HSBC France
Annual Report and Accounts 2011

HSBC

The HSBC Group

HSBC is one of the world's largest banking and financial services organisations. With around 7,200 offices in both established and faster-growing markets, HSBC aims to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper and, ultimately, helping people to fulfil their hopes and realise their ambitions.

HSBC serves around 89 million customers through four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Its network covers 85 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. The HSBC Group's aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 220,000 shareholders in 132 countries and territories.

In 2011, HSBC's reported profit before tax was USD 21,872 million and the underlying pre-tax profit was USD 17,696 million. Profit attributable to shareholders of the parent company was USD 16,797 million. Group total assets were USD 2,555 billion at 31 December 2011.

Geographical distribution of results - Contribution to profit before tax:

Year ended 31 December 2011

	USDm	%
Europe	4,671	21.3
Hong Kong	5,823	26.6
Rest of Asia Pacific	7,471	34.2
Middle East and North Africa	1,492	6.8
North America	100	0.5
Latin America	2,315	10.6
Profit before tax	21,872	100.0

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

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Report of the Board of Directors to the Annual General Meeting

In 2011, HSBC France once again proved the relevance of its universal banking model. In France, Retail Banking and Wealth Management, Private Banking, Commercial Banking and Global Banking and Markets 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 developments in 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 four business units.

Retail Banking and Wealth Management includes Personal Financial Services and Asset Management and Insurance activities. Personal Financial Services offers individual services to personal and business customers with a holistic approach to their financial needs. Capitalising on the HSBC Group strengths, HSBC in France continues its expansion policy in its target segment, wealth management. With a strong presence in the largest French cities, with almost 320 branches, including 32 HSBC Premier Centres and direct banking services, HSBC in France is supported by teams of experts specialised according to customer profile and proposals meeting our customers' aspirations: HSBC Premier and HSBC Advance, as well as for their private or professional needs.

Private Banking offers products and services tailored to the needs of resident and international high-net-worth individuals, through the expertise of its discretionary and advisory management teams and strong synergies with HSBC France's other business lines, particularly with Commercial Banking and Global Banking.

Commercial Banking offers an extensive range of domestic and international products and services providing daily support to businesses ranging from very small enterprises to multinationals. It is supported by a recognised expertise in accompanying businesses in their international development, particularly in emerging markets, by the HSBC network throughout the world, by specialists in Cash management, Trade services and Factoring, by a domestic network specialised by type and size of business (10 Corporate Banking Centres, 51 "*Centres d'Affaires Entreprises*" dedicated to SMEs and 15 "*Pôles Entrepreneurs*" dedicated to very small enterprises) and by direct banking services for very small enterprises and associations.

HSBC's global and local scale makes it an ideal partner for large corporations and institutional investors, their projects and transactions, both in France and worldwide. HSBC offers a complete range of services both in Global Markets and Global Banking activities.

2014 Strategic Plan

In 2011, HSBC France reiterated its aim to develop as a universal bank, through its 2014 Strategic Plan, presented on 5 July. This plan is in line with that of the HSBC Group and follows on from the strategy adopted by HSBC France in 2005, which aims to accelerate its growth while improving efficiency by:

– focusing on wealth management for personal customers;

– bolstering international connectivity for business customers;

– strengthening Global Banking and Markets positioning in Paris as a strategic hub for the HSBC Group; and

– strengthening synergies between businesses.

With this plan, HSBC France is aiming for greater efficiency by simplifying procedures and adapting the organisational structure of each business line. Implementation will not involve any forced redundancies. Furthermore, performances will be improved on the basis of a generally more competent organisational structure, made possible by an unprecedented training drive. More than 1,500 employees are to undergo training, primarily in commercial and reception activities.

In Retail Banking and Wealth Management, the plan aims to:

– improve the investment and advice offering in multi-management, discretionary management, advisory management, annuities solutions and brokerage platform to support the long-term investment needs of customers, particularly within the framework of preparations for retirement;

– further develop the wealth management expertise of staff, particularly within HSBC Premier, providing customers with products and services tailored to their individual expectations;

– develop the bank's branch network, opening 25 new branches by 2015, as well as addressing the demand for multi-channel services and increasing HSBC France's Premier customer base by a third.

HSBC France aims to accelerate growth of its Private Banking activity in France through the opening of three new regional offices (bringing the network to six private banking regional offices), strengthening sales teams and increasing the synergies between the different businesses, in particular Commercial Banking.

Commercial Banking aims to continue to strengthen the international capabilities by increasing the number of customer managers with an international focus, by strengthening payments and cash management and trade services teams dedicated to international and by developing the direct banking model, offering dedicated customer managers, longer branch opening hours and attractive banking packages for small business clients.

The Strategic Plan aims to consolidate the Global Banking and Markets platform so that it is able to fulfil its role as a strategic platform for Continental Europe and a centre of excellence in euro products and equity derivatives, in particular by increasing synergies with other countries and broadening the products offered to large corporate clients.

Further simplification of the HSBC France group

Main changes to organisational structures within the HSBC France group

The strategic review undertaken by the HSBC Group in early 2010 on the Asset Management business, led, in France, to the merging of the main entities having the status of asset management company. On 30 June 2011, these groupings resulted in the merger of the company Sinopia – Société de Gestion with the company Sinopia Asset Management and then, the merger of the company Halbis Capital Management (France) and Sinopia Asset Management with HSBC Global Asset Management (France).

Prior to these mergers, the company Sinopia Asset Management completed, within the HSBC Group, the sale of two subsidiaries: Sinopia Asset Management (Asia-Pacific) Limited and Sinopia Asset Management (UK) Limited.

In order to step up its expansion among high net worth clients, enhance synergies between Private Banking and other business lines, and improve profitability by means of better allocation and sharing of resources, HSBC France sought to alter the organisational structure of its Private Banking business in 2011.

As far as organisation is concerned, this strategy led in particular to the creation of a Private Banking department within HSBC France, keeping the HSBC Private Bank brand, to the transfer to the HSBC network of some HSBC Private Bank France customers and commercial staff in charge of these customers and to the transfer of the functional reporting of HSBC Private Wealth Managers to HSBC Global Asset Management (France).

The legal merger of HSBC Private Bank France with HSBC France took place on 31 October 2011 and the operational merger is planned for the second quarter of 2012.

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 2011

The economic climate grew steadily worse in 2011. During the first quarter, in line with the end of 2010, there were encouraging signs of an economic upturn (improvement in economic growth, rise in the stock markets, etc.) but as of the second quarter, the economic climate was affected by concerns over the sovereign debt situation in the southern eurozone countries.

Despite repeated intervention from the eurozone governments, the European Central Bank and the International Monetary Fund, which resulted in various stabilisation mechanisms – in particular the European Financial Stability Facility (EFSF) – the financial crisis escalated and affected the weakest countries first: Greece, Ireland and Portugal in the Spring, Italy and Spain in the Summer and then other countries, including France and Austria, towards the end of the year.

Concerns over the long-term credit-worthiness of eurozone countries led to a significant increase in volatility and a decrease in liquidity in the sovereign debt markets.

HSBC in France achieved a very satisfactory performance in all banking and asset management activities. Nevertheless the bank's results were penalised by the Rates business as France is the HSBC Group's global platform for euro government bonds which suffered from the eurozone crisis, particularly since the majority of its positions are marked to market.

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;

1 *See Note 1 of the Parent company financial statements, page 183.*
2 *See page 89.*

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

– HSBC in France, which also includes the Paris branch of HSBC Bank plc [1], 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 (parent company)

HSBC France reported a loss before tax of EUR -129 million in 2011, compared with EUR 681 million the previous year, although the 2010 profit before tax includes a EUR 237 million gain on the sale of the Champs-Elysées headquarters.

Net operating income fell by 27 per cent compared with 2010, to EUR 1,495 million.

Retail Banking achieved an excellent commercial performance in 2011. HSBC France attracted more than 45,000 new to bank Premier customers and continued to support its Business clients, with further growth in medium and long-term lending.

For Global Banking and Markets, 2011 showed an uneven performance across business lines. Global Banking reported further growth in results, driven by excellent business momentum in Mergers and Acquisitions (M&A) and Lending, whilst in Global Markets, the Rates business was significantly affected by the sovereign debt crisis in Europe.

Operating expenses were virtually unchanged from the previous year (+0.1 per cent). Restructuring costs recognised in 2011 were higher than the various specific items recognised in 2010 (such as the exceptional tax on market professionals' performance costs). Excluding these specific items, the cost base remained under tight control.

The gradual deterioration in the economic environment had no material impact on the cost of risk, with loan impairment charges and other credit risk provisions down by 21 per cent to EUR 112 million.

Profit attributable to shareholders therefore amounted to EUR 27 million in 2011 compared with EUR 624 million in 2010.

HSBC France's consolidated results (legal entities)

The HSBC France group reported a profit before tax of EUR 59 million compared with EUR 512 million the previous year, which included an exceptional gain of EUR 141 million.

Net operating income amounted to EUR 1,781 million, decreasing by 24 per cent compared with 2010, due to a sharp rise in volatility and lack of liquidity in euro-denominated sovereign debt markets. However Retail Banking and Global Banking achieved a continued improvement in profitability despite the worsening market environment during the second half of the year.

The deteriorating economic climate has yet had no significant impact on loan impairment charges, which fell by 11 per cent compared with 2010, to EUR 109 million.

Net profit attributable to shareholders of the parent company amounted to EUR 123 million, a decrease of 73 per cent compared with 2010.

HSBC France continued its efforts to optimise its use of capital, but the resulting reduction in risk-weighted assets was more than offset by business growth and a significant rise in market risk-weighted assets, due mainly to the introduction of the new Basel 2.5 rules (CRD3) on Stressed Value at Risk. Total risk-weighted assets under ACP (*Autorité de contrôle prudentiel*) regulatory rules therefore rose from EUR 33.5 billion to EUR 36.9 billion. This increase can be broken down into credit risk-weighted assets which fell by EUR 1.3 billion, operational risk-weighted assets decreasing by EUR 0.3 billion and market risk-weighted assets which increased by EUR 5 billion, of which EUR 4 billion due to Basel 2.5. requirements. After a dividend payout of EUR 118 million, the Core Tier One ratio stood at 10.7 per cent, which is well above the regulatory minimum.

The liquidity ratio further improved from 122 per cent to 152 per cent, which is well above the French regulatory requirements, illustrating the importance placed by the HSBC Group on prudent balance sheet management. The customer deposits to customer loans [2] ratio improved from 85 per cent to 92 per cent.

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

As most of the new standards proposed by the Basel committee have not yet been adopted at European level, their impact is hard to assess and subject to some uncertainty. Moreover, since the estimates below are based on our positions at 31 December 2011, they do not factor in future trends in HSBC France's balance sheet, nor the potential mitigating effects of any future adjustments to our business model.

For information, HSBC France's current assumptions show that the stricter rules governing the definition of regulatory capital requirements should have a limited impact, representing less than 10 per cent of its regulatory capital.

1 *Which receives, in the form of fees, the results of derivative transactions booked in London but initiated in France.*
2 *Excluding repurchase agreements, reverse repurchase agreements and settlement accounts.*

The impact is expected to be more significant on risk-weighted assets.

However, HSBC France had approximately EUR 1 billion of excess capital at 31 December 2011[1], and should therefore have no difficulty in meeting stricter Basel III regulatory requirements whilst maintaining a sustained dividend payout capacity.

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

HSBC's operations in France, which also include the insurance and equity derivatives businesses, reported a profit before tax of EUR 191 million, decreasing by 70 per cent compared with 2010. This deterioration, linked with Global Markets rate activities managing euro sovereign debts, masks the satisfactory growth achieved by Retail Banking, Commercial Banking and Global Banking. Profit before tax excluding Global Markets activities amounted to EUR 448 million, increasing by 5 per cent compared to 2010.

Loan impairment charges and other credit risk provisions, excluding impairment of Greek sovereign debt held by the insurance subsidiary, amounted to EUR 109 million, improving by 10 per cent compared with 2010. In addition, net cost of risk of the Greek sovereign debt portfolio held by the Insurance business was limited to EUR 0.6 million as 97 per cent of the increased impairment charges were passed on to policyholders. Cost of risk amounted to 0.30 per cent of loans outstanding compared to 0.38 per cent in 2010.

Operating expenses were down by 5 per cent to EUR 1,747 million thanks to a policy of strict cost discipline. The amount of exceptional items recognised in 2011 such as restructuring costs related to the 2014 Strategic Plan, can be compared to that of 2010 (exceptional tax on market professionals' performance costs and various litigation provisions). The reported cost efficiency ratio stood at 85 per cent due to the negative impact of Global Markets activities.

Performance by global business

Retail Banking and Wealth Management

As part of the definition of its strategic objectives announced in May 2011, and to offer clients a more integrated Wealth Management proposition, the HSBC Group opted to consolidate into a single line of business all Personal Financial Services, including life insurance products and Asset Management. The latter was previously part of the Global Banking and Markets business line.

Retail Banking and Wealth Management reported a profit before tax of EUR 50 million, down by 52 per cent compared with 2010. This decrease was mainly due to the impact of IFRS accounting (valuation of non-qualifying hedges and volatile items in the Insurance business – particularly PVIF[3] movements) as well as restructuring costs related to the 2014 Strategic Plan. Adjusted for these items, profit before tax has increased significantly.

In line with previous years, 2011 saw further growth in the deposit base, increasing by 11 per cent to EUR 12.3 billion. Net new money flowed mainly into savings accounts in a climate of relatively low interest rates, reflecting growth in the "Premier" segment, where HSBC France attracted more than 45,000 new to bank customers, increasing the number of Premier customers by 10 per cent to 369,000. The total number of Retail Banking customers has increased by 4 per cent to 823,000. The network renovation plan has continued, with 95 branches renovated at end 2011.

Life insurance premiums amounted to EUR 2 billion and grew by 8 per cent compared with 2010, with significant growth in both euro and unit-linked investments. This performance was well above the Life-Insurance market average in France, which suffered a decline of about 14 per cent over the period[4]. Mortgages outstanding remained stable at EUR 10.8 billion.

Asset Management, whose results are now included in Retail Banking and Wealth Management, reorganised its business under the single HSBC Global Asset Management brand name to leverage HSBC's strong brand name and to develop a more coherent range of customer products and improve its efficiency. The foreign subsidiaries Sinopia Asset Management (Asia Pacific) Limited and Sinopia Asset Management (UK) Limited were sold within the HSBC Group during the first half of the year. The sale of these subsidiaries, the escalation of the crisis in the second half of the year and the widespread slump in the stock market indexes resulted in a 25 per cent decrease in assets under management and distribution over the year, which amounted to EUR 70 billion at

1 *By assessing capital requirements at 8 per cent of risk-weighted assets.*

2 *The comments on pages 5 to 7 relate to the contribution of France to the results of HSBC Group operations, which includes:*
– the HSBC France group, including the results of entities legally owned by 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 *PVIF (Present Value of In Force) is calculated under IFRS rules applied by the HSBC Group and corresponds to the present value of expected P&L flows of insurance contracts.*

4 Fédération Française des Sociétés d'Assurances *(FFSA), December 2011.*

end December 2011. HSBC in France has continued to develop synergies with the HSBC Group as illustrated by the growth of assets in the World Selection Fund (73 per cent increase compared to 2010; total assets now amount to EUR 459 million).

Retail Banking assets under management have increased from EUR 30.4 to 31.1 billion.

Loan impairment charges fell by 9 per cent in 2011 thanks to a strong risk management policy, bringing the loan loss rate down to 0.8 per cent of the loans book.

Despite restructuring costs related to the 2014 Strategic Plan, operating expenses fell by 1 per cent, further improving the cost efficiency ratio from 68 per cent to 65 per cent.

Commercial Banking

After a slight upturn in the first quarter of 2011, the financial crisis gradually began to spread to the real economy and burdened the economic climate. In this adverse environment, Commercial Banking reported a profit before tax of EUR 138 million, displaying a significant increase of 35 per cent compared with 2010. Average annual growth rate over the last three years was circa 30 per cent.

Net operating income rose by 4 per cent. This increase stemmed mainly from growth in interest income on deposits (mainly due to a 14 per cent growth in sight deposit balances, now amounting to EUR 10.7 billion), banking fees on services and transactions, and growth in the factoring business, which reported a 32 per cent increase in revenues over the year; HSBC is now among the top ten players in the French factoring market [1].

HSBC France also continued to finance the French economy through an active lending policy. Its medium and long-term loans outstanding grew by 10 per cent over the year, to EUR 7.6 billion. Total customer loans increased by 10 per cent since 2010 to EUR 10.1 billion.

Commercial Banking's strategy focuses primarily on its ability to provide companies with cross-border solutions and, in this context, the number of referrals from and to the HSBC Group rose to 948 in 2011, increasing by 56 per cent compared with 2010. Trade Services activities also displayed a significant growth of its revenues: +23 per cent compared to 2010. Commercial Banking has continued to develop synergies and has increased Global Banking and Markets revenues with Corporate clients by 78 per cent. It has also further developed its Corporate Banking customer base (clients with a turnover of over EUR 30 million) to over 5,900, increasing by 7 per cent compared with 2010. The number of Business Direct clients (the direct branch specialised in small businesses) was multiplied by 2.5.

Global Banking and Markets

Global Banking and Markets was affected by the impacts of the sovereign debt crisis in the eurozone during the second half of the year, resulting in a pre-tax loss of EUR -129 million compared with a profit of EUR 271 million in 2010.

Concerns over the eurozone government bond issues, particularly since July, led to a significant widening in credit spreads on sovereign bonds and an increase in their volatility.

HSBC maintains a strong market position in these activities, ranking as the second bookrunner in public sector debt issues [2]. In addition, other Global Markets activities, particularly structured rate derivatives and structured equity derivatives, achieved a good performance in the first half of the year due to sustained customer demand. HSBC ranked fifth on corporate debt issues [2]. HSBC has further reduced its exposure to eurozone sovereign risks. At the end of the year, exposure to sovereign risk of peripheral eurozone countries is limited, to around 0.5 per cent of HSBC France's balance sheet.

Global Banking revenues before loan impairment charges increased by 10 per cent, mainly driven by growth in revenues from mergers and acquisitions, real estate and leveraged finance activities, all of which benefited from renewed demand in the second half of the year. Revenues from operations with French clients abroad rose by +18 per cent compared with 2010. HSBC France ended the year ranked second in merger and acquisition deals announced in 2011 [3] and in convertible bonds issues [2] and it ranked fourth on rights issues [2].

Loan impairment charges fell to almost one third of the 2010 level, mainly due to releases of previously accounted provisions and a low loss rate in 2011.

1 Association Française des Sociétés Financières *rankings for the first nine months of 2011.*
2 *Dealogic Bondware league tables at end December 2011.*
3 *Merger Market league tables at end December 2011.*

Operating expenses fell sharply due to a decrease in performance costs and non-recurrence of the exceptional tax on market professionals' performance costs paid in 2010.

Private Banking

Private Banking profit before tax amounts to EUR 11 million, decreasing by 15 per cent compared with 2010, which was supported by relatively good market conditions and non-recurring elements.

Results were affected by difficult conditions in the stock markets and concerns over sovereign debt in various eurozone countries. In addition, the exit from the Private Banking perimeter of HSBC Private Wealth Managers and LGI contributed to a decrease in assets under management and related revenues. On a constant perimeter basis, net operating income amounted to EUR 74 million, increasing by 3 per cent compared to 2010, while assets under management decreased by only -5 per cent.

In a difficult market environment, Private Banking achieved strong commercial momentum by strengthening synergies with the HSBC France network and finding new sources of growth, particularly through life insurance products, whose revenues rose to EUR 10.2 million, increasing by 17 per cent compared to 2010.

Private Banking succeeded in improving its profitability thanks to tight control of costs, which were down significantly from the previous year. The cost efficiency ratio therefore improved by a further 3 points.

Proposed resolutions

The Board of Directors has drawn up the following resolutions to be presented at the Ordinary General Meeting on 15 May 2012.

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 2011 as well as the transactions reflected in those statements or summarised in those reports.

Resolution 2 concerns the allocation of the 2011 net profit of EUR 26,504,366.97. Along with retained earnings of EUR 2,876,979,281.99, the profit available for distribution amounts to EUR 2,903,483,648.96. The dividend to be paid to the shareholders would be EUR 118,016,197.25. Therefore, retained earnings would amount to EUR 2,785,467,451.71. The dividend would be payable from 15 May 2012, after deduction of the interim dividend decided by the Board on 26 July 2011 and paid to shares issued as of that date.

Resolution 3 proposes that the shareholders approve the consolidated financial statements at 31 December 2011 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 ratify the Board's co-optation on 22 February 2012 of Mr Antonio Simoes as Director, to replace Mr Christophe de Backer who has resigned.

Resolutions 6 to 9 propose that the shareholders renew the directorships of Ms Brigitte Taittinger, Mr Stuart Gulliver, Mr Philippe Houzé and Mr Antonio Simoes 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 2015.

Resolution 10 proposes that the shareholders take note of the expiry of term of office of Mr Gilbert Landau as Director.

Resolutions 11 to 14 propose that the shareholders, on one hand, re-elect the statutory auditor BDO France – Léger & Associés and the alternate auditor Mr François Allain and, on the other hand, appoint KPMG Audit FS 2 as statutory auditor and KPMG Audit FS 1 as alternate auditor to replace respectively KPMG S.A. and Mr Gérard Gaultry, who are retiring by rotation.

The 15th and 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

Jean Beunardeau
Chief Executive Officer, Head of Global Banking and Markets France.
Age 50. 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 is appointed co-Head of CIBM mainly in charge of Corporate and Investment Banking in March 2004. In 2005, he is appointed Senior Corporate Vice-President. In September 2007, he is appointed Head of Global Banking and Markets. On 1 February 2010, he is 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 is appointed Head of Global Banking, Continental Europe, HSBC Group. Since 10 January 2012, he has been appointed CEO of HSBC France and retains his role as Head of Global Banking and Markets France.

Gilles Denoyel
Deputy Chief Executive Officer, Deputy to the CEO, Chief Risk Officer.
Age 57. 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 General Secretary, in charge of Logistics and Operations in 1998 and was appointed Senior Corporate Vice-President for Finance in March 2000. In March 2004, he was appointed Deputy Chief Executive Officer of HSBC France, in charge of support functions and finance support services. In January 2006, he was appointed Deputy Chief Executive Officer of HSBC France, in charge of Asset Management activities, Insurance activities and 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. Since 10 January 2012, he has been appointed Deputy to the CEO.

Philippe Pontet
Chairman Investment Banking.
Age 69. 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 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

Anne-Lise Bapst	Head of Communication
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
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 for Continental Europe, as of March 2011
Marc de Lapérouse	Head of Legal HSBC France and Head of Legal for Continental Europe
Mathilde Lemoine	Chief Economist and Market Strategy
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 Retail Banking and Wealth Management
Emmanuel Rémy	Chief Credit Officer
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 March 2012[1]

Stuart Gulliver *Born in 1959*
Holds 1 HSBC France share. First elected: 2009. Term ends: 2012[2].

Principal position:
Group Chief Executive, HSBC.
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. Director, HSBC Holdings plc. Directorships expired in 2011: Chairman, HSBC Private Banking Holdings (Suisse) SA. Member of the Supervisory Board and Deputy Chairman, HSBC Trinkaus & Burkhardt AG.

Other directorships outside of the HSBC Group:
Trustee, Special Boat Service Association. Directorships expired in 2011: Trustee, Future Hope. Member, International Advisors Board of President Arroyo of Philippines. Member, Heart of the City of London Limited.

Résumé:
British nationality. 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 Officer 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 Officer, Continental Europe, HSBC Group.
Regional Head of Commercial Banking, Europe, HSBC Group (since 1 April 2012).
Deputy Chairman, HSBC France.

Other directorships in the HSBC Group:
Chairman, HSBC Bank plc A.S.. Director, HSBC Bank Malta plc. Director, HSBC Bank plc. Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG.

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

Résumé:
British nationality. 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 Officer, Continental Europe for the HSBC Group and Deputy Chairman of HSBC France.

Jean Beunardeau *Born in 1962*[3]
Holds 1 HSBC France share. First elected: 2008. Last re-elected: 2010. Term ends: 2014.

Principal position:
Chief Executive Officer, HSBC France (since 10 January 2012).
Head of Global Banking and Markets, France.

Other directorships in the HSBC Group:
Chairman of the Board, HSBC Global Asset Management (France) (since 10 February 2012). Director, Valeurs Mobilières Elysées (formerly Nobel). Directorship expired in 2011: Chairman of the Board, Foncière Elysées. Directorship expired in 2012: Director, HSBC Real Estate Leasing (France).

Other directorships outside of the HSBC Group:
Chairman, X-Banque. Director, Institut de la Gestion Déléguée. Directorship expired in 2011: Director, Amicale des Anciens Elèves de Polytechnique.

1 *As far as their directorship at HSBC France is concerned, the address of HSBC France's Directors and Senior Executives is the company's registered office, 103, avenue des Champs-Elysées – 75419 Paris Cedex 08 – France.*
2 *Director standing for re-election at the Annual General Meeting to be held on 15 May 2012.*
3 *Résumé available on page 8.*

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, Deputy to the CEO, Chief Risk Officer, HSBC France.

Other directorships in the HSBC Group:
Vice-Chairman, HSBC Assurances Vie (France). Director, HSBC Assurances IARD (France). Director, HSBC Global Asset Management (France) (permanent representative of HSBC France) (since 10 February 2012). Directorships expired in 2011: Director, Halbis Capital 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.

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. Deputy Chairman of the Board, Institut de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France.

Other directorships outside of the HSBC Group:
Director, AGIRA. Member of the Supervisory Board, France Actionnariat Fonds.

Résumé:
Joined HSBC France in 1981.

Philippe Houzé *Born in 1947*
Holds 1 HSBC France share. First elected: 1999. Last re-elected: 2008. Term ends: 2012[2].
Independent Director. Chairman of the HSBC France Nomination and Remuneration Committee.

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

Other directorships[3]:
Independent Director, HSBC Bank plc. 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.

1 *Résumé available on page 8.*
2 *Director standing for re-election at the Annual General Meeting to be held on 15 May 2012.*
3 *For the most part, 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)

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

Principal position:
Supervisor, HSBC Marseille Borely 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.

Anne Méaux *Born in 1954*
Holds 1 HSBC France share. First elected: 2011. Term ends: 2015.
Independent Director.

Principal position:
Chairman, Image Sept.

Other directorships:
Chairman, Com Sept Finance. Managing Director, Anne Méaux Conseil. Member of the Advisory Committee, Women's Forum. Deputy Chairman, Association Force Femmes.

Résumé:
Attached to the press relations department of the Elysée Palace from 1976 to 1981 then Communication Officer for Valéry Giscard d'Estaing, former President of the French Republic and for the UDF parliamentary group in the French National Assembly from 1981 to 1986. From 1986 to 1988, Communication Officer to the cabinet of Alain Madelin (French Ministry of Industry). Since 1988, Chairman of Image Sept which she founded in 1988.

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

Principal position:
Senior Adviser, Oddo Corporate Finance (since May 2011).

Other directorships:
Director, Fimalac. Director, Fitch Rating Group Inc, Groupe Lucien Barrière (since May 2011), SsangYong Motor CO. Ltd. (since 3 September 2011), Valéo (since 8 June 2011).

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, and then, until 31 March 2011, Director and Special Adviser to the President of the Renault-Nissan Alliance.

Philippe Pontet *Born in 1942* [1]
Holds 1 HSBC France share. First elected: 2005. Last re-elected: 2007. Term ends: 2015.

Principal position:
Chairman Investment Banking, HSBC France.

Other directorship in the HSBC Group:
Director, Valeurs Mobilières Elysées (formerly 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:
Chairman of the Supervisory Board, Gimar Finances SCA. Censor, Eurazeo. Directorship expired in 2011: Director, France Télécom.

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 and Risk Committee.

Other directorships:
Independent Director, Member of the Audit Committee and Member of the Risk Committee, HSBC Bank plc. Chairman, British International Holdings Limited. Chairman, Ingenious Media Holdings. Chairman, Ingenious Asset Management Limited. Director, Ingenious Asset Management International Limited. Director, FP Holdings Limited. Directorships expired in 2011: Director, Ingenious Solar UK VCT 1 plc.

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.

Antonio Simoes *Born in 1975*
Holds 1 HSBC France share. First elected: 2012. Term ends: 2012 [2].

Principal position:
Head of Retail Banking and Wealth Management, Europe, HSBC Group (since 1 January 2012).

Other directorships in the HSBC Group:
Director, HSBC Bank plc (since 1 February 2012). Director, HSBC Bank A.S. (since 24 January 2012).

Résumé:
Portugese nationality. Joined HSBC in 2007 from McKinsey & Co, where he was a Partner in the London office. From 2007 to 2011, Head of Group Strategy and M&A activities and, from 2009, responsible for Planning and Chief of Staff to the Group CEO. Appointed Group General Manager in 2011. From 1 Januray 2012, Group General Manager, Head of Retail Banking and Wealth Management, Europe.

1 *Résumé available on page 8.*
2 *Director standing for re-election at the Annual General Meeting to be held on 15 May 2012.*

Composition of the Board of Directors (continued)

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

Principal position:
Chairman and CEO, Annick Goutal.

Other directorships:
Director, Ensemble Orchestral de Paris. Director, Opéra Comique.

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.

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, Impala SAS.

Other directorships:
Director, Direct Energie. Director, Imerys, ID Logistics Group (since 22 June 2011), Powéo (since 30 September 2011). Member of the Supervisory Board, Eurazeo. Directorships expired in 2011: Chairman and CEO, Louis Dreyfus SAS. Chairman of the Supervisory Board, Kurosawa BV.

Résumé:
After having held various positions of responsibility in several French ministries, he joined the 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 when it was sold to SFR. In May 2008, he was appointed Chairman of the Louis Dreyfus Group. In 2011, he left the Louis Dreyfus Group and created the Impala Group.

1 *Director standing for re-election at the Annual General Meeting to be held on 15 May 2012.*

Directorships held[1] by the members of the Board of Directors (composition at 10 January 2012)

Information as 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	2011	2010	2009	2008	2007
Stuart Gulliver Group Chief Executive, HSBC. Chairman of the Board of Directors, HSBC France.	2009	2012[2]	Directorships in the HSBC Group: Chairman: HSBC France, The Hongkong and Shanghai Banking Corporation Limited. Director: HSBC Holdings plc. Directorships outside of the HSBC Group: Trustee: Special Boat Service Association.	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 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.*
2 *Director standing for re-election at the Annual General Meeting to be held on 15 May 2012.*

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2011**	2010	2009	2008	2007
Jean Beunardeau Chief Executive Officer, HSBC France (since 10 January 2012). Head of Global Banking and Markets, France.	2008	2014	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Director: Valeurs Mobilières Elysées, 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: Institut de la Gestion Déléguée.	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	**2011**	2010	2009	2008	2007
Gilles Denoyel Deputy CEO, Deputy to the CEO, Chief Risk Officer, HSBC France.	2004	2014	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman: HSBC Assurances Vie (France). Director: HSBC Assurances IARD (France), HSBC Global Asset Management (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 (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.
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

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2011**	2010	2009	2008	2007
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. Member of the Supervisory Board: France Actionnariat Fonds.	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.	–
Philippe Houzé Chairman of the Management Board, Groupe Galeries Lafayette.	1999	2012[1]	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.	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.

1 *Director standing for re-election at the Annual General Meeting to be held on 15 May 2012.*

Director's name Principal position	First elected	Term ends	**2011**	2010	2009	2008	2007
Thierry Jacquaint Supervisor, HSBC Marseille Borely branch, HSBC France.	2008	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	–
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.	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.
Anne Méaux Chairman, Image Sept.	2011	2015	Chairman: Image Sept, Com Sept Finance. Managing Director: Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.	–	–	–	–
Thierry Moulonguet Senior Advisor, Oddo Corporate Finance.	2009	2013	Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, SsangYong Motor Co. Ltd, Valéo.	Director: Fimalac, Fitch Rating Group Inc.	Director: RCI Banque, Renault Retail Group.	–	–
Philippe Pontet Chairman Investment Banking, HSBC France.	2005	2015	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	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.
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. Censor: Eurazeo.	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.

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2011**	2010	2009	2008	2007
Peter Shawyer Company Director.	2005	2013	Independent Director and member of the Audit Committee: HSBC Bank plc. Chairman: British International Holdings Limited, Ingenious Media Holdings, Ingenious Asset Management Limited.	Independent Director and member of the Audit Committee: HSBC Bank plc. Chairman: British International Holdings Limited, 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 Holdings Limited, Ingenious Media Holdings.	Independent Director and member of the Audit Committee: HSBC Bank plc. Chairman: British International Holdings Limited, 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 Holdings Limited.
Brigitte Taittinger Chairman and CEO, Annick Goutal.	2008	2012[1]	Chairman and CEO: Annick Goutal. Director: Ensemble Orchestral de Paris, Opéra Comique.	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, Impala SAS.	2009	2013	Chairman Impala SAS. Director: Direct Energie, Imerys, ID Logistics Group, Poweo. Member of the Supervisory Board: Eurazeo.	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.	–	–

1 *Director standing for re-election at the Annual General Meeting to be held on 15 May 2012.*

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

Under the Article L. 225-37 of the French Commercial Code, the Chairman of the Board of Directors of any French company issuing financial instruments admitted for trading on a regulated market is required to report to shareholders annually on the composition of the Board of Directors and application of the principle of balanced representation of men and women on the Board, the 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 2011. Management is responsible for defining and implementing adequate and effective internal control and risk management procedures with oversight by the Board of Directors. 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 and Risk Committee on 16 February 2012 and approved by the Board of Directors on 22 February 2012.

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 2011, the Board of Directors had 18 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;

– eight Directors having no special relationship with the company and who may be deemed independent with respect to all criteria defined in the AFEP/MEDEF report, particularly regarding banking relationships; however, two of their numbers have 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 their 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. Other than Directors elected by employees, the Board comprises two women and 12 men. The average age of the Directors in office is 57.9.

In 2011, the Board's composition changed as follows:

– on 4 May 2011, the Annual General Meeting (AGM) renewed the term of office of Philippe Pontet for a period of four years;

– on 31 October 2011, the General Meeting appointed Anne Méaux as a Director 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 the Director whose term of office expired at the AGM on 4 May 2011, and proposed that the Board vote to re-appoint him, taking into account his skills and active contribution to the work done by the Board.

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.

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

The Board's work in 2011

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 2011, with an average attendance rate of more than 96 per cent compared with 91 per cent in 2010:

– 15 February 2011 (attendance rate: 100 per cent);

– 4 May 2011 (attendance rate: 88.2 per cent);

– 1 July 2011 (attendance rate: 100 per cent);

– 26 July 2011 (attendance rate: 94.1 per cent);

– 22 November 2011 (attendance rate: 100 per cent).

In 2011, 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. It also reviewed the banks' liquidity situation and, at the meeting held on 15 February 2011, the Board approved the budget for 2011.

At each of its meetings, the Board of Directors examined the group's results, business growth and position for each of its activities. It was informed on a regular basis by the Chairman of the Board of Directors, who is also Chief Executive Officer of the HSBC Group, of the HSBC Group's development and results, as well as its latest news. Independent Directors shared with the Board their view of the economic situation and economic conditions in their business sector.

The Board of Directors conducted a review of the proposed Strategic Plan for the period from 2011 to 2014, which concerns all HSBC France business lines and fits in with the HSBC Group's strategy presented on 11 May 2011 (meeting on 1 July 2011). It then reviewed progress made in this plan at the meetings of 26 July and 22 November 2011.

With respect to changes to organisational structures, the Board of Directors approved the mergers, with HSBC Global Asset Management (France), of Halbis Capital Management and Sinopia Asset Management, after the latter absorbed Sinopia - Société de Gestion (meeting on 4 May 2011), in keeping with the restructuring of the Asset Management business lines, of which the Board had been informed. The Board of Directors approved the decision made by the Annual General Meeting of HSBC Covered Bonds (France) for this subsidiary to opt for "*société de financement de l'habitat*" status (meeting on 4 May 2011). At its meeting on 26 July 2011, the Board of Directors approved the project of merger by absorption of HSBC Private Bank France with HSBC France. The merger was then decided by HSBC France's Combined General Meeting on 31 October 2011.

At each meeting, the Board of Directors discussed the consequences on the bank's activities of the crisis affecting the eurozone sovereign debts. It examined the group's situation with regard to risks: credit risk, market risk with, in particular, monitoring of exposure to eurozone government bonds, results of the internal stress tests conducted by HSBC France, as well as litigation, compliance, operational risks and information security risk. It was informed of the main projects of regulatory changes and of their impacts on HSBC France. 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 4 May 2011, the Board reviewed the Annual Report 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 15 February 2011). It also examined the mediator's report concerning his activity during 2010 (meeting on 4 May 2011).

In the area of human resources, the Board was informed of the procedures in place to prevent psychosocial risk and of the remuneration policy (meeting on 26 July 2011). It was also informed of the results of the "Global People Survey" (meeting on 22 November 2011), which measures every year the commitment of HSBC Group employees. This survey was conducted during the summer of 2011.

At the meeting on 26 July 2011, HSBC France's substainability policy and its key initiatives were commented.

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 and Risk Committee, particularly as regards Finance IT Projects and taking account of risks in its remuneration policy.

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

Board meeting held on 10 January 2012

Following the resignation of Christophe de Backer, HSBC France Chief Executive Officer, from his duties, the Board of Directors appointed, on 10 January 2012:

– Jean Beunardeau as Chief Executive Officer of HSBC France; he will retain responsibility for Global Banking and Markets in France;

– Gilles Denoyel as Deputy Chief Executive Officer of HSBC France; he will remain Chief Risk Officer, and responsible for relations with regulators.

Board committees

Nomination and Remuneration Committee

Composition of the Nomination and Remuneration Committee

Chairman:

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

Members:

– 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.

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;

– 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;

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

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

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 2011

The Committee met twice in 2011, with an attendance rate of 100 per cent. Its main work was as follows:

– it made proposals to the Board on renewing the term of office of one Director in the Annual General Meeting. A proposal was made to renew the term of office of Philippe Pontet (Director since 2005) (meeting on 15 February 2011);

– it made proposals to the Board on changes in the Board's composition and on the appointment of a new independent Director: Anne Méaux (meeting on 26 July 2011);

– it made proposals to the Board on increasing Directors' fees (meeting on 15 February 2011);

– it made proposals to the Board to carry out an internal Board assessment, with approval of the questionnaire (meeting on 15 February 2011) and review of the assessment's findings (meeting on 26 July 2011);

– it made proposals to the Board to confirm a pension liability in respect of a former Chief Executive (meeting on 26 July 2010);

– it made proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the 2011 remuneration of 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 15 February 2011);

– a review of HSBC's general remuneration policy in France, taking into account new remuneration regulations concerning in particular risk control and the contribution of the Risk Management and Compliance departments to the process for determining bonuses (meeting on 15 February 2011).

The Chairman of the Committee reported to the Board on its work at the Board meetings on 15 February and 26 July 2011. All of the Committee's work was submitted to the Board for approval.

Audit and Risk Committee

Composition of the Audit and Risk Committee
Chairman:

– 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 and Risk 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 have in the past served in the capacity of audit committee member, finance director or auditor.

The Audit and Risk Committee's missions
The Audit and Risk Committee's main duties are defined in the Board's internal rules. Following the changes decided 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, the Board of Directors, in its meeting on 15 February 2011, decided to change the name of the Committee to Audit and Risk Committee. In November 2011, the committee's duties were reviewed mainly to combine its responsibilities into two distinct categories, namely audit and risk:

– key responsibilities in relation to audit:

  • examining the integrity of the 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,

  • reviewing financial and accounting policies and practices,

  • reviewing and discussing with management the effectiveness of internal control systems relating to financial reporting,

  • monitoring and reviewing the effectiveness of the internal audit function, considering the major findings of internal investigations and management's response, and ensuring that the internal audit function is adequately resourced and has appropriate positioning,

  • discussing with the external Auditors the financial statements, the scope of audits, restatements made, compliance with accounting principles, market rules, legal and regulatory requirements, and the impact of any changes in accounting principles and practices,

  • 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,

  • ensuring compliance of the company and its subsidiaries with directives issued by the supervisory authorities and with regulations applicable to them;

– key responsibilities in relation to risk:
  - overseeing and advising the Board on all high-level risk related matters,
  - advising the Board on risk appetite and tolerance in determining strategy,
  - 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,
  - advising the Board and/or the Nomination and Remuneration Committee on alignment of remuneration with risk appetite,
  - examining the effectiveness of the group's risk management framework internal control systems,
  - approving the appointment and removal of the chief risk officer and ensuring of his effective role,
  - reviewing any issue which arises from any report from internal audit, the external Auditors' annual report and any queries raised by the external Auditors, and responses from management, which relates to the management of risk or internal control,
  - examining management reports and statements on the internal control system.

The Committee meets the external Auditors and the Head of internal audit in private at least once per year to ensure that there are no unresolved issues or concerns. 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 and Risk Committee generally meets four days before the Board.

As required under the HSBC Group rules, the Audit and Risk Committee provides a half-yearly certificate to the Audit Committee and Risk Committee of HSBC Bank plc, HSBC France's direct shareholder, confirming, in particular, that the accounts were reviewed by the Committee and that the internal control system seems to be appropriate.

The Audit and Risk Committee's work in 2011

The Audit and Risk Committee met four times in 2011, with an attendance rate of 100 per cent, compared with 87.5 per cent in 2010:

– 11 February 2011 (attendance rate: 100 per cent);

– 29 April 2011 (attendance rate: 100 per cent);

– 25 July 2011 (attendance rate: 100 per cent);

– 18 November 2011 (attendance rate: 100 per cent).

Each meeting was also attended by the external Auditors, the Deputy Chairman, 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. HSBC France executives also attend Committee meetings covering any subjects falling under their responsibility. Paul Lawrence, Head of HSBC Group Internal Audit, attended the Committee meeting on 18 November 2011. Audit and Risk 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 11 February and 25 July 2011).

Against a backdrop of financial crisis, affecting in particular the eurozone sovereign debts, but also in compliance with regulation 97-02 and Basel II, the Committee dedicated again in 2011 a substantial part of its work to the review of major risks. It monitors the organisation of the risk control system on a regular basis.

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

– 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. It gave its assent to the new large credit exposure policy (meeting on 25 July 2011);

– 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 the eurozone government bonds and the results of the stress tests conducted on market risk. It was informed of the review of controls to prevent rogue trading (meeting on 18 November 2011);

– legal and litigation risks;

– operational risks;

– information security risks.

The Committee was informed, at each of its meetings, of the progress of the work undertaken by the Operational Risk and Internal Control Department. It reviewed the risk mapping updated by all the business lines (meetings on 29 April and 18 November 2011). It examined, at each of its meetings, the dashboard concerning the bank's risk appetite, particularly the indicators failing to comply with the established objectives. Having familiarised itself at the meeting on 11 February 2011 with the procedures governing stress-testing exercises and, in particular, the objectives of the testing programme, the various types of exercise, the governance structure of these tests and associated regulatory requirements, the Committee reviewed the results of these stress-testing exercises at each of its meetings. The Committee was also informed of the implementation of a system designed to identify emerging risks (meeting on 11 February 2011).

In 2011, the Audit and Risk 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).

In accordance with regulation 97-02 and professional standards, at its meeting on 11 February 2011, the Committee reviewed the links between risk and remuneration policy and, in particular, the involvement of Risk Management in remuneration policy and taking account of risks in determining remunerations.

At its meeting on 29 April 2011, 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 and Risk Committee reviewed the parent-company and consolidated accounts and analysed the impact of changes in the accounting scope of consolidation on the results. The 2010 consolidated financial statements were presented according to IFRS, with a distinction drawn between the legal and French managerial scope of consolidation[1]. Parent company financial statements for 2010 were presented according to French GAAP. The Committee discussed the choices made by the company and presented by Finance Department in drawing up its financial statements. The external Auditors commented on their management letter and aspects subject to particular attention at the time of preparing the 2010 financial statements (meeting on 11 February 2011). They presented their limited review on the financial statements at 31 March 2011, 30 June 2011 and 30 September 2011 (meetings on 29 April, 25 July and 18 November 2011). The Committee discussed the audit programme and the external Auditors' budget for 2011. The Committee also examined, at each of its meetings, the bank's regulatory and liquidity ratios and its liquidity and funding situation. The FSA's conclusions concerning liquidity management at HSBC France were presented at the meeting on 29 April 2011.

The last aspect of the Committee's work was internal audit, internal control, compliance and relations with the regulatory authorities. The Audit and Risk Committee looked at the results of controls conducted on financial statements. Within this framework, it reviewed the work carried out as part of the application of Sarbanes Oxley: the list of procedures concerned and its development, identified weaknesses, their impact and monitoring. In the Insurance business, a specific presentation was given to the Committee on Sarbanes Oxley (meeting on 29 April 2011). It reviewed the points raised in the quarterly suspense account reconciliation certificates prepared at the request of the HSBC Group and in the Auditors' management letters follow-up. The Committee also verified the adequacy of provisions for identified risks. At the meeting on 29 April 2011, the proposed change of accounting information system was presented to the Committee, which at subsequent meetings was informed of progress made in the work being carried out.

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 2011 annual audit plan. The Committee was informed of the new internal audit organisational structure within the HSBC Group, the resulting new internal audit charter (meeting on 29 April 2011) and the signing of a master agreement with other French banks relating to the audit of common suppliers (meeting on 18 November 2011).

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 2011.

The Committee 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. It reviewed the Chairman's report on internal control and risk management procedures (meeting on 11 February 2011) and 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 CRBF regulation 97-02 (meeting on 29 April 2011).

Finally, the Committee was regularly informed of the various regulatory reforms adopted or under discussion, particularly regarding capital requirement and liquidity risk management (Capital Requirements Directive 4 (CRD4) and Basel III), systemic institutions, derivatives, ring-fencing of Retail Banking and initial estimations of their impact on HSBC France.

1 *See footnote 2 page 5.*

The Chairman of the Audit and Risk Committee reported on the key points of the Committee's work at the Board meetings held on 15 February, 4 May, 26 July and 22 November 2011.

Compensation

Compensation 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 (profit before tax, cost efficiency ratio, return on risk-weighted assets, etc.) and non-financial aspects (respect of professional ethics, reputational risk, customer relationship quality, brand reputation, recommendations and market share, talent management, implementation of strategic decisions, etc.). These indicators are analysed in comparison with the previous year or relative to the budget for the year. To these criteria, is added, henceforth, an appreciation of personal behaviour with regard to the Group's values that are dependability, openness, listening, courage and integrity.

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 non-deferred and partly in deferred remuneration and partly in cash and partly in shares.

Award of shares

In 2011, 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:

– Group Performance Shares, which are subject to performance criteria and are awarded to Executives 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 2011, no HSBC France Executive Directors, except Stuart Gulliver who does not receive any remuneration from HSBC France, has received any Group Performance Shares. They 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.

At 31 December 2011, Christophe de Backer had accrued pension rights representing 8 per cent of his fixed 2011 salary and 4 per cent of his total 2011 cash remuneration. At 31 December 2011, Jean Beunardeau had accrued pension rights representing 5 per cent of his fixed 2011 salary and 3 per cent of his total 2011 cash remuneration. At 31 December 2011, Gilles Denoyel had accrued pension rights at HSBC France representing 26 per cent of his fixed 2011 salary and 13 per cent of his total 2011 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 2011, for an amount of EUR 3.4 million.

It should be noted that in the context of his resignation as Chief Executive Officer, endorsed by the Board of Directors on 10 January 2012, Christophe de Backer has lost all his rights under this pension plan.

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 256 to 274) or in the Annual Review* published by HSBC Holdings plc (pages 36 to 47).

The remuneration of Christophe de Backer, CEO of HSBC France, Jean Beunardeau, Deputy CEO of HSBC France, and Gilles Denoyel, Deputy CEO of HSBC France are detailed below.

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

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

Regarding employment contracts, the Corporate Governance Code published by the AFEP and the MEDEF considers that the withdrawal of the 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)

	2010		**2011**	
(in euros)	Amounts paid in 2010	Amounts due in respect of 2010	**Amounts paid in 2011**	**Amounts due in respect of 2011**
Christophe de Backer				
Chief Executive Officer[2]				
Compensation (detailed in table 2)	1,086,605	1,294,461	**1,293,592**	**605,736**
Value of the options awarded (detailed in table 4)	–	–	**–**	**–**
Value of the shares awarded (detailed in table 6)[1]	1,000,000	1,087,783	**1,087,783**	**–**
Total	2,086,605	2,382,244	**2,381,375**	**605,736**
Jean Beunardeau				
Deputy CEO[3]				
Compensation (detailed in table 2)	275,000	1,186,154	**694,595**	**1,162,439**
Value of the options awarded (detailed in table 4)	–	–	**–**	**–**
Value of the shares awarded (detailed in table 6)[1]	–	1,030,653	**1,030,653**	**812,439**
Total	275,000	2,216,807	**1,725,248**	**1,974,878**
Gilles Denoyel				
Deputy CEO[4]				
Compensation (detailed in table 2)	666,745	716,745	**754,190**	**691,390**
Value of the options awarded (detailed in table 4)	–	–	**–**	**–**
Value of the shares awarded (detailed in table 6)[1]	320,000	350,000	**350,000**	**430,800**
Total	986,745	1,066,745	**1,104,190**	**1,122,190**

1 *With the exception of those awarded to C de Backer in 2011, as the HSBC France Executive Directors are not awarded Group Performance Shares (see above page 27), this line shows the shares without performance conditions.*
2 *Deputy CEO until 31 January 2010 and Chief Executive Officer from 1 February 2010 to 10 January 2012.*
3 *Deputy CEO from 1 February 2010 then Chief Executive Officer from 10 January 2012.*
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)	2010 Amounts paid in 2010	2010 Amounts due in respect of 2010	**2011 Amounts paid in 2011**	**2011 Amounts due in respect of 2011**
Christophe de Backer				
Chief Executive Officer [1]				
Fixed remuneration	600,000	600,000	**600,000**	**600,000**
Variable remuneration in cash	480,000	687,856	**687,856**	–
Director's fees	– [2]	– [2]	– [2]	– [2]
Benefits in kind	6,605 [3]	6,605 [3]	**5,736** [3]	**5,736** [3]
Total	1,086,605	1,294,461	**1,293,592**	**605,736**
Jean Beunardeau				
Deputy CEO [4]				
Fixed remuneration	275,000	275,000	**350,000**	**350,000**
Variable remuneration in cash	–	344,295	**344,295**	**324,976**
Deferred variable remuneration in cash	–	566,859	–	**487,463**
Director's fees	– [2]	– [2]	– [2]	– [2]
Benefits in kind	–	–	–	–
Total	275,000	1,186,154	**694,595**	**1,162,439**
Gilles Denoyel				
Deputy CEO [5]				
Fixed remuneration	365,000	365,000	**400,000**	**400,000**
Variable remuneration in cash	300,000	350,000	**350,000**	**287,200**
Director's fees	– [2]	– [2]	– [2]	– [2]
Benefits in kind	1,745 [3]	1,745 [3]	**4,190** [3]	**4,190** [3]
Total	666,745	716,745	**754,190**	**691,390**

1 *Deputy CEO until 31 January 2010 and Chief Executive Officer from 1 February 2010 to 10 January 2012.*
2 *Renounced the payment of his fees by HSBC France (see page 32).*
3 *Company car.*
4 *Deputy CEO from 1 February 2010 then Chief Executive Officer from 10 January 2012.*
5 *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 27).

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

CCF options exercised in 2011

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

None.

HSBC Holdings plc options exercised in 2011

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

None.

Shares awarded to each Executive Director in 2011 in respect of 2010 (Table 6)

HSBC Holdings plc shares*

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date	Date of availability
Christophe 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%
Christophe de Backer	23.06.2011	8,448	EUR56,000	15.03.2016 for 100%	Retirement
Gilles 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%
Jean 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%
Jean Beunardeau	15.03.2011	54,544	EUR412,261	15.03.2011 for 100%	15.09.2011 for 100%

* *With the exception of those awarded to C de Backer in 2011, the HSBC France Executive Directors were not awarded shares subject to performance conditions, (see page 27).*

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	79,983	6.02	02.05.2003	01.05.2013

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

Executive Director Function First appointed Term ends	Employment contract [1]	HSBC France supplementary 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
Christophe de Backer Chief Executive Officer [3] 1 February 2010 2012 [4]	Suspended	Yes	No	No
Jean Beunardeau Deputy CEO [5] 1 February 2010 2014 [7]	Suspended	Yes	No	No
Gilles Denoyel Directeur Général Délégué [6] 1 March 2004 2014 [7]	Suspended	Yes	No	No

1 *See page 28.*
2 *See page 27.*
3 *Deputy CEO until 31 January 2010 and CEO from 1 February 2010 to 10 January 2012.*
4 *Resignation on 10 January 2012.*
5 *Deputy CEO since 1 February 2010 then CEO since 10 January 2012.*
6 *Deputy CEO since 1 February 2010.*
7 *Directorship renewed by the Annual General Meeting held on 11 May 2010.*

Directors' fees

The maximum amount of Directors' fees payable each year was fixed at EUR 600,000, as decided by the Annual General Meeting of 21 December 2007.

Following a review of the level of Directors' fees paid, which had not been reviewed since 2005, and of sector practices, and in view of the increased amount of work required from Directors and members of the Board Committees, the Nomination and Remuneration Committee proposed to the Board of Directors to increase Directors' fees.

Hence, in its meeting on 15 February 2011, the Board of Directors decided to increase individual fees, in respect of the financial year 2011, as follows:

- each Director receives an annual flat fee of EUR 27,000 at the conclusion of the Annual General Meeting;
- the additional annual flat fee paid to Board Committees members amounts to:
  - EUR 12,000 for the members of the Nomination and Remuneration Committee,

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

- EUR 14,000 for the Chairman of the Nomination and Remuneration Committee,
- EUR 18,000 for the members of the Audit and Risk Committee,
- EUR 30,000 for the Chairman of the Audit and Risk Committee.

Furthermore, 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 2011 (in respect of 2010), 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 2012 in respect of 2011 amount to EUR 0.37 million, in comparison with the EUR 0.29 million paid in 2011 in respect of 2010.

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 2010 in respect of 2009	Directors' fees paid in 2011 in respect of 2010	Other compensation paid in 2010 [1]	Other compensation paid in 2011 [1]
Executive Directors of HSBC Group companies				
Peter Boyles [3]			EUR822,184 [2]	EUR725,104
Stuart Gulliver [3,4]	–	–	GBP3,905,000	GBP6,602,000
Philippe Pontet	–	–	EUR976,756	EUR1,016,514
Directors elected by the employees				
Evelyne Cesari	EUR22,000	EUR22,000		
Michel Gauduffe [5]	EUR22,000	EUR22,000		
Thierry Jacquaint [5]	EUR22,000	EUR22,000		
Philippe Purdy [5]	EUR22,000	EUR22,000		
Independent Directors				
Paul Dubrule [6]	EUR5,500	–	–	–
Philippe Houzé	EUR32,000	EUR32,000	–	–
Igor Landau	EUR22,000	EUR22,000	–	–
Anne Méaux [9]	–	–	–	–
Thierry Moulonguet [7]	EUR35,250	EUR44,500	–	–
Marcel Roulet	EUR47,000	EUR28,250	–	–
Peter Shawyer	EUR87,500 [8]	EUR107,200 [8]	–	–
Brigitte Taittinger	EUR22,000	EUR22,000	–	–
Jacques Veyrat [7]	EUR16,500	EUR29,500	–	–

1 *Fixed and variable remuneration and benefits in kind.*
2 *From 1 February 2010. Chief Executive Officer until 31 January 2010.*
3 *Emoluments shown are paid by other HSBC Group companies in respect of their executive functions within the Group.*
4 *Does not receive any compensation or fees from HSBC France. See page xx.*
5 *Directors' fees paid to a trade union organisation.*
6 *Appointment ended on 27 May 2009.*
7 *Appointment on 27 May 2009.*
8 *Of which EUR 27,750 paid by HSBC France, excluding withholding tax.*
9 *Appointment on 31 October 2011.*

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, from 1 January 2011, Group Chief Executive of HSBC Holdings plc, which owns 100 per cent of HSBC Bank plc, itself owning 99.99 per cent of the issuer. Since this date, he has not held any 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 15 February and 22 November 2011, concerned the Audit and Risk Committee and mainly aimed to:

– change the name of the Audit Committee to the Audit and Risk Committee following the addition of risk procedures and management to the Committee's responsibilities in November 2010;

– combine the responsibilities of the Audit and Risk Committee in two separate categories: Audit and Risk, in order to facilitate identification;

– make changes to the duties of the Audit and Risk Committee in order to maintain a scope of responsibility in keeping with that of the Audit Committee and Risk Management Committee of HSBC Holdings plc.

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. They indicate the main duties and arrangements for exercising the functions of Chairman and Vice-Chairman, and the main duties of the Chief Executive Officer. Furthermore, the Board's internal rules define, in accordance with the HSBC Group rules, the duties, powers and responsibilities of the Audit and Risk 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

In accordance with AFEP/MEDEF recommendations concerning assessment of the Board of Directors, HSBC has implemented a self-assessment process. The assessment was conducted internally in the first half of 2011, under the responsibility of the Nomination and Remuneration Committee and on the basis of Directors' answers to a detailed questionnaire. The main themes raised concerned the running and composition of the Board and its Committees, their effectiveness, the information available to Directors to perform their duties, relations between the Board and the bank and ways of improvement from Directors' point of view.

After analysis, a summary of answers given was presented to the Board in July 2011 by the Chairman of the Nomination and Remuneration Committee. The assessment process showed that Directors had a positive opinion of how the Board is run, as a more than 99 per cent-owned subsidiary of the HSBC Group. In order to respond to the wishes expressed by Directors concerning training, a training day intended for independent Directors focusing on strategy and the various business lines was held on 1 July 2011. In addition, an integration day will now be organised following the appointment of a new independent Director and proposed to independent Directors already in office.

The Board's assessment procedure will be carried out regularly and the next one is due to be conducted by an external party.

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 10 January 2012 to take into account 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:

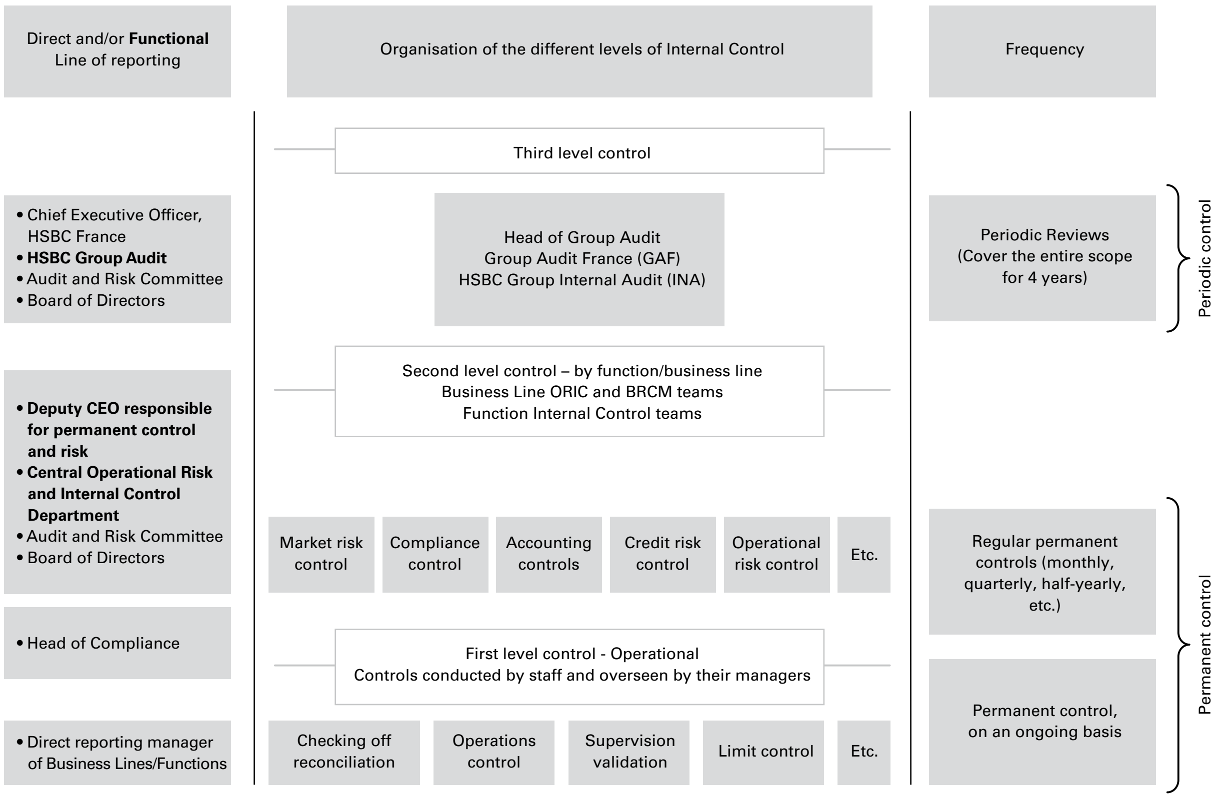
– clear articulation of control levels and responsibilities;
– clear organisation charts and job descriptions with appropriate delegations of authority and functional and hierarchical line of report;
– segregation of duties;
– monitoring of the resources dedicated to internal control;
– risk and control 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 recovery plans and IT recovery 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).

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 (which is enlarged since January 2012 to security, fraud, and business continuity);

– human resources function.

The HSBC Group has implemented an internal control and risk management framework in reference to COSO 2[2]. In France, the Deputy CEO in charge of risk and permanent control (in accordance with regulation 97-02) is also Chief Risk Officer (CRO).

1 *The management of each risk by its function is described in detail in the Risk Management section.*
2 *Committee of Sponsoring Organisations of the Treadway Commission (COSO).*

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

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

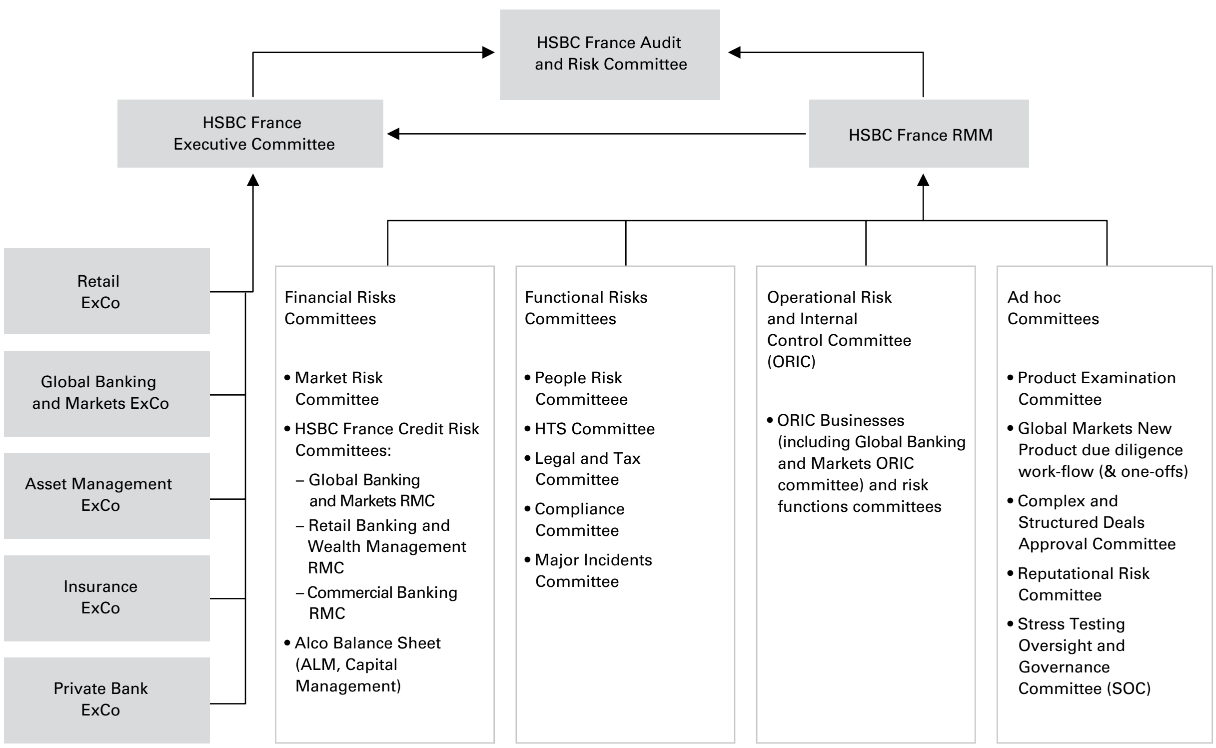
The Handbook features business ethics rules that apply to all staff, relating to confidentiality, compliance with laws and regulations and professional integrity. In addition to these rules, each of the bank's business lines or activities has a specific code of conduct and/or compliance manual that collates 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.

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) Committees;
– 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 Chief Risk Officer 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 Chief Risk Officer. All risk assessments presented to the RMM are also used by HSBC France's Audit and Risk Committees. The RMM covers all entities operating in France.

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 Global Business (Retail Banking and Wealth Management, 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 Permanent control Committee,
  • the People Risk Committee, for risks relating to human resources,
  • the IT Committee,
  • the Major Risks and Security Committee,
  • the HSBC France central ORIC (Operational Risk and Internal Control) Committees (ORIC CRO-COOs Committee and plenary ORIC Committee);
– special committees:
  • the Complex and/or Structured Deals Approval Committee,
  • the Product Examination 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 HSBC France central ORIC (Operational Risk and Internal Control) Committees (ORIC CRO-COOs Committee and plenary ORIC Committee)
Management and supervision of permanent control, as defined by regulation 97-02, is the responsibility of the HSBC France ORIC Committee CRO-COOs (Chief Risk Officer – Chief Operating Officers).

Its rules, drawn from those of the HSBC Group, are set out in a ToR (Terms of Reference) and have been adapted to the requirements of regulation 97-02. They are reviewed annually.

The committee meets on a quarterly basis under the chairmanship of the CRO.

The aim is to ensure that HSBC France's operating permanent control and risk management framework meets the requirements of the *Autorité de contrôle prudentiel* and the HSBC Group.

Within this framework, it is the committee's responsibility with regard to operational risk:

– to analyse the operational risks presented by the various business lines and risk functions (in particular major risks) by validating or adapting the controls proposed as necessary with a view to reducing the risks;
– to review the progress made in action plans, in particular those relating to risks deemed the most critical;
– to review major incidents (actual or potential losses and "near misses") in terms of the amount or type of incident, as reported by the businesses;
– to review the compliance of the operational risk framework in respect of regulatory requirements and the HSBC Group requirements (as defined in the GSM, the FIM or Group Circular Letters);

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

– to review cross-functional issues relating to operational risk management or methodological issues (such as levels of criticality, reassessment of risks after completion of action plans), define and then periodically review operational risk monitoring indicators.

The ORIC CRO-COOs Committee comprises:

– COOs (Chief Operating Officers) of HSBC France businesses (Retail Banking and Wealth Management, Commercial Banking, HSBC Technology Services, Global Banking and Markets, Asset Management, Private Banking, Insurance);

– Heads of the main risk functions;

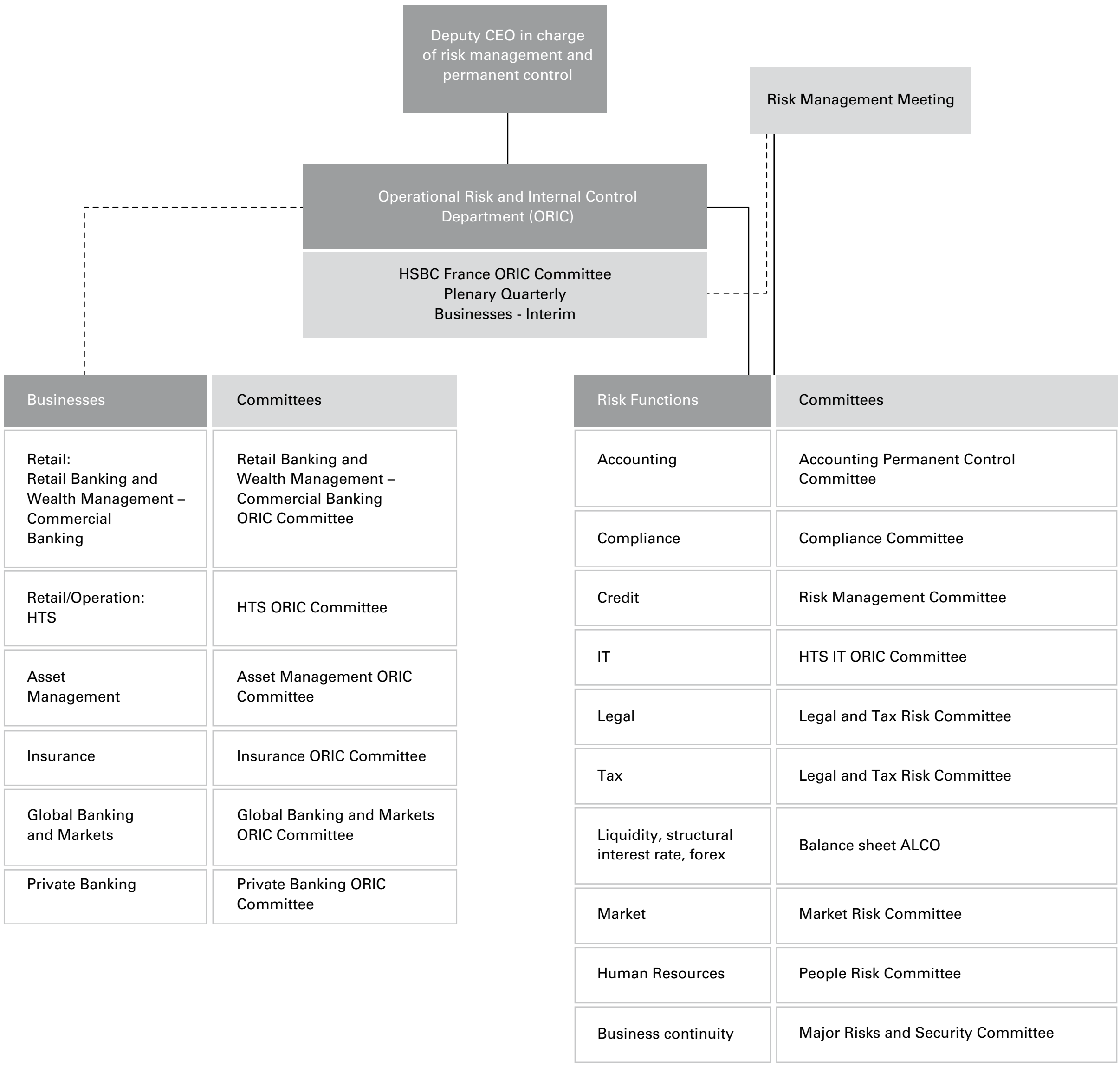
– the Head of Internal Audit, Head of Group Audit France (GAF);

– the Central ORIC (DCIRO) team, which coordinates the committee and acts as secretary.

The work of the ORIC CRO-COOs Committee is based primarily on the summary of the work of the HSBC France's internal control and operational risk management teams Committee, named HSBC France plenary ORIC Committee, which combines all internal control and operational risk management teams of HSBC France businesses and functions, in the presence of the Head of Internal Audit.

The HSBC in France plenary ORIC Committee meets quarterly a few days before the ORIC CRO-COOs Committee. Discussion of the issues raised allows for a summary of the highlights, which constitutes the supporting material for the ORIC CRO-COOs Committee. The operating rules of the HSBC in France plenary ORIC Committee are described in a specific ToR, which is reviewed annually.

A summary of the committee's work and findings is sent periodically to the Risk Management Meeting and to the Audit and Risk 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 in 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 and permanent control.

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 Chief Risk Officer 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.

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), that "*controls should be considered as fully embedded in the activities*".

In addition to first level controls, HSBC France's permanent control is based on a series of procedures, coordinated by the Deputy Chief Executive Officer in charge of permanent control. These comprise primarily:

– the Central Operational Risk and Internal Control Department (DCIRO), in charge of coordinating permanent control procedures. The DCIRO oversees the work carried out by the ORIC (Operational Risk and Internal Control) and BRCM (Business Risk and Control Management) teams within the businesses and reports hierarchically to the business line heads, as well as level-2 control teams within specialist risk functions (excluding Compliance). The DCIRO is also responsible for monitoring and summarising permanent control tasks devolved on the 10 risk functions.

  The hierarchical positioning of this department matches the organisational structure recommended by the HSBC Group as a whole, which combines coordination of permanent control framework (internal control) and supervision of operational risk framework within a single central team;

– the businesses' internal control and operational risk teams, responsible for coordinating permanent control for the business line heads to whom they report directly, who in turn are primarily responsible for risk control, which should be fully integrated into the 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.

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

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

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 a 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 businesses' internal control and operational risk management teams, as well as 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 businesses' ORIC and BRCM teams or internal audit officers is based on the following four principles:

- monthly bilateral meetings between the Central ORIC Department and the internal control and operational risk management teams of the businesses and functions, at which the subjects discussed include developments in activity and risk trends, progress made in the annual control programme, major incidents (actual or potential losses and "near misses"), protection of information, etc. At least once a year, risk mapping (in particular operational risk) is more specifically reviewed, as is the draft control programme for the following year, and an overall assessment of the resources dedicated to permanent 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 Audit Committees of HSBC France and its subsidiaries;
- 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:
  - dedicated groups (methods, indicators, risk scenarios, etc.),
  - training and awareness-raising schemes (technical and regulatory watch, "workshops" and seminars, etc.).

Enhancement of operational risk framework continued throughout the course of 2011, with a number of highlights:

- the ORION system was rolled out at the end of the year, replacing the former GORDON tool. In addition to managing operational incidents, ORION is designed to become the sole risk management tool for risk maps, action plans and risk and control monitoring indicators;
- risk maps transformation, in accordance with the HSBC Group's RCA (Risk and Control Assessment) methodology continued in 2011, depending on the extension of scope defined with the HSBC Group. Note that all risk maps relating to other activities will move gradually to RCA format to allow for consistency and record in the ORION system;
- annual tolerance operating losses are now set by the business lines according to their risk appetite. Internal control and operational risk management teams are responsible for coordination and the overall consistency of the process;
- in terms of general governance, the organisational structure of the plenary ORIC Committee and the Use Test questionnaire were reviewed in autumn 2011 in order to optimise their effectiveness;
- the project for enhancing governance and procedures relating to information security was largely completed. As a result, the level of risk at the end of the year had improved significantly;

– procedures for managing outsourcing risk, concerning both third-party service providers and other HSBC Group entities, have been reviewed extensively;

– a Risk Management Convention and regular meetings to raise awareness about topical issues or risk-related matters (Lunch & Learn) were organised for all employees of the bank's risk functions.

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, which are updated regularly.

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

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 prepare a quarterly report on legal and regulatory compliance for the activity 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 using a dedicated tool called IRIS (Integrated Regulatory Information System). 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 France 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.

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", "Accounting, Reporting and Regulatory Affairs" and "Accounting Controls" Departments. These are documents of varying natures relating to accounting tools and interfaces, accounting charts, certification of the financial statements, 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 HSBC France, steered by the audit teams of Group Audit France (GAF).

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.

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 2011 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. 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 *"Compte de Résultat"* (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.

In addition, the SOX team – part of the Finance Department – has access *via* a HSBC Group database to the audit points of Group Audit France (GAF) and Global Business Lines and Functions and Europe Audit (IAF). This enables it to follow up the SOX recommendations issued by periodic controls across the entire accounting and financial scope.

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 and Risk 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 (SOX) 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 and Risk 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 conducted by central agents qualified for this purpose. This periodic control framework applies to the entire company, including subsidiaries.

In 2011, the HSBC Group's Internal Audit department began to undergo major changes ("INA 13" plan), resulting in particular in the gradual creation of global teams, each of which is responsible for covering the bank's main business lines and functions, which are now also globalised. Within this new framework, HSBC France's periodic controls are carried out sometimes directly by the HSBC Group Internal Audit Department (INA), sometimes by Group Audit France (GAF), and sometimes by both together. The terms of their respective intervention and collaboration are set out in an agreement signed on 25 March 2011, subsequently reflected in April 2011 in a new HSBC France Audit Charter.

Audits conducted by INA within HSBC France are carried out *via* three separate departments specialising in the areas listed below:

- "Global Businesses and Functions and European Audit", named "IAF", in charge of auditing:
  - Global Banking and Markets,
  - Insurance and pension expenses,
  - Asset Management and Private Banking,
  - ALM (Assets/Liabilities Management), working capital requirements, accounting and financial control, tax situation,
  - central functions,
  - the Europe region;
- "Risk Audit", named "IAG", in charge of auditing:
  - credit risk for large corporates,
  - Commercial Banking,
  - Retail Banking and Wealth Management,
  - operational risk and permanent control procedures (ORIC);
- "HTS Audit", named "IAH", in charge of auditing:
  - application and project developments,
  - infrastructures and IT systems and communications,
  - banking transactions, security and fraud and control of information risk.

The audits conducted by GAF covered – in addition to INA or in association with INA – entities, themes or projects able to meet regulatory requirements for exhaustive control of all of HSBC France's activities.

Although the organisational structure of periodic controls has changed, its end purpose remains the same: 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 is the "third line of defence", intervening after the business lines themselves and the permanent control teams in relation to "Operational Risk and Internal Control" (ORIC).

Periodic controls also ensure 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, as set out in particular in the Group Audit Standards Manual (GASM). The GASM is updated a number of times a year, and the consolidated version should be re-read by auditors at least once a year and its recommendations implemented during each audit.

In addition, the HSBC Group's auditing standards are set forth, in GAF, 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. This corpus was extensively overhauled and enhanced in 2011, particularly in accordance with recommendations following the intervention of the *Autorité de contrôle prudentiel* (ACP) in 2010 concerning HSBC France periodic control procedures.

The audit approach is based on an assessment of all risk components specific to each auditable item (entity, theme or project), and is implemented with the Audit Information System (AIS) tool developed by the HSBC Group. In 2011, HSBC France's audit plan was drawn up in close collaboration between GAF and INA, drawing primarily on the results of the "Risk Calculator" tool, one of the key components of this system, which classifies auditable items 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. Changes in audits or bank structures require periodic and documented reviews of the Risk Calculator, needed to ensure its operational consistency and coverage of the entire risk scope.

Since 2011, audit reports have been given two grades:

– one pre-existing grade concerning the quality of controls ("Control Risk Grade") implemented by the audited item, based on an either/or choice (Satisfactory/Not satisfactory);

– another new grade reflecting Internal Audit's assessment of control of the audited item's risk (Management Awareness Grade – MAG) by its management team. This is designed to provide, with the support of the audit, "Management Self-Identified Issues" (MS-IIs), designed to reflect the degree of understanding of the risks to which the activity in question is exposed and action plans implemented to stem these risks. The MAG is established on the basis of a three-ratings scale (Acceptable / Needs improvement / Inadequate).

This dual assessment and the corresponding report are sent to the person responsible for the audited item, who is then responsible for implementing the audit recommendations, as well as any recommendations made by the supervisory authorities or the Statutory Auditors. All audit reports are sent to the bank's Chief Executive Officer, Chief Risk Officer, Compliance Officers and ORIC managers.

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

The periodic control teams review these progress reports on implementation of high and medium risk recommendations and approve the audited entities' responses to any recommendations on high risks, drawing on the evidence provided or, if necessary, carrying out further tests themselves. 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.

High or repeat risk recommendations, as well as those for which the implementation deadline is more than six months (high or medium risk), are subject to a monthly report by the Periodic Control Officer to the Risk Management Meeting (RMM), and a quarterly report to the HSBC France Audit and Risk Committee. In addition, since April 2011, in accordance with ACP recommendations, the Periodic Control Officer also presents high risk recommendations made by global audit teams relating to HSBC France that were opened or closed during the past quarter.

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, 22 February 2012

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 2011

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 2011.

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, on 20 April 2012

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

BDO France – Léger & Associés
Michel Léger
Partner

Sustainability

Management of Corporate sustainability

At HSBC Group, it is recognised that environmental, social and economic issues are critical to the long-term success as a business. For HSBC, corporate sustainability means achieving sustainable profit growth so that HSBC can continue to reward shareholders and employees, build long-lasting relationships with customers and suppliers, pay taxes and duties in those countries where it operates, and invest in communities for future growth.

HSBC France applies the same commitment to sustainability issues, integrating HSBC Group principles and practices to all its activities.

Sustainability within the HSBC Group

Climate finance
Banks intermediate between savings and lending, driving economic growth. The HSBC Group helps individuals manage their patrimony over their lifetime, companies grow by enabling them to access financing and equity and facilitating trade, and governments meet the needs of their nation. The HSBC Group aims to build long-term customer relationships around the world through the provision of a consistent and high-quality service and customer experience. The HSBC Group uses the benefits of its scale, financial strength, geographical reach and strong brand value to achieve this.

HSBC is also in a strong position to contribute to a more sustainable world through its support of the international growth of climate business – the goods and services which will help the world move to a low carbon economy. The HSBC Group has established central and regional climate business teams who look at the opportunities which will come about as a result of technology and a changing climate.

Operational environmental efficiency
The HSBC Group focuses its environmental initiatives primarily on addressing and responding to issues associated with climate change, including energy use, water and waste management. This issue has the potential to materially affect its customers and, by extension, its long-term success, introducing new risks to business activity. At the end of 2011, the HSBC Group committed to a series of targets stretching through to 2020, which will further reduce the Group's impact on the environment.

Community investment
The HSBC Group has a long-standing commitment to the communities in which it operates. Many of HSBC key markets are emerging economies. The HSBC Group operations bring benefits to HSBC host countries through tax contributions, and to local people and businesses through employment, training, purchasing and investment. Beyond HSBC core business, the HSBC Group aims to encourage social and economic opportunity through community investment activities. The HSBC Group's focus is on education and the environment because HSBC believes they are essential building blocks for the development of communities and are prerequisites for economic growth. In 2011, the HSBC Group donated USD 96 million to community investment projects and HSBC France donated EUR 2.3 million.

Employee issues
"Employee engagement" describes employees' emotional and intellectual commitment to their organisation and its success and is critical to the long-term ability of the HSBC Group to deliver the highest quality of financial services. The HSBC annual Global People Survey measures and benchmarks attitude and engagement. In 2011, 66 per cent of colleagues in France said they were satisfied with the actions HSBC is taking to embed sustainability into the way it runs its business (see "stakeholders" Dialogue page 48).

Sustainability governance
The Corporate Sustainability Committee, a committee of the Board of HSBC Holdings plc, is responsible for advising the Board, Committees of the Board and the Group Executive Management on corporate sustainability policies, including environmental, social and ethical issues.

The terms of reference of the Corporate Sustainability Committee, which are reviewed annually, are available at www.hsbc.com/boardcommittees.

Sustainability at HSBC France

Governance
In order to launch and effectively implement this strategy in France, in 2008, HSBC France created a Sustainability Department, which is overseen by the Chief Executive Officer. It has 8 members and it coordinates the implementation of action plans which have been developed in conjunction with the relevant business area.

The business area representatives meet once every quarter within the Sustainability Committee to monitor the progress or any delays in the deployment of this strategy.

In 2009, the bank in France reinforced this system by setting up a committee dedicated to managing the direct impact of the business. This Committee is responsible for coordinating with HSBC Group action plans to manage the group overall environmental footprint.

Sustainability (continued)

In 2010, HSBC France created a Diversity Committee, which is responsible for dealing with issues related to diversity and for proposing action plans to the France People Committee. The aim of this Committee is to enable the Senior Management of HSBC France to track and manage all issues related to Human Resources with a strategic impact, on a monthly basis.

Finally, in 2011, a Corporate Sustainability Finance Committee was set up, following the organisational model of the HSBC Group's Climate Business Council, in order to share the decisions taken with directors of business lines across the HSBC Group and to identify any local opportunities related to climate business.

Work and reports
To help it develop its activities, HSBC France participates in the work of the ORSE (*Observatoire de la Responsabilité Sociale de l'Entreprise*) and is a member of the Orientation Committee of the IMS-*Entreprendre pour la Cité* network. These two independent institutions work with their member companies, stakeholders from civil partnerships and their transnational counterparts in order to more clearly understand the issues and identify good practices in the area of corporate responsibility. HSBC France also sits on the Board of Heads of Corporate Sustainability – C3D, an independent organisation which helps raise the voice and opinion of Heads of Corporate Sustainability of large and medium companies and organisations in France.

Finally, in order to take its progress into account, since 2011, HSBC France has published the *Revue de la Fondation HSBC pour l'Education* (HSBC Foundation for Education Review), and publishes a report on sustainability each year, at the same time as the report published by its parent company, HSBC Holdings plc. In France, these reference documents are available exclusively over the Internet at the following address: http://www.hsbc.fr/rapportsdd.

The role of HSBC France in the economy and in support of corporate sustainability

Territorial, economic and social impact of HSBC France's activities

HSBC France profit distribution

(in millions of euros)	**2011**	2010
Net cash outflow for taxes	**323**	586
Distributions to shareholders and non-controlling interest	**118**	720
Wages and benefits	**998**	1,039
General operating expenses	**558**	615

Relations with individuals or organisations interested in the company's activities

"Stakeholders" Dialogue
An initial meeting between HSBC key stakeholders was organised in March 2011, one year before the declaration of the HSBC Group in France concerning this type of dialogue was made mandatory (article 225 of the "*Grenelle II*" law). That meeting brought together a panel of 10 people from environmental, labour and corporate organisations, academic and SRI experts and economic observers. This initiative showed that there is a high level of interest in HSBC France's sustainable development activities. It also revealed an expectation about the level of evidence and outcomes expected of the banking sector, such as assistance for clients and the level of engagement of the banking sector in making a positive contribution to the French economy and addressing its problems.

Listening to individual clients
The results of the satisfaction indicator of personal clients showed a certain level of confusion among clients concerning SRI funds, and the need to improve awareness about such products.

Listening to private clients
The HSBC Private Bank clients have been the subject of a qualitative study, which was conducted to survey their opinions and expectations concerning philanthropic services (for further information, see section "2011 – a review – Private Banking" page 50).

Listening to HSBC employees
Each year, the HSBC Group conducts a survey of involvement (Global People Survey) among all of its employees. The results of that survey are then specifically taken into account in order to improve the performance of the bank and the involvement of its employees, which are closely correlated.

In July 2011, 63 per cent of HSBC France's employees responded to the Global People Survey. Of those employees, 23 per cent declared that they are involved on a volunteer basis in some community investment activity organised by the Group in France. Those employees have a rate of involvement in the company that is 6 points higher than that of the other employees, and 4 points higher than the average for the HSBC Group.

Communications
HSBC maintains specialised partnerships with the Planet workshops forum and Terra Eco magazine, and provides information and data concerning its corporate sustainability policy, and its progress, to a wide variety of both internal and external partners, to promote a full dialogue with all stakeholders.

Policy concerning subcontractors and suppliers

HSBC requires its suppliers to provide it with information on their corporate sustainability policy. A company that is able to justify a specific activity has a greater chance of being chosen as a supplier for the Group. Responsible practices and certification ISO (International Standard Organisation), FSC (Forest Stewardship Council) or the AFNOR (*Association Française de Normalisation*) diversity label are criteria that will determine HSBC's choice. In France, all suppliers must sign and be familiar with the HSBC Group's supplier code of conduct.

Fairness of practices: ensuring the integrity of activities by means of governance and compliance

Governance

For HSBC France, corporate governance is fundamental to a sustainable organisation. Since it became part of the HSBC Group, the bank has continued applying the rules of the Corporate Governance Code for Listed Companies, even though its an unlisted company. In accordance with Law No. 2008-649 of 3 July 2008, transposing European Directive 2006/46/EC of 14 June 2006, the company refers initially to the Corporate Governance Code for Listed Companies published in December 2008 and revised in April 2010 by the AFEP and the MEDEF.

However, since HSBC France is a 99.9 per cent subsidiary of the HSBC Group and its equity securities are not listed on a regulated stock market, it has been necessary to adapt certain principles of the Corporate Governance Code. In some areas, HSBC France applies rules of corporate governance from the United Kingdom (the Combined Code on Corporate Governance), which its parent company, HSBC Holdings plc, applies.

Secondly, as a supplier of financial services, HSBC France must be careful not to provide any involuntary support for controversial initiatives. As an integral part of its development plan, corporate sustainability is a tool for this strategy.

As at 31 December 2011, the Board of Directors of HSBC France was made up of 18 Directors, including 2 who carry out duties within the HSBC Group, 4 members who are on the Management Board of HSBC France, 8 who are independent non-executive Directors and 4 who are Directors who have been elected by the employees. In addition, the Board of Directors is assisted by two committees: the Audit and Risk Committee, made up of independent non-executive Directors, and the Nomination and Remuneration Committee, which is chaired by an independent non-executive Director. The Board receives regular updates on corporate sustainability and how the business is managing its environmental and social impacts.

Compliance

The Compliance function, which was set up at HSBC France in 2001, is responsible for ensuring that the businesses' activities are conducted with integrity and professionalism, in accordance with the law, regulations and good practices that are currently in effect in France. In 2011, specific attention was paid to the investor protection mechanism, both in terms of following up on claims and accessing the information that is made available to clients. The compliance teams worked to reinforce the anti-corruption mechanism and to set up a new tool to fight money laundering in the HSBC France network. In particular, significant modifications were made to the filtering of interbank flows as part of the fight against terrorism. The implementation of these various projects now provides to clients with an environment that is even more secure.

2011 – a review

Integration in business lines

Branch network

At the end of 2010, HSBC France embarked on an awareness and integration programme to raise the level of awareness of management, employee and branch clients and demonstrate how corporate sustainability contributes to the performance of the banking relationship on a daily basis.

Two pilot branches were chosen, one in the *Ile-de-France* area and the other in the *Sud Rhône-Alpes* region, to participate in the first stage of implementing this change. Their employees participated in a session to raise their awareness about corporate sustainability. An action plan organised around each of the focuses of the HSBC France's corporate sustainability strategy, will be launched in 2012. At the end of this pilot project, there will be a review to prepare the possible use of this strategy across the network.

HSBC France is raising the awareness of its employees and its corporate clientele about the issues related to corporate sustainability and is continuing to develop its commercial offer on an ongoing basis in order to provide its clients with an ethical, responsible and profitable approach, in particular by means of promoting its range of SRI funds.

Client service, client experience and satisfaction

HSBC France meets the HSBC Group's level of client service requirements. In fact, HSBC aims to be the bank of reference in Wealth Management business and

Sustainability (continued)

strives for excellence in the quality of services provided to its clients, notably *Premier* and *Patrimoniaux* services, which represent its privileged client targets.

A team is dedicated to monitoring client experience. A "client voice" procedure allows the bank's performance in terms of client satisfaction to be measured monthly and quarterly and twice a year and compares this data against HSBC competitors. An investigation into the service quality in branches is also regularly carried out. Its results (score and opinions by clients in each branch) are given to the branch directors, and since 2011, have been included when calculating the variable remuneration of all branch employees, as are the results of the mystery visitor procedure within the network.

In 2011, against a backdrop of financial crisis and anti-bank sentiment, the satisfaction rate of HSBC France Premier clients has remained stable all year long, and the score of *Premier Patrimoniaux* clients has continued to advance to reach its highest level in the last quarter of 2011. This is, in no small part, due to the efforts HSBC France has made to significantly increase the quality and reactivity of services provided to this segment of clientele. HSBC France spent time identifying the specific needs of these clients and equipped its advisors with the skills to meet these needs.

In the fourth quarter of 2011, the number of HSBC France clients who said they were "very satisfied" reached 55 per cent, placing the bank second in the market. In the same quarter, 38 per cent of clients said they have recommended HSBC during the past two years, making HSBC France the market leader on this metric.

The number of complaints recorded in 2011 is stable amongst personal clients, both in branches and in the head office, and notably down for corporate clients. Up to 30 per cent of branch and head office complaints concern pricing (including requests for explanations, contesting and requests for the reimbursement of fees and various commissions), 10 per cent of complaints relate to credit cards (management of utilisation, fraud, foreign transaction pricing, managing maximum amounts), 7 per cent to domestic and international transfers (deadlines, transfer and exchange rate commissions), and 6 per cent of complaints concern real estate credit, with the management of such strong demand leading, in some specific cases, to delays or referrals of signature dates of real estate asset acquisitions.

The number of letters sent to the ombudsman by the clients is up 10 per cent compared with 2010, and the number of cases dealt with by the ombudsman (seisin) is up 6 per cent.

Commercial Banking

In 2011, HSBC France launched a financing offer in partnership with Oséo: the HSBC *Prêt Vert* (green loan). This device is intended for investments in the real economy which help to protect the environment and reduce energy consumption. Reserved for companies of more than three years, this Oséo/HSBC joint financing benefits from a partial deferred amortisation and no guarantee is required on corporate assets.

HSBC France also undertook a number of initiatives to raise the awareness of its corporate clients and its own commitment amongst key stakeholders, and to share best practice:

- Green Dating: monthly sustainable economy meetings that take place every month at the HSBC France head office. They allow directors, entrepreneurs, investors and associations to present their strategy and discuss a particular theme;
- *Les Ateliers de la Terre:* for the fifth year running, HSBC France took part in this international yearly forum as official partner. It brings together more than 500 opinion leaders, company directors, political managers, scientists and academics. The bank invites its Commercial Banking clientele;
- *Le Club Génération Responsable*: this dynamic association accompanies franchise networks with their corporate sustainability strategies;
- for the third year running, HSBC France took part in the *Pro Durable* trade show.

Private Banking

Private Banking has continued to develop its philanthropic service for private clients. HSBC wants to encourage and support philanthropic endeavours, which is an integral part of wealth diversification for a growing number of clients. HSBC helps connect clients with similar interests and provides the expertise to support philanthropic initiatives, helping clients to ensure their giving has a beneficial impact. In the context of this support, Private Banking offers its clients the chance to take part in the *Rencontres des Philanthropes*, an exclusive circle where, every two months, they can discuss and attend themed meetings with an expert. These meetings take place during a dinner, at the Group's head office in France.

Socially responsible investment (SRI)

Consistent with its commitment in the field of corporate sustainability, the HSBC SRI offering has been designed to meet the needs of a broad range of clients: institutions, asset managers, multi-managers, companies, associations and individuals. This offering is also included in the HSBC France fundamental range and is accessible in the context of life insurance contracts offered by the group.

SRI amounts outstanding increased, despite headwinds caused by events in the eurozone and an overall drop in collections. At 31 December 2011, the amount outstanding stood at EUR 2.1 billion; this represents a 15 per cent increase in funds outstanding compared with 2010, which is explained by the collection on existing SRI funds, monetary, diversified and equity. SRI fund HSBC *Actions Développement Durable* saw its amounts outstanding grow to 78 per cent, which reflects the investment of institutional clients and corporate clients (*via* employee savings plans) and also a reorganisation of the range of funds presenting similar investment outlooks and objectives.

HSBC France active participation in the second edition of the week of the SRI (from 10 to 16 October 2011), working closely with HSBC Global Asset Management (France), also helped to supply collecting from SRI funds.

SRI employee savings plans
The global SRI amounts outstanding in employee savings plans has increased again, amounting to EUR 129.3 million at the end of 2011 (+8.3 per cent in one year), over total amounts outstanding in employee savings plans (SRI and non SRI) of EUR 3.6 billion (-5 per cent).

In 2011, HSBC France instigated a number of initiatives to promote and develop the SRI offering in employee savings plans:

– since 2010, regulations have imposed the existence of an "equitable" FCPE (corporate mutual investment fund) in corporate savings plans: HSBC systematically integrates its "equitable" FCPE SRI into all corporate savings plans and PERCO (retirement savings plan);
– integration of two new FCPE SRI into its Elyséo range (employee savings plan product intended for companies with up to 50 employees);
– training and regular awareness-raising of 50 financial experts within the network of professional and corporate account managers;
– launch of the PERCO of HSBC France Asset Management integrating the SRI labelled offer;
– creation of a dedicated "SRI" space on the public website www.ere.hsbc.fr.

Global Markets
The cash equity team has organised breakfasts around extra-financial themes for its asset manager clients to help them to have a better understanding of their impact on company value. These events complement consulting services given to clients by the climate change department of the HSBC Group Research Management.

Social Investment and microfinance
HSBC France supports micro-finance and accompanies entrepreneurs from disadvantaged areas:

– in the context of its partnership with ADIE (*Association pour le droit à l'initiative économique* – association for the right to economic initiative), HSBC France granted it a line of credit of EUR 2 million in 2011, which allowed the granting of 257 micro-credits to *entrepreneurs*;
– HSBC France has invested up to EUR 1 million in equitable venture capital funds *FinanCités* since 2008, *Business Angel des Cités* (BAC) up to EUR 500,000 since 2010 and Citizen Capital up to EUR 1 million since 2011.

Control and improvment of environmental impacts

2008-2011 objectives
For the 2008-2011 period, HSBC France had set itself the goal of reducing per full-time employee (FTE) its energy consumption by 2.8 per cent, direct CO_2 emissions from building energy consumption by 1.4 per cent, its water consumption by 5 per cent and its share of non-recycled waste by 6 per cent. These objectives have been reached or exceeded with a reduction in energy consumption of 2.7 per cent, direct CO_2 emissions from building energy consumption by 31.6 per cent, water consumption by 12.4 per cent and non-recycled waste by 63 per cent.

Carbon footprint

Evolution of the legal framework
In France, decree n°2011-829 was published on 11 July 2011. This decree relates to the management of greenhouse gas emissions and the territorial climate-energy plan. To satisfy these regulatory requirements, HSBC France brought its reporting into line with the decree.

New positioning of the HSBC Group
Last year, following a review, the HSBC Group decided that from 2012 the business will no longer be carbon neutral. HSBC made this decision as the regulatory environment – and international carbon markets – have not developed in the way HSBC envisaged. Instead the HSBC Group will improve the way HSBC deploys capital by concentrating its efforts internally to permanently reduce its environmental impact.

Obtaining the *Attestation de Qualité Environnementale d'Utilisation* (environmental quality certification for building usage)
In April 2011, the Certivéa organisation issued HSBC France with the *Attestation de Qualité Environnementale d'Utilisation* (high-performance level) for one of its headquarter buildings in La Défense. As a result of this initiative, HSBC France has signed a commitment

Sustainability (continued)

with the building owner and manager to play its part in controlling its environmental footprint in these premises. HSBC France is one of the very first occupant companies to obtain this distinction.

Pollution and waste management
HSBC France's waste recycling rate has significantly improved, in part thanks to the installation of paper shredders. Paper consumption is down thanks to the joint effort of printers and ongoing digitisation projects. The dissemination of good practice (printing on both sides of the paper, use of online tools, etc.) has been reinforced.

Computer waste has been revalued or recycled by a computer hardware reconditioning company, a social enterprise which provides employment to people with disabilities and young people joining the workforce.

Water fountains have replaced fountains with bottles, which has saved 5 tonnes of plastic a year.

Sustainable use of resources
Energy consumption and water consumption have dropped thanks to an optimisation of occupied office space and when we decided to close one of the central sites, the bank donated 6 tonnes of furniture to HSBC employees.

Air travel
The number of kilometres travelled is down in 2011, however the tonnes of airborne CO_2 increased due to a review of the definition of short haul flights, which was extended to 3,700 km (as opposed to 750 km before).

Employee awareness raising initiatives
During the corporate sustainability week in April 2011, the HSBC Group in France ran an in-house campaign to reduce the environmental footprint of individual workstations and set up a "Climate Challenge", with the relay of Climate Champions, to raise the awareness of environmental good practice. At the same time, an Intranet subsite "Eco actions" was created, in which the group listed "12 simple everyday actions that are easy to adopt and which can make a difference". Finally, "the paperless day" was renewed on the occasion of world environment day, with 700 employees taking part. This initiative raised enough money to enable the National Forest Office to sponsor a bee hotel in the national forest of Retz.

Valuing employees

Remuneration and reward
A pay agreement was signed in November 2011 for 2012. In a highly uncertain economic and financial context, it allows 92 per cent of HSBC France employees, across all businesses (excluding employees from the *Hors Classes* category) to benefit from one of the pay measures adopted. Furthermore, these measures will support diversity, with a dedicated diversity bonus which increased by nearly 70 per cent in relation to 2011.

The main measures of the 2012 pay agreement are as follows:

– all employees whose yearly gross salary is less than or equal to EUR 60,000 will benefit from a year-round increase of 1 per cent of their salary. For a full-time employee, this increase cannot be less than EUR 350;

– the minimum annual salary (basic gross) of employees will be raised from EUR 22,000 to EUR 23,000 for the non-executive category and from EUR 32,000 to EUR 33,000 for the executive category;

– a fund of EUR 1 million will be dedicated in 2012 to pursuing the bank's initiatives regarding equity to:

  • favouring professional equity between women and men whether in terms of pay equity or professional promotion,

  • reviewing the remuneration of employees having benefited from a long-term absence – maternity leave, adoption or parental leave,

  • examining and possibly revising employee remuneration in the following situations: part time, disabled, employee representatives, being 50 years and older and not having benefited from any selective pay increase in the past 5 years.

In addition to these collective arrangements, a bonus pot is available to managers to review the individual situations of their employees, in line with the HSBC Group's pay award criteria.

Organisation of working hours
In accordance with the agreement relating to working hours signed in October 2008, the yearly working hours of employees are 1,592 hours, not taking into account the *journée de solidarité* (day of solidarity).

For employees whose working time is calculated in hours, working hours are organised according to two possible methods:

– over a working week of 38 hours, *i.e.* a day of 7 hours 36 minutes, in the framework of work organised over 5 week days; the number of rights to RTT (reduction in number of working hours) days in 2011 was 17.5 days for a week from Monday to Friday and 21.5 days for a week from Tuesday to Saturday.

– over a working week of 37 hours, *i.e.* a day of 7 hours 24 minutes, in the framework of work organised over 4.5 week days; the number of rights to RTT days in 2011 was 12 days for a week from Monday to Friday and 15 days for a week from Tuesday to Saturday.

Executive employees subject to a working time allowance calculated in days per year are those who occupy a position involving considerable autonomy in organising their work schedule, and whose main role is to run and manage a team and/or whose assignment requires expertise developed in their business.

The RTT compensatory days of executive employees subject to a working time allowance calulated in days per years vary, as for executives, depending on their work rate over the week.

Corporate affairs: organising social dialogue and assessment of collective agreements

Provisions of the corporate agreement on terms of social dialogue, the aim of which is to reinforce means of social dialogue on reorganisation projects resulting from company strategy, were implemented on the occasion of the examination of the project of merger of HSBC Private Bank France with HSBC France and projects under the 2014 Strategic Plan.

At the same time as a review of these projects, the work carried out with the different employee representative bodies of HSBC France (Central Works Council, Works Committee, Employee Representatives and Committee on Health, Safety and Working Conditions) led to 591 meetings being held throughout 2011.

Negotiations with trade union representatives saw the signing of six agreements and two amendments to existing agreements.

Health and safety

Medical Observatory of Stress

Since 2004, HSBC France has asked its employees in the Paris region to fill out the questionnaire of the Medical Observatory of Stress at their periodical medical check-up. In 2010, this was extended to the regions. An independent IPRP qualified firm ("Occupational risk prevention operator") was asked to process the results.

2010 results show a slight decrease in the average stress levels in the company. They highlight groups that report a less favourable psychological experience, mainly women, employees aged 50-59 and those with more than 20 years on the job, people who have a journey time of more than 120 minutes daily, technicians and employees of the Retail network.

These surveys have made it possible to implement action plans to enhance an awareness of stress factors and reduce them by targeted actions in managing work load and organisation, work station ergonomics, specific support during organisational changes, appropriate training courses and consideration of occupational changes.

Work-life balance

Since the end of 2010, HSBC France has acquired a telecommuting system which allows an employee to work from home, if practical. This system is voluntary and follows the principle of alternating over a given week between telecommuting for one to three days and working in the office for a minimum of two consecutive days.

As of 31 December 2011, 361 employees, mainly in the support functions, have opted for this solution which is in broad use in the HSBC Group, and their average satisfaction rating is high. Telecommuting greatly reduces weekly journey times to work, which has the additional benefit of reducing the company's carbon footprint and helps employees balance their professional life and their personal lives better.

The bank's General Management sent a message on this theme to all executives in February 2011, to improve the dissemination of good practices: not counting exceptions and crisis situations, employees must not be called upon during their holidays, weekends or off working hours and, except in emergencies, meetings must not be set before 9 am or after 6 pm.

Training

The year 2011 was marked by:

– deployment of the new MyLearning training environment in France. Alongside courses giving employees the necessary skills for their work, this development has led to a change of culture in France, as it has placed the employee at the centre of his own professional development, supported by his line manager;

– broader deployment of the HSBC Business School, whose curriculum had been set up in 2010. The bank's main business lines all benefit from an academy where curricula and training actions are developed to support individuals develop their strategy and performance, building technical and behavioural skills and having the necessary knowledge to meet the legal requirements.

90 per cent of these courses are taught in French. Corporate and transverse courses in all the banking business lines teach HSBC's "open, connected and dependable" values and practice the expected behaviours to embed those values. This offer, on the leadership and personal inter-personal and professional skills part, has been deeply enriched.

Diversity and equal treatment

In 2011, HSBC France implemented an action plan clearly oriented towards women's careers, to encourage women to access jobs at the highest level of the company. A priority shared by HSBC Group, which deployed it globally. In France, the bank has held conferences on the theme "successful women's careers"

Sustainability (continued)

to which 1,200 managerial women were invited. The company's talent scouting process also prioritises women.

As of 31 December 2011, 6 women sat on the HSBC France Executive Committee, and women account for 48 per cent of managers and 34 per cent of Directors of points of sale (Branches, Corporate Business Centres and Corporate Banking Centres).

A new global corporate agreement on Diversity and Equity has been signed by the social partners of HSBC France. The bank's objectives are the same as previously: equity between men and women in careers and pay, improve paternity leave and the careers of disabled employees, and increase the proportion of women in those levels where they are under-represented. In this regard, the bank has committed to increasing the proportion of women at each level of managerial classification by 4 points in three years. To meet this objective, the new Diversity agreement provides for the establishment of a "shared career diagnosis", which will track the promotion indicators for men and women over several years. Special attention is still paid to wage equity. In 8 years, the bank has devoted EUR 4.9 million to ensuring pay equality. Over the last 3 years, more than 2,000 women have received wage increases to bring their pay into line with male employees.

Seniors: A three-year agreement (2010 to 2012) was signed in 2009 to help keep employees over the age of 45 in work.

Fighting discrimination: HSBC values meritocracy: any individual has the same chances of being recruited and progressing in the company, regardless of their ethnic or social origins. HSBC France has implemented an internal awareness campaign on the theme of diversity. At the same time, e-learning for managers has been updated to make them aware of the impact of stereotypes and prejudices on everyone's actions and decisions.

Disability: HSBC France has 287 employees with a disability. Its disability policy is set out in the corporate agreement signed in July 2011, which covers 3 themes:

– remaining in work. Each situation is dealt with on a case basis. In 2011, some twenty pieces of heavy equipment were installed to facilitate the everyday working lives of employees with disabilities;
– recruitment: the group works with the *Handiformabanque* and *Tremplin* associations and with specialised firms. In 2011, 2 people (out of a total of 4) on these training schemes were recruited under an indefinite-term contract. Under the previous company agreement, the bank set the objective of 10 recruitments, which was exceeded with 11 recruits.

  In the new agreement, HSBC France has committed to a minimum 10 recruits under an indefinite-term contract and 10 in work-study programmes;
– devices for assistance in daily living: In 2011, 268 (+34 per cent) of employees with disabilities, or close relatives with disabilities benefited from CESU Disability tickets (checkbook for payments of special needs for disabled persons such as house keepings, child care, translator in or from sign language, etc.) financed by the bank. Also, the new agreement allocates additional days off to employees with disabilities or close relatives who are disabled.

Fundamental conventions of the International Labour Organisation

HSBC France promotes and complies with the stipulations of the fundamental conventions of the International Labour Organisation concerning freedom of association and collective bargaining laws, and also the elimination of discrimination in employment and professions.

Employees' commitment by awareness and philanthropy

In 2011, HSBC France dedicated nearly EUR 2.3 million (1.2 per cent of its pre-tax earnings) to charities. About 35 per cent of the group's employees have conducted 3,742 volunteer missions, representing nearly 18,000 hours, 86 per cent of which was undertaken during working hours.

The year 2011 was marked by:

– assistance from the HSBC educational foundation, which continued its action for the 6th consecutive year. In its 2011 call for projects, the Foundation wanted to support associations linked with schools. In all, 37 associations were supported, including 13 new projects. Between June 2010 and June 2011, 5,663 children received benefits from the Foundation;
– implementation of an environmental philanthropic programme launched in November 2010 by HSBC France around three objectives:
  - educating the young in environmental protection,
  - promoting and organising ecological actions in the field, involving employees and clients,
  - supporting research on the impact of climate change on finance professions;
– successful philanthropy as the driving force of Team Building, a managerial initiative launched two years ago. In 2011, 33 teams, consisting of approximately 500 people were involved in individualised actions proposed or created by the Corporate Sustainability Department.

Table of sustainability performance indicators of the HSBC Group in France

	Indicator	Change 2011	2010	2009	Unit of measure	Scope *	GRI 3	ISO 26000	Global Compact
1	Profit before tax	**191**	628	548	EURm	HSBC in France			
	Total amount of regulatory capital	**4,820**	4,832	5,060	EURm	HSBC France group			
	Operating ratio	**85**	71	71	%	HSBC in France			
	Ratio Core Tier 1 (Basel II)	**10.7**	12.1	12.2	%	HSBC France group			
	Sustainable economy								
2	Amount of loans granted to SMEs (European definition)	**714.3**	907	Change in scope of calculation	Total loans (EURm)	HSBC France	FS 6		
	– Investment in SFEF (purchased in 2009)	**–**	–	9.4%	%	HSBC France	FS 6		
3	– Loans granted to eco-industry SMEs[1]	**26**	37.6	28.5	Total loans (EURm)	HSBC France	FS 8	6.5.6	Principle 9
4	Equator Principles – Category A - number of projects financed and value	0 and 0	0 and 0	0 and 0	Total number of loans and EURm	HSBC in France	FS 3	6.3.5; 6.6.3	Principle 2
	Equator Principles – Category B - number of projects financed and value	1 and 100	2 and 132	1 and 438	Total number of loans and EURm	HSBC in France			
	Equator Principles – Category C - number of projects financed and value	1 and 100	3 and 215	1 and 60	Total number of loans and EURm	HSBC in France			
	Advice	3	4	5	Number	HSBC in France			
5	Lines of credit granted to ADIE	**2**	3	3	EURm	HSBC France	FS7		
	Amount of microfinancing loans granted through the ADIE partnership	**0.590**	1.948	1.564	Total loans (EURm)	N/A			
	Number of microcredits paid (ADIE)	**257**	770	427	Number	N/A			
	Investment of the HSBC EE *Diversifié Responsable et Solidaire* company savings plans for the benefit of ADIE	**250**	160	40	EUR thousand	HSBC Global Asset Management (France)			
	Investment in funds on behalf of entrepreneurs	**1/ Citizen Capital**	0.5/BAC	–	EURm	HSBC France			
6	SRI assets under management	**2,123**	1,846	250	EURm	HSBC Global Asset Management (France)	FS 10, 11, 12		
	Employee savings plan: total assets under management of the SRI range	**129.3**	79.5	60.5	EURm	HSBC Global Asset Management (France)	FS 10, 11, 12		
7	Number of client claims referred to the ombudsman	**552**	502	683	Number	HSBC France	PR 8	6.7	
	Number of claims processed and signed by the ombudsman	**88**	84	138	Number	HSBC France			
8	Rate of satisfaction of our retail banking customers: declaring being "very satisfied" (4th quarter of 2011)	**55**	52	46	%	HSBC France			
	% of retail banking customers recommending prospects over the last 2 years (4th quarter of 2011)	**38**	35	31	%	HSBC France			
	Environmental footprint								
9	Energy consumption	**66**	74	76	GWh	HSBC in France	EN 3, EN 4	6.5.5	Principles 7 & 8
	Energy consumption in MWh/FTE[2]	**6.69**	7.48	7.39	MWh/ETP [2]	HSBC in France			

Sustainability (continued)

	Indicator	Change 2011	2010	2009	Unit of measure	Scope *	GRI 3	ISO 26000	Global Compact
10	Transportation	**40.3**	36.61	28.33	Millions of km	HSBC in France			
11	Direct CO_2 emissions	**10.37**	10.95	10.12	Thousands of tonnes equivalent CO_2	HSBC in France	EN 16	6.5.5	Principles 7 & 8
	– direct CO_2 emissions (energy)	**4.93**	6.45	6.62	Thousands of tonnes equivalent CO_2	HSBC in France			
	– direct CO_2 emissions (transportation)	**5.44**	4.5	3.5	Thousands of tonnes equivalent CO_2	HSBC in France			
12	Water consumption	**151**	160	166	Thousands of m^3	HSBC in France	EN 8	6.5.4	Principles 7 & 8
	Water consumption per person	**15.30**	16.17	16.02	m^3	HSBC in France			
13	Paper consumption	**1,803**	1,847	1,874	Tonnes	HSBC in France	EN 1, EN 2, EN 22	6.5.4	Principles 7 & 8
	% of FSC certified paper	**90**	86	52	%	HSBC in France			
14	Production of waste	**1,926**	2,224	2,211	Tonnes	HSBC in France	EN 1, EN 2, EN 22	6.5.4	Principles 7 & 8
	Production of waste per FTE[2]	**194**	224	214	kg	HSBC in France			
	% of total recyclables/waste	**77**	68	60	%	HSBC in France			
	Human resources and safety								
15	Total employees[3]: Men (M) / Women (W)	**5,884 W/ 4,451 M**	5,969 W/ 4,510 M	6,072 W/ 4,605 M	Number	HSBC France group	LA 14	6.3.7	Principle 6
	% of employees under the age of 30	**17**	18.1	17.8	%	HSBC France group			
	% of employees over the age of 50	**29**	29.1	29.1	%	HSBC France group			
	% of woman executive employees	**18**	15	19	%	HSBC France group			
16	Number of disabled persons	**289**	250	245	Number	HSBC France social report		6.3.7	Principle 6
17	Number of recruitments through IMS-*Entreprendre pour la Cité*	**25**	33	31	Number	HSBC France		6.3.7	Principle 6
18	% of non-executive directors (without a position in the HSBC Group on December 31)	**44**	41	39	%	HSBC France		6.2	
19	Health and safety: number of fatal accidents at work	**0**	0	0	Number	HSBC France	LA 7	6.4.6	
	Health and safety: number of accidents that resulted in more than 3 days of unfitness for work	**N/A**	52	100	Number	HSBC France			
20	Training	**N/A**	235,505	259,951	Total number of hours	HSBC France			
	Involvement in community investment activities								
21	Community investment budget	**2.3****	1.8	1.2	EURm	HSBC in France		6.8	
	Community investment budget as a % of profit before tax	**1.2**	0,34	0,22	%	HSBC in France			
	Approx. % of employees who participated in a corporate sustainability activity on a volunteer basis	**35**	40	23	%	HSBC in France			
22	Level of involvement of employees	**63**	61	52	%	HSBC in France		6.4.5, 6.4.3	Principle 3
	Number of HSBC employees who responded to the Global People Survey	**65.5**	88	86	%	HSBC in France			
	Level of satisfaction of employees with the measures taken by HSBC to make corporate sustainability a part of the way that HSBC manages its business	**69**	71	66	%	HSBC in France			

1 *Eco-industry activity code, see www.stats.environnement.developpement-durable.gouv.fr/uploads/media/etudes_documentsN10.pdf (pages 33 to 36).*
2 *Full Time Equivalent.*
3 *See also page 231.*

* *HSBC France is a 99.9% subsidiary of the 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).*
** *An additional payment of EUR 1.8 million for the HSBC Foundation for Education and EUR 0.9 million for the Prix HSBC pour la Photographie were made to the Foundation of France under the aegis of which are placed these two programs. This amount will be consumed within 3 years from 2012, and will be included in this table as and when they are awarded to final beneficiaries.*

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, the 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 (which is enlarged since January 2012 to security and fraud),*
  - *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.

1 *See Chairman's report pages 34 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 page 37.*

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 Group 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, Retail Banking and Wealth Management) is supervised by dedicated Risk Management Committees (RMC) which meet monthly, chaired by the Deputy CEO in charge of risks and permanent control.

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 monthly risk committees organised by the HSBC Group Risk Department Europe, including the European Wholesale Credit and Market 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).

Risk management (continued)

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 2011: the retail network of HSBC France and its subsidiaries (HSBC Private Bank France until 31 October 2011, when it merged with HSBC 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 who carry out second-level work on the Credit Function (internal control teams within DRCR, Retail network or subsidiaries, the Commercial Banking Monitoring and Surveillance Department, the Personal Banking and Wealth Management Surveillance Department or Global Banking and Markets Surveillance Department, the Credit review team), but also on agents who also carry out first-level operational activities (credit managers, credit analysts, branch managers and relationship managers).

Any significant 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 required by the various participants and their frequency.

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

- data quality (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 Head of permanent control in the Credit Function. 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 permanent control 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 an absence-of-objection statement ("concurrence").

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.

The credit 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 Retail Banking and Wealth Management).

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.

Second level of controls are carried out by dedicated credit risk monitoring staff and the credit review team which uses the risk-based approach to select entities to be audited and to select the loan samples to be analysed, according to an audit cycle lasting a maximum of three years for Wholesale Banking and Corporate Business Centres (CBCs), and a maximum of four years for the rest of its scope. At the request of the Deputy CEO in charge of risks, the team may carry out one-off assignments relating to various credit-related matters. Reviews other than monitoring reviews are carried out on the ground.

Credit quality[1]

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 cautious, 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[2]

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[3] 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[4]

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[5]

The ISDA (International Swaps and Derivatives Association) master agreement or, in France, the FBF (*Fédération bancaire française*) contracts 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.

1 *See the Consolidated financial statements, Note 33 Risk Management page 151.*
2 *See the Consolidated financial statements, Note 30 Assets charged as security for liabilities and collateral accepted as security for assets page 145.*
3 *See the Consolidated financial statements, Note 13 Derivatives page 119.*
4 *See the Consolidated financial statements, Note 33 Risk management page 147.*
5 *See the Consolidated financial statements, Note 2 l pages 97 to 99 and Note 13 pages 119 to 123.*

Risk management (continued)

Concentration risk[1]

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.

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 also to 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 Bank plc 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 are possible 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 approval from HSBC Holdings plc before a formal commitment can be made to the counterparty.

1 *See the Consolidated financial statements, Note 33 Risk management page 147.*

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 and Risk Committee.

- *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 50 per cent of HSBC France's equity. The risk exposure of other financial institutions is limited to 25 per cent of HSBC France's equity.

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 HSBC Bank plc.

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.

Risk management (continued)

The HSBC Group assigns these global limits to HSBC France using the process described in the section on Wholesale and Market Risk (see page 62). 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 [1]

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), and 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 the 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, the 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.

1 *See the Consolidated financial statements, Note 13 Derivative instruments page 119 and Note 29 Maturity analysis of financial assets and liabilities page 143.*

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.

The 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 62 "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 of Global Banking and Markets. 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 to the HSBC France Audit and Risk 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.

Risk management (continued)

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.

The MRM team prepares 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 (Profit & Loss) 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 Global MRC.

Quantitative Risk and Valuation Group (QRVG) [1]
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.

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
HSBC France's market risk mandate for 2011 was a continuation of that adopted in 2010, with a gradual reduction in risk metrics relating to the most volatile risk factors.

Throughout 2011, HSBC France continued to play a major role as a platform for the HSBC Group in eurozone government bonds and euro-denominated derivatives.

Particular attention was paid to monitoring positions on eurozone government bonds, which continued to be the main drivers of movements in capital markets earnings in 2011.

1 *See the Consolidated financial statements, Note 13 Derivative instruments page 119 and Note 33 Risk management, page 147.*

Usage of the main limits was relatively high throughout 2011, reflecting the substantial increase in risk-factor volatility.

Exposure to the debts of various eurozone countries, particularly those of peripheral countries, was reduced steadily during the year. Interest-rate movement sensitivity limits, which measure P&L volatility, were reduced as a result.

In the first half of 2011, HSBC France operated with a minimum multiplier to calculate its regulatory capital requirement. The sudden amplification in market movements, at the start of the second half, led to several exceptions being recorded in relation to VaR backtesting, which resulted in the multiplier used to calculate the regulatory capital requirement being increased close to its maximum.

Interest-rate risk

Structural interest-rate risk is managed centrally by the ALM Department (DGFB) which is part of the Finance Department and corresponds to the structural interest-rate risk in the Commercial Banking business.

This 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 by maturity ranges).

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 liquidity and foreign exchange 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 Commercial Banking retail businesses. 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 interest-rate risk assessment process is performed monthly and is based on Commercial Banking businesses 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 markets 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

1 *See page 119.*
The principal accounting policies relating to derivatives are presented in Note 2 l of the Consolidated financial statements pages 97 to 99.

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 the 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.

Risk is measured and hedging transactions are carried out centrally by the DGFB: these activities rely on a set of formalised controls. 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 defined as the risk that HSBC France does not have sufficient financial resources to meet its obligations as they fall due, or will access to such resources only at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required.

The objective of the HSBC France's liquidity and funding management framework is to ensure that all foreseeable funding commitments can be met when due, and that access to the wholesale markets is co-ordinated and cost-effective. To this end, HSBC France maintains a diversified funding base comprising core retail and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by maturity which are held to enable HSBC France to respond quickly and smoothly to unforeseen liquidity requirements.

HSBC France maintains strong liquidity positions and manages the liquidity profiles of its assets, liabilities and commitments with the objective of ensuring that its cash flows are balanced appropriately and that all its anticipated obligations can be met when due.

HSBC France adapts its liquidity and funding risk management framework in response to changes in the mix of business that it undertakes, and to changes in the nature of the markets in which it operates. It also seeks to continuously evolve and strengthen its liquidity and funding risk management framework.

HSBC France's liquidity risk is managed centrally by the ALM Department (DGFB) which is part of the Finance Department. 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.

Policies and procedures

The management of liquidity and funding is primarily undertaken locally in HSBC France in compliance with practices and limits set by the RMM and the Balance sheet ALCO. It is the HSBC Group's general policy that each banking entity should be self-sufficient when funding its own operations.

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:

- monitoring the French liquidity ratio, as required by French regulations;
- producing FSA regulatory reports;
- projecting cash flows per various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity and advances to core funding ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debt maturities;
- managing contingent liquidity commitment exposures within pre-determined caps;
- maintaining debt financing plans;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business.

Primary sources of funding [1]

Current accounts and savings deposits payable on demand or at short notice form a significant part of HSBC France's funding, and the HSBC Group places considerable importance on maintaining their stability. For deposits, stability depends upon preserving depositor confidence in the group's capital strength and liquidity, and on competitive and transparent pricing.

Thereby, in 2011, given the improvement of its liquidity gap – core deposit increasing from EUR 21.2 billion at 31 December 2010 to EUR 24.3 billion at 31 December 2011 – HSBC France has issued a limited amount of EUR 1.9 billion of senior EMTN.

Pursuant to the objective of diversifying its sources of funding, HSBC France led in 2011 the transformation of its French Covered Bonds structured programme into HSBC SFH (France), a "*Société de Financement de l'Habitat*" fully regulated by the ACP. The outstanding amount of "*Obligations de Financement de l'Habitat*" held by the structure as of 31 December 2011 stands at EUR 1.9 billion.

HSBC France's participation in the European Central Bank's 3-year LTRO fits in with the conservative and cautious funding policy of HSBC France, which prior to the operation respected all of its regulatory and internal ratios. HSBC France has subscribed for EUR 5 billion out of total participation of EUR 1,012 billion.

The management of liquidity risk

HSBC France uses a number of major measures to manage liquidity risk, as described below:

French regulatory ratio

HSBC France monitors the one month French regulatory ratio, as required by French regulators. Banks are required to maintain this ratio 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. It is calculated for HSBC France on a stand alone basis and each subsidiary subject to it makes its own calculation. In 2011, the average liquidity ratio of HSBC France on a stand alone basis was 122 per cent, compared with 124 per cent in 2010.

Advances to core funding ratio

HSBC France emphasises the importance of core customer deposits as a source of funds to finance lending to customers, and discourages reliance on short-term professional funding. This is achieved by placing limits on banking entities which restrict their ability to increase loans and advances to customers without corresponding growth in core customer deposits or long term debt funding. This measure is referred to as the "advances to core funding" ratio. Advances to core funding ratio limits are set by the RMM and the Balance sheet ALCO. The ratio expresses loans and advances to customers as a percentage of the total of core customer deposits and term funding with a remaining term to maturity in excess of one year. HSBC France would meet any unexpected net cash outflows by selling securities and accessing additional funding sources such as interbank or collateralised lending markets. In 2011, the average "advances to core funding" ratio was 101 per cent, compared with 105 per cent in 2010.

The HSBC Group also uses measures other than the advances to core funding ratio to manage liquidity risk, including projected cash flow scenario analyses.

Stressed one month coverage ratio

The stressed one month coverage ratio is derived from these scenario analyses, and expresses the stressed cash inflows as a percentage of stressed cash outflows over a one month time horizon. HSBC France is required to target a ratio of 100 per cent or greater. In 2011, the average "stressed one month coverage ratio" was 107 per cent, compared with 104 per cent in 2010.

Projected cash flow scenario analyses

HSBC France uses a number of standard projected cash flows scenarios designated to model both group-specific and market-wide liquidity crises, in which the rate and timing of deposit withdrawals and drawdowns on committed lending facilities are varied and the ability to access interbank funding and term debt markets and generate funds from assets portfolios is restricted. The appropriateness of the assumptions under each scenario is regularly reviewed. In addition to the HSBC Group's standard projected cash flow scenarios, HSBC France designed its own scenarios tailored to reflect specific local market conditions, products and funding bases. Limits for cumulative net cash flows under stress scenarios are set for each banking entity.

Both ratio and cash flow limits reflect the local market place, the diversity of funding sources available and the concentration risk from large depositors. Compliance with entity level limits is monitored and reported regularly to the RMM.

Contingent liquidity risk

In the normal course of business, HSBC France provides customers with committed facilities, including committed backstop lines to conduit vehicles sponsored by the group and standby facilities to corporate customers. These facilities increase the funding requirements of HSBC France when customers choose to raise drawdown levels over and above their normal utilisation rates. The liquidity risk consequences of increasing levels of drawdown are analysed in the form of projected cash flows under different stress scenarios.

1 *See the Consolidated financial statements, Note 29 Maturity analysis of financial assets and liabilities page 143.*

Risk management (continued)

Foreign exchange risk

As HSBC France is part of the HSBC Group, its exchange rate positions are 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 Market Risk Committee.

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 the Balance Sheet ALCO.

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 the 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 France 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 Balance Sheet ALCO, the Capital Management Committee (CMC) and the governance and supervision of resilience tests committee (SOC). Within the Finance Department, the Capital Management Department helps to enhance co-ordination 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

The HSBC France group capital is divided into two tiers. Tier 1 capital comprises only common equity as no hybrid securities eligible for inclusion in additional Tier 1 capital 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, unrealised gains arising on the fair valuation of instruments held as available-for-sale and the credit spread on HSBC France's own debt). 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 is deducted from these two categories of capital, plus any items specified by regulations.

Regulatory capital requirements

Pillar 1

Basel II provides three approaches for the calculation of pillar 1 credit risk capital requirements. The standardised approach 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 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.

1 *See the Consolidated financial statements, Note 33 Risk cover and regulatory ratios page 163, and Note 28 Fair value of financial instruments page 137.*

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.

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 three different percentages of income according to each of 8 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 its own set of Pillar 3 disclosures in France but these are included in the disclosures that HSBC Holdings plc makes available on the investor relations section of its website.

Regulatory changes

Regulations moved into a new phase in late 2011 with the introduction of "stressed value at risk" for the calculation of market risks under CRD3 (Basel 2.5). The HSBC France group took into account the impact of this change at end-2011.

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 in 2011 includes certain specific scenarios required by Senior Management, the HSBC Group or its supervisory authority (Financial Services Authority).

Risk management (continued)

Regulatory capital position

The table below sets out the analysis of regulatory capital:

Composition of regulatory capital

(in millions of euros)	**2011**	2010
Tier 1:		
Shareholders' funds of the parent company	**4,820**	4,832
Non-controlling interests	**48**	48
Less: dividends to be paid to the parent company	**–**	–
Less: items treated differently for the purposes of capital adequacy	**(192)**	(99)
Less: goodwill capitalised and intangible assets	**(364)**	(367)
Less: deductions in respect of expected losses	**(75)**	(99)
Less: investments in credit institutions exceeding 10% of capital	**(305)**	(281)
Total qualifying Tier 1 capital	**3,932**	4,033
Tier 2:		
Reserves arising from revaluation of property and unrealised gains on available-for-sale securities	**54**	70
Perpetual subordinated loan and term subordinated loan	**88**	121
Less: deductions in respect of expected losses	**(75)**	(99)
Less: investments in credit institutions exceeding 10% of capital	**(67)**	(93)
Total qualifying Tier 2 capital	**–**	–
Total qualifying Tier 3 capital	**–**	–
Investments in other banks and other financial institutions	**(4)**	(4)
Other deductions	**–**	–
Total capital	**3,928**	4,029
Total risk-weighted assets *(unaudited)*	**36,889**	33,451
Capital ratios: ***(unaudited)***		
Total capital	**10.7%**	12.0%
Tier 1 capital	**10.7%**	12.1%

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 2011 and 2010.

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 2011, EUR 305 million was deducted from Tier 1 capital (EUR 281 million at 31 December 2010) and EUR 67 million from Tier 2 capital (EUR 93 million at 31 December 2010).

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 less the interim dividend paid (EUR 118 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 33 million.

Risk-weighted assets

The increase in risk-weighted assets is mainly due to the market risk increase (taking into account the Stressed VaR following the new guidelines under CRD3).

OPERATIONAL RISKS

Operational risk is the risk of losses arising from shortcomings or failings attributable to internal processes, employees, 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 risks and permanent control, centralises work relating to the 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. To date, the HSBC Group has taken no decision on a possible eventual transition to the advanced method (AMA) for calculating the regulatory capital required to cover operational risks.

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.

Business-line internal control and operational risk management teams coordinate work, within their entities, 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 business-line internal control and operational risk management 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, internal control and operational risk management teams 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 and Risk Committee).

Risk management (continued)

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.

The reports are prepared from returns made in the HSBC Group's GORDON (Group Operational Risk Database Online Network) incidents reporting package and since November 2011, in the new ORION system, which will eventually be used as an Enterprise Risk Management (ERM) system. 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.

Control framework of legal risk

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 monitoring [1]

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 the Finance Department, the 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 2011 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

1 *See the Consolidated financial statements, Note 36 Litigation page 166.*

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.

On 23 February 2012, the Paris Court of Appeal overturned the decision of the French Competition Authority, finding that the authority had failed to demonstrate a restriction by subject. The Paris Court of Appeal cleared the banks of wrongdoing and ordered the repayment of fines paid by the banks. The French Competition Authority is appealing to the Court of Cassation against the decision.

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 and the GIE Cartes Bancaires 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, accepted the opening of commitment proceedings.

On 7 July 2011, the Competition Authority announced its decision to make the commitments proposed by the GIE under this procedure mandatory. To our knowledge, no appeal has been made against this decision.

As regards interbank fees applied to payment methods other than cheques and cards, the French Competition Authority agreed to an undertakings procedure. On 14 March 2012, it set out its competition concerns and in response to those concerns, the banks have drawn up a draft set of undertakings.

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.

HSBC France systematically brings proceedings against those investors with loan repayments due but the hearings are in abeyance because of the criminal procedure underway. However, in order to settle the financial aspects of the matter, without waiting for the outcome of criminal proceedings, out-of-court settlements have already been reached with some borrowers and talks are continuing with other borrowers. Proceedings have also been commenced against the

Risk management (continued)

notaries involved and their insurer MMA. These proceedings have also been adjourned.

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

Euribor enquiry

In October 2011, the European Commission carried out unannounced on-site inspections of several banks, including HSBC France, operating in Euribor (Euro Interbank Offered Rate) derivatives. The European Commission suspects that employees of the banks in question may have infringed European laws prohibiting anti-competitive collusion and commercial practices that restrict competition, through the possible co-ordination of daily information used to calculate Euribor. On the same matter, HSBC France has received requests for information from the *Autorité des Marchés Financiers* and the US Commodities and Futures Trading Commission (CFTC). HSBC France is providing all appropriate co-operation, and is not currently able to forsee the potential outcome of these enquiries given the current state of information.

To date, as far as HSBC France is aware, it is not threatened by any other regulatory, civil law or arbitration 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.

This department assists HSBC France's various business lines, along with its subsidiaries, to prevent and control tax risks.

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

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

Missions and scope

HSBC France's IT Function is divided between production IT (IT Operations – ITO) and development IT (Software Delivery – SWD). Their main missions are to:

- respond to requests from internal partners, integrating and giving preference, in France, to the HSBC Group systems and solutions;
- provide internal partners with the level of reliability that they are entitled to expect given HSBC France's market position;
- help implement the HSBC Group's projects and services.

These missions are supported by the Change Delivery, Quality, Change Management, Security and Fraud, Purchasing and HR Functions, and also fall within the scope of IT risk supervision.

The missions of the IT Function are covered by the following HSBC Group manuals:

- Group Standard Manual (GSM): 10.6 Information Technology;
- Functional Instruction Manual (FIM IT).

The IT risk function aims to implement an IT risk reduction strategy that is consistent with the information system strategy. This strategy also aims to meet the information system's confidentiality, integrity and availability requirements with respect to the bank's business lines. IT risk management often involves standard arrangements such as the IT Recovery Plan (IRP), data back-up and the Business Recovery Plan (BRP). However, it is also more extensive, since it requires implementation of the HSBC Group's risk assessment methodology, which is handled in France by the Internal Control and Operational Risks Department (DCIRO), and the preparation of a risk management plan commensurate with the potential financial damage.

Some risks are managed through the Business Recovery Plan and the IT Recovery Plan, but the issues involved in any IT organisation mean that other risks need to be managed, such as:

– failure to comply with legal obligations;
– human and programming errors;
– loss of expertise relating to projects and/or technologies;
– unavailability of the information system when new developments or new third-party solutions are implemented;
– system and/or code vulnerabilities;
– outsourcing of sensitive functions and processes;
– loss of or damage to audit trails;
– failure of key suppliers in the regulatory sense;
– internal or external fraud.

The IT Function's permanent control system

The IT Function's permanent control unit is part of Internal Control, which itself reports to the General Secretariat of HSBC Technology and Services (HTS).

The identification of all potential risks and control objectives in the IT Function complies with the Cobit method. Under this method, the information system is mapped on the basis of 34 IT processes. This mapping is jointly approved by the Chief Operations Officer of HTS and the Chief Risk Officer of HSBC France, and is revised annually. As part of this organisation, the IT Function's permanent control unit lists IT risks and co-ordinates the key controls required to manage each risk, with the support of departmental managers, who remain responsible for first-level controls on operational processes and who must apply the key controls identified.

The IT Function's permanent control information (results of control reviews, progress with the control plan, change in risk reviews and control assessments, any failures and remedial actions taken) are presented monthly to HTS' governance body (Comex) and quarterly to the IT risk function's governance body (HTS ORIC IT Committee). Permanent control work and results are also reported monthly in the Risk Management Meeting (RMM) and quarterly in central ORIC Committee meetings.

To comply with the US Sarbanes-Oxley Act, the HSBC Group has set up a permanent control documentation and assessment framework, co-ordinated by the Finance Department, relating to the IT processes involved in preparing financial statements.

Risk monitoring

The IT risk function prepares a control plan on an annual basis. This plan sets out the key control monitoring activities that are performed annually. To ensure that it remains relevant, it is reviewed and updated on an ongoing basis depending on changes in the IT Function.

The results of risk assessments and controls form the basis of the annual control plan. It is approved annually through an appropriate governance procedure, validated by HTS' Head of permanent control, General Secretariat and management.

Any major IT problem identified through control monitoring is reported to HTS' permanent control management and HSBC France's permanent control supervision department (DCIRO).

Information security policy

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

Risks relating to information security are a central concern of the HSBC Group and HSBC in France. To reduce risks in this area, numerous directives have been adopted and issued to all HSBC Group entities since 2009.

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.

Information system security is the responsibility of the Chief Technology and Services Officer (CTSO), who is a member of the Executive Committee and Head of the HSBC Technology & Services (HTS) Department. The CTSO is supported by work done by the dedicated Information Security Risk (ISR) team.

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 by the Senior Management (notion of risk appetite), 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.

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

Risk management (continued)

lines incorporate the data security requirements in their day-to-day work, to co-ordinate the activities of Business Information Risk Officers (BIRO), who are the business-line representatives of ISR and are tasked with implementing security policies within business lines 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 various ISR activities are intended to ensure the integrity and confidentiality of information belonging to HSBC and its clients:

- management of accounts allowing users to access the bank's applications and operating systems, and the password management policy;
- application security, to ensure that applications used within the company have been developed in accordance with the rules and comply with the bank's security policies;
- business-line controls, to ensure that business lines comply with Group policy regarding the treatment of sensitive data, supported by BIROs;
- infrastructure security, involving penetration tests and work to ensure the security level of the bank's technical infrastructure;
- risks relating to service providers, involving checks that the services HSBC entrusts to certain partners are performed with the required level of safety;
- incidents and threats, involving work to manage threats within HSBC France and any security incidents, including the preparation and monitoring of remedial action plans;
- communication and training, involving the preparation of annual communication and training plans and their implementation.

Fraud prevention

Within the Security and Fraud Risk (SFR), the anti-fraud unit's main task is to ensure that the measures for protecting the group against internal and external fraud are comprehensive, efficient 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, internal control and operational risk management teams, Compliance, Credit and Human Resources. For this purpose, a SFR representative sits in on all business-line ORIC Committee meetings. A Major Risk Committee meets twice yearly, and these meetings include presentations of anti-fraud measures anticipated and implemented.

As regards frauds designated as major, there is a fraud response group that meets in exceptional circumstances, such as in the event of internal fraud or targeted attacks on HSBC France client Internet platforms.

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 internal frauds by whatever process.

In 2011, the focus was on the prevention and detection of Internet frauds (viruses or remote account access), with the adoption of software allowing high-level surveillance of HSBC France clients' connections.

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.

2011 cost of fraud report

The total for internal and external frauds (excluding bank cards) represents around 10 per cent of the total of typical operational losses, *i.e.* EUR 2.4 million. 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.

Frauds carried out by customers

These include "credit" frauds, defined as any deliberate attempts by clients to mislead the bank: 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 2011, these frauds represented around 75 per cent of the total by amount.

External frauds

These are frauds committed by third parties against 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 2011, these frauds represented around 20 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 and in controlling Internet fraud.

Internal frauds

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

In 2011, these frauds represented around 5 per cent by amount. In general, HSBC France sees one to two large internal frauds per year. 2011 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) – *Banque de France* – 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.

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;

Risk management (continued)

- multiple bomb attacks;
- widespread electricity 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 and should be tested at least once a year.

Because of the size of HSBC in France and the large number of its geographical locations and businesses to be covered, each business, department and subsidiary, 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 is responsible for the detailed assessment or control, drafting and updating of the Business Recovery Plan. He arranges and carries out technical resources and 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. This central structure is responsible for organising business recovery co-ordination committee meetings and for communicating about organisational, technical and testing strategies.

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 (Technical control post: 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.

This secure site is opened and made accessible to personnel on the decision of GIM at the request of business lines, validated by the RPCA in the event of a transport strike 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) to continue carrying 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.

This mapping includes the risks borne by the department itself. The document is updated at least once a year and is used in support of the annual control plan.

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. 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 and results of post-implementation reviews of new processes or products. 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 Markets, 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 population covered by the order of 13 December 2010 (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.

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.

Risk management (continued)

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 as regards remuneration policies

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 and to HSBC France's Head of Compliance;
- 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.

Especially during the salary review process, the Head of Compliance must take part in meetings organised by the HR Department in the presence of the managers concerned and the Deputy CEO in charge of risks, in order to assess the severity of cases on the basis of information reported by risk functions and the business line's summary of that information.

As regards the most significant cases of non-compliance with rules and/or internal procedures, and/or risks as identified during the year, managers and the Deputy CEO in charge of risks must make decisions about:

- the impact (significant, marginal or nil) on the variable compensation of the employees concerned;
- whether the "clawback" rule needs to be applied, cancelling some or all previously awarded shares, depending on the severity of the event.

After these decisions, the HR Department must certify that the managers concerned and HR have made any required adjustments to the variable compensation of the employee concerned.

If the proposed variable compensation requires it (above a certain threshold), risk functions may be asked to contribute to the preparation of a business case setting out the compliance breach and/or internal rule breach 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 of cars.

Generally, the levels of coverage, retentions and excesses are:

- in line with insurance market conditions, 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 2011 represented 0.35 per cent of the net operating income of the HSBC France group.

Most of the programmes, notably international, 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)	**2011**	2010	2009	2008	2007
Profit before tax	**59**	512	406	1,744	1,051
Profit attributable to shareholders	**123**	454	347	1,764	975
Profit before tax for the HSBC Group's operations in France[1]	**191**	628	548	1,853	905
At 31 December					
Shareholders' funds	**4,821**	4,832	5,060	5,228	5,064
Loans and advances to customers and banks	**82,984**	95,291	80,485	78,556	88,279
Customers' accounts and deposits by banks	**75,234**	86,055	90,373	95,927	93,083
Total assets	**221,390**	210,836	213,444	266,025	198,627
Number of employees (full-time equivalents)	**10,030**	10,121	10,350	10,886	14,279
Capital ratios					
Total capital[2]	**10.7%**	12.0%	12.2%	9.6%	9.8%
Tier One capital[2]	**10.7%**	12.1%	12.2%	9.5%	8.8%
Cost efficiency ratio	**90.6%**	73.0%	73.9%	48.5%	64.3%

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;

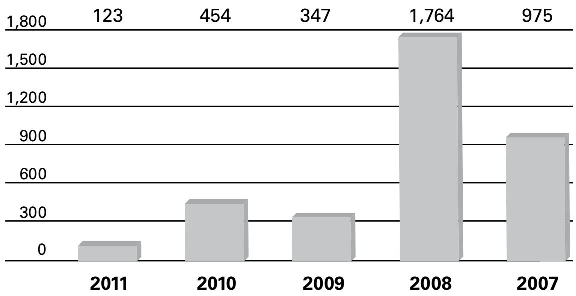
– in 2008: disposal by HSBC France of its seven regional banking subsidiaries;

– in 2009: disposal by HSBC France of its equity derivatives business to HSBC Bank plc Paris Branch;

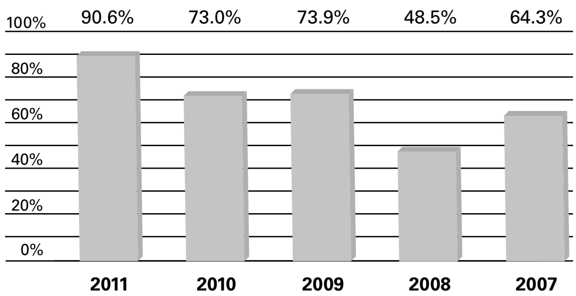
– in 2010: disposal by HSBC France of HSBC Securities Services (France) to CACEIS.

– in 2011: disposal by Sinopia Asset Management of Sinopia Asset Management (Asia Pacific) Limited to HSBC Global Asset Management (Hong Kong) Limited and Sinopia Asset Management (UK) Limited to HSBC Global Asset Management (UK) Limited. Disposal by HSBC Private Bank France of LGI to HSBC Private Bank (Luxembourg) SA.

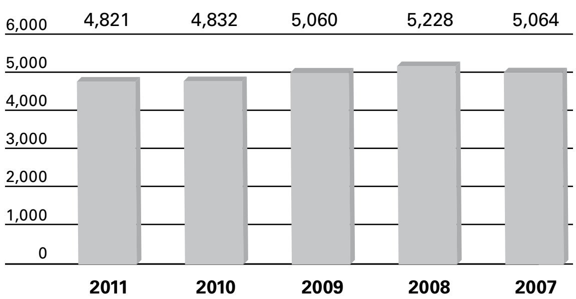
Profit attribuable to Shareholders (in millions of euros)



Cost efficiency ratio



Shareholders' funds (in millions of euros)



* *Published consolidated financial information – HSBC France legal perimeter. In accordance with IFRS as endorsed by the EU.*

1 *The contribution of France to the results of the HSBC Group's operations, includes:*
– the HSBC France group, including the results of entities legally owned by 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.

2 *Capital ratios under Basel I until 2007 and under Basel II from 2008.*

Financial highlights (continued)

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 revised on	29 November 2011	–	–
Rating confirmed on	–	29 August 2011	9 November 2011
Outlook	Stable	Negative	Stable
Outlook confirmed on	29 November 2011	29 August 2011	9 November 2011
Short-term rating	A-1+	P-1	F1+

Consolidated financial statements

Consolidated income statement for the year ended 31 December 2011

(in millions of euros)	*Notes*	**31.12.2011**	31.12.2010
Interest income		**2,052**	1,671
Interest expense		**(1,184)**	(806)
Net interest income		**868**	865
Fee income		**1,014**	1,004
Fee expense		**(245)**	(253)
Net fee income		**769**	751
Trading income		**(61)**	455
Net income from financial instruments designated at fair value		**120**	25
Gains less losses from financial investments		**52**	59
Dividend income		**6**	6
Other operating income		**27**	188
Total operating income before loan impairment (charges)/release and other credit risk provisions		**1,781**	2,349
Loan impairment charges and other credit risk provisions		**(109)**	(122)
Net operating income	*4*	**1,672**	2,227
Employee compensation and benefits	*5*	**(998)**	(1,039)
General and administrative expenses		**(558)**	(615)
Depreciation of property, plant and equipment	*18*	**(49)**	(52)
Amortisation of intangible assets and impairment of goodwill	*17*	**(8)**	(9)
Total operating expenses		**(1,613)**	(1,715)
Operating profit		**59**	512
Share of profit in associates and joint ventures		**–**	–
Profit before tax		**59**	512
Tax expense	*7*	**65**	(57)
Net profit of discontinued operations		**–**	–
Profit for the period		**124**	455
Profit attributable to shareholders of the parent company		**123**	454
Profit attributable to non-controlling interests		**1**	1

(in euros)			
Basic earnings per ordinary share	*9*	1.83	6.73
Diluted earnings per ordinary share	*9*	1.83	6.73
Dividend per ordinary share	*9*	1.75	10.67

Consolidated financial statements (continued)

Consolidated statement of comprehensive income for the year ended 31 December 2011

(in millions of euros)	**31.12.2011**	31.12.2010
Profit for the period	**124**	455
Other comprehensive income		
Available-for-sale investments:		
– fair value gains/(losses) taken to equity	**(52)**	81
– fair value gains/(losses) transferred to the income statement on disposal	**(64)**	(66)
– amounts transferred to/(from) the income statement in respect of impairment losses	**5**	5
– income taxes	**41**	(11)
Cash flow hedges:		
– fair value gains/(losses) taken to equity	**92**	45
– fair value (gains)/losses transferred to income statement on disposal	**(25)**	17
– income taxes	**(26)**	(22)
Actuarial gains/(losses) on defined benefit plans	**(5)**	(4)
Exchange differences	**–**	1
Other comprehensive income for the period, net of tax	**(34)**	46
Total comprehensive income for the period	**90**	501
Total comprehensive income for the year attributable to:		
– shareholders of the parent company	**89**	500
– non-controlling interests	**1**	1
	90	**501**

Consolidated balance sheet at 31 December 2011

ASSETS

(in millions of euros)	*Notes*	**31.12.2011**	31.12.2010
Cash and balances at central banks	*32*	**4,805**	980
Items in the course of collection from other banks	*32*	**806**	944
Trading assets	*12*	**39,013**	53,979
Financial assets designated at fair value		**598**	595
Derivatives	*13*	**82,738**	53,616
Loans and advances to banks	*28*	**29,705**	37,346
Loans and advances to customers	*28*	**53,279**	57,945
Financial investments	*14*	**7,518**	2,588
Interests in associates and joint ventures	*16*	**6**	6
Goodwill and intangible assets	*17*	**378**	382
Property, plant and equipment	*18*	**265**	233
Other assets	*20*	**1,117**	990
Deferred tax assets	*23*	**211**	135
Prepayments and accrued income		**946**	1,092
Assets classified as held for sale	*20*	**5**	5
TOTAL ASSETS		**221,390**	210,836

LIABILITIES AND EQUITY

(in millions of euros)	*Notes*	**31.12.2011**	31.12.2010
Liabilities			
Deposits by banks	*28*	**32,338**	36,861
Customer accounts	*28*	**42,896**	49,194
Items in the course of transmission to other banks	*32*	**757**	851
Trading liabilities	*27*	**38,258**	42,770
Financial liabilities designated at fair value	*21*	**5,527**	5,616
Derivatives	*13*	**81,681**	53,347
Debt securities in issue	*28*	**12,605**	14,285
Retirement benefit liabilities	*5*	**117**	106
Other liabilities	*22*	**837**	1,225
Current taxation		**25**	20
Accruals and deferred income		**1,215**	1,453
Provisions for liabilities and charges	*24*	**97**	62
Deferred tax liabilities	*23*	**2**	–
Subordinated liabilities	*26*	**166**	166
TOTAL LIABILITIES		**216,521**	205,956
Equity			
Called up share capital	*31*	**337**	337
Share premium account		**16**	16
Other reserves and retained earnings		**4,468**	4,479
TOTAL SHAREHOLDERS' EQUITY		**4,821**	4,832
Non-controlling interests		**48**	48
TOTAL EQUITY		**4,869**	4,880
Liabilities classified as held for sale	*22*	**–**	–
TOTAL EQUITY AND LIABILITIES		**221,390**	210,836

Consolidated statement of changes in equity for the year ended 31 December 2011

(in millions of euros)	31.12.2011 Called up share capital	Share premium	Retained earnings	Other reserves: Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Share-based payment reserve	Associates and joint ventures	Total share-holders' equity	Non-controlling interests	Total equity
At 1 January 2011	**337**	**16**	**4,341**	**46**	**22**	**(1)**	**67**	**4**	**4,832**	**48**	**4,880**
Share capital issued, net of costs	–	–	–	–	–	–	–	–	–	–	–
Dividends to shareholders	–	–	**(118)**	–	–	–	–	–	**(118)**	–	**(118)**
Net impact of equity-settled share-based payments	–	–	–	–	–	–	**24**	–	**24**	–	**24**
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–
Other movements	–	–	**(7)**	–	–	**3**	**(2)**	–	**(6)**	**(1)**	**(7)**
Total comprehensive income for the period	–	–	**118**	**(70)**	**41**	–	–	–	**89**	**1**	**90**
At 31 December 2011	**337**	**16**	**4,334**	**(24)**	**63**	**2**	**89**	**4**	**4,821**	**48**	**4,869**

(in millions of euros)	31.12.2010 Called up share capital	Share premium	Retained earnings	Other reserves: Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Share-based payment reserve	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

Consolidated cash flow statement for the year ended 31 December 2011

(in millions of euros)	*Notes*	**31.12.2011**	31.12.2010
Cash flows from operating activities			
Profit before tax		**59**	512
Net profit on discontinued operations		**–**	–
– non-cash items included in net profit	*32*	**114**	120
– change in operating assets	*32*	**17,215**	13,857
– change in operating liabilities	*32*	**(13,207)**	(2,339)
– change in assets/liabilities classified as held for sale (including cash flows)		**–**	–
– elimination of exchange differences		**(278)**	(38)
– net (gain)/loss from investing activities		**(64)**	(215)
– share of profits in associates and joint ventures		**–**	–
– dividends received from associates		**–**	–
– tax paid		**56**	(160)
Net cash flows from operating activities		**3,895**	11,737
Cash flows (used in)/from investing activities			
Purchase of financial investments		**(7,396)**	(1,083)
Proceeds from the sale of financial investments		**2,515**	3,742
Purchase of property, plant and equipment		**(87)**	(52)
Proceeds from the sale of property, plant and equipment		**(1)**	447
Purchase of goodwill and intangible assets		**(9)**	(6)
Net cash outflow from acquisition of and increase in stake of subsidiaries		**–**	–
Net cash inflow from disposal of subsidiaries		**13**	2
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		**(4,965)**	3,050
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		**–**	–
Dividends paid to shareholders		**(118)**	(720)
Dividends paid to non-controlling interests		**–**	–
Net cash flows (used in)/from financing activities		**(118)**	(720)
Net increase in cash and cash equivalents		**(1,187)**	14,069
Cash and cash equivalents at 1 January		**30,091**	15,993
Effect of exchange rate changes on cash and cash equivalents		**129**	29
Cash and cash equivalents at 31 December		**29,033**	30,091

Notes to the consolidated financial statements

1 Basis of preparation

a HSBC France has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as endorsed by the European Union ("EU"). 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 2011, there were no unendorsed standards effective for the year ended 31 December 2011 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 22 February 2012.

During the year 2011, 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.

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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.

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.

Consolidated financial statements (continued)

1 Basis of preparation *(continued)*

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.

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d *Future accounting developments*

Standards and Interpretations issued by the IASB and endorsed by the European Union (EU)

At 31 December 2011, 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 2011. 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)

• Standards applicable in 2013

In May 2011, the IASB issued IFRS 10 "Consolidated Financial Statements" ("IFRS 10"), IFRS 11 "Joint Arrangements" ("IFRS 11") and IFRS 12 "Disclosure of Interests in Other Entities" ("IFRS 12"). The standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRSs 10 and 11 are to be applied retrospectively.

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

Under IFRS 10, there will be one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage. This will replace the current approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 11 places more focus on the investors' rights and obligations than on structure of the arrangement, and introduces the concept of a joint operation. IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements and associates and introduces new requirements for unconsolidated structured entities. Based on HSBC France's initial assessment, IFRSs 10, 11 and 12 are not expected to have a material impact on the group's financial statements.

In May 2011, the IASB also issued IFRS 13 "Fair Value Measurement" ("IFRS 13"). This standard is effective for annual periods beginning on/or after 1 January 2013 with early adoption permitted. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.

IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhances disclosures about fair value measurement. Based on HSBC France initial assessment, IFRS 13 is not expected to have a material impact on the group's financial statement.

In June 2011, the IASB issued amendments to IAS 19 "Employee Benefits" ("IAS 19 revised"). The revised standard is effective for annual periods beginning on/or after 1 January 2013 with early adoption permitted. IAS 19 revised must be applied retrospectively. Based on HSBC France's initial assessment, this particular amendment of IAS 19 is not expected to have a material impact on the group's financial statements.

In December 2011, the IASB issued amendments to IFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities" which requires the disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on/or after 1 January 2013 and interim periods within those annual periods. The amendments are required to be applied retrospectively.

Given how recently this standard was issued, it is currently impracticable to quantify the impact of these IFRSs as at the date of publication of these financial statements.

- Standards applicable in 2014

In December 2011, the IASB issued amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 "Financial Instruments: Presentation". The amendments are effective for annual periods beginning on/or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively.

Given how recently this standard was issued, it is currently impracticable to quantify the impact of these IFRSs as at the date of publication of these financial statements.

- Standards applicable in 2015

In November 2009, the IASB issued IFRS 9 "Financial Instruments" ("IFRS 9") which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") with a less complex and improved standard for financial instruments.

Following the IASB's decision, in December 2011, to defer the effective date, the standard is effective for annual periods beginning on/or after 1 January 2015 with early adoption permitted. IFRS 9 is required to be applied retrospectively but prior periods need not be restated.

The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting. The IASB did not finalise the replacement of IAS 39 by its stated target of June 2011, and the IASB and the US Financial Accounting Standards Board have agreed to extend the timetable beyond this date to permit further work and consultation with stakeholders, including reopening IFRS 9 to address practice and other issues. The European Union is not expected to endorse IFRS 9 until the completed standard is available. Therefore, HSBC France remains unable to provide a date by which it plans to apply IFRS 9 and it remains impracticable to quantify the impact of IFRS 9 as at the date of publication of these consolidated financial statements.

2 Principal accounting policies

a *Interest income and expense*

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

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

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

b *Non-interest income*

Fee income

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

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

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

– 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.

2 Principal accounting policies *(continued)*

c *Segment reporting*

HSBC France mainly operates in France and manages its business through the following customer groups: Retail Banking and Wealth Management (including Insurance and Asset Management), Commercial Banking, Global Banking and Markets and 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.

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.

2 Principal accounting policies *(continued)*

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.

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.

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.

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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 2010 or 2011.

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.

2 Principal accounting policies *(continued)*

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.

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).

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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 does not use 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.

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

Cash flow hedge

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

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

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

2 Principal accounting policies *(continued)*

Net investment hedge

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

Hedge effectiveness testing

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

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

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

Derivatives that do not qualify for hedge accounting

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

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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.

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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.

2 Principal accounting policies *(continued)*

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.

2 Principal accounting policies *(continued)*

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.

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.

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

t *Pension and other post-retirement benefits*

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

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

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

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

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

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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 Holdings plc 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.

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".

2 Principal accounting policies *(continued)*

v *Foreign currencies*

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

The results of branches, subsidiaries, joint ventures and associates not reporting in euros are translated into euros at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments and the related cost of hedging and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period-end are accounted for in a separate foreign exchange reserve. Exchange differences on a monetary item that are part of a net investment in a foreign operation are recognised in the income statement of the separate subsidiary financial statements. In consolidated financial statements, these exchange differences are recognised in the foreign exchange reserve in shareholders' equity. As permitted by IFRS 1, HSBC France set the cumulative translation differences for all foreign operations to zero at the date of transition to IFRS. On disposal of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the income statement.

w *Provisions*

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

x *Debt securities in issue and subordinated liabilities*

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

y *Share capital*

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

z *Cash and cash equivalents*

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash and balances at central banks, treasury bills and other eligible bills, loans and advances to banks, and certificates of deposit. HSBC France has taken into account the guidance issued by the "*Autorité des Marchés Financiers*" (AMF) in early 2006 in respect of "*OPCVM de trésorerie*" (cash unit trusts).

2 Principal accounting policies *(continued)*

aa *Non-current assets held for sale*

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

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

A sale is highly probable if:

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

During the first half of 2011, Sinopia Asset Management sold Sinopia Asset Management (Asia Pacific) Limited to HSBC Global Asset Management (Hong Kong) Limited and Sinopia Asset Management (UK) Limited to HSBC Global Asset Management (UK) Limited.

On 30 June 2011, Sinopia – Société de Gestion was merged into Sinopia Asset Management and then, Halbis Capital Management (France) and Sinopia Asset Management were merged into HSBC Global Asset Management (France).

During the second half of 2011, LGI was sold to HSBC Private Bank (Luxembourg) SA and is no longer part of the French perimeter.

Since 31 October 2011, HSBC Private Bank France was merged into HSBC France. This merger had no impact on the HSBC France consolidated statements.

4 Net operating income

Net operating income for the year ended 31 December 2011 amounts to EUR 1,672 million (2010: EUR 2,227 million) and includes income, expense, gains and losses as follows:

(in millions of euros)	**31.12.2011**	31.12.2010
Income		
Fees earned on financial assets not held for trading nor designated at fair value and not included in their effective interest rates	**673**	622
Fees earned on trust and other fiduciary activities where HSBC France holds or invests assets on behalf of its customers	**253**	293
Income from listed investments [1]	**1,447**	1,401
Income from unlisted investments [1]	**32**	94
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	**(1,059)**	(720)
Fees payable on financial assets or liabilities not held for trading nor designated at fair value and not included in their effective interest rates	**(244)**	(252)
Gains/(losses)		
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	**10**	153
– gain on disposal of HSBC France Headquarters	**–**	141
– other	**10**	12
Gains/(losses) on financial investments	**50**	59
– equity securities	**52**	58
– debt securities	**3**	5
– impairment of available-for-sale equity shares	**(5)**	(4)
Loan impairment charges and other credit risk provisions	**(109)**	(122)
– net impairment charge on loans and advances	**(107)**	(120)
– impairment of available-for-sale financial investments: debt securities	**(2)**	(1)
– other credit risk impairment	**–**	(1)

1 *Dividends and interest.*

5 Employee compensation and benefits

(in millions of euros)	**31.12.2011**	31.12.2010
Wages and salaries	**678**	712
Social security costs	**249**	254
Post-employment benefits	**71**	73
	998	1,039

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

	31.12.2011	31.12.2010
Retail Banking and Weath Management and Commercial Banking	**5,265**	5,269
Global Banking and Markets	**1,224**	1,425
Asset Management	**553**	576
Private Banking	**208**	273
Support Functions and Others	**3,085**	2,936
Total	**10,335**	10,479

5 Employee compensation and benefits *(continued)*

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)).

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 2011, and the 2012 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 31.12.2011						
France	**4.50**	**3.50**	**2**	**2**	**3**	**–** [2]
At 31.12.2010						
France	4.75	– [1]	2	2	3	– [2]

1 *Expected rate on equities. However, expected rate of return on bonds was 4 per cent for 2010.*
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.

c *Defined benefit pension plans*

Value recognised in the balance sheet

(in millions of euros)	**31.12.2011** *HSBC France Pension Plan*	31.12.2010 *HSBC France Pension Plan*
Equities	**–**	11
Bonds	**13**	21
Property	**–**	–
Other	**–**	14
Fair value of plan assets	**13**	46
Present value of funded obligations	**–**	(45)
Present value of unfunded obligations	**(135)**	(114)
Defined benefit obligation	**(135)**	(158)
Unrecognised past service cost	**5**	6
Net liability	**(117)**	(106)

5 Employee compensation and benefits *(continued)*

Changes in the present value of the defined benefit obligation

(in millions of euros)	**31.12.2011** ***HSBC France Pension Plan***	31.12.2010 *HSBC France Pension Plan*
At 1 January	**158**	150
Current service cost	**5**	4
Interest cost	**6**	8
Contributions by employees	**–**	–
Actuarial (gains)/losses	**6**	7
Benefits paid	**(9)**	(10)
Past service cost – vested immediately	**–**	–
Past service cost – unvested benefits	**(1)**	–
Acquisitions	**–**	–
(Gains)/losses on curtailments	**–**	(1)
(Gains)/losses on settlements	**–**	–
Exchange and other movements[1]	**(30)**	–
At 31 December[2]	**135**	158

1 *Includes EUR 30 million of Pension liabilities of Charterhouse Management Services Limited transferred to HSBC Bank plc.*
2 *Of which non post-employment benefit obligations for EUR 8.4 million (2010: EUR 7.6 million) and post-employment benefit obligations for EUR 126.6 million (2010: EUR 150.4 million).*

Changes in the fair value of plan assets

(in millions of euros)	**31.12.2011** ***HSBC France Pension Plan***	31.12.2010 *HSBC France Pension Plan*
At 1 January	**46**	46
Expected return	**1**	2
Contributions by the group	**–**	–
Contributions by employees	**–**	–
Actuarial gain	**–**	1
Benefits paid	**(3)**	(4)
Acquisitions	**–**	–
(Gains)/losses on settlements	**–**	–
Exchange and other movements[1]	**(31)**	1
At 31 December	**13**	46

1 *Includes EUR 30 million of Pension assets of Charterhouse Management Services Limited transferred to HSBC Bank plc.*

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

(in millions of euros)	**31.12.2011** ***HSBC France Pension Plan***	31.12.2010 *HSBC France Pension Plan*
Current service cost	**5**	4
Interest cost	**6**	8
Expected return on plan assets	**(1)**	(2)
Past service cost	**–**	–
(Gains)/losses on curtailments	**–**	(1)
(Gains)/losses on settlements	**–**	–
Total net expense	**10**	9

In 2011, total net actuarial losses included in the statement of comprehensive income were EUR 5 million in respect of defined benefit pension plans (2010: EUR 4 million).

Consolidated financial statements (continued)

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 (The HSBC Share Plan) 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. This regulation was revised in 2011 firstly to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the "Group Performance Share Plan", which aim the Senior Executives. In this context, the French sub-plan (schedule 5 of the new rules) has also been subject of a review, to comply with local social and tax rules. 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.

Share Options without performance conditions

Share options without performance conditions were granted between 2001 and 2005 to certain group employees. Options granted in 2001 expired in 2011.

	31.12.2011		31.12.2010	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**44,973**		45,699	
Granted in the year	**–**		–	
Exercised in the year	**(110)**	**6.02**	(249)	6.22
Transferred in the year	**–**		–	
Expired in the year	**(9,552)**	**7.58**	(477)	7.08
Outstanding at 31 December	**35,311**		44,973	

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.

	31.12.2011		31.12.2010	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Granted in the year	**–**		–	
Forfeited in the year	**–**		–	
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).

6 Share-based payments *(continued)*

Group share plan

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

The shares can be:

– "Group Performance Shares" subject to performance conditions;

– "Restricted Shares" without performance conditions.

"Group Performance Shares"

	31.12.2011	31.12.2010
	Number (000)	*Number (000)*
Outstanding at 1 January	**–**	–
Capital increase	**–**	–
Granted in the year	**8**	–
Vested in the year	**–**	–
Transferred in the year	**–**	–
Expired in the year	**–**	–
Outstanding at 31 December	**8**	**–**

This category of shares is available, beyond a vesting period of 5 years, at the retirement date.

"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. Shares granted in 2011 will vest 66 per cent after two years and 34 per cent after three years.

	31.12.2011	31.12.2010
	Number (000)	Number *(000)*
Outstanding at 1 January	**11,393**	9,052
Granted in the year	**3,717**	5,884
Vested in the year	**(5,147)**	(3,488)
Transferred in the year	**–**	–
Expired in the year	**(421)**	(55)
Shares issued	**–**	–
Outstanding at 31 December	**9,542**	11,393

This category of shares cannot be sold before the end of a further two-year tax lock-up period after their vesting.

In 2011, EUR 40 million was charged to the income statement in respect of amortisation of the existing plans.

Regulatory and best practice guidance has clarified the required structure and terms of the vesting period that should be recognised in the financial statements of HSBC France. As a result, the vesting period for deferred share awards expected to be granted in 2012 in respect of the 2011 performance year was determined to have started on 1 January 2011. Previously, the charge was recognised from the grant date.

Employee share offering

In 2011, HSBC made an employee share offering open to current employees. Employees of the HSBC France group took up a total of 3,269,545 HSBC Holdings plc shares, representing a total capital amount of EUR 19.4 million.

The cost of the discount based on the share price at the opening of the offer period amounted to EUR 4.5 million for the Group.

7 Tax expense

(in millions of euros)	**31.12.2011**	31.12.2010
Current tax	**(11)**	113
Deferred tax	**(55)**	(56)
Tax expense	**(66)**	57
Effective tax rate (per cent)	**N/A**	11.1

As mentioned in Note 2 s, page 101, the CVAE contribution recorded in 2011 is included in "Income Tax". The impact of this accounting position was, in 2011, a classification of a charge of EUR 17 million (2010: EUR 26 million) on the "Tax Expenses" and the recognition of a deferred tax liability of EUR 1 million (2010: EUR 11 million).

In 2011, France's tax rate increased from 34.43 per cent to 36.10 per cent for all companies which have a turnover for more than EUR 250 million.

Nevertheless, this additional tax is temporary and will impact only 2011 and 2012's results.

In 2011, France tax group incurred a loss. A deferred tax asset for the carryforward of unused tax losses was recognised as it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Analysis of overall tax charges

	31.12.2011		31.12.2010	
(in millions of euros)	***Amount***	***%***	*Amount*	*%*
Taxation at French corporate tax rate	**21**	**36.10**	176	34.43
Impact of overseas profits in principal locations taxed at different rates	**–**	**(0.46)**	(1)	(0.2)
Operations taxed at reduced tax rate in France	**(16)**	**(27.13)**	(51)	(2.0)
Other items including result for tax Group integration	**(71)**	**(119.67)**	(67)	(21.1)
Overall tax charge	**(66)**	**N/A**	57	11.1

In 2010, 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).

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 2011 and 2010

(in millions of euros)	**31.12.2011** *EUR per share*	***Amount***	31.12.2010 *EUR per share*	*Amount*
First interim dividend for current year	**1.75**	**118**	5.85	394.5
Second interim dividend for current year	**–**	**–**	4.82	325.1
		118		719.6

Dividends related to 2011

On 26 July 2011, the Board of Directors approved an interim dividend of EUR 1.75 per share. This dividend was paid with respect to the 67,437,820 shares in issue at that date. The interim dividend was paid on 3 August 2011.

On 22 February 2012, the Board of Directors proposed that at the Annual General Meeting, to be held on 15 May 2012, to distribute a dividend of a total amount of EUR 118,016,197.25 in respect of the 2011 results. The dividend, if approved by the shareholders, will be payable, after deduction of the interim dividend of EUR 1.75 per share voted by the Board of Directors at its meeting of 26 July 2011 and already paid to shares issued as of that date.

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.

9 Earnings and dividends per share

(in euros)	**31.12.2011**	31.12.2010
Basic earnings per share	**1.83**	6.73
Diluted earnings per share	**1.83**	6.73
Dividend per share	**1.75**	10.67

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 123 million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 67,437,821 (full year 2010: earnings of EUR 454 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 67,437,821 (full year 2010: 67,437,820 shares).

10 Segment analysis

The HSBC Group in France provides a full range of banking and financial services to its customers. As part of the definition of its strategic objectives announced in May 2011 and to offer clients a more integrated Wealth Management services, HSBC Group decided to consolidate into a single business line all Retail Banking and Wealth Management services, including Life Insurance and Asset Management. The latter was previously part of the Global Banking and Markets business line. Products and services are organised along the following business lines:

– Retail Banking and Wealth Management (including the Insurance and Asset Management business lines) offers a wide range of products and services to meet the retail banking and wealth management requirements of individual clients and professionals. The products offered include current accounts and the related payment and financial services, savings products and solutions for wealth accumulation, as well as mortgages and other loans to individuals and professionals.

– Commercial Banking offers its clients financial services, payment and cash management services, international financing, insurance, treasury operations, as well as capital market and other investment banking services.

– Global Banking and Markets provides tailored financial solutions to large corporate and institutional clients, governments and public-sector agencies. The global businesses offer a full range of investment banking and financing services as well as capital markets services in the field of credit, interest rates, foreign exchange, equities, money markets and securities administration.

– The services offered by Private Banking are designed to meet the needs of high-net worth individual customers in the field of banking services, investment advisory and wealth management.

The “Other” segment mainly includes the fair value of own debt under fair value option for EUR 124 million (2010: EUR 32 million) and the gain on the disposal of headquarters for EUR 141 million in 2010.

HSBC France is supported by various central administrative and corporate functions whose costs are systematically and consistently allocated to the business lines.

Performance is assessed on the basis of the pre-tax profits of the business line, as set out in the internal management reports reviewed by the Group’s Executive Management.

No geographical information is given, as this information is not relevant for the HSBC France group which mainly operates in France.

10 Segment analysis *(continued)*

Profit/(loss) for the year

(in millions of euros)	31.12.2011 *Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
Interest income	**977**	**501**	**1,084**	**19**	**(6)**	**–**	**2,575**
Interest expense	**(102)**	**(86)**	**(844)**	**3**	**(8)**	**(156)**	**(1,193)**
Net interest income	**875**	**415**	**240**	**22**	**(14)**	**(156)**	**1,382**
Other operating income	**19**	**219**	**105**	**52**	**132**	**156**	**683**
Total operating income	**894**	**634**	**345**	**74**	**118**	**–**	**2,065**
Loan impairment charges and other credit risk provisions	**(38)**	**(83)**	**(6)**	**–**	**–**	**–**	**(127)**
Net operating income	**856**	**551**	**339**	**74**	**118**	**–**	**1,938**
Total operating expenses	**(806)**	**(413)**	**(468)**	**(63)**	**3**	**–**	**(1,747)**
Operating profit	**50**	**138**	**(129)**	**11**	**121**	**–**	**191**
Share of profit in associates and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit before tax	**50**	**138**	**(129)**	**11**	**121**	**–**	**191**
Tax expense							**21**
Profit for the year – France							**212**
Perimeter differences[1]							**(88)**
Profit for the year – Legal							**124**

1 *Mainly Insurance.*

10 Segment analysis *(continued)*

	31.12.2010						
(in millions of euros)	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
Interest income	884	476	734	28	59	–	2,181
Interest expense	(22)	(85)	(501)	(5)	(86)	(113)	(812)
Net interest income	862	391	233	23	(27)	(113)	1,369
Other operating income	82	218	571	52	191	113	1,227
Total operating income	944	609	804	75	164	–	2,596
Loan impairment charges and other credit risk provisions	(17)	(91)	(17)	4	–	–	(121)
Net operating income	927	518	787	79	164	–	2,475
Total operating expenses	(823)	(416)	(516)	(66)	(26)	–	(1,847)
Operating profit	104	102	271	13	138	–	628
Share of profit in associates and joint ventures	–	–	–	–	–	–	–
Profit before tax	104	102	271	13	138	–	628
Tax expense							(117)
Profit for the year – France							511
Perimeter differences[1]							(56)
Profit for the year – Legal							455

1 *Mainly Insurance.*

10 Segment analysis *(continued)*

Other information about the profit/(loss) for the year on the managed perimeter

(in millions of euros)	*Retail Banking and Wealth Manage-ment*	*Com-mercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
31 December 2011							
Net operating income	**856**	**551**	**339**	**74**	**118**	**–**	**1,938**
– external	**864**	**463**	**259**	**68**	**219**		**1,873**
– inter-segment	**(8)**	**88**	**80**	**6**	**(101)**		**65**
Profit before tax includes the following significant non-cash items	**50**	**138**	**(129)**	**11**	**121**	**–**	**191**
– depreciation, amortisation and impairment	**(16)**	**(11)**	**(5)**	**–**	**(25)**	**–**	**(57)**
– loan impairment losses gross of recoveries and other credit risk provisions	**(38)**	**(83)**	**(6)**	**–**	**–**	**–**	**(127)**
– impairment of financial investments	**–**	**–**	**(2)**	**–**	**(1)**	**–**	**(3)**
31 December 2010							
Net operating income	927	518	787	79	164	–	2,475
– external	994	514	738	70	86		2,402
– inter-segment	(67)	4	49	9	78		73
Profit before tax includes the following significant non-cash items	104	102	271	13	138	–	628
– depreciation, amortisation and impairment	(22)	(7)	(6)	(1)	(25)	–	(61)
– loan impairment losses gross of recoveries and other credit risk provisions	(17)	(91)	(17)	4	–	–	(121)
– impairment of financial investments	(1)	–	(1)	–	(2)	–	(4)

Consolidated financial statements (continued)

10 Segment Analysis *(continued)*

Balance sheet information

(in millions of euros)	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
31 December 2011							
Loans and advances to customers (net)	**12,577**	**10,282**	**29,694**	**726**	**–**	**–**	**53,279**
Investment in associates and joint ventures	**1**	**–**	**5**	**–**	**–**	**–**	**6**
Total assets	**15,985**	**13,577**	**197,600**	**675**	**324**	**(6,771)**	**221,390**
Customer accounts	**12,523**	**9,836**	**20,157**	**380**	**–**	**–**	**42,896**
Total liabilities	**15,985**	**13,577**	**197,600**	**675**	**324**	**(6,771)**	**221,390**
Capital expenditure incurred[1]	**43**	**25**	**29**	**–**	**–**	**–**	**97**
31 December 2010							
Loans and advances to customers (net)	13,310	9,145	34,740	750	–	–	57,945
Investment in associates and joint ventures	1	–	5	–	–	–	6
Total assets	16,288	10,357	189,566	1,096	326	(6,797)	210,836
Customer accounts	10,834	9,138	28,822	398	–	–	49,194
Total liabilities	16,288	10,357	189,566	1,096	326	(6,797)	210,836
Capital expenditure incurred[1]	26	15	16	1	–	–	58

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)*

(in millions of euros)	31.12.2011 *Held for Trading*	*Designated at fair value*	*Loans and receivables*	*Available-for-sale securities*	*Financial assets and liabilities at amortised cost*	*Derivatives designated as fair value hedging instruments*	*Derivatives designated as cash flow hedging instruments*	*Total*
Financial assets								
Cash and balances at central banks	–	–	–	–	4,805	–	–	4,805
Items in the course of collection from other banks	–	–	–	–	806	–	–	806
Trading assets	39,013	–	–	–	–	–	–	39,013
Financial assets designated at fair value	–	598	–	–	–	–	–	598
Derivatives	82,079	–	–	–	–	12	647	82,738
Loans and advances to banks	–	–	29,705	–	–	–	–	29,705
Loans and advances to customers	–	–	53,279	–	–	–	–	53,279
Financial investments	–	–	–	7,518	–	–	–	7,518
Other assets	–	–	–	–	969	–	–	969
Accrued income	–	–	–	–	946	–	–	946
Total financial assets	121,092	598	82,984	7,518	7,526	12	647	220,377
Assets classified as held for sale								5
Total non-financial assets								1,009
Total assets								221,390
Financial liabilities								
Deposits by banks	–	–	–	–	32,338	–	–	32,338
Customer accounts	–	–	–	–	42,896	–	–	42,896
Items in the course of transmission to other banks	–	–	–	–	757	–	–	757
Trading liabilities	38,257	–	–	–	–	–	–	38,257
Financial liabilities designated at fair value	–	5,527	–	–	–	–	–	5,527
Derivatives	80,980	–	–	–	–	206	495	81,681
Debt securities in issue	–	–	–	–	12,605	–	–	12,605
Other liabilities	–	–	–	–	837	–	–	837
Subordinated liabilities	–	–	–	–	166	–	–	166
Accruals	–	–	–	–	1,217	–	–	1,217
Total financial liabilities	119,237	5,527	–	–	90,816	206	495	216,281
Liabilities classified as held for sale								–
Total non-financial liabilities								5,109
Total liabilities								221,390

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 (including current tax)	–	–	–	–	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

12 Trading assets

(in millions of euros)	**31.12.2011**	31.12.2010
Trading assets:		
– which may be repledged or resold by counterparties	**16,670**	32,220
– not subject to repledge or resale by counterparties	**22,343**	21,759
	39,013	53,979

(in millions of euros)	**31.12.2011**	31.12.2010
Treasury and other eligible bills	**699**	1,679
Debt securities	**24,762**	40,881
Loans and advances to banks	**10,531**	9,470
Loans and advances to customers	**3,021**	1,949
	39,013	53,979

13 Derivatives

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

	31.12.2011					
	Assets			***Liabilities***		
(in millions of euros)	***Trading***	***Hedging***	***Total***	***Trading***	***Hedging***	***Total***
Exchange rate	**5,576**	**–**	**5,576**	**(5,502)**	**(1)**	**(5,503)**
Interest rate	**147,794**	**659**	**148,453**	**(146,721)**	**(700)**	**(147,421)**
Equities	**2**	**–**	**2**	**(1)**	**–**	**(1)**
Credit derivatives	**6**	**–**	**6**	**(55)**	**–**	**(55)**
Commodity and other	**–**	**–**	**–**	**–**	**–**	**–**
Gross total fair values	**153,378**	**659**	**154,037**	**(152,279)**	**(701)**	**(152,980)**
Netting			**(71,299)**			**71,299**
Net total			**82,738**			**(81,681)**

	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)

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)	**31.12.2011**	31.12.2010
Exchange rate	**187,472**	194,340
Interest rate	**4,918,658**	4,723,096
Equities	**80**	1,883
Credit derivatives	**775**	1,023
Commodity and other	**–**	–
Total	**5,106,985**	4,920,342

13 Derivatives *(continued)*

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

The contract amount of credit derivatives of EUR 775 million (2010: EUR 1,023 million) listed above consists of protection bought for EUR 775 million (2010: EUR 1,023 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)	**2011**	2010
Unamortised balance at 1 January	**6**	8
Deferral on new transactions	**–**	1
Recognised in the income statement during the period:		
– amortisation	**–**	–
– subsequent to observability	**(2)**	(1)
– maturity or termination	**–**	(2)
– FX movements and other	**–**	–
Unamortised balance at 31 December	**4**	6

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 2011 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:

	31.12.2011		31.12.2010	
(in millions of euros)	***Cash flow hedge***	***Fair value hedge***	*Cash flow hedge*	*Fair value hedge*
Exchange rate contracts	**–**	**81**	–	100
Interest rate contracts	**67,814**	**6,617**	78,998	2,302
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 Available for sale (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.

Consolidated financial statements (continued)

13 Derivatives *(continued)*

The fair values of outstanding derivatives designated as fair value hedges at 31 December 2011, were assets of EUR 12 million and liabilities of EUR 206 million (31 December 2010: assets of EUR 38 million and liabilities of EUR 43 million).

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

(in millions of euros)	**31.12.2011**	31.12.2010
– on hedging instruments	**(154)**	14
– on hedged items attributable to the hedged risk	**153**	(16)

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was a loss of EUR 0.2 million for the year ended 31 December 2011 (a loss of EUR 2.2 million for the year ended 31 December 2010).

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 2011, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of EUR 647 million and liabilities of EUR 495 million (at 31 December 2010: assets of EUR 381 million and liabilities of EUR 271 million).

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

	31.12.2011			
(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	**31,374**	**17,919**	**8,919**	**2,570**
Cash outflows from liabilities	**(22,488)**	**(10,946)**	**(3,387)**	**(829)**
Net cash inflows/(outflows)	**8,886**	**6,973**	**5,532**	**1,741**

	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)

13 Derivatives *(continued)*

Reconciliation of movements in the cash flow hedge reserve

(in millions of euros)	2011	2010
At 1 January	**22**	(18)
Amounts recognised directly in equity during the year	**92**	45
Amounts removed from equity and included in the income statement for the year	**(25)**	17
Deferred taxation	**(26)**	(22)
At 31 December	**63**	22

At 31 December 2011, the amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was a gain of EUR 0.2 million (at 31 December 2010: a loss of EUR 1 million).

d *Embedded derivatives: home purchase savings*

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

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

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

(ii) the derivatives under consideration are borrowing and savings options embedded in contracts in force 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 2011, derivatives embedded in home purchase savings products represented a liability of EUR 10 million (at 31 December 2010: a liability of EUR 10 million).

Consolidated financial statements (continued)

14 Financial investments

(in millions of euros)	**31.12.2011**	31.12.2010
Financial investments:		
– which may be pledged or resold by counterparties	**4,226**	1,013
– not subject to repledge or resale by counterparties	**3,292**	1,575
	7,518	2,588

	31.12.2011		31.12.2010	
(in millions of euros)	***Book value***	***Fair value***	*Book value*	*Fair value*
Treasury and other eligible bills	**200**	**200**	225	225
– available-for-sale	**200**	**200**	225	225
– held-to-maturity	**–**	**–**	–	–
Debt securities	**6,896**	**6,896**	1,828	1,828
– available-for-sale	**6,896**	**6,896**	1,828	1,828
– held-to-maturity	**–**	**–**	–	–
Equity securities	**422**	**422**	535	535
– available-for-sale	**422**	**422**	535	535
Total financial investments	**7,518**	**7,518**	2,588	2,588

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:

	31.12.2011		31.12.2010	
(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	**20,897**	**20,897**	33,233	33,233
Securities lending agreements	**–**	**–**	–	–
Total	**20,897**	**20,897**	33,233	33,233

16 Interests in associates and joint ventures

a *Principal associates*

At 31 December 2011, the HSBC France group only consolidated through equivalency a limited number of entities that had no significant impact on the consolidated financial statements.

b *Summarised aggregate financial information on joint ventures*

	31.12.2011		
	Principal activity	***Interest in equity***	***Capital***
HCM Holdings Ltd	**Holding**	**51%**	**–**

	31.12.2010		
	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.

Summarised aggregate financial information on joint ventures

(Figures from local financial statements: 100 per cent)

(in millions of euros)	**31.12.2011**	31.12.2010
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)	**2011**	2010
Cost		
At 1 January	**375**	375
Additions	**–**	–
Disposals [1]	**(5)**	–
Exchange translation differences	**–**	–
Changes in scope of consolidation and other changes	**–**	–
At 31 December	**370**	375
Accumulated impairment losses		
At 1 January	**(33)**	(32)
Disposals	**–**	–
Impairment losses recognised in profit or loss	**–**	–
Changes in scope of consolidation and other changes	**–**	–
At 31 December	**(33)**	(32)
Net book value at 31 December	**337**	343

1 *Includes sale of Asset Management and Private Banking entities.*

During 2011 and 2010, 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 2011, is as follows:

(in millions of euros)	***Internally generated software***	***Purchased software***	***Other***	***Total***
Cost				
At 1 January 2011	**142**	**57**	**34**	**233**
Additions	**–**	**10**	**–**	**10**
Disposals	**–**	**(1)**	**–**	**(1)**
Exchange translation differences	**–**	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**–**	**(7)**	**–**	**(7)**
At 31 December 2011	**142**	**59**	**34**	**235**
Accumulated impairment losses				
At 1 January 2011	**(142)**	**(43)**	**(9)**	**(194)**
Charges for the year [1]	**–**	**(8)**	**–**	**(8)**
Disposals	**–**	**1**	**–**	**1**
Impairment losses	**–**	**–**	**–**	**–**
Reversal of impairment losses	**–**	**–**	**–**	**–**
Exchange translation differences	**–**	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**–**	**6**	**1**	**7**
At 31 December 2011	**(142)**	**(44)**	**(8)**	**194**
Net book value at 31 December 2011	**–**	**15**	**26**	**41**

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 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)
Charges 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".*

Consolidated financial statements (continued)

17 Goodwill and intangible assets *(continued)*

c *Goodwill and intangible assets*

(in millions of euros)	**31.12.2011**	31.12.2010
Cost		
Goodwill – net book value (see Note 17 a)	**337**	343
Other intangible assets – net book value (see Note 17 b)	**41**	39
	378	382

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 2011	**88**	**335**	**423**
Additions at cost [1]	**6**	**80**	**86**
Fair value adjustments	**–**	**–**	**–**
Disposals	**(1)**	**(3)**	**(4)**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes [2]	**–**	**(49)**	**(49)**
At 31 December 2011	**93**	**363**	**456**
Accumulated depreciation			
At 1 January 2011	**(12)**	**(178)**	**(190)**
Depreciation charge for the year	**(2)**	**(47)**	**(49)**
Disposals	**1**	**2**	**3**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes [2]	**(1)**	**46**	**45**
At 31 December 2011	**(14)**	**(177)**	**(191)**
Net book value at 31 December 2011	**79**	**186**	**265**

1 *Includes additions in equipment, fixtures and fittings for "Strategic Plan" (Renovation/creation of new branches with 95 branches renovated by the end of 2011).*
2 *Includes write-offs of equipment, fixtures and fittings discarded.*

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 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 2.5 million.*

b *Investment properties*

At 31 December 2011 and 31 December 2010 the HSBC France group did not own investment properties.

c *Property, plant and equipment*

(in millions of euros)	**31.12.2011**	31.12.2010
Property, plant and equipment goodwill – net book value (see Note 18 a)	**265**	233
Investment properties – net book value (see Note 18 b)	**–**	–
	265	233

Consolidated financial statements (continued)

19 Investments

Consolidated companies	Country	Consolidation method *	Main line of business	HSBC France group interest % 2011	HSBC France group interest % 2010
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
SAPC Ufipro Recouvrement	France	FC	Bank	**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
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**	100.0
DEM 9	France	FC	Financial company	**100.0**	100.0
DEM 10	France	FC	Financial company	**100.0**	100.0
DEM 22	France	FC	Financial company	**100.0**	100.0
DEM 23	France	FC	Financial company	**100.0**	100.0
DEM 24	France	FC	Financial company	**100.0**	100.0
DEM 25	France	FC	Financial company	**100.0**	100.0
DEMPAR 1	France	FC	Financial company	**100.0**	100.0
DEMPAR 2	France	FC	Financial company	**100.0**	100.0
DEMPAR 4	France	FC	Financial company	**100.0**	100.0
Elysées GmbH	Germany	FC	Financial company	**100.0**	100.0
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 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	**99.8**	100.0

* *FC: Full Consolidation – EM: Equity Method.*

19 Investments *(continued)*

Consolidated companies	*Country*	*Consolidation method **	*Main line of business*	HSBC France group interest % **2011**	% 2010
HSBC Services (France) (ex HSBC Securities (France))	France	FC	Financial company	**100.0**	100.0
HSBC SFH (France) (ex HSBC Covered Bonds (France)) (ex-Hervet Participations)	France	FC	Financial company	**100.0**	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[1]	France	FC	Financial company	–	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 Leasing Holding (France)	France	FC	Financial company	**100.0**	–
SAF Palissandre	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang	France	FC	Financial company	**100.0**	100.0
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 ba (ex-DEM 20)	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi er	France	FC	Financial company	**100.0**	100.0
SAF Zhu Jiang shi jiu (ex-DEM 21)	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi liu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi qi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi wu	France	FC	Financial company	**100.0**	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

* *FC: Full Consolidation – EM: Equity Method.*

1 *Liquidation.*

Consolidated financial statements (continued)

19 Investments *(continued)*

Consolidated companies	*Country*	*Consolidation method **	*Main line of business*	HSBC France group interest % **2011**	% 2010
Asset Management					
CCF & Partners Asset Management Ltd.	United Kingdom	FC	Financial company	**100.0**	100.0
Halbis Capital Management (France)[2]	France	FC	Asset management	–	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	**97.7**	76.4
HSBC Epargne Entreprise (France).	France	FC	Financial company	**100.0**	100.0
HSBC Global Asset Management Financial Services (ex-Sinopia Financial Services)	France	FC	Financial company	**100.0**	100.0
HSBC Global Asset Management (France) (ex-HSBC Investments (France))	France	FC	Asset management	**100.0**	100.0
HSBC Global Asset Management (Switzerland) AG	Switzerland	EM	Financial company	**50.0**	50.0
HSBC Private Wealth Managers (ex-Louvre Gestion)[3]	France	FC	Financial company	**100.0**	100.0
Sinopia Asset Management[2]	France	FC	Financial company	–	100.0
Sinopia Asset Management (Asia Pacific) Ltd[4]	Hong Kong	FC	Asset management	–	100.0
Sinopia Asset Management (UK) Ltd[4]	United Kingdom	FC	Service company	–	100.0
Sinopia Société de Gestion[2]	France	FC	Service company	–	100.0
Sinopia TRS1	France	FC	Financial company	**100.0**	100.0
SNC les Oliviers d'Antibes	France	FC	Financial company	**60.0**	60.0
Trinkaus Gesellschaft für KMI oHG.	Germany	FC	Financial company	**90.0**	90.0
Private Banking					
Delosfin SA[2]	France	FC	Investment company	–	100.0
Eurofin Capital Partners (ECP)	France	FC	Investment company	**100.0**	100.0
HSBC Private Bank France[2]	France	FC	Bank	–	100.0
LGI[4]	Luxembourg	FC	Wealth management	–	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**	100.0
Elysées Forêts[1]	France	FC	Service company	–	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**	100.0
Excofina	France	FC	Investment company	**100.0**	100.0
FinanCités	France	EM	Capital Risk company	**21.4**	21.4
HSBC PP1[1]	France	FC	Financial company	–	100.0
Serdac	Switzerland	FC	Investment company	**100.0**	100.0
SGEFF[2]	France	FC	Service company	–	100.0
Société Française et Suisse (SFS)	France	FC	Investment company	**100.0**	100.0
Valeur Mobilière Elysées (ex-Nobel)	France	FC	Investment company	**100.0**	100.0
Value Fund 2	France	FC	Financial company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*

1 *Liquidation.*
2 *Merger.*
3 *HSBC Private Wealth Managers (ex-Louvre Gestion) entity changed its line of business from Private Banking to Asset Management.*
4 *Disposal.*

19 Investments *(continued)*

Additions	*Year*
SAF Leasing Holding (France)	2011
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

Mergers:

Merger of Delosfin with HSBC Private Bank France
Merger of Halbis Capital Management (France) with HSBC Global Asset Management (France)
Merger of Sinopia Asset Management with HSBC Global Asset Management (France)
Merger of Sinopia – Société de Gestion with Sinopia Asset Management
Merger of HSBC Private Bank France with HSBC France
Merger of SGEFF with Société Française et Suisse

Disposal or liquidation:

Elysées Forêts
HSBC PP 1
LGI
SAF Baobab
Sinopia Asset Management (Asia Pacific) Ltd
Sinopia Asset Management (UK) Ltd

20 Other assets and non-current assets held for sale

a *Other assets*

(in millions of euros)	**31.12.2011**	31.12.2010
Current taxation recoverable	**148**	198
Other accounts	**969**	792
	1,117	990

b *Non-current assets held for sale*

(in millions of euros)	**31.12.2011**	31.12.2010
Assets held by HSBC Financial Products (France)	**–**	–
Property, plant and equipment	**5**	5
Investment properties	**–**	–
Total assets classified as held for sale	**5**	5

The assets classified as "Non-current assets held for sale" follow the conditions of the IFRS 5 (see Note 2 aa).

21 Financial liabilities designated at fair value

(in millions of euros)	**31.12.2011**	31.12.2010
Deposits by banks	**–**	–
Customer accounts	**209**	210
Debt securities in issue	**5,304**	5,392
Subordinated liabilities	**14**	14
	5,527	5,616

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2011 was EUR 250 million (at 31 December 2010: EUR 293 million).

At 31 December 2011, the accumulated amount of the change in fair value attributable to changes in credit risk for the group was EUR -59 million (at 31 December 2010: EUR -65 million).

In 2011, the amount reported in the income statement in respect of HSBC France's own credit spread was a gain of EUR 124 million (2010: a gain of EUR 32 million).

22 Other liabilities and non-current liabilities held for sale

a *Other liabilities*

(in millions of euros)	**31.12.2011**	31.12.2010
Amounts due to investors in funds consolidated by the group	**3**	60
Share-based payments	**44**	46
Obligations under finance leases	**–**	–
Other liabilities	**790**	1,119
	837	1,225

b *Non-current liabilities held for sale*

(in millions of euros)	**31.12.2011**	31.12.2010
Liabilities held by HSBC Financial Products (France)	**–**	–
Total liabilities classified as held for sale	–	–

23 Deferred taxation

	31.12.2011			31.12.2010		
(in millions of euros)	***Deferred tax asset***	***Deferred tax liability***	***Total***	*Deferred tax asset*	*Deferred tax liability*	*Total*
Temporary differences:						
– retirement benefits	**28**	**–**	**(28)**	24	–	(24)
– assets leased	**47**	**–**	**(47)**	29	–	(29)
– revaluation of property	**(12)**	**–**	**12**	(12)	–	12
– other temporary differences	**59**	**2**	**(57)**	94	–	(94)
– deferred losses carried forward	**89**	**–**	**(89)**	94	**–**	(94)
	211	**2**	**(209)**	135	–	(135)

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

(in millions of euros)	**31.12.2011**	31.12.2010
Cash flow hedge	**35**	12
Available-for-sale reserve	**24**	20
Actuarial losses	**–**	–

24 Provisions for liabilities and charges

(in millions of euros)	***Provisions***
At 1 January 2011	**62**
Additional provisions/increase in provisions	**71**
Provisions utilised	**(17)**
Amounts reversed	**(20)**
Exchange, changes in scope of consolidation and other movements	**1**
At 31 December 2011	**97**

24 Provisions for liabilities and charges *(continued)*

(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

Movements on provision recognised in 2011 consist mainly of restructuring provision.

25 Sale and repurchase and settlement accounts

(in millions of euros)	**31.12.2011**	31.12.2010
Assets		
Loans and advances to customers include:		
– assets under sale and repurchase agreements	**20,745**	24,304
– settlement accounts	**117**	500
Loans and advances to banks include:		
– assets under sale and repurchase agreements	**25,762**	34,754
– settlement accounts	**792**	2,286

(in millions of euros)	**31.12.2011**	31.12.2010
Liabilities		
Customer accounts include:		
– liabilities under sale and repurchase agreements	**13,196**	20,733
– settlement accounts	**399**	1,144
Deposits by banks include:		
– liabilities under sale and repurchase agreements	**20,503**	25,362
– settlement accounts	**660**	1,095

26 Subordinated liabilities

	Book value	
(in millions of euros)	**31.12.2011**	31.12.2010
Subordinated liabilities:		
– at amortised cost	**166**	166
– designated at fair value	**14**	14
	180	180

Subordinated borrowings issued by HSBC France:

		Book value	
(in millions of euros)		**31.12.2011**	31.12.2010
EUR150m[1]	Floating rate notes maturing 2014	**150**	150
EUR15m	Floating rate notes maturing 2015	**14**	14
EUR16m	Undated subordinated variable rate notes	**16**	16
		180	180

1 *Debt issued to HSBC Bank plc.*

27 Trading liabilities

(in millions of euros)	**31.12.2011**	31.12.2010
Other liabilities – short positions	**21,537**	32,052
Deposits by banks	**8,772**	6,567
Customer accounts	**6,565**	2,519
Debt securities in issue	**1,384**	1,632
Total	**38,258**	42,770

In 2011, 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 64 million (2010: a gain of EUR 32 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 90.

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 2011						
Assets						
Trading assets	**31,657**	**1,835**	**–**	**33,492**	**5,521**	**39,013**
Financial assets designated at fair value	**–**	**593**	**–**	**593**	**4**	**598**
Derivatives	**2**	**57,905**	**46**	**57,953**	**24,784**	**82,738**
Financial investments available-for-sale	**6,754**	**472**	**122**	**7,348**	**170**	**7,518**
Liabilities						
Trading liabilities	**33,821**	**3,477**	**–**	**37,298**	**960**	**38,258**
Financial liabilities at fair value	**–**	**5,527**	**–**	**5,527**	**–**	**5,527**
Derivatives	**–**	**52,214**	**102**	**52,316**	**29,365**	**81,681**
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

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 Markit 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 completes 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 unobservable inputs – Level 3

(in millions of euros)	Assets: Available for sale	Assets: Held for Trading	Assets: Designated at fair value through profit or loss	Assets: Derivatives	Liabilities: Held for trading	Liabilities: Designated at fair value through profit or loss	Liabilities: Derivatives
Private equity investments	**122**	**–**	**–**	**–**	**–**	**–**	**–**
Asset-backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Leverage finance	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans held for securitisation	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivatives with monolines	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other derivatives	**–**	**–**	**–**	**46**	**–**	**–**	**102**
Other portfolio	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2011	**122**	**–**	**–**	**46**	**–**	**–**	**102**
Private equity investments	106	–	–	–	–	–	–
Asset-backed securities	–	–	–	–	–	–	–
Leverage finance	–	–	–	–	–	–	–
Loans held for securitisation	–	–	–	–	–	–	–
Structured notes	–	–	–	–	–	–	–
Derivatives with monolines	–	–	–	–	–	–	–
Other derivatives	–	–	–	21	–	–	39
Other portfolio	–	–	–	–	–	–	–
At 31 December 2010	106	–	–	21	–	–	39

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

(in millions of euros)	Assets: Available for sale	Assets: Held for Trading	Assets: Designated at fair value through profit or loss	Assets: Derivatives	Liabilities: Held for trading	Liabilities: Designated at fair value through profit or loss	Liabilities: Derivatives
At 1 January 2011	**106**	**–**	**–**	**21**	**–**	**–**	**39**
Total gains or losses recognised in profit or loss	**14**	**–**	**–**	**25**	**–**	**–**	**63**
Total gains or losses recognised in other comprehensive income	**(5)**	**–**	**–**	**–**	**–**	**–**	**–**
Purchases	**18**	**–**	**–**	**–**	**–**	**–**	**–**
Issues	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sales	**(11)**	**–**	**–**	**–**	**–**	**–**	**–**
Settlements	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer out	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer in	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2011	**122**	**–**	**–**	**46**	**–**	**–**	**102**

28 Fair value of financial instruments *(continued)*

(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	82	–	–	6	–	–	3
Total gains or losses recognised in profit or loss	(3)	–	–	15	–	–	36
Total gains or losses recognised in other comprehensive income	21	–	–	–	–	–	–
Purchases	11	–	–	–	–	–	–
Issues	–	–	–	–	–	–	–
Sales	(5)	–	–	–	–	–	–
Settlements	–	–	–	–	–	–	–
Transfer out	–	–	–	–	–	–	–
Transfer in	–	–	–	–	–	–	–
At 31 December 2010	106	–	–	21	–	–	39

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.

28 Fair value of financial instruments *(continued)*

Structured notes

For structured notes whose fair value is derived from a valuation technique, the fair value will be derived from the fair value of the underlying debt security as described above, and the fair value of the embedded derivative will be determined as described in the section above on derivatives.

The 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.

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.

28 Fair value of financial instruments *(continued)*

(iv) Debt securities in issue and subordinated liabilities

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

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

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

The 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:

	31.12.2011		31.12.2010	
(in millions of euros)	***Carrying value***	***Fair value***	*Carrying value*	*Fair value*
Assets				
Loans and advances to banks.	**29,705**	**29,706**	37,346	37,352
Loans and advances to customers	**53,279**	**52,566**	57,945	58,231
Liabilities				
Deposits by banks.	**32,338**	**32,340**	36,861	36,861
Customer accounts	**42,896**	**42,919**	49,194	49,209
Debt securities in issue	**12,605**	**12,669**	14,285	14,349
Subordinated liabilities.	**166**	**168**	166	168

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.

	31.12.2011					
(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]	**419**	**34,817**	**2,910**	**6,482**	**493**	**45,121**
Customer accounts[1]	**21,637**	**23,806**	**9,171**	**567**	**208**	**55,389**
Trading liabilities	**38,258**	**–**	**–**	**–**	**–**	**38,258**
Financial liabilities designated at fair value	**–**	**–**	**–**	**4,152**	**2,732**	**6,884**
Derivatives	**80,989**	**–**	**–**	**692**	**–**	**81,681**
Debt securities in issue . .	**–**	**6,906**	**1,947**	**4,036**	**87**	**12,976**
Subordinated liabilities. .	**–**	**–**	**–**	**171**	**35**	**206**
Other financial liabilities.	**765**	**758**	**371**	**293**	**538**	**2,725**
Loan commitments.	**7,153**	**3,612**	**(3,150)**	**11,791**	**1,637**	**21,043**
Total at 31 December 2011	**149,221**	**69,899**	**11,249**	**28,184**	**5,730**	**264,283**

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)*

(in millions of euros)	31.12.2010 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	48,680
Customer accounts[1]	19,755	38,626	5,541	738	217	64,877
Trading liabilities	42,771	–	–	–	–	42,771
Financial liabilities designated at fair value	–	–	123	4,274	2,658	7,055
Derivatives	53,043	–	–	304	–	53,347
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	1,289	5,192	(1,994)	12,441	1,771	18,699
Total at 31 December 2010	118,757	92,617	12,244	24,881	5,362	253,861

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.

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

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

(in millions of euros)	**31.12.2011** 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	–	–	**–**	598	–	**598**	**598**
Loans and advances to banks	22,736	4,598	**27,334**	1,706	665	**2,371**	**29,705**
Loans and advances to customers	18,236	12,181	**30,417**	12,226	10,636	**22,862**	**53,279**
Financial investments	15	513	**528**	4,338	2,652	**6,990**	**7,518**
Other financial assets	1,078	28	**1,106**	11	–	**11**	**1,117**
	42,065	17,320	**59,385**	18,879	13,953	**32,832**	**92,217**
Liabilities							
Deposits by banks	21,234	4,536	**25,770**	6,179	389	**6,568**	**32,338**
Customer accounts	29,056	13,172	**42,228**	559	109	**668**	**42,896**
Financial liabilities designated at fair value	–	–	**–**	5,238	289	**5,527**	**5,527**
Debt securities in issue	2,756	6,013	**8,769**	3,761	75	**3,836**	**12,605**
Other financial liabilities	576	189	**765**	43	29	**72**	**837**
Subordinated liabilities	–	–	**–**	166	–	**166**	**166**
	53,622	23,910	**77,532**	15,946	891	**17,837**	**94,369**

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

(in millions of euros)	31.12.2010 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

Further information regarding the group's liquidity and funding management is available in the Risk Management section pages 66 to 67.

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)	**31.12.2011**	31.12.2010
Treasury bills and other eligible securities	**527**	584
Loans and advances to banks	**9,300**	6,754
Loans and advances to customers	**10,000**	9,255
Debt securities	**28,898**	32,996
Equity shares	**–**	–
	48,725	49,589

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 2011, 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 70,455 million at 31 December 2011 (EUR 85,461 million at 31 December 2010).

In 2011, the fair value of financial assets accepted as collateral that have been sold or repledged was EUR 60,600 million at 31 December 2011 (EUR 74,772 million at 31 December 2010). The group is obliged to return these assets.

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

Consolidated financial statements (continued)

31 Called up share capital

The share capital of HSBC France at 31 December 2011 was EUR 337 million divided into 67,437,827 ordinary shares of EUR 5 each.

	Number of HSBC France ordinary shares	*Amount (in millions of euros)*
At 1 January 2011	**67,437,820**	337
Shares issued	**7**	–
At 31 December 2011	**67,437,827**	337
At 1 January 2010	67,437,820	337
Shares issued	–	–
At 31 December 2010	67,437,820	337

32 Notes on the cash flow statement

Non-cash items included in income

(in millions of euros)	**31.12.2011**	31.12.2010
Depreciation and amortisation	**57**	60
Share-based payments	**9**	20
Loan impairment losses	**109**	122
Loans written off net of recoveries	**(74)**	(68)
Provisions raised	**49**	37
Provisions utilised	**(17)**	(56)
Impairment of financial investments	**5**	4
Accretion of discounts and amortisation of premiums	**–**	–
Other	**(25)**	(17)
	114	102

Change in operating assets

(in millions of euros)	**31.12.2011**	31.12.2010
Change in prepayments and accrued income	**146**	185
Change in net trading securities and net derivatives	**6,783**	14,188
Change in loans and advances to banks	**5,826**	8,187
Change in loans and advances to customers	**4,640**	(8,212)
Change in financial assets designated at fair value	**(3)**	1
Change in other assets	**(177)**	(492)
	17,215	13,857

Change in operating liabilities

(in millions of euros)	**31.12.2011**	31.12.2010
Change in accruals and deferred income	**(236)**	228
Change in deposits by banks	**(4,523)**	(4,174)
Change in customer accounts	**(6,298)**	(143)
Change in debt securities in issue	**(1,680)**	(484)
Change in financial liabilities designated at fair value	**(89)**	1,735
Change in other liabilities	**(381)**	499
	(13,207)	(2,339)

32 Notes on the cash flow statement *(continued)*

Breakdown of cash and cash equivalents

(in millions of euros)	**31.12.2011**	31.12.2010
Cash and balances at central banks	**4,805**	980
Items in the course of collection from other banks	**806**	944
Loans and advances to banks due in one month or less	**23,984**	28,005
Treasury bills, other bills and certificates of deposit due in less than three months	**195**	1,013
Less: cash accounts (liabilities)	**(757)**	(851)
	29,033	30,091

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 57 to 80.

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 57 to 61.

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.

Exposure to countries in the eurozone

HSBC France Global Markets acts as a market-maker and primary dealer on the sovereign debt of eurozone countries for the Group. HSBC France continued to closely manage its exposure in 2011 and regularly updated its assessment of higher risk countries and adjusted its risk appetite accordingly.

However, the transfer of private sector liabilities to sovereign bodies which started after the 2007 financial crisis continued to put pressure on government balance sheets. The resulting fiscal imbalance in some industrialised economies led to intensified market concerns about sovereign credit risk in these countries.

In 2011, there were periods of significant market volatility related to a number of sovereigns in the eurozone, notably Greece, Ireland, Portugal, Italy and Spain. Sovereign spreads remained high and the lack of market access eventually resulted in Portugal joining Greece and Ireland in seeking bailout funding amounting to EUR 78 billion from the European Financial Stability Facility ("EFSF") and International Monetary Fund ("IMF") in early April 2011. Political instability in Greece, Ireland and Portugal also exacerbated the situation and all three countries were downgraded by major credit rating agencies during the period. Italy and Spain made progress in implementing fiscal adjustments and banking reforms but still experienced volatility in credit spreads.

Greece required a second support package, which was formalised as eurozone leaders announced a 3-year programme totalling EUR 146 billion. In addition, the EFSF rules were changed to allow it to buy bonds on the secondary

Consolidated financial statements (continued)

33 Risk management *(continued)*

market, finance the recapitalisation of banks and provide pre-emptive credit lines to eurozone countries under pressure in debt markets.

Concerns of contagion of the debt crisis in Greece, Ireland and Portugal to other countries, notably Italy and Spain, are likely to persist, causing the risk premium on most European countries' sovereign debt to remain high. The German economy has shown positive signs of stabilisation and has experienced positive growth during the year while the French economy has shown modest growth but is expected to stay resilient should the crisis spread to other peripheral eurozone countries.

The table overleaf summarises group exposures to selected eurozone countries, for governments and central banks of selected eurozone countries along with near/quasi government agencies.

The countries presented were selected because, during the period considered, they exhibited levels of market volatility which exceeded other eurozone countries and demonstrated fiscal or political uncertainty during 2011. In addition, certain of these countries exhibit high sovereign debt to GDP ratios and short to medium-term maturity concentration of those liabilities.

Exposures to selected eurozone countries – sovereigns and agencies

At 31 December 2011 (in millions of euros)	*Greece*	*Ireland*	*Italy*	*Portugal*	*Spain*	*Total*
Cash and balances at central banks	–	–	–	–	–	–
Assets held at amortised cost	–	–	–	–	–	–
Financial investments available for sale	–	–	**200**	–	–	**200**
Net trading assets[1]	**50**	**49**	**709**	**56**	**26**	**890**
Derivatives[2]	–	–	–	**(7)**	–	**(7)**
Total	**50**	**49**	**909**	**49**	**26**	**1,083**
Off-balance sheet exposures	–	–	–	–	**500**	**500**

1 *Treasury bills and debt securities held for trading net of short positions.*
2 *Derivative assets net of collateral and derivative liabilities for which a legally enforceable right of offset exists.*

HSBC Group decided to impair the Greek sovereign and agency exposures classified as available for sale, reflecting the further deterioration in Greece's fiscal position and the recently announced support measures. The sovereign exposures to Ireland, Portugal, Italy and Spain are not considered to be impaired at 31 December 2011 because, despite financial difficulties in these countries, the situation is not severe enough to conclude that loss events have occurred which will have an impact on the future cash flows of these countries' sovereign securities.

In HSBC France, the vast majority of the sovereign exposure is classified as trading and HSBC France has no Greek sovereign exposure classified as available for sale. Nevertheless, HSBC in France includes the Insurance business which holds limited exposures classified as available for sale: an impairment charge of EUR 19 million was recognised in 2011, representing the cumulative fair value loss on these securities as at 31 December 2011 and does not necessarily represent the expectation of future cash losses. This net impairment charge is almost fully offset in operating income by adjusting the policyholders liability (up to 97 per cent).

33 Risk management *(continued)*

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.

	31.12.2011		
(in millions of euros)	*Maximum exposure*	*Offset*	*Net exposure to credit risk*
Cash and balances at central banks	**4,805**	**–**	**4,805**
Items in the course of collection from other banks	**806**	**–**	**806**
Trading assets	**39,013**	**–**	**39,013**
– treasury and other eligible bills	**699**	**–**	**699**
– debt securities	**24,762**	**–**	**24,762**
– loans and advances	**13,552**	**–**	**13,552**
Financial assets designated at fair value	**598**	**–**	**598**
– debt securities	**4**	**–**	**4**
– loans and advances	**594**	**–**	**594**
Derivatives	**82,738**	**(80,594)**	**2,144**
Loans and advances held at amortised cost	**82,984**	**(12,805)**	**70,179**
– loans and advances to banks	**29,705**	**(2,305)**	**27,400**
– loans and advances to customers	**53,279**	**(10,500)**	**42,779**
Financial investments	**7,096**	**–**	**7,096**
– treasury and other eligible bills	**200**	**–**	**200**
– debt securities	**6,896**	**–**	**6,896**
Other assets	**1,896**	**–**	**1,896**
Off-balance sheet	**27,073**	**–**	**27,073**
– financial guarantees and other credit-related guarantees	**6,031**	**–**	**6,031**
– loan commitments and other credit-related commitments	**21,042**	**–**	**21,042**
Total	**247,009**	**(93,398)**	**153,610**

Consolidated financial statements (continued)

33 Risk management *(continued)*

(in millions of euros)	31.12.2010 *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)*

Loans and advances to customers by industry sector

	31.12.2011		31.12.2010	
	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	**9,786**	**18.11**	9,945	16.95
– residential mortgages	**2,592**	**4.80**	2,804	4.78
– other personal	**7,194**	**13.31**	7,141	12.17
Corporate and commercial	**22,481**	**41.61**	22,180	37.80
– commercial, industrial and international trade	**11,102**	**20.55**	10,818	18.44
– commercial real estate (including private real estate companies*)	**6,110**	**11.31**	6,358	10.83
– other property-related	**267**	**0.49**	252	0.43
– government	**141**	**0.26**	321	0.55
– other commercial	**4,861**	**9.00**	4,431	7.55
Financial	**21,767**	**40.28**	26,550	45.25
– non-bank financial institutions	**21,748**	**40.24**	26,527	45.21
– settlement accounts	**19**	**0.04**	23	0.04
Total gross loans and advances to customers	**54,034**	**100.00**	58,674	100.00

* *SCI familiales.*

Loans and advances to customers by geographical area (excluding reverse repos and settlement accounts)

As at 31 December 2011, 84 per cent of loans to customers (excluding reverse repo transactions and settlement accounts) were to French counterparties (83 per cent as at 31 December 2010).

Reverse repo transactions amounted to 15 per cent with French counterparties and 85 per cent with counterparties in other European countries (primarily in the United Kingdom).

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

Consolidated financial statements (continued)

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 96.

33 Risk management *(continued)*

Distribution of financial instruments by credit quality

(in millions of euros)	*Strong*	*Good*	*Satis-fatory*	*Sub-standard*	*Past due not impaired*	*Impaired*	*Impair-ment allow-ances*	*Total*
	31.12.2011							
	Neither past due nor impaired							
Cash and balances at central banks	**4,805**	**–**	**–**	**–**	**–**	**–**	**–**	**4,805**
Items in the course of collection from other banks	**806**	**–**	**–**	**–**	**–**	**–**	**–**	**806**
Trading assets	**34,800**	**2,291**	**1,864**	**58**	**–**	**–**	**–**	**39,013**
Treasury and other eligible bills and debt securities	**24,710**	**312**	**439**	**–**	**–**	**–**	**–**	**25,461**
Loans and advances to banks	**7,643**	**1,860**	**970**	**58**	**–**	**–**	**–**	**10,531**
Loans and advances to customers	**2,447**	**119**	**455**	**–**	**–**	**–**	**–**	**3,021**
Financial assets designated at fair value	**598**	**–**	**–**	**–**	**–**	**–**	**–**	**598**
Treasury and other eligible bills and debt securities	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**5**
Loans and advances to banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to customers	**593**	**–**	**–**	**–**	**–**	**–**	**–**	**593**
Derivatives	**77,524**	**3,636**	**1,530**	**48**	**–**	**–**	**–**	**82,738**
Loans and advances held at amortised cost	**64,111**	**10,431**	**6,648**	**865**	**234**	**1,449**	**(755)**	**82,983**
Loans and advances to banks	**29,434**	**232**	**33**	**6**	**–**	**–**	**–**	**29,705**
Loans and advances to customers	**34,678**	**10,199**	**6,615**	**859**	**234**	**1,449**	**(755)**	**53,279**
Financial investments	**6,955**	**30**	**110**	**–**	**–**	**6**	**(5)**	**7,096**
Treasury and other similar bills and debt securities	**6,955**	**30**	**110**	**–**	**–**	**6**	**(5)**	**7,096**
Other assets	**88**	**–**	**1,809**	**–**	**–**	**–**	**–**	**1,897**
Endorsements and acceptances	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Accrued income and other	**88**	**–**	**1,809**	**–**	**–**	**–**	**–**	**1,897**
Total	**189,687**	**16,388**	**11,961**	**971**	**234**	**1,455**	**(760)**	**219,936**

Consolidated financial statements (continued)

33 Risk management *(continued)*

(in millions of euros)	31.12.2010 Neither past due nor impaired 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	122	–	–	8	(6)	2,053
Treasury and other eligible bills and debt securities	1,875	54	122	–	–	8	(6)	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	13,386	856	484	1,406	(735)	209,309

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 2011	**178**	**41**	**15**	**234**
As at 31 December 2010	349	48	87	484

Movement in allowance accounts for total loans and advances

	Year ended 31.12.2011		
(in millions of euros)	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January	**(661)**	**(68)**	**(729)**
Amounts written off	**75**	**–**	**75**
Release of allowances no longer required	**150**	**2**	**152**
(Charge) to income statement	**(255)**	**(5)**	**(260)**
Exchange and other movements	**7**	**–**	**7**
At 31 December	**(684)**	**(71)**	**(755)**

	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)

Impairment allowances against loans and advances to customers

(in per cent)	**31.12.2011**	31.12.2010
Total impairment allowances in percentage to gross lending[1]:		
– individually assessed impairment allowances	**1.99**	1.92
– collectively assessed impairment allowances	**0.21**	0.20
Total	**2.20**	2.12

1 *Net of repurchase agreement transactions and settlement accounts.*

Consolidated financial statements (continued)

33 Risk management *(continued)*

Loan impairment charges and other credit risk provisions

(in millions of euros)	**31.12.2011**	31.12.2010
Individually assessed impairment allowances		
New allowances	**255**	258
Release of allowances no longer required	**(150)**	(126)
Recoveries of amounts previously written off	**(1)**	(2)
Amount written off	**75**	70
Utilisation of allowance	**(75)**	(70)
	104	130
Collectively assessed impairment allowances		
New allowances	**5**	2
Release of allowances no longer required	**(2)**	(12)
Recoveries of amounts previously written off	**–**	–
	3	(10)
Total charge for impairment losses	**107**	120
– banks	**–**	–
– customers	**107**	120
Other credit risk provisions	**–**	1
Impairment charges on debt security investments available-for-sale	**2**	1
Loan impairment charges and other credit risk provisions	**109**	122
Customer charge for impairment losses as a percentage of closing gross loans and advances to customers	**0.20%**	0.21%
Balances outstanding		
Non-performing loans	**1,449**	1,398
Individually impairment allowances	**684**	661
Gross loans and advances	**83,739**	96,021
Total allowances cover as a percentage of non-performing loans and advances	**47.20%**	47.28%

Collateral and other credit enhancements

Although collateral can be an important mitigant of credit risk, the HSBC Group's practice is to lend on the basis of the customer's ability to meet their obligations out of their resources rather than rely on the value of security. For some loans, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, HSBC France may use the collateral as a source of repayment.

Depending upon its nature, collateral can have a significant financial effect in mitigating exposure to credit risk of the HSBC France group. The value of those collateral is based on fixed charges the HSBC France group holds over a borrower's specific asset. As at 31 December 2011, the total collateral value accepted by HSBC France is EUR 58,117 million (EUR 70,866 million in 2010).

Moreover, note the HSBC France group may employ other types of collateral and credit risk enhancements, such as second charges, unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified.

33 **Risk management** *(continued)*

Market risk management

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

Market risk assessment tools

- Value at Risk

One of the principal tools used by the Group to monitor and limit market risk exposure is VaR (Value at Risk). An internal model of HSBC France is used to calculate VaR.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for the Group, 99 per cent). HSBC France calculates VaR daily. The VaR model used by HSBC France, as for the Group, is based on historical simulation.

The historical simulation model derives plausible future scenarios from historical market rates time series, taking account of inter relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential variations in market prices are calculated with reference to market data from the last two years. The internal model of HSBC France was revalidated by the French regulator in 2007 for capital requirement calculations. Since January 2007, HSBC France has been calculating a one-day VaR.

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

– the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

– the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

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

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

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

VaR captures the traditional risk factors directly observable on a daily basis, such as exchange rates, interest rates, equity prices, etc., but does not take account of potential changes in more exotic factors such as correlations, basis risk, return to mean parameters, etc. Therefore, since 31 December 2007, HSBC France also calculates an additional VaR measure called "Add-On VaR" in respect of these exotic risk factors.

Consolidated financial statements (continued)

33 Risk management *(continued)*

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

(in millions of euros)	*One-day VaR without Add-On perimeter*	*Add-On VaR*
At 30 December 2011	**22.18**	**5.75**
At 31 December 2010	25.33	6.13

	One-day VaR without Add-On perimeter			*Add-On VaR*		
(in millions of euros)	*Average*	*Minimum*	*Maximum*	*Average*	*Minimum*	*Maximum*
2011	**24.92**	**14.51**	**41.47**	**5.82**	**4.68**	**6.95**
2010	18.88	13.19	26.35	5.79	4.06	8.36

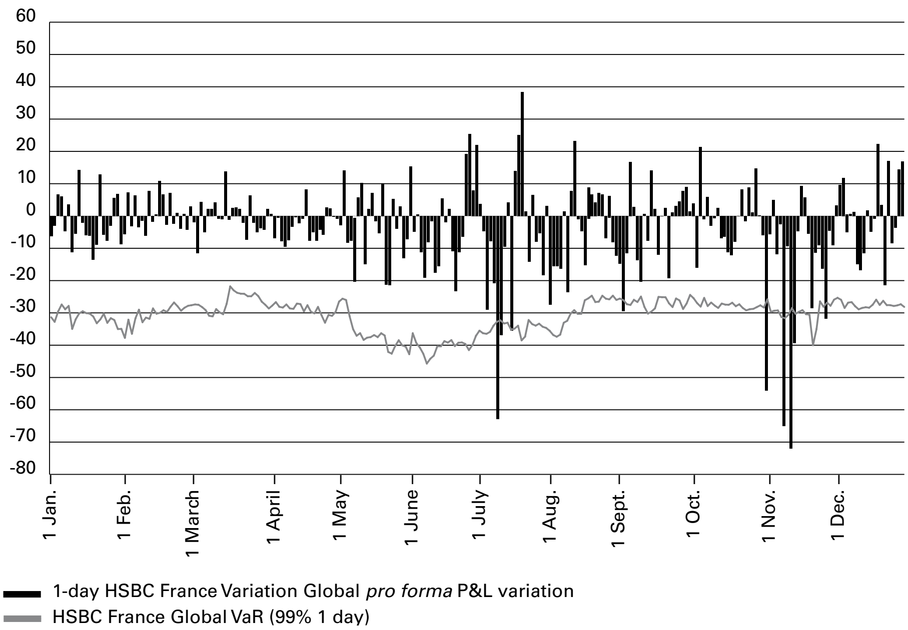
It can be noted that the distance between the minimum and maximum VaR recorded in 2011 reflects the high market volatility observed in 2011.

- Backtesting

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. Backtesting 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.

***Proforma* backtesting January 2011 – December 2011**
(in millions of euros)



Due to the high volatility observed in 2011, in particular on the European sovereign debt market, HSBC France recorded nine backtesting breaches over the past year.

33 Risk management *(continued)*

Fair value and price verification control

Where certain financial instruments are carried on the Group's balance sheet at fair values, it is the Group policy that the valuation and the related price verification processes be subject to independent testing across the Group. Financial instruments which are accounted for on a fair value basis include assets held in the trading portfolio, financial instruments designated at fair value, obligations related to securities sold short, all derivative financial instruments and available-for-sale securities.

The determination of fair values is therefore a significant element in the reporting of the Group's Global Markets activities.

All significant valuation policies, and any changes thereto, must be approved by Senior Finance Management. The Group's governance of financial reporting requires that Financial Control Departments across the Group be independent of the risk-taking businesses, with the Finance functions having ultimate responsibility for the determination of fair values included in the financial statements, and for ensuring that the Group's policies and relevant accounting standards are adhered to.

Trading

Market risk in trading portfolios is monitored and controlled at both portfolio and position levels using a complementary set of techniques, such as VaR and present value of a basis point, together with stress and sensitivity testing and concentration limits. These techniques quantify the impact on capital of defined market movements.

Other controls include restricting individual operations to trading within a list of permissible instruments authorised by Wholesale & Market Risk, and enforcing rigorous new product approval procedures. In particular, trading in the more complex derivative products is concentrated with appropriate levels of product expertise and robust system controls.

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 types, by positions taken with trading intent and by positions taken without trading intent:

Total trading VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 30 December 2011	**0.04**	**22.65**	**–**	**22.60**
At 31 December 2010	0.09	24.07	0.02	24.11
Average				
2011	**0.08**	**24.36**	**0.01**	**24.36**
2010	0.10	18.81	0.12	18.78
Minimum				
2011	**0.01**	**13.53**	**–**	**13.55**
2010	0.01	12.18	0.005	12.33
Maximum				
2011	**0.24**	**40.25**	**0.08**	**40.26**
2010	0.38	26.97	0.50	26.99

33 Risk management *(continued)*

Positions taken with trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 30 December 2011	**0.04**	**22.65**	**–**	**22.59**
At 31 December 2010	0.09	24.43	0.02	21.99
Average				
2011	**0.08**	**24.5**	**0.01**	**24.5**
2010	0.10	18.74	0.12	17.36
Minimum				
2011	**0.01**	**15.32**	**–**	**15.38**
2010	0.01	12.75	0.005	11.55
Maximum				
2011	**0.24**	**41.17**	**0.08**	**41.19**
2010	0.38	26.09	0.50	24.22

Positions taken without trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 30 December 2011	**–**	**0.99**	**–**	**0.99**
At 31 December 2010	–	2.12	–	2.12
Average				
2011	**–**	**1.55**	**–**	**1.55**
2010	–	1.42	–	1.42
Minimum				
2011	**–**	**–**	**–**	**–**
2010	–	0.78	–	0.78
Maximum				
2011	**–**	**3.14**	**–**	**3.14**
2010	–	2.77	–	2.77

Sensitivity analysis

At 31 December 2011, HSBC France Global Markets was exposed in particular 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, 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. Exposure to Euro sovereign issuers, and in particular Euro peripherals, was gradually reduced over the past year. Limits expressed in terms of interest rates sensitivities were downsized accordingly.

HSBC France Global Markets is also subject to sensitivities in terms of interest rate volatility and interest rate correlation, primarily in relation to EUR and USD.

All of these sensitivities reflect the fact that HSBC France Global Markets acts as market-maker and on a proprietary basis in the markets concerned.

All of these sensitivities are assessed and measured on a daily basis using standard conventional methods as used by the industry.

The amounts consumed are subject to market risk limits defining the amount of residual exposure authorised in intraday trading and at the close of each trading session.

An aggregate representation is given by HSBC France Global Markets' 1-day 99 per cent VaR which amounts to EUR 22 million as of 31 December 2011.

In the course of 2011, HSBC France developed its non-trading portfolio. Bonds held in this portfolio are hedged using swaps so as to reduce their exposure to interest rate moves. In addition, holdings are in high quality sovereign and quasi sovereign eurozone issuers.

Financial instruments of Global Banking and Markets non-trading portfolios are valued for financial reporting purposes, and the sensitivity of the value of these instruments to fluctuations in interest rates is also computed.

Capital adequacy reporting

The internal model allows for 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 the quasi-totality of market risks within HSBC France. Key risks not covered by the internal model are measured using the standardised approach devised by the Bank of International Settlements and transposed into French law by CRBF regulation 95-02.

Capital requirements with respect to market risks break down as follows (in millions of euros):

	31.12.2011		31.12.2010	
(in millions of euros)	***BIS***	***CAD***	*BIS*	*CAD*
Internal Model VAR[1]:	**381.97**	**381.97**	273.49	273.49
Foreign exchange risk	**1.29**	**1.29**	1.15	1.15
General interest rate risk	**380.4**	**380.4**	272.89	272.89
General equities risk	**–**	**–**	0.20	0.20
Netting effet	**0.28**	**0.28**	(0.75)	(0.75)
Internal Model Stress Var[1]:	**311.63**	**311.63**		
Foreign exchange risk	**1.51**	**1.51**		
General interest rate risk	**311.63**	**311.63**		
General equities risk	**–**	**–**		
Netting effet	**(1.51)**	**(1.51)**		
Standards methods:	**64.78**	**64.78**	83.18	83.18
Foreign exchange risk	**–**	**–**	–	–
General interest rate risk	**–**	**–**	–	–
Specific interest rate risk	**64.78**	**64.78**	83.18	83.18
General equities risk	**–**	**–**	–	–
Specific equities risk	**–**	**–**	–	–
Total	**758.38**	**758.38**	356.68	356.68

1 *Including the Add-On perimeter.*

It can be observed that following regulatory changes (Basel 2.5), HSBC France cost of capital includes a stressed VaR item since 31 December 2011. Stressed VaR is a market risk indicator calibrated to historical data from a period of significant financial stress. It is computed considering a ten days holding period and a 99 per cent one-tailed confidence interval.

33 Risk management *(continued)*

Analysis of Asset-Backed Securities (ABS)

The table below shows the group's market risk exposure to Asset-Backed Securities.

	31.12.2011			
(in millions of euros)	***Gross principal*** [2]	***CDS gross protection*** [3]	***Net Principal exposure*** [4]	***Carrying amount*** [5]
– High grade [1]	**701**	**–**	**701**	**683**
– Rated C to A	**27**	**–**	**27**	**21**
– Not publicly rated	**9**	**–**	**9**	**9**
Total Asset-Backed Securities	**737**	**–**	**737**	**713**
Of which:				
– loans and advances to customers [6]	**530**	**–**	**530**	**530**
– available-for-sale portfolio	**207**	**–**	**207**	**183**

	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

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 Kapitalmarketinvestments OHG is a partnership created in 2010 and 90 per cent held by HSBC France group, whose object is to invest in securitisation transactions structured by HSBC Group and which holds mainly assets of German transferors.*

	31.12.2011			31.12.2010		
(in millions of euros)	***Gross fair value movements other comprehensive income*** [2]	***Reclassified from equity on impairment, disposal or payment*** [3]	***AFS Impairment*** [4]	*Gross fair value movements other comprehensive income* [2]	*Reclassified from equity on impairment, disposal or payment* [3]	*AFS impairment* [4]
– High grade [1]	**3**	**–**	–	25	–	–
– Rated C to A	**(3)**	**4**	–	1	–	–
– Not publicly rated	**(2)**	**–**	–	2	–	–
Total Asset Backed Securities	**(2)**	**4**	**–**	28	–	–

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 above) of available-for-sale.*

33 Risk management *(continued)*

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. 19 groups had individual exposures exceeding 10 per cent of net capital at 31 December 2011.

Loan loss provisions

At 31 December 2011, loan impairment represented 47.2 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 122.3 per cent in 2011 on an individual basis.

Basel II international solvency ratio

The HSBC France group's Basel II international solvency ratio was 10.65 per cent at 31 December 2011, compared with a minimum requirement of 8 per cent. The group's Tier 1 capital ratio was 10.66 per cent compared with a minimum requirement of 4 per cent.

Under the Basel II definitions, total HSBC France group capital amounted to EUR 3,928 million at 31 December 2011, of which EUR 3,932 million was Tier 1 capital.

The corresponding risk-weighted assets broke down as follows:

(in billions of euros)	**31.12.2011**	31.12.2010
Credit risks	**23.7**	25.0
Market risks	**9.4**	4.4
Operational risks	**3.7**	4.0
Total	**36.8**	33.4

Commentaries related to the risk-weighted assets are disclosed in the Risk management section on page 70.

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 major 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, in the contractual arrangements or in the capital structure of the SPE.

33 Risk management *(continued)*

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 2010 and 2011. 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 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.

34 Contingent liabilities and contractual commitments

a *Contingent liabilities and commitments*

(in millions of euros)	**31.12.2011**	31.12.2010
Contract amounts		
Guarantees and other contingent liabilities		
Guarantees	**5,996**	5,326
Other contingent liabilities	**35**	37
	6,031	5,363
Commitments		
Documentary credits and short-term trade-related transactions	**398**	410
Undrawn formal standby facilities, credit lines and other commitments to lend		
– 1 year and under	**7,217**	4,123
– over 1 year	**13,428**	14,166
	21,043	18,699

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.

34 Contingent liabilities and contractual commitments *(continued)*

b *Guarantees*

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

(in millions of euros)	**31.12.2011**	31.12.2010
Guarantee type		
Financial guarantees [1]	**941**	535
Credit-related substitutes [2]	**1,610**	1,564
Other guarantees [3]	**3,480**	3,264
Total	**6,031**	5,363

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. Financial guarantees also include stand-by letters of credit which are financial guarantees given irrevocable obligations on the part of HSBC France to pay a third party when a customer fails to meet a commitment.*

2 *Credit related substitutes include performance bonds and stand-by letters of credit related to particular transactions which 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.*

3 *Other guarantees include bid bonds and other transaction-related guarantees which 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.*

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

The majority of the above guarantees have a term of more than one year. Those guarantees are subject to the group's annual credit review process.

When the group gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

Provisions with respect to the group's obligations under outstanding guarantees

(in millions of euros)	**31.12.2011**	31.12.2010
Acceptances and endorsements	**–**	–
Other items	**2**	2

35 Lease commitments

Finance lease commitments

(in millions of euros)	**31.12.2011** Total future minimum payments	**31.12.2011** Interest charges	**31.12.2011** Present value	31.12.2010 Total future minimum payments	31.12.2010 Interest charges	31.12.2010 Present value
Lease commitments:						
– 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

(in millions of euros)	**31.12.2011** Total future minimum payments	**31.12.2011** Interest charges	**31.12.2011** Present value	31.12.2010 Total future minimum payments	31.12.2010 Interest charges	31.12.2010 Present value
Lease receivables:						
– no later than one year	**473**	**(61)**	**412**	428	(60)	368
– later than one year and no later than five years	**1,717**	**(220)**	**1,497**	1,518	(215)	1,303
– later than five years	**1,200**	**(227)**	**973**	1,275	(300)	975
	3,390	**(508)**	**2,882**	3,221	(575)	2,646

At 31 December 2011, unguaranteed residual values of EUR 140 million (2010: EUR 132 million) had been accrued, and there was no accumulated allowance for uncollectible minimum lease payments receivable.

36 Litigation

As at 31 December 2011, there were no litigation or arbitration proceedings likely to have a material impact on HSBC France's financial position, its activities nor results.

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.

37 Related party transactions *(continued)*

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.

(in thousands of euros)	**31.12.2011** Number of persons	**31.12.2011** Highest balance during the year	**31.12.2011** Balance at 31 December [1]	31.12.2010 Number of persons	31.12.2010 Highest balance during the year	31.12.2010 Balance at 31 December [1]
Loans	**4**	**9,020**	**8,738**	4	4,940	4,280
Credit cards	**4**	**73**	**32**	4	54	34
Guarantees	**4**	**–**	**–**	4	–	–

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)	**31.12.2011**	31.12.2010
Short-term employee benefits	**170**	161
Post-employment benefits	**189**	179
Long-term benefits	**–**	–
Termination fees	**145**	127
Share-based payment	**3,135**	3,701
	3,639	4,168

Directors and other Key Management Personnel shareholdings and options:

	31.12.2011 [1]	31.12.2010 [1]
Number of share options from equity participation plans held by Directors and other key management personnel (and their connected persons)	**1,181,958**	1,560,643
Number of shares held by Directors and other key management personnel (and their connected persons)	**2,260,977** [2]	2,091,545 [2]

1 *The number of Directors and other key management personnel was four persons at 31 December 2011 and 31 December 2010.*
2 *The HSBC shares held through the mutual fund invested in HSBC shares and forming part of the group employee share ownership plan are not included.*

The Annual Report and Accounts also includes a detailed description of Directors' remuneration (see pages 27 to 32 and 237 to 243).

Consolidated financial statements (continued)

37 Related party transactions *(continued)*

b *Transactions with other related parties*

Transactions with other related parties of the Group

There is no significant amount due to joint ventures and associates.

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

(in millions of euros)	**31.12.2011**	31.12.2010
Assets		
Trading assets	**5,521**	4,985
Derivatives	**24,784**	15,113
Loans and advances to banks	**5,714**	3,016
Loans and advances to customers	**69**	77
Financial investments	**170**	170
Other assets [1]	**160**	321
Prepayments and accrued income	**125**	76
Financial asset designated at fair value	**4**	4
Liabilities		
Deposits by banks	**11,913**	14,574
Customer accounts	**159**	288
Trading liabilities	**960**	1,306
Derivatives	**29,365**	18,192
Other liabilities	**26**	159
Accruals and deferred income	**54**	38
Subordinated liabilities	**150**	150
Guarantees		
Financial guarantees	**67**	13
Credit-related substitutes	**45**	20
Other guarantees	**438**	250
	550	283
Income Statement		
Interest income [1]	**145**	91
Interest expense [1]	**124**	59
Fee income	**134**	135
Fee expense	**88**	81
Gains less losses from financial investments [2]	**13**	–
Other operating income	**–**	(1)
Dividend income	**–**	1
General and administrative expenses	**30**	35

1 *Including interests on trading assets and trading liabilities for EUR 29 million in 2011 (2010: EUR 20 million).*
2 *Gains/(Losses) on sale of Sinopia Asset Management (Asia Pacific) Ltd for EUR 12 million, Sinopia Asset Management (UK) Ltd for EUR 3 million and LGI EUR -2 million.*

38 Audit fees

Auditors' fees paid in 2011 and 2010 within the HSBC France group

(in thousands of euros excluding VAT)	KPMG				BDO France – Léger & Associés				Others			
	Amount		*%*		*Amount*		*%*		*Amount*		*%*	
	2011	*2010*	***2011***	*2010*	***2011***	*2010*	***2011***	*2010*	***2011***	*2010*	***2011***	*2010*
Audit												
Statutory audit, certification, examination of Parent company and consolidated accounts	**1,398**	1,651	**66%**	82%	**446**	388	**97%**	100%	**212**	248	**100%**	100%
– issuer	**948**	948	**–**	–	**338**	338	**–**	–	**–**	–	**–**	–
– fully-consolidated subsidiaries	**450**	703	**–**	–	**108**	50	**–**	–	**212**	248	**–**	–
Related assignments	**727**	360	**34%**	18%	**12**	–	**3%**	–	**–**	–	**–**	–
– issuer	**666**	360	**–**	–	**6**	–	**–**	–	**–**	–	**–**	–
– fully-consolidated subsidiaries	**61**	–	**–**	–	**6**	–	**–**	–	**–**	–	**–**	–
Sub-total	**2,125**	2,011	**100%**	100%	**458**	388	**100%**	100%	**212**	248	**100%**	100%
Other services												
Legal, tax, social	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other (if > 10 per cent of audit fees)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Sub-total	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**2,125**	2,011	**100%**	100%	**458**	388	**100%**	100%	**212**	248	**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 2011 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 2011

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 2011, on:

– the audit of the accompanying consolidated financial statements of HSBC France;

– 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 2011 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

The accounting estimates used in the preparation of the financial statements for the year ended 31 December 2011 were made in an uncertain environment marked by an economic and liquidity crisis, which makes it difficult to assess the economic outlook. It is in this context that, 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;

– 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 2011, 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 20 April 2012

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

BDO France – Léger & Associés
Michel Léger
Partner

Parent company financial statements

Balance sheets 2011-2010

ASSETS

(in thousands of euros)	Notes	31.12.2011	31.12.2010
Cash and amounts due from central banks and post office banks		**800,886**	965,358
Treasury bills and money-market instruments	4	**23,884,006**	33,101,331
Loans and advances to banks	2	**48,598,101**	50,889,381
Loans and advances to customers	3	**62,173,195**	69,075,641
Bonds and other fixed income securities	4	**8,846,010**	12,156,631
Equities and other variable income securities	4	**163,967**	208,464
Investments in subsidiaries and equity securities held for long-term	5	**334,322**	324,847
Interests in affiliated parties	5	**1,569,026**	1,809,240
Intangible fixed assets	6	**245,292**	159,613
Tangible fixed assets	7	**214,205**	180,937
Other assets	9	**29,336,900**	20,551,980
Prepayments and accrued income	10	**140,863,450**	77,492,947
TOTAL ASSETS		**317,029,360**	266,916,370
Off-balance sheet items			
Financing commitments received	21	**21,792,816**	19,041,482
Guarantees and endorsements	21	**6,154,402**	5,419,624
Securities commitments (other commitments received)		**1,257,264**	3,683,243

LIABILITIES

		31.12.2011		31.12.2010
(in thousands of euros)	Notes	Before appropriation	After appropriation [1]	After appropriation
Due to credit institutions	11	**46,421,709**	**46,421,709**	49,818,140
Customer accounts	12	**56,575,935**	**56,575,935**	64,121,423
Debt securities	13	**17,381,034**	**17,381,034**	19,420,896
Other liabilities	15	**49,796,974**	**49,796,974**	50,727,801
Accruals and deferred income	16	**142,015,101**	**142,015,101**	77,893,138
Provisions for liabilities and charges	14	**437,291**	**437,291**	434,976
Subordinated liabilities	17	**181,554**	**181,554**	181,568
Share capital	18	**337,189**	**337,189**	337,189
Additional paid-in capital		**16,139**	**16,139**	16,139
Reserves		**1,047,843**	**1,047,843**	1,047,883
Special tax-allowable reserves		**33,124**	**33,124**	40,238
Retained earnings		**2,876,979**	**2,785,467**	2,876,979
Net profit of the year		**26,504**		
Interim dividend		**(118,016)**		
TOTAL LIABILITIES		**317,029,360**	**317,029,360**	266,916,370
Off-balance sheet items				
Financing commitments given	21	**6,510,185**	**6,510,185**	3,741,844
Guarantees and endorsements	21	**6,750,678**	**6,750,678**	6,760,512
Securities commitments (other commitments given)		**2,452,615**	**2,452,615**	4,339,987

1 *Proposed appropriation.*

Profit and loss accounts 2011-2010

(in thousands of euros)	*Notes*	**31.12.2011**	31.12.2010
Income/(Expenses)			
Interest and similar income	23	**2,340,916**	1,871,790
Interest and similar expenses	23	**(1,605,561)**	(1,142,165)
Income from equities and other variable instruments	24	**188,553**	214,894
Commissions received	25	**808,119**	749,950
Commissions paid	25	**(201,254)**	(199,640)
Dealing profits	26	**9,062**	510,540
Gains or losses on available-for-sale securities	27	**(67,430)**	42,239
Other banking operating income		**37,175**	13,511
Other banking operating expenses		**(15,005)**	(21,837)
Net banking operating income		**1,494,575**	2,039,282
General operating expenses	28	**(1,421,175)**	(1,419,039)
Depreciation, amortisation and impairment of fixed assets		**(53,598)**	(51,204)
Gross operating income		**19,802**	569,039
Cost of risk	8	**(111,997)**	(141,662)
Net operating income		**(92,195)**	427,377
Gains or losses on disposals of long term investments	29	**(36,454)**	253,130
Profit before tax		**(128,649)**	680,507
Exceptional items			(2)
Income tax	30	**148,039**	(53,975)
Gains and losses from regulated provisions		**7,114**	(2,859)
Net income		**26,504**	623,671

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)	**31.12.2011**	31.12.2010
Net profit for the year		
– total	**26,504.4**	623,670.7
– per share *(in euros)* [1,2]	**0.39**	9.25
Movements in shareholders' funds and the reserve for general banking risks (after appropriation of 2010 net profit and proposed appropriation for 2011 net profit)		
– change in revaluation difference	**(27.2)**	(28.6)
– transfer to reserves and change in retained earnings	**(95,890.8)**	(120,165.3)
– change in revaluation reserve and special tax-allowable reserves	**(7,126.0)**	2,846.3
– transition adjustment in respect of accounting for EIR		(15,626.6)
Change in shareholders' funds	**(103,044.0)**	(132,974.2)
– per share *(in euros)* [1,2]	**(1.5)**	(2.0)
Proposed dividend		
– total	**118,016.2**	719,561.5
– per share *(in euros)* [1,2]	**1.75**	10.67

1 *Number of shares outstanding at year end (excluding own shares held): 67,437, 827 in 2011 and 67,437,820 in 2010.*
2 *Based on the weighted average number of shares outstanding (excluding own shares held), dividend per share amounted to EUR 1,75 in 2011 (67,437,827 shares) and EUR 10,67 euros in 2010 (67,437,820 shares).*

Parent company financial statements (continued)

Appropriation of net profit

(in thousands of euros)	31.12.2011	31.12.2010
Results available for distribution		
– retained earnings	**2,876,979**	2,988,496
– transition adjustment in respect of EIR	–	(15,626)
Subtotal	**2,876,979**	2,972,870
Net profit for the year	**26,504**	623,671
TOTAL (A)	**2,903,483**	3,596,541
Appropriation of income		
– dividends	**118,016**	719,562
– legal reserve		–
– free reserve		–
TOTAL (B)	**118,016**	719,562
Retained earnings (A - B)	**2,785,467**	2,876,979

Information on supplier payable amounts schedule

(Articles L. 441-6-1 and D. 441-4 of the French Commercial Code)

At 31 December 2011, amounts payable to suppliers of HSBC France were EUR 69 million, of which 73 per cent with a due date less than 45 days.

At 31 December 2010, amounts payable to suppliers of HSBC France were EUR 73 million, of which 71.3 per cent with a due date less than 45 days.

Except for specific agreements with suppliers, payments are made within 45 days of invoice date.

Five-year highlights

(Articles R. 225-81 and R. 225-102 of the French Commercial Code)

(in thousands of euros)	2011	2010	2009	2008	2007
Share capital at year end					
Called up share capital[1]	**337,189**	337,189	337,189	337,189	379,819
Number of issued shares	**67,437,827**	67,347,820	67,437,820	67,437,820	75,963,895
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)	**138,011,073**	79,300,679	44,033,730	121,969,321	150,090,552
Profit before tax, depreciation and provisions	**146,388**	873,707	949,898	2,415,956	1,347,356
Profit after tax, depreciation and provisions	**26,504**	819,731	550,167	1,985,603	1,357,460
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**4.4**	12.2	11.9	37.7	18.3
Profit after tax, depreciation and provisions	**0.4**	9.2	8.2	29.4	17.7
Dividend paid per ordinary share, eligible as of 1 January	**1.75**	10.67	9.94	–	3.04
Employees (France)					
Number of employees[2]	**9,860**	9,694	9,731	10,218	8,789
Average number of employees (excluding employees available)[3]	**9,748**	9,615	9,872	8,940	8,103
Salaries and wages	**577,016**	535,533	564,619	459,067	455,722
Employee benefits	**244,808**	247,908	252,768	231,279	206,607
Payroll and other taxes	**72,650**	96,763	63,502	65,481	46,694
Incentive schemes and/or employee profit-sharing plan[4]	**29,560**	39,500	17,695	27,610	25,728

1 *Capital increases pursuant to exercise of share options and, for 2008, increase of EUR 13,855 due to a merger, and capital reduction of EUR 43,750,000, and, in 2011, increase of EUR35 due to a merger.*
2 *Banking status employees, registered as at 31 December of each year.*
3 *Of which 6,477 executives and 3,383 non-executives in 2011; 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.*
4 *Based on previous year's profits.*

List of equity shares and debt securities held at 31 December 2011 (excluding trading securities)

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

(in thousands of euros)

A – Held-to-maturity securities	**206,244**
Debt securities	**206,244**
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	205,764
Accrued interest	480
B – Available-for-sale and portfolio activity securities	**6,800,016**
Debt securities	**6,636,049**
Treasury bills and other eligible bills	1,083,077
Other public sector securities	4,147,746
Money market instruments	–
Commercial paper	–
Negotiable certificates of deposit	20,173
Negotiable medium-term notes	–
Asset-backed securities	109,754
Bonds and similar	1,198,412
Negotiable medium-term notes issued by banks	–
Accrued interest	76,887
Equity shares	**163,967**
Equity shares and similar	77
Mutual fund units	163,890
TOTAL HELD-TO-MATURITY, AVAILABLE-FOR-SALE AND PORTFOLIO ACTIVITY SECURITIES	**7,006,260**

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

(in thousands of euros)

A – Other participating interests and long-term securities	**334,322**
Securities listed on a recognised French exchange	1,847
Unlisted French securities	332,475
Foreign securities listed on a recognised French exchange	–
Foreign securities listed elsewhere	–
Unlisted foreign securities	–
Accrued income	–
B – Interests in related parties	**1,569,026**
Listed French securities	–
Unlisted French securities	1,551,984
Listed foreign securities	–
Unlisted foreign securities	17,042
Accrued income	–
TOTAL INTERESTS IN RELATED PARTIES, OTHER PARTICIPATING INTERESTS AND LONG-TERM SECURITIES	**1,903,348**

Parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2011

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 SFH (France) (ex- HSBC Covered Bonds (France)) 15, rue Vernet – 75008 Paris (France)	Financial company	EUR48,000	EUR141	100.00
HSBC Factoring (France) 103, avenue des Champs-Elysées – 75008 Paris (France)	Financial company	EUR3,800	EUR10,456	100.00
COPARI Société de Constructions et de Participations Immobilières 184, avenue Frédéric & Irène Joliot-Curie 92000 Nanterre (France)	Real estate	EUR50	EUR1,134	99.96
Société Française et Suisse 64, rue Galilée – 75008 Paris (France)	Investment company	EUR599	EUR8,978	100.00
FDM 6 39, rue Bassano – 75008 Paris (France)	Investment company	EUR139,052	EUR3,678	100.00
SAPC UFIPRO Recouvrement 186, avenue Frédéric & Irène Joliot-Curie 92000 Nanterre (France)	Financial company	EUR7,619	EUR1,423	99.98
HSBC Epargne Entreprise (France) 15, rue Vernet – 75008 Paris (France)	Financial company	EUR16,000	EUR26,316	100.00
HSBC Global Asset Management (France) 4, place de la Pyramide – La Défense 9 92800 Puteaux (France)	Investment company	EUR7,883	EUR100,966	93.54
HSBC Services (France) (ex- HSBC Securities (France)) 103, avenue des Champs-Elysées – 75008 Paris (France)	Financial company	EUR12,626	EUR16,222	100.00
HSBC Private Wealth Managers 109, avenue des Champs-Elysées – 75008 Paris (France)	Investment company	EUR1,906	EUR6,574	100.00
Eurofin Capital Partners 109, avenue des Champs-Elysées – 75008 Paris (France)	Investment company	EUR3,044	EUR1,725	97.13
Valeurs Mobilières Elysées (ex- Nobel) 1, avenue Franklin Roosevelt – 75008 Paris (France)	Investment company	EUR104,000	EUR67,731	100.00
SAF Palissandre 64, rue Galilée – 75008 Paris (France)	Financial company	EUR500,038	EUR28,358	100.00

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

Book value of securities held		Loans and advances granted by HSBC France [1]	Guarantees given by HSBC France [1]	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						
EUR47,989	EUR47,989	–	–	EUR976	EUR254	–	–
EUR5,236	EUR5,236	–	–	EUR23,404	EUR5,708	–	–
EUR36,370	EUR1,186	–	–	EUR10	EUR2	–	–
EUR60,384	EUR10,219	–	–	EUR279	EUR868	–	–
EUR128,916	EUR128,916	–	–	EUR9,692	EUR1,057	–	–
EUR16,260	EUR9,101	–	–	EUR120	EUR74	–	–
EUR15,148	EUR15,148	–	–	EUR14,280	EUR789	EUR5,000	–
EUR123,630	EUR123,630	–	–	EUR205,970	EUR66,128	EUR66,823	–
EUR55,988	EUR27,518	–	–	EUR225	EUR(1,288)		–
EUR49,747	EUR10,916	–	–	EUR11,787	EUR1,668		–
EUR4,453	EUR4,453	–	–	–	EUR631		–
EUR168,099	EUR168,099	–	–	EUR27,675	EUR23,285	EUR46,020	–
EUR500,037	EUR500,037	–	–	–	EUR14,393	EUR16,000	–

Parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2011 (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(68,182)	100.00
Société Financière et Mobilière 103, avenue des Champs-Elysées – 75008 Paris (France)	Financial company	EUR40,000	EUR9,302	100.00
Foncière Elysées S.A. 103, avenue des Champs-Elysées – 75008 Paris (France)	Holding company	EUR14,043	EUR21,554	100.00
Vernet Expansion 14, rue Vernet – 75008 Paris (France)	Investment company	EUR8,456	EUR141	100.00
Société Immobilière Malesherbes Anjou 103, avenue des Champs-Elysées – 75008 Paris (France)	Holding company	EUR13,412	EUR36,031	100.00
Charterhouse Management Services Ltd. 8 Canada Square – London E14 5HQ (United Kingdom)	Investment company	GBP10,000	GBP(429)	100.00
HSBC Real Estate Leasing (France) 15, rue Vernet – 75008 Paris (France)	Financial company	EUR38,255	EUR21,922	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	GPB400,000	–	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: 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
EUR281,756	EUR281,756	–	–	EUR(12,533)	EUR(13,172)	–	–
EUR84,053	EUR84,053	–	–	EUR1,427	EUR1,370	EUR8,075	–
EUR44,478	EUR35,706	–	–	EUR238	EUR108	–	–
EUR8,519	EUR8,519	–	–	EUR144	EUR2,106	EUR1,364	–
EUR49,385	EUR49,385	–	–	EUR11,310	EUR1,986	EUR6,098	–
EUR11,972	EUR11,972	–	–	N/A	GBP(12,592)	–	–
EUR37,190	EUR37,190	–	–	EUR139,264	EUR5,681	–	–
EUR5,070	EUR5,070	–	–	–	–	–	–
EUR239,435	EUR239,435	–	–	GBP9,388	GBP9,388	GBP6,760	
EUR995	EUR989	–	–	–	–	EUR481	–
EUR1,821	EUR1,819	–	–	–	–	–	–
EUR4	EUR4	–	–	–	–	–	–
–	–	–	–	–	–	–	–

Parent company financial statements (continued)

Notes on the parent company financial statements

Notes

2011 Highlights

Business review

The economic climate grew steadily worse in 2011. During the first quarter, in line with the end of 2010, there were encouraging signs of an economic upturn (improvement in economic growth, rise in the stock markets, etc.) but as of the second quarter, the economic climate was affected by concerns over the sovereign debt situation in the southern eurozone countries.

Despite repeated intervention from the eurozone governments, the European Central Bank and the International Monetary Fund, which resulted in various stabilisation mechanisms – in particular the European Financial Stability Facility (EFSF) – the financial crisis escalated and affected the weakest countries first: Greece, Ireland and Portugal in the Spring, Italy and Spain in the Summer and then other countries, including France and Austria, towards the end of the year.

Concerns over the long-term solvency of eurozone countries led to a significant increase in volatility and a decrease in liquidity in the sovereign debt markets.

HSBC France reported a loss before tax of EUR 129 million in 2011, compared with a profit before tax of EUR 681 million in 2010, which included a EUR 237 million gain on the sale of its Champs-Elysées headquarters.

Net operating income was down 27 per cent compared with 2010, to EUR 1,495 million.

Retail Banking achieved an excellent commercial performance in 2011. HSBC France attracted more than 45,000 new Premier customers and continued to support its Corporate clients, with further growth in medium and long-term lending.

For Global Banking and Markets, 2011 was a year of contrasts. Global Banking reported further growth in results, driven by excellent business momentum in Mergers and Acquisitions and non-specialist financing, whilst in Global Markets, the Rates business was badly affected by the sovereign debt crisis in Europe. This penalised results as France is the HSBC Group's world platform for euro government bonds which suffered from the eurozone crisis, particularly since the majority of its positions are marked to market.

2014 Strategic plan

In 2011, HSBC France reaffirmed its ambition to expand as a universal bank through its 2014 Strategic Plan, which was presented to the employee representative bodies on 5 July. The plan echoes the HSBC Group's strategy and aims to accelerate growth whilst improving efficiency, by:

- focusing on Wealth Management customers in the Retail Banking and Wealth Management market;
- developing a strong international network in the Commercial Banking market;
- consolidating the positioning of Global Banking and Markets in Paris as a strategic platform for the HSBC Group;
- strengthening synergies between the various business lines.

In concrete terms, HSBC France aims to:

- lower its cost efficiency ratio to about 62-64 per cent to match the most efficient banks operating in the French market and to contribute to the HSBC Group's targets. HSBC France intends to optimise its efficiency by simplifying processes and adapting the structure of each business activity, but without any forced departures.
- achieve a return on equity in line with the HSBC Group's target of 12-15 per cent.

A EUR 50 million restructuring provision has been raised to cover the cost of the plan.

Parent company financial statements (continued)

2011 Highlights *(continued)*

Merger

On 31 October 2011, HSBC France completed the merger of its subsidiary HSBC Private Bank France.

The merger, approved by HSBC France's Board of Directors on 26 July 2011 and by HSBC Private Bank France's Management Board on 28 July 2011, is part of a plan to reorganise the HSBC Group's structures and activities in France. Its main objectives are to:

– rationalise the operating structure and costs of the Private Banking business and give it the resources required to focus on developing its core customer target group;

– better exploit synergies between Retail Banking and Private Banking and between Global Banking and Private Banking.

The difference between the net assets transferred (EUR 188,496,744.77) and the carrying amount of HSBC France's interest in HSBC Private Bank France (EUR 260,458,372.95) constitutes a technical merger loss of EUR 71,961,628.18, which has been recognised in full as an intangible asset.

Credit risk concentration

The group provides in France, mainly, a diversified range of financial services. Its portfolio of financial instruments giving rise to credit risk is highly diversified and no exposure to a particular sector or economic group accounts for more than 10 per cent of its total consolidated assets, apart from the following:

– most of the group's exposure to credit risk is concentrated in France, where it is diversified across a broad range of business sectors and economic groups; and

– the group's position as part of a major international banking group means that it has a significant concentration of exposure to credit institutions. The majority of its credit risk in the banking sector is concentrated in Europe.

There are no specific collateral requirements for sector concentrations, other than the property sector. Most of its exposure to the property and construction sectors and the residential mortgage market is secured on the underlying property assets.

Liquidity and funding management

HSBC France has a diversified, stable funding base comprising debt instruments, retail and corporate customer deposits and portfolios of highly liquid assets.

HSBC France adapts its liquidity and funding management policy in response to changes in the group's business activities and to changes in the markets in which it operates.

HSBC France also complies with the HSBC Group's policy of matching all bank and professional deposits due in under one month plus a percentage of all other deposits with liquid assets, all currencies combined. In the event of crisis, the group would therefore be able to meet its obligations as they fall due, for a period of at least one month, without having to go to the markets. This rule is in addition to and reinforces the regulatory requirements.

1 Principal accounting policies

The principles adopted are those set out in the regulations of the "*Comité de la Réglementation Bancaire et Financière*" *(CRBF)*, 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

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.

1 Principal accounting policies *(continued)*

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.

Realised or unrealised gains or losses on hedging instruments are taken into account 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.

1 Principal accounting policies *(continued)*

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.

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).

Parent company financial statements (continued)

1 Principal accounting policies *(continued)*

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 CRBF regulation 94-05, 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;
- 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.

1 Principal accounting policies *(continued)*

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.

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.

Parent company financial statements (continued)

1 Principal accounting policies *(continued)*

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.

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 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.

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 Group share plan

The HSBC Group share plan is a performance reward plan for retaining high-achieving employees.

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 rules) which respected the legal and tax regulations applicable in France.

This regulation was revised in 2011 firstly, to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the "Group Performance Share Plan", which aim the Senior Executives. In this context, the French sub-plan (schedule 5 of the new rules) has also been subject of a review to comply with local social and tax rules.

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 or three years after they are awarded, conditional on continued employment within the HSBC Group.

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. HSBC France was invoiced by the trust when the shares were delivered on the basis of their purchase price.

In contrast to previous plans, no cover arrangements were put in place for the plans granted in 2009, 2010 and 2011 by HSBC France. Delivery of the shares is therefore made by purchasing the shares on the market, at the plan expiry date at the latest.

In 2011, HSBC France was invoiced for the 2009 plan on the basis of the price at which the shares are bought, after deduction for the trust's excess shares in connection with the previous plan and 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 is based on the closing quoted price of the HSBC Holdings plc stock.

HSBC 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)*

e *Reserve for general banking risks*

No reserve for general banking risks is held in the accounts of HSBC France at 31 December 2011.

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.

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.

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.

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 CRBF regulation 88-02 as amended, 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.

1 Principal accounting policies *(continued)*

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 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.

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.

Following the review of the implementation of CRBF 90-15 regarding the definition of market value of financial instruments, HSBC France released EUR 30 million provisions as at 31 December 2011 for value adjustments covering liquidity restrictions and potential errors due to valuation models and parameters.

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.

Parent company financial statements (continued)

1 Principal accounting policies *(continued)*

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.

The tax group incurred a loss in 2011. A deferred tax asset for the carryforward of unused tax losses was recognised as it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The deferred tax asset amount to EUR 88.9 million.

Moreover, France's tax rate increased, in 2011, from 34.43 per cent to 36.10 per cent for all companies which have a turnover for more than EUR 250 million. Nevertheless, this additional tax is temporary and will impact only 2011 and 2012's results.

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.

2 Loans and advances to banks

(in millions of euros)	**31.12.2011**	31.12.2010
On demand deposits[1]	**26,823.2**	30,857.4
Term deposits	**21,726.4**	19,969.6
< 3 months	**16,589.1**	12,719.0
> 3 months < 1 year	**2,244.1**	4,037.8
> 1 year < 5 years	**2,047.2**	2,210.0
> 5 years	**846.0**	1,002.8
Accrued interest	**48.5**	62.4
Overall total	**48,598.1**	50,889.4
Of which securities received under repurchase agreements	***37,700.1***	*45,834.2*
Of which subordinated loans	***718.3***[2]	*712.3*[2]

1 *Including overnight stock lending.*
2 *Including subordinated debt granted in 2008 to HSBC Bank plc for EUR 650 million.*

3 Customer loans

Outstanding at 31 December

Breakdown of outstanding loans by type

(in millions of euros)	**31.12.2011**	31.12.2010
Commercial loans	**217.0**	191.5
Ordinary accounts – debit balances	**1,993.4**	2,326.3
Other customer facilities [1]	**59,962.8**	66,557.9
Total	**62,173.2**	69,075.6
1 *Including unspecified term lending*	***25.5***	*29.7*

Breakdown of outstanding loans by quality

(in millions of euros)	**31.12.2011**	31.12.2010
Retail loans	**8,969.5**	8,794.9
Financial customer loans	**830.0**	120.7
Non-financial customer loans	**19,521.5**	20,524.7
Securities received under repurchase agreements	**32,715.4**	39,520.3
Accrued interest	**136.8**	115.0
Total	**62,173.2**	69,075.6
Of which subordinated loans	***59.5***	*67.2*
Of which gross non-performing doubful loans	***665.3***	*712.7*
Of which gross non-performing contentious loans	***766.8***	*658.3*
Of which impairment on gross non-performing loans	***143.4***	*170.7*
Of which impairment on gross impaired loans	***533.6***	*472.4*
Of which restructured loans	***86.5***	*94.8*

Breakdown of outstanding loans by remaining contractual maturity

(in millions of euros)	**31.12.2011**	31.12.2010
Repayable on demand [1]	**2,616.3**	2,848.4
Term deposits	**59,420.1**	66,112.2
< 3 months	**31,303.1**	38,243.3
> 3 months < 1 year	**8,273.0**	7,071.6
> 1 year < 5 years	**10,707.1**	11,162.5
> 5 years	**9,136.9**	9,634.8
Accrued interests	**136.8**	115.0
Total	**62,173.2**	69,075.6

1 *Including overnight stock lending.*

Breakdown by business sector

(in millions of euros)	**31.12.2011**	31.12.2010
Retail	**9,565.7**	9,600.2
Commercial, Industrial and Services	**9,679.7**	9,561.0
Real estate	**6,041.3**	6,205.1
Financial	**34,596.0**	41,553.3
Others	**2,290.5**	2,156.1
Total	**62,173.2**	69,075.6

Parent company financial statements (continued)

3 Customer loans *(continued)*

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

(in millions of euros)	**31.12.2011**	31.12.2010
Treasury bills and other eligible securities	**527.0**	584.0
Loans and advances to banks	**9,300.0**	6,754.0
Loans and advances to customers [3]	**10,000.0**	7,475.0
Debt securities	**28,898.0**	32,649.0
Equity shares	**–**	–
	48,725.0	47,462.0

3 *Of which bills eligible for refinancing with central banks* ***3,412.0*** *3,125.4*

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities

(in millions of euros)	**31.12.2011** ***Carrying amount***	31.12.2010 *Carrying amount*
Treasury bills and other eligible bills	**23,884.0**	33,101.3
Trading account securities	**18,594.8**	32,569.8
Available-for-sale securities	**5,230.8**	526.2
Held-to-maturity securities	**–**	–
Accrued interest	**58.4**	5.3
Debt securities	**8,846.0**	12,156.6
Trading account securities	**7,292.9**	10,835.2
– bonds and other quoted securities	**7,292.9**	10,099.0
– unquoted bonds, interbank market securities and tradable debt securities	**–**	736.2
Available-for-sale securities	**1,328.3**	1,085.3
– quoted bonds	**1,308.1**	1,082.3
– unquoted bonds, interbank market securities and tradable debt securities	**20.2**	3
Held-to-maturity securities	**205.8**	221.9
– quoted bonds	**205.8**	221.9
– unquoted bonds, interbank market securities and tradable debt securities	**–**	–
Accrued interest	**19**	14.2
Of which subordinated debt	***188.4***	*221.0*
Equity shares and similar & portfolio equities	**164.0**	208.5
Trading account securities		
– quoted shares	**–**	–
– unquoted shares and similar	**–**	–
Available-for-sale securities	**149.8**	196.7
– quoted shares	**–**	–
– unquoted shares and similar	**149.8**	196.7
Portfolio activity securities	**14.2**	11.8
– quoted portfolio activity shares	**–**	–
– unquoted portfolio activity shares	**14.2**	11.8
Total	**32,894.0**	45,466.4

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)	**31.12.2011**	31.12.2010
Treasury bills and other eligible bills		
< 3 months	**377.5**	1,980.2
> 3 months < 1 year	**2,826.0**	8,255.7
> 1 year < 5 years	**9,118.6**	7,897.2
> 5 years	**11,503.6**	14,962.9
Accrued interest	**58.4**	5.3
Total	**23,884.0**	33,101.3
Debt securities		
< 3 months	**469.7**	1,345.2
> 3 months < 1 year	**872.4**	3,498.7
> 1 year < 5 years	**4,603.7**	4,951.4
> 5 years	**2,881.2**	2,347.1
Accrued interest	**19.0**	14.2
Total	**8,846.0**	12,156.6

Estimated value of the portfolio of available-for-sale and portfolio business securities

	31.12.2011		31.12.2010	
Type of security (in millions of euros)	***Net carrying amount***	***Estimated value***	*Net carrying amount*	*Estimated value*
Treasury bills and other eligible bills	**5,230.8**	**5,374.8**	526.6	530.0
Debt securities	**1,328.3**	**1,379.4**	1,085.3	1,100.7
Equity shares and similar and other portfolio equities	**164.0**	**169.5**	208.5	208.6
Total available-for-sale and portfolio activity securities (excluding related receivables)	**6,723.1**	**6,923.7**	1,820.4	1,839.3

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)	**31.12.2011**
Unrealised gains in available-for-sale securities	**134.1**
– treasury bills and other eligible bills	**98.5**
– bonds and other fixed-income securities	**31.7**
– equity shares and similar & portfolio equities	**3.9**
Unrealised gains in portfolio activity securities	**–**
Unrealised losses in available-for-sale securities for which impairment has been recognised	**52.7**
– treasury bills and other eligible bills	**16.8**
– bonds and other fixed-income securities	**24**
– equity shares and similar & portfolio equities	**11.9**
Unrealised losses in portfolio activity securities for which impairment has been recognised	**1.7**

Additional information on the securities given in compliance with article 16 of CRBF 90-01 of 23 February 1990

Total of held-to-maturity securities sold during the period

There were no sales during 2011, 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.

Parent company financial statements (continued)

5 Investments in subsidiaries and equity securities held for long-term

(in millions of euros)	**31.12.2011** *Net carrying amount*	31.12.2010 *Net carrying amount*
Interests in subsidiaries and associates	**323.8**	314.9
Listed securities	**1.9**	1.9
– banks	**–**	–
– others	**1.9**	1.9
Non-listed securities	**321.9**	313.0
– banks	**48.3**	46.1
– others	**273.6**	266.9
Other long-term securities	**10.5**	10.0
Listed securities	**–**	–
– banks	**–**	–
– others	**–**	–
Non-listed securities	**10.5**	10.0
– banks		–
– others	**10.5**	10.0
Interests in group companies	**1,569.0**	1,809.3
Listed securities	**–**	–
– banks	**–**	–
– others	**–**	–
Non-listed securities	**1,569.0**	1,809.3
– banks	**471.4**	711.9
– others	**1,097.6**	1,097.4
Accrued interests	**–**	–
Total (including the 1976 statutory revaluation)	**1,903.3**	2,134.2

(in millions of euros)	**31.12.2011**
Gross amounts at 1 January (excluding advances and accrued interests)	**2,459.2**
Changes in the year	**(372.3)**
Acquisitions of securities/share issues [1]	**77.9**
Disposals [2]	**(457.5)**
Effect of foreign exchange differences	**7.3**
Other movements	**–**
Gross amounts at 31 December (excluding advances and accrued interests)	**2,086.9**
Impairments at 1 January	**(325.2)**
Changes in the year	**141.6**
New allowances [3]	**(41.4)**
Impairment releases [4]	**183.0**
Other movements	**–**
Effect of foreign exchange differences	**–**
Impairment at 31 December	**(183.6)**
Accrued interests	_
Net book value including accrued interests	**1,903.3**

1 *Mostly HSBC SFH (France) share capital increase of EUR 19.95 million and investments coming from the merger of HSBC Private Bank France.*
2 *Relates mainly to HSBC Private Bank France for EUR 440.1 million and Charterhouse Management Services Limited decrease in capital for GBP 15 million, so EUR 17.1 million.*
3 *Relates mainly to EUR 38.8 million allowance on HSBC Private Wealth Managers.*
4 *Relates mainly to release of allowance HSBC Private Bank France for EUR 179.7 million following the merger.*

6 Intangible fixed assets

(in millions of euros)	**31.12.2011**	31.12.2010
Gross amounts at 1 January	**387.0**	381.8
Changes in the year:		
Transfers and other movements[1]	**91.6**	–
Fixed asset acquisitions	**8.5**	5.5
Fixed asset disposals and other changes	**(1.7)**	(0.3)
Gross book value at 31 December	**485.4**	387.0
Amortisation at 1 January	**227.4**	220.9
Changes in the year:		
Charges for the period for amortisation and impairment	**5.8**	6.5
Transfers and other movements	**8.1**	–
Fixed asset sales, disposals and other changes	**(1.2)**	–
Amortisation at 31 December	**240.1**	227.4
Net book value of fixed assets at 31 December	**245.3**	159.6

1 *HSBC Private Bank France merger impact.*

According to 2004-01 CRC regulation, a goodwill, corresponding to the difference between the net current value of the shares of the merged company and the net asset value transferred, was recognised on the merger of HSBC Hervet with HSBC France in 2008 and on the merger of HSBC Private Bank France with HSBC France in 2011.

Goodwill on merger is written back through profit or loss as the assets to which it was attributed are realised.

Goodwill 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 goodwill. 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).

Concerning HSBC Hervet

The goodwill on merger, amounting initially to EUR 139.5 million, 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 HSBC de Baecque Beau securities	47.7
Unrealised gains in fixed assets	9.6
Unrealised gains in securities	0.2
Purchased goodwill (no attribution)	82.0
	139.5

At the end of 2011, following the realisation of part of the assets (mainly the merger of HSBC de Baecque Beau with HSBC France in 2008), and as no depreciation is required, the goodwill on merger stood at EUR 89.5 million.

Concerning HSBC Private Bank

The goodwill on merger, initially amounting to EUR 72.0 million, is fully attributed to purchased goodwill.

Parent company financial statements (continued)

7 Tangible fixed assets

(in millions of euros)	**31.12.2011**	31.12.2010
Gross amounts at 1 January	**667.3**	968.0
Changes in the year:		
Transfers and other movements	**4.8**	–
Fixed asset acquisitions	**83.0**	50.3
Fixed asset disposals and other changes[1]	**(48.1)**	(351.0)
Carrying amount at 31 December	**707.0**	667.3
Depreciation at 1 January	**486.4**	628.6
Changes in the year:		
Charges for the period for depreciation and impairment	**47.7**	44.5
Transfers and other movements	**3.5**	
Fixed asset disposals and other changes[1]	**(44.8)**	(186.7)
Depreciation at 31 December	**492.8**	486.4
Carrying amount at 31 December	**214.2**	180.9
Operating land and buildings	**14.5**	15.5
Non-operating land and buildings	**1.3**	1.0
Other tangible assets	**198.4**	164.4
Carrying amount at 31 December	**214.2**	180.9

1 *Of which mainly 2011 write off of fixed assets in the context of the Strategic Plan.*

8 Cost of risk

(in millions of euros)	*Balance at 31.12.2010*	*Charges*	*Utilised releases*	*Available releases*	*Other changes*	***Balance at 31.12.2011***
Impairment on bank and customer non-performing loans (excluding doubtful interest)	643.1	249.4	(62.3)	(147.9)	(5.2)[1,2]	**677.1**
Impairment on securities	4.3	–	–	–	–	**4.3**
Provisions for commitments by signature and disputes	10.2	5.2	(0.2)	(6.3)	3.5[3]	**12.3**
Total of impairment and provisions recognised in cost of risk	657.7	254.5	(62.5)	(154.2)	(1.8)	**693.7**

1 *Of which discounting effect on impaired loans recognised in net operating income*	*(15.2)*
2 *Of which HSBC Private Bank France merger impact*	*9.8*
3 *Of which HSBC Private Bank France merger impact*	*3.7*

8 Cost of risk *(continued)*

Cost of risk

(in millions of euros)	**31.12.2011**	31.12.2010
Net impairment charge for the period		
Bank and customer non-performing and impaired receivables (excluding doubtful interest)[1]	**(105.0)**	(134.0)
Counterparty risk on securities	**–**	(0.1)
Commitments and litigations[2]	**0.8**	(7.5)
Recoveries of amounts previously written off	**1.5**	2.0
Total cost of risk excluding country risk	**(102.7)**	(139.6)
Country risk	**(9.3)**	(2.1)
Total cost of risk	**(112.0)**	(141.7)
1 *Of which unprovided losses*	*(11.8)*	*(8.5)*
2 *Of which unprovided losses*	*(0.5)*	*(6.8)*

9 Other assets

(in millions of euros)	**31.12.2011**	31.12.2010
Securities transactions settlement accounts	**150**	396
Sundry debtors and other receivables[1]	**29,187**	20,156
Total	**29,337**	20,552

1 *Changes in premiums and guarantee deposits on derivatives.*

10 Prepayments and accrued income

(in millions of euros)	**31.12.2011**	31.12.2010
Items in course of collection from other banks	**806**	943
Other prepayments and accrued assets[1]	**140,057**	76,550
Total	**140,863**	77,493

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)	**31.12.2011**	31.12.2010
On demand deposits	**8,095.8**	9,326.5
Term deposits	**38,236.0**	40,384.8
< 3 months	**27,152.3**	32,972.6
> 3 months < 1 year	**3,570.1**	4,761.3
> 1 year < 5 years	**5,654.5**	780.9
> 5 years	**1,859.1**	1,869.9
Accrued interest	**90.0**	106.9
Overall total	**46,421.7**	49,818.1
Of which securities given under repurchase agreements	***32,336.5***	*36,566.3*

Parent company financial statements (continued)

12 Customer accounts

Outstanding at 31 December

Breakdown of customer credit balances by type of deposit

(in millions of euros)	**31.12.2011**	31.12.2010
On demand deposits	**15,816.9**	17,024.1
Special demand accounts	**6,659.7**	5,672.3
Special term accounts	**770.5**	816.8
Term accounts	**8,015.7**	4,631.4
Certificates of deposit and savings certificates[1]	**–**	2.1
Total customer deposits (excluding repurchase agreements and including certificates of deposit and savings certificates)	**31,262.7**	28,146.7
Total deposits excluding certificates of deposit and savings certificates	**31,262.8**	28,144.6
Securities given under repurchase agreements	**25,135.6**	35,865.9
Accrued interest	**177.4**	110.8
Total customer credit balance accounts	**56,575.9**	64,121.4

1 *Certificates of deposit are categorised in the balance sheet under the heading "Debt securities in issue".*

Breakdown of customer credit balances by remaining contractual maturities

(in millions of euros)	**31.12.2011**	31.12.2010
On demand deposits	**22,549.9**	23,499.0
Term deposits	**33,848.6**	40,511.6
< 3 months	**23,246.0**	34,055.2
> 3 months < 1 year	**9,961.1**	5,521.5
> 1 year < 5 years	**416.7**	650.2
> 5 years	**224.7**	284.7
Accrued interest	**177.4**	110.8
Total	**56,575.9**	64,121.4

13 Debt securities in issue

(in millions of euros)	**31.12.2011**	31.12.2010
Certificates of deposit (including accrued interest)	**–**	2
Interbank market securities and tradable debt securities	**6,559**	7,275
Bonds	**10,678**	11,994
Accrued interest	**144**	149
Total	**17,381**	19,420

Breakdown of debt securities by maturity

(in millions of euros)	**31.12.2011**	31.12.2010
Debt securities	**17,237**	19,271
< 1 year	**8,794**	10,317
of which up to 3 months	**6,876**	6,513
from 3 months to 1 year	**1,918**	3,804
> 1 year < 5 years	**7,070**	7,655
> 5 years	**1,373**	1,299
Accrued interest	**144**	149
Total	**17,381**	19,420

14 Provisions

(in millions of euros)	*Balance at 31.12.2010*	*Charges*	*Release for write off*	*Available releases*	*Other movements*	***Balance at 31.12.2011***
Provisions for commitments and litigations	10.2	5.2	(0.2)	(6.4)	3.5	**12.4**
Provision for country risk	53.4	15.8		(6.5)		**62.7**
Provision on forward financial instruments	145.9	19.4		(84.2)	0.5	**81.6**
Other provisions [1]	225.5	119.5	(9.8)	(60.7)	6.2	**280.7**
Total	435.0	**159.9**	**(10.0)**	**(157.8)**	**10.2**	**437.4**

1 *Including employee benefits provision (see Note 20 "Pensions and post-employment benefits"), provision for the Early retirement schemes, restructurations and provision on* PEL/CEL *home ownership products.*

Provision on *PEL/CEL* home ownership products

Provision at 31 December 2011, by age group:

– PEL: EUR 9.1 million (of which EUR 6.6 million of provision over 10 years old; EUR 0.5 million of provision between 4 and 10 years old and EUR 2 million of provision under 4 years old);

– CEL: EUR 0.8 million.

The movements on provisions recognised through profit or loss in 2011 relate to a charge of EUR 0.3 million (including a release of allowance of EUR 0.4 million more than 10 years old, EUR 0.9 million between 4 and 10 years old and EUR 1.6 million under 4 years old).

Amounts collected at 31 December 2011, by age group:

– PEL: EUR 745.8 million, aged as follows:
  - 0-4 years: EUR 155.5 million,
  - 4-10 years: EUR 306.2 million,
  - more than 10 years: EUR 284.1 million;

– CEL: EUR 138.0 million.

Amounts collected at 31 December 2011, by age group:

– PEL: EUR 3.6 million:
  - 0-4 years: EUR 2.3 million,
  - 4-10 years: EUR 0.5 million,
  - more than 10 years: EUR 0.8 million;

– CEL: EUR 20.8 million.

15 Other liabilities

(in millions of euros)	**31.12.2011**	31.12.2010
Securities transactions settlement accounts	**226**	122
Sundry creditors[1]	**12,843**	17,986
Short position and securities received under repurchase agreements confirmed resold	**36,728**	32,620
Total	**49,797**	50,728

1 *Changes in premiums and guarantee deposits on derivatives.*

16 Accruals and deferred income

(in millions of euros)	**31.12.2011**	31.12.2010
Items in course of collection from other banks	**757**	851
Accruals and deferred income[1]	**141,258**	77,042
Total	**142,015**	77,893

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).*

17 Subordinated debt

(in millions of euros)	**31.12.2011**	31.12.2010
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	**31.12.2011**	31.12.2010
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
Total for securities issued by HSBC France (including accrued interest)					**165.0**	165.1

17 Subordinated debt *(continued)*

Participating securities: undated subordinated securities and debt

(in millions of euros)	Date of issue	Nominal rate	Issue currency	**31.12.2011**	31.12.2010
Undated subordinated securities	22.07.1985	Effective monthly rate -0.25	FRF	**16.2**	16.2
Accrued interest				**0.4**	0.4
Total (including accrued interest)				**16.6**	16.6

18 Share capital

	31.12.2011		31.12.2010	
(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	**7**	**–**	–	–
– Reduction of capital	**–**	**–**	–	–
At 31 December.	**67,437,827**	**337,189**	67,437,820	337,189

Share options

Following the merger of HSBC Private Bank France on 31 October 2011, options over HSBC Private Bank France have been exchanged for options over shares HSBC France at a parity determined at the time of the merger.

At 31 December 2011, the number of HSBC France shares that may be issued pursuant to this exercise of share options is 22,645, which would raise the capital to 67,460,472 shares.

Voting rights

At 31 December 2011, the total of voting rights stood at 67,437,827; shares with double voting rights disappeared with the tender offer and the minority buyout launched by HSBC Holdings plc.

19 Equity

(in millions of euros)	**31.12.2011** *Before appropriation of profit*	**31.12.2011** *After appropriation of profit*	31.12.2010 *Before appropriation of profit*	31.12.2010 *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	**2,877.0**	**2,785.5**	2,972.9	2,877.0
Interim dividend	**(118.0)**		(719.6)	
Special tax-allowable reserves	**33.1**	**33.1**	40.2	40.2
Net Profit for the year	**26.5**		623.7	
Equity	**4,219.8**	**4,219.8**	4,318.4	4,318.4

Changes in equity in 2011

(in millions of euros)	
Balance at 1 January 2011	**4,318.4**
Net Profit for the year	26.5
New shares issued upon exercise of stock options	–
Reduction of capital	–
Interim dividend	(118.0)
Others [1]	(7.1)
Retained earnings – first-time adoption of the new accounting policy of effective rate of interest	–
Balance at 31 December 2011	**4,219.8**

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.

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)	**31.12.2011**	31.12.2010
Provision for employee-related commitments[1]	**115.0**	101.3

1 *Including defined benefits pension plans for Executive Directors for EUR 3.4 million in 2011.*

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 2011	**4.5**	**–**[1]	**2**	**2**	**3**	**–**[2]
At 31 December 2010	4.75	–[1]	2	2	3	–[2]

1 *Expected rate on equities. The expected rate of return on bonds was 4% in 2011 and 4% in 2010.*
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 France'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)	**31.12.2011**	31.12.2010
Present value of benefit obligations	**128.07**	114.6
Fair value of plan assets	**(13.0)**	(13.3)
Net liability recognised	**115.0**	101.3

21 Off-balance-sheet items

(in millions of euros)	**31.12.2011**	31.12.2010
Loan commitments		
Commitments given		
Refinancing agreements and other financing commitments in favour of banks	**2,159**	1,840
In favour of customers	**19,633**	17,201
– confirmed credit facilities	**19,573**	17,150
– acceptances payable and similar instruments	**59**	51
Total	**21,792**	19,041
Of which transactions with group companies	***820***	*513*
Commitments received		
Refinancing agreements and other financing commitments in favour of banks	**6,510**	3,742
Guarantee commitments		
Commitments given		
Guarantees, acceptances and other security to banks	**2,097**	1,365
Guarantees, acceptances and other securities to customers	**4,057**	4,055
Total	**6,154**	5,420
Of which transactions with group companies	***121***	*100*
Commitments received		
Guarantees, acceptances and other security from banks	**6,750**	6,760

Exchanges rate contracts

(in billions of euros)	31.12.2011 Fair value 31.12.2010	31.12.2011 Hedging contracts[1]	31.12.2011 Trading contracts[1]	31.12.2011 Total[1]	31.12.2010 Fair value 31.12.2009	31.12.2010 Hedging contracts[1]	31.12.2010 Trading contracts[1]	31.12.2010 Total[1]
Unconditional transactions	**(4.6)**	**8.0**	**4,675.7**	**4,683.7**	(2.8)	9.1	4,530.3	4,539.4
Exchange traded	**–**	**–**	**117.8**	**117.8**	–	–	142.1	142.1
– interest rate			**117.8**	**117.8**			142.1	142.1
– exchange rate								
– equity								
Non-exchange traded	**(4.6)**	**8.0**	**4,557.9**	**4,565.9**	(2.8)	9.1	4,388.2	4,397.3
– futures			**396.5**	**396.5**			191.0	191.0
– interest rate	**1**	**1.7**	**3,961.2**	**3,962.9**	0.4	3.2	3,981.3	3,984.5
– exchange rate	**(5.5)**	**0.3**	**66.1**	**66.4**	(3.2)	0.7	58.0	58.7
– other contracts	**(0.1)**	**6.0**	**134.1**	**140.1**		5.2	157.9	163.1
Conditional transactions	**(3.70)**	**2.10**	**564.40**	**566.50**	(1.30)	4.1	518.90	523.00
Exchange traded	**–**	**–**	**54.6**	**54.6**	–	–	33.5	33.5
Interest rate			**4.6**	**4.6**			0.3	0.3
Exchange rate			**50.0**	**50.0**			33.2	33.2
Other contracts								
Non-exchange traded	**(3.7)**	**2.1**	**509.8**	**511.9**	(1.3)	4.1	485.4	489.5
Caps and floors		**1.3**	**214.4**	**215.7**	0.7	2.4	232.9	235.3
Swaptions and options	**(3.7)**			**–**	(2)			–
– bought		**0.8**	**138.7**	**139.5**		1.7	122.9	124.6
– sold			**156.7**	**156.7**			129.6	129.6
Total derivatives		**10.1**	**5,240.1**	**5,250.2**		13.2	5,049.2	5,062.4

1 *Notional contract amounts.*

22 Derivatives *(continued)*

Other informations on derivatives

(in billions of euros)	**31.12.2011**	31.12.2010
Microhedge contract	**1.7**	3.2
Macrohedge contract		–
Trading	**3,961.2**	3,981.3
Other	**–**	–

Derivatives: maturity analysis

	31.12.2011			
(in billions of euros)	***<= 1 year***	***<= 5 years***	***> 5 years***	***Total***
Derivatives:				
Exchange contracts	**16.8**	**34.5**	**15.2**	**66.5**
Interest rate contracts	**1,132.5**	**1,373.1**	**1,457.4**	**3,963.0**
Others	**683.7**	**305.2**	**231.8**	**1,220.7**
Total	**1,833.0**	**1,712.8**	**1,704.4**	**5,250.2**

Risk-weighted assets

Amount of Exposure At Default (EAD) for derivatives contracts

(in millions of euros)	**31.12.2011**	31.12.2010
A – Contracts concluded under Master agreement with close-out netting	**5,129.2**	6,146.7
1. Transactions with banks from OECD countries	**5,125.6**	3,621.5
2. Transactions with customers and banks localised outside OECD countries	**3.6**	2,525.2
B – Other contracts	**633.4**	27.5
1. Transactions with banks from OECD countries	**632.8**	5.4
– interest rate contracts	**120.1**	5.4
– exchange contracts	**512.8**	–
– equity derivatives contracts	**–**	–
– commodities contracts	**–**	–
2. Transactions with customers and banks localised outside OECD countries	**0.6**	22.1
– interest rate contracts	**–**	13.8
– exchange contracts	**0.6**	8.3
– equity derivatives contracts	**–**	–
Total Exposure At Default	**5,762.6**	6,174.2
Corresponding risk-weighted assets (RWA)	***1,701.7***	*1,999.1*

23 Net interest income

(in millions of euros)	**31.12.2011**	31.12.2010
Interest and similar income		
Banks and financial institutions	**648.1**	472.1
Customers	**1,438.8**	1,212.4
Bonds and other fixed-income securities	**254.0**	187.3
Total	**2,340.9**	1,871.8
Interest and similar expenses		
Banks and financial institutions	**509.6**	335.2
Customers	**626.0**	388.5
Subordinated liabilities	**3.1**	3.0
Other bonds and fixed-income securities	**466.9**	415.4
Total	**1,605.6**	1,142.1

24 Fixed-income securities

(in millions of euros)	**31.12.2011**	31.12.2010
Income		
Available-for-sale and similar & portfolio activity securities	**–**	–
Interests in subsidiaries and associates and other long-term securities	**38.7**	16.0
Interests in group companies	**149.9**	198.9
Total	**188.6**	214.9

25 Breakdown of fees

Breakdown of fees recorded as such in the published income statement

(in millions of euros)	**31.12.2011**	31.12.2010
Fees		
Income	**808.1**	750.0
On transactions with banks	**5.9**	5.9
On transactions with customers	**123.0**	124.6
On foreign exchange transactions	**2.8**	2.5
On primary securities market activities	**65.2**	71.3
On provision of services for third parties	**472.5**	421.2
On commitments	**99.9**	81.6
Other commission	**38.8**	42.9
Expenses	**(201.2)**	(199.6)
On transactions with banks	**(9.0)**	(11.4)
On corporate actions	**(24.8)**	(28.7)
On forward financial instrument activities	**(12.0)**	(18.6)
On provision of services for third parties	**(147.1)**	(133.0)
On commitments	**(0.4)**	(1.0)
Other commission	**(7.9)**	(6.9)
Total fees	**606.9**	550.4

Parent company financial statements (continued)

26 Gains and losses on portfolio business transactions

(in millions of euros)	**31.12.2011**	31.12.2010
Gains or losses		
– trading securities	**301.8**	694.1
– foreign exchange transactions	**9.8**	33.8
– forward financial instruments	**(302.6)**	(217.4)
Total	**9.0**	510.5

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	**19.5**	15.7
Impairment	**(86.8)**	26.5
Results for portfolio activity securities		
Gains or losses	**–**	(1.2)
Impairment	**(0.1)**	1.2
Total	**(67.4)**	42.2

28 General operating expenses

(in millions of euros)	**31.12.2011**	31.12.2010
Employee compensation and benefits		
Salaries and wages, social security, taxes and levies on compensation[1]	**(797.9)**	(787.4)
Pension expense	**(96.9)**	(92.7)
Profit sharing	**2.5**	(20.3)
Incentive plan	**2.3**	(12.3)
Compensation expense subtotal	**(890)**	(912.7)
Other administrative expenses	**(531.2)**	(506.3)
Total operating expenses	**(1,421.2)**	(1,419.0)

1 *Including EUR 15.7 million for Executive Committee compensation and EUR 0.4 million in attendance allowances paid to Directors for 2011 and EUR 16.4 million for Executive Committee compensation and EUR 0.3 million in attendance allowances paid to Directors for 2010.*

2009 share award plan

Allowance for this plan was totally released for a total amount of EUR 38.8 million against shares attribution for EUR 38.6 million.

The final net charge for HSBC France (based on covering price of shares bought by the Trust) is accounted on a linear basis on the employees' grant acquisition period. It stood at EUR 1.6 million in 2011.

2010 and 2011 share award plans

The final charge for HSBC France is not yet known as the attributed shares weren't bought by the Trust. The allowance defined is hence accounted on a linear basis on the employees' grant acquisition period based on quoted price as at 31 December 2011.

At 31 December 2011, allowance stood at EUR 34.3 million for the 2010 plan and at EUR 8.1 million on the 2011 plan.

2012 share award plan (in respect with the 2011 performance)

The final charge for HSBC France is not yet known as the attributed shares weren't bought by the Trust. The allowance defined is hence accounted on a linear basis on the employees' grant acquisition period based on quoted price as at 31 December 2011.

At 31 December 2011, allowance stood at EUR 3.2 million.

29 Gains or losses on disposals of fixed assets

(in millions of euros)	**31.12.2011**	31.12.2010
Gains or losses on held-to-maturity securities	**–**	–
Gains or losses on tangible and intangible fixed assets[1]	**(1.3)**	236.9
Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies[2]	**(35.2)**	16.2
Total	**(36.5)**	253.1

1 *Non significant items 2011.*
In 2010, gains on disposal of 103 Champs-Elysées and 15 rue Vernet for EUR 236.7 million.
2 *In 2011, mainly impairment on HSBC Private Wealth Managers for EUR 38.1 million.*

Parent company financial statements (continued)

30 Corporate income tax

(in millions of euros)	31.12.2011	31.12.2010
Current tax		
At standard rate	**66.8**	11.9
At reduced rate	**–**	54.2
Deferred taxation	**81.2**	(12.1)
Total	**148.0**	54.0

Note: Deferred tax is calculated according to the principles set out in Note 1 k.

The rates used for calculating taxes are:

(in %)	Payable 2012	Payable 2011	Payable 2010
Standard rate	**36.10**	**36.10**	34.43
Reduced rate (LT gains rate)	**3.44**	**3.44**	1.72
Reduced rate (gains on disposal of property to SIIC)	**19.00**	**19.00**	19.00
	34.43	**34.43**	34.43

The tax group incurred a loss in 2011. A deferred tax asset for the carryforward of unused tax losses was recognised as it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The deferred tax asset amount to EUR 88.9 million.

Moreover, France's tax rate increased, in 2011, from 34.43 per cent to 36.10 per cent for all companies which have a turnover for more than EUR 250 million. Nevertheless, this additional tax is temporary and will impact only 2011 and 2012's results.

Tax group

Since 2001, the lead company of the tax group has been HSBC Bank plc Paris branch.

In 2011, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 60.4 million. The proportion of benefits passed on to HSBC France rose to EUR 60.4 million.

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.

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 2011 was EUR 206 million compared with EUR 124.9 million at 31 December 2010.

At 31 December 2011 this receivable is made up of deferred tax assets of EUR 220 million against EUR 134.1 million at 31 December 2010 and a deferred tax liability of EUR 14 million compared with EUR 9.2 million at 31 December 2010.

31 Litigation

As at 31 December 2011, 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.

Statutory Auditors' report on the company financial statements

This is a free translation into English of the statutory auditors' 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 2011

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 2011, on:

– the audit of the accompanying annual financial statements of HSBC France;

– 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 2011 and of the results of its operations for the year then ended in accordance with French accounting principles.

II - Justification of our assessments

The accounting estimates used in the preparation of the financial statements for the year ended 31 December 2011 were made in an uncertain environment marked by an economic and liquidity crisis, which makes it difficult to assess the economic outlook. It is in this context that, 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 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 2011, 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 and Paris, on 20 April 2012

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

BDO France – Léger & Associés
Michel Léger
Partner

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

HSBC France group's main subsidiaries at 31 December 2011

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 SFH (France) (100%) (formerly HSBC Covered Bonds (France)) Société Financière et Mobilière (100%) HSBC Leasing (France) (100%) HSBC Leasing (Belgium) (100%) CCF Charterhouse GmbH (100%)
Markets	Financière d'Uzès (34%)

Asset Management

France	HSBC Global Asset Management (France) (100%) HSBC Global Asset Management Financial Services (100%) (formerly Sinopia Financial Services) HSBC Epargne Entreprise (France) (100%) HSBC Private Wealth Managers (99.9%) HSBC REIM (France) (100%)
Outside France	HSBC Global Asset Management (Switzerland) (50%)

Subsidiaries & equity investments

France	Valeurs Mobilières Elysées (100%) (formerly Nobel) Société Française 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.*

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

Distribution
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
HSBC Factoring (France)	**1,115,984**	808,554	**20,086**	14,378	**5,708**	2,367	**100.0**	100.0

HSBC Factoring (France) saw growth of 54% in 2011, with gross turnover of EUR 5.7 billion, corresponding to the amount of factored receivables. Net operating income rose by 33% to EUR 23.5 million and the pre-tax contribution to group profit came to EUR 8.7 million. HSBC Factoring (France) benefited, in particular, from the following growth drivers in 2011:
- market share of 3.1% at end-2011. At end-September, HSBC Factoring already controlled 3.1% of the factoring market in France;
- strengthening international activity (import and export), cross-border revenue generated within the Group and coordination;
- obtaining ISO 9001 certification in 2012;
- implementing the SEPA project (migration), which became effective in August 2011;
- preparing for the new Exposure At Default (EAD) model;
- continuing work on optimising Return on Risk Weighted Assets (RoRWA);
- improving profitability, with a target of reducing the cost efficiency ratio.

At 31 December 2011, the cost efficiency ratio amounted to 59% compared with 69% in 2010.

Global Banking and Markets
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
HSBC Leasing (France)	**1,899,309**	1,976,318	**200,405**	213,578	**(13,172)**	(43,679)	**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.
During 2011, subsidiaries of HSBC Leasing (France) financed 6 new passenger aircraft for Asian and Middle-Eastern customers.
The equity interests in 2011 totalling EUR 1.78 billion, on a par with 2010.

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
HSBC Real Estate Leasing (France)	**1,015,540**	1,118,661	**65,858**	60,177	**5,681**	4,548	**100.0**	100.0

In 2011, the gross lending of this real estate leasing specialist subsidiary amounts to EUR 120 million. This gross lending, the control of cost of risk and the operating expenses reduction, allow a significant increase in net profit.

Asset Management
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
HSBC Global Asset Management (France)	**186,664**	137,116	**108,848**	81,088	**66,128**	19,683	**100.0**	100.0

In 2011, the legal entities comprising the Asset Management business were reorganised in line with the strategy defined for the global business line in May 2010, aiming to leverage the HSBC brand. HSBC Global Asset Management (France), Halbis Capital Management (France) and Sinopia Asset Management were merged on 30 June, effective retroactively from 1 January 2011. Prior to the merger, Sinopia - Société de Gestion had been merged into Sinopia Asset Management. In addition, the subsidiaries Sinopia Asset Management (UK) Ltd and Sinopia Asset Management (Asia-Pacific) Ltd were sold respectively to HSBC Global Asset Management (UK) and HSBC Global Asset Management (Hong Kong). Lastly, HSBC Global Asset Management (France) took over the role of distributing products for HSBC Private Wealth Managers, which became part of Global Asset Management on 1 November 2011. This reorganisation was the main reason for the strong growth in statutory net profit compared with the previous year. On a like-for-like basis excluding the reorganisation, profit before tax was broadly stable, reflecting a highly contrasting year. Business in the first half was buoyant whilst the eurozone crisis put a strong brake on assets under management and therefore revenues as of the month of August. Assets managed and distributed amounted to EUR 69 billion compared with EUR 78 billion at end-2010, a decrease of 11%. The decrease was due to net outflows of EUR 12.5 billion and a negative value effect of EUR 2.5 billion, which was partially offset by assets transferred in under the mergers, amounting to EUR 6 billion.
In the institutional customer segment, money market funds accounted for most of the net outflows (EUR 7.9 billion) whilst fixed-income funds continued to grow, especially credit, high yield and emerging debt funds. In the retail customer segment, wealth management through the Retail Banking and Wealth Management network made a positive contribution to growth, whilst the external distribution networks proved more restrained, mainly because of a reduction in exposure to the emerging markets, an area in which HSBC is a world leader. All retail customer segments, both in terms of distribution networks (Retail Banking and Wealth Management, Private Banking, Commercial Banking and external distribution networks) and geographical areas (France, Benelux, Southern and Northern Europe), continued to make sustained efforts.
In 2011, 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.

* *Before net profit appropriation.*

Asset Management (continued)
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
HSBC Epargne Entreprise (France)	**75,623**	84,432	**43,005**	47,316	**689**	(141)	**100.0**	100.0
	HSBC Epargne Entreprise (France), 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 800,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totalling EUR 3.6 billion at 31 December 2011. At 30 June 2011, assets under management stood at EUR 3.9 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)	**13,474**	15,865	**7,094**	7,120	**3,824**	4,506	**100.0**	100.0
	HSBC REIM (France) is the Asset Management subsidiary specialising in real estate management for third parties. At 31 December 2011, the market value of assets under management was EUR 1.2 billion. The main fund managed, Elysées Pierre, with 129 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. Net profit of HSBC REIM (France), although 15% down on an exceptionally good 2010, grew by 76% compared with 2009. 57% of its net operating income of EUR 12.2 million came from commission income for property management services and 43% from commission income within the framework of the capital increases of its non-trading property companies (SCPI).							

Own investments
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
Société Française et Suisse	**10,470**	19,149	**10,445**	9,576	**868**	(72)	**100.0**	100.0
	SFS's 2011 results have significantly increased compared with 2010. This is mainly explained by the two following events which had a favourable impact on SFS's accounts: – the sale of the entire line of Swiss Life Holding shares, which generated a total profit after tax of EUR 632 thousand; – the complete transfer of the assets and liabilities of its wholly-owned subsidiary S.G.E.F.F.							
Valeurs Mobilières Elysées (Formerly Nobel)	**205,895**	239,172	**183,055**	205,790	**23,285**	24,307	**100.0**	100.0
	Valeurs Mobilières Elysées is a subsidiary in which are registered investments for own account of the HSBC Group in France. These investments include listed midcaps and private equity funds. The HSBC Group has decided in 2009 not to take new operations, therefore Valeurs Mobilières Elysées manages a portfolio gradually declining.							

Other subsidiary of the HSBC Group in France
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
HSBC Assurances Vie (France)	**18,502,829**	17,691,095	**576,468**	521,392	**40,966**	30,848	**100.0** [1]	100.0 [1]
	HSBC Assurances Vie (France)'s gross reinsurance premiums amounted to EUR 2.3 billion, up 1.9% compared with 2010. The gross technical reserves in euros rose 6.8% (EUR 14.5 billion), and those in unit-linked products fell by 14.1% (EUR 2.4 billion). Net profit totalled EUR 41 million in 2011 (up 32.8% compared to 2010).							

1 *100% held by HSBC Bank plc Paris Branch.*

* *Before net profit appropriation.*

Investment policy

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.

2011

- Acquisition by HSBC France of 5.26 per cent of Citizen Capital.
  Cost: EUR 1 million.
- Disposal by Sinopia Asset Management, a wholly-owned subsidiary of HSBC France, of 100 per cent of Sinopia Asset Management (Asia Pacific) Limited to HSBC Global Asset Management (Hong Kong) Limited.
  Proceeds: EUR 17.5 million.
- Disposal by Sinopia Asset Management, a wholly-owned subsidiary of HSBC France, of 100 per cent of Sinopia Asset Management (UK) Limited to HSBC Global Asset Management (UK) Limited.
  Proceeds: EUR 9.7 million.
- Subscription by HSBC France to capital increase made by HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG.
  Cost: EUR 145 million.
- Subscription by HSBC France to two capital increases made by HSBC Trinkaus Gesellschaft für Bankbeteiligungen oHG.
  Cost: EUR 135 million and EUR 35 million.
- Subscription by HSBC France to capital increase made by HSBC SFH (France).
  Cost: EUR 26 million.
- Capital decrease of Charterhouse Management Services Limited.
  Proceeds: GBP 15 million.

Other legal documents relating to the Annual General Meeting to be held on 15 May 2012

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 2011

No agreement subject to the provisions of Article L. 225-38 of the French Commercial Code was entered into in 2011.

Agreements entered into in prior years and still in force and effect during 2011

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 2011. 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 2011.

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 2011.

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 2011 regarding the share of the IT development expenses engaged by the HSBC Group.

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 2011.

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 2011.

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 and remained in full force and effect during 2011.

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 2011

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 theses 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 the 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.

Agreements and commitments relating to the supplementary defined benefit pension scheme for Senior Executives

The agreements, 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 2011 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 6.3 million in 2011.

– "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 2011.

– 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 15 May 2012 (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 2011.

– 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 2011.

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 2011:

– 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 2011 amounted to EUR 19.8 million;

– tax integration agreement between HSBC Bank plc Paris Branch and HSBC France. With respect to this agreement, a tax income of EUR 60.4 million has been recorded in 2011.

With HSBC Global Asset Management (France)

Agreement approved in 2009 and effective from 1 January 2011 regarding the delegation to HSBC Global Asset Management (France) 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 2011.

Paris-La Défense and Paris, on 20 April 2012

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

BDO France – Léger & Associés
Michel Léger
Partner

Proposed resolutions to the Annual General Meeting

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 2011, 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	EUR26,504,366.97
Plus retained profits	EUR2,876,979,281.99
Total sum available for distribution	EUR2,903,483,648.96

To be distributed as follows:

Dividend	EUR118,016,197.25
Retained earnings	EUR2,785,467,451.71

The dividend will be payable from 15 May 2012, after deduction of the interim dividend of EUR 1.75 per share voted by the Board of Directors at its meeting of 26 July 2011 and paid to shares issued as of that date.

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
2008	–
2009	EUR9.94
2010	EUR10.67

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 2011, 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 ratify the Board's co-optation on 22 February 2012 of Mr Antonio Simoes to replace Mr Christophe de Backer, who has resigned, for the remainder of the term of office of his predecessor, that is until the conclusion of the Annual General Meeting held to adopt the financial statements for the year ending 31 December 2011.

Sixth resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Ms Brigitte Taittinger, 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 2015.

Seventh resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Stuart Gulliver, 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 2015.

Eighth resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Antonio Simoes, 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 2015.

Ninth resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Philippe Houzé, who is retiring by rotation, as Director for a further term of four years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2015.

Other legal documents relating to the Annual General Meeting to be held on 15 May 2012 (continued)

Tenth resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders duly note that Mr Gilbert Landau, who is retiring by rotation, is not standing for re-election.

Eleventh resolution
Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby appoint KPMG Audit FS II, as Statutory Auditor for a term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2017, to replace KPMG S.A., who is retiring by rotation.

Twelfth resolution
Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby re-elect BDO France – Léger & Associés, who is retiring by rotation, as Statutory Auditor for a further term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2017.

Thirteenth resolution
Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby appoint KPMG Audit FS I, as Alternate Auditor for a term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2017, to replace Mr Gérard Gaultry, who is retiring by rotation.

Fourteenth resolution
Voting under the quorum and majority conditions required to transact ordinary business, the shareholders hereby re-elect Mr François Allain, who is retiring by rotation, as Alternate Auditor for a further term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2017.

Fifteenth resolution
Voting under the quorum and majority conditions to transact ordinary 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 and, for the Private Banking business, HSBC Private Bank since 31 October 2011.

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.

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.

Information on HSBC France and its share capital (continued)

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.

October 2011: Merger of HSBC Private Bank France 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 2011, the share capital amounted to EUR 337,189,135 divided into 67,437,827 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	4 May 2011
Expiry date	4 July 2013
Maximum nominal amount	EUR100 million
Used amount	EUR0

Information on HSBC France and its share capital (continued)

Movements in share capital

	2011			2010		
	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	**7**[3]	**35**[3]	**—**	—	—	—
At 31 December	**67,437,827**	**337,189,135**	**—**	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.*
3 *Capital increase due to the approval by the General Meeting held on 31 October 2011 of the mergers of HSBC Private Bank France with HSBC France.*

2009			2008			2007		
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
67,437,820	337,189,100	—	75,963,895	379,819,475	—	75,683,045	378,415,225	—
—	—	—	221,154	1,105,770	16,138,604.17	280,850	1,404,250	20,508,296.50
—	—	—	(8,750,000)	(43,750,000)	(834,122)	—	—	—
—	—	—	2,771[2]	13,855[2]	—	—	—	—
67,437,820	337,189,100	—	67,437,820	337,189,100	—	75,963,895	379,819,475	—

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*

Information on HSBC France and its share capital (continued)

Share options

Following the merger of HSBC Private Bank France on 31 October 2011, options over HSBC Private Bank France have been exchanged for options over shares HSBC France at a parity determined at the time of the merger.

Year	Exercise price	Options outstanding at 31.12.2011	Expiry date
2002	EUR142.84	22 645	2012

Ownership of share capital and voting rights at 31 December 2011

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

	2011	2010	2009	2008	2007
Number of shares at 31 December	**67,437,827**	67,437,820	67,437,820	67,437,820	75,963,895
Average number of shares outstanding during the year	**67,437,822**	67,437,820	67,437,820	75,020,854	75,698,434
EPS[1]	**EUR1.83**	EUR6.73	EUR5.15	EUR23.51	EUR12.88
Net dividend	**EUR1.75**	EUR10.67	EUR9.94	EUR0	EUR3.04
Exceptional dividend	**–**	–	–	–	EUR6.54
Dividend + tax credit	**–**	–	–	–	–
Payout[2]	**95.6%**	158.5%	193%	0%	74.4%

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 15 May 2012, the Board will propose a net dividend of EUR 1.75 per EUR 5 nominal share, that will be payable after deduction of the interim dividend voted by the Board on 26 July 2011 and paid to shares issued as of that date.

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

	2011[1]	2010[2]	2009[3]	2008[4]	2007
Total HSBC France group	**10,335**	10,479	10,677	11,227	14,795
HSBC France	**9,860**	9,706	9,748	10,218	8,789
Subsidiaries and branches	**475**	773	929	1,009	6,006

Full time equivalents

	2011[1]	2010[2]	2009[3]	2008[4]	2007
Total HSBC France group	**10,030**	10 121	10,350	10,886	14,279
HSBC France	**9,564**	9 365	9,435	9,892	8,486
Subsidiaries and branches	**466**	756	915	994	5,793

1 *The year 2011 was characterised by the integration of HSBC Private Bank France within HSBC France (via a legal merger).*
2 *In 2010, disposal of HSBC Securities Services (France), specialising in fund administration activities.*
3 *During 2009, most HSBC Financial Products (France) employees were integrated into HSBC Bank plc Paris Branch, which is excluded from the scope presented above.*
4 *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.*

2010/2011 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 increased in 2011

The limited increase was the result of the legal merger of HSBC Private Bank France with HSBC France, which occurred on 31 October 2011 and involved the addition of 216 employees, and a slight contraction in headcount, excluding consolidation scope effects (-62).

830 new hires were made in 2011 (excluding Group mobility), of which 494 new permanent employees and 336 contract staff, including 91 young people on internship.

903 staff left the company, with fixed-term contract terminations accounting for 38 per cent of this total, resignations 26 per cent and retirement 18 per cent.

The structure of the workforce saw a continuation of the trends observed in previous years: there was a slight increase in the proportion of management staff, while the proportion of women in managerial roles remained stable.

The proportion of management staff is now 66 per cent. Within this management staff group, the percentage of women remained stable at 48 per cent.

At 31 December 2011, 1,016 employees were working part-time under flexible working arrangements, representing just over 10 per cent of total staff.

HSBC France employed 289 staff with disabilities at the end of 2011.

Employee relations and collective bargaining agreements

– Amendment to the agreement of 15 October 2008 concerning working time and inputs to time savings accounts.

– Agreement concerning the collective status applicable to former employees of HSBC Private Bank France and to employees of HSBC Private Wealth Managers.

– Agreement on the "annual pay negotiations – 2012 financial period, HSBC France".

Employees, remuneration, share offering and incentive schemes (continued)

- Agreement concerning profit-sharing allowance.
- Agreement on diversity and fairness within HSBC France.
- Agreement relating to part-time working and reduced daily rate basis.
- Amendment no. 1 to the agreement of 29 September 2008 introducing "end-of-career leave/solidarity leave".
- Agreement on procedures for social dialogue on the company's strategy and the resultant reorganisation projects [1].

Provisions of the corporate agreement on terms of social dialogue, which aims to strengthen the means of social dialogue on reorganisation projects under the company's strategy, were implemented on the occasion of the examination of the project of the merger of HSBC France and HSBC Private Bank France and projects under the 2014 Strategic Plan.

While these projects were being examined, the work done together with the various employee representative bodies of HSBC France (Central Works Council, Works Committee, Staff Representatives and Committee on Health, Safety and Working Conditions) resulted in the holding of 591 meetings throughout 2011.

Negotiations with the representative union organisations resulted in the signing of 6 agreements and 2 amendments to existing agreements.

Pay

In 2010, the pay agreement planned the following measures:

- a minimum pay rise for employees whose annual salary is EUR 60,000 or less (with the exception of higher-category employees);
- minimum annual gross basic salary for non-executive staff increased to EUR 23,000;
- minimum annual gross basic salary for executive staff increased to EUR 33,000;
- 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 the review and possible increase of the remuneration of part-time staff,
  - for the review and possible increase of the remuneration of staff with disabilities.
  - 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 2011, as in previous years.

This training approach is modular in form, so that courses can, so far as possible, respond to employees' needs as identified in preliminary skill audits. The modular approach means a much longer training time (generally one year) allowing for a gradual build-up of skill levels.

The main activities of Retail Banking and Wealth Management and Commercial Banking, as well as certain roles at HSBC Technology and Services such as project manager and business analyst, deployed their training courses in this form, often including an accreditation approach.

1 *The agreement signed 1 March 2010, on the procedures for the social dialogue relating