-businesses synergies, winning Premier customers); and
- the human area (for example, employee engagement index, high-achiever retention rate).

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

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

In compliance with the rules laid down by the regulators, the variable compensation of employees whose professional activities have a significant impact on the entity's risk profile ("regulated population" within the meaning of the industry standard) is subject to specific rules on deferment of compensation, and on structuring variable compensation between cash and shares. As stated above, and according to applicable rules, HSBC France has chosen to implement the HSBC Group policy in these areas.

The "regulated population" at the level of the HSBC Group includes 7 employees of HSBC France. Among these people, deferred variable remuneration accounts for at least 40 per cent of their variable remuneration and 60 per cent of the highest variable remunerations. For this population, variable remuneration granted in the form of shares accounts for 50 per cent of variable remuneration granted; this 50 per cent applies to both the deferred component and to its immediately paid fraction.

In addition to the "regulated population" at the level of the HSBC Group, HSBC France has decided to widen the regulated category to a broader range of employees, including those whose professional activities significantly impact the French operations' risk profile, as well as the Heads of the main risk control functions, *i.e.* a total of 54 employees. It has to be noted that out of these 54 employees, 18 are employees of the French branch of HSBC Bank plc.

This second category of "regulated employees" is submitted to rules noticeably more restrictive than the rest of the population (higher deferred proportion, from 40 to 60 percent, in most cases).

For this entire widened population of 61 people, an average 52 per cent of variable remuneration is deferred (with 60 per cent deferred for the highest remunerations), while the cash portion represents 51 per cent of variable remuneration and the portion in shares represents 49 per cent. The deferred share-based portion does not vest until after a period of two years for 66 per cent of it and after three years for the remaining 34 per cent. This is furthermore subject to a two-year retention period starting from vesting, and there is a prohibition on hedging or insuring it.

It should be noted that over and above the widened population, the great majority of the business' senior managers are affected by the minimum deferred compensation rules laid down by the HSBC Group which, for 2010, provide for deferred compensation in the form of shares of between 10 per cent and 50 per cent of variable compensation, to which the above rules on vesting and retention apply.

Employees, remuneration, share offering and incentive schemes (continued)

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

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

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

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

Compensation granted in respect of the financial year

Distribution between the fixed and variable portion

	Number of people concerned	Total 2010 compensation (in EUR)	Total fixed compensation (in EUR)	Total variable compensation (in EUR)
Executive members	3	5,704,640	1,223,334	4,481,306
Professionals having a significant impact on risks	58	47,393,493	8,377,606	39,015,887

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

(in euros)	Vested, paid or delivered amount	conditional deferred amount
Executive members	3,085,856	2,618,784
Professionals having a significant impact on risks	27,442,264	19,951,229

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

(in euros)	Payments in cash	Payments in shares or equivalent instruments
Executive members	3,291,987	2,412,653
Professionals having a significant impact on risks	28,605,922	18,787,571

Outstanding variable compensation

(in euros)	Amounts of unvested deferred compensation in respect of the financial year	Amounts of unvested deferred compensation in respect of previous financial years
Executive members	2,618,784	5,298,420
Professionals having a significant impact on risks	19,951,229	35,101,822

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

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

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

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

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

Oustanding deferred compensation paid or reduced after adjustments according to results

(in euros)	Amount of deferred compensation paid	Amount of reductions made from deferred compensation
Executive members	1,510,000	–
Professionals having a significant impact on risks	7,469,184	–

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

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

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

Amounts paid in respect of hirings and terminations during the year

	Amount of severance payment paid and number of beneficiaries		Amount of sums paid for hirings and number of beneficiaries	
	Sums paid (in EUR)	Number of beneficiaries	Sums paid (in EUR)	Number of beneficiaries
Executive members	–	–	–	–
Professionals having a significant impact on risks	28,623	1	–	–

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

Termination compensation guarantees

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

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

Recent developments and outlook

Post-balance sheet events

New products and services are frequently offered to the customers of the HSBC Group in France. Information is available on the group's websites, and particularly in the press releases that can be viewed on the www.hsbc.fr website.

There has been no significant change affecting the issuer's or its subsidiaries' financial or sales situation since 31 December 2010, the date of the last audited and published financial statements.

Main post-balance sheet events

There was no post-balance sheet event regarding the HSBC France group.

Outlook

There has been no significant deterioration affecting the issuer's or its subsidiaries' outlook since 31 December 2010, the date of the last audited and published financial statements.

HSBC France is set to continue its development in 2011 relying on the HSBC Group's strengths, namely widespread recognition of HSBC, the world's leading brand in banking [1], and the HSBC Group's financial solidity, with its high rate of capital generation and prudent, strict liquidity management.

HSBC France's 2010 Strategic Plan has been a success. HSBC France is now positioned as a centre of excellence in the HSBC Group, in particular in Global Markets activities, Insurance and Asset Management. HSBC France will continue to benefit from the HSBC Group's worldwide presence, to become one of France's leading banks alongside those with large-scale international operations.

HSBC France also aims to become a universal bank at its customers' service. It will strengthen existing synergies between its business lines and win greater numbers of customers in the various sectors of Retail Banking, also distributing its products to other customer segments.

1 *League table 2010 Brand Finance Banking 500.*

Persons responsible for the Registration Document and for auditing the financial statements

Person responsible for the Registration Document

Mr Christophe de Backer, Chief Executive Officer.

Statement by the person responsible for the Registration Document

I declare, after taking all reasonable measures for this purpose and to the best of my knowledge, that the information contained in this Reference Document is in accordance with the facts and that it makes no omission likely to affect its meaning.

I declare, to the best of my knowledge, that the accounts have been prepared in accordance with applicable accounting standards and are a fair reflection of the assets, liabilities, financial position and profit or loss of the company and all the undertakings included in the consolidation scope, and that the management Report on pages 2 to 7 presents a fair view of the company's business, results and financial position and that of all the undertakings included in the consolidation scope, as well as a description of the main risks and uncertainties to which they are exposed.

I have received a completion letter from the Auditors stating that they have audited the information contained in this Document about the financial position and accounts and that they have read this Document in its entirety.

The historical financial data presented in this Document has been discussed in the Statutory Auditors' reports found on pages 167 to 168 on consolidated financial statements and on page 210 to 211 on the parent company financial statements, which contain remarks.

Paris, 26 April 2011

Christophe de Backer, CEO

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 Pascal Brouard[2]			
1, cours Valmy			
92923 Paris La Défense Cedex			
BDO France – Léger & Associés[3]	2007	–	2012
Represented by Michel Léger			
113, rue de l'Université			
75007 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 as of financial year 2009.*
3 *Member of the* Compagnie Régionale des Commissaires aux comptes *of Paris.*

Auditors' fees paid in 2010 within the HSBC France group are available in Note 38 to the consolidated financial statements on page 166.

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 2009 and the Statutory Auditors' report on the consolidated financial statements, presented on pages 64 to 155 and 156 to 157 of the Registration Document 2009 filed with the AMF on 29 April 2010 under reference number D10-0367; and
- the parent company financial statements for the year ended 31 December 2009 and the Statutory Auditors' report on the financial statements, presented on pages 5 to 47 and 48 to 49 of the Amendment of the Registration Document 2009 filed with the AMF on 20 May 2010 under reference number D10-0367 R01.

This Registration Document includes the annual financial report:

These documents are available on the website www.hsbc.fr and on the AMF's website www.amf-france.org.

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Network of offices (continued)

HSBC GROUP INTERNATIONAL NETWORK*

Around 7,500 offices in 87 countries and territories:

EUROPE	OFFICES
Armenia	7
Austria	1
Belgium	2
Channel Islands	39
Czech Republic	3
France	402
Georgia	1
Germany	16
Greece	21
Hungary	1
Ireland	7
Isle of Man	3
Italy	2
Kazakhstan	10
Luxembourg	7
Malta	47
Monaco	3
Netherlands	1
Poland	17
Russia	7
Slovakia	2
Spain	4
Sweden	2
Switzerland	31
Turkey	336
United Kingdom	1,350

ASIA-PACIFIC	
Australia	39
Bangladesh	13
Brunei Darussalam	12
China	175
Cook Islands	1
Hong Kong SAR	324
India	132
Indonesia	198
Japan	11
Korea, Republic of	14
Macau SAR	7
Malaysia	56
Maldives	1
New Zealand	11
Pakistan	11
Philippines	26
Singapore	24
Sri Lanka	16
Taiwan	50
Thailand	2
Vietnam	17

AMERICAS	OFFICES
Argentina	179
Bahamas	5
Bermuda	13
Brazil	1,353
British Virgin Islands	3
Canada	272
Cayman Islands	11
Chile	8
Colombia	23
Costa Rica	35
El Salvador	89
Guatemala	1
Honduras	77
Mexico	1,202
Nicaragua	1
Panama	74
Paraguay	6
Peru	23
United States of America	524
Uruguay	16
Venezuela	1

MIDDLE EAST and AFRICA	
Algeria	2
Angola	1
Bahrain	9
Egypt	88
Iraq	17
Israel	1
Jordan	6
Kenya	1
Kuwait	1
Lebanon	8
Libya	1
Mauritius	12
Nigeria	1
Oman	8
Palestinian Autonomous Area	1
Qatar	7
Saudi Arabia	103
South Africa	5
United Arab Emirates	31

* *As at 28 February 2011.*
Associated companies are included in the network of offices.

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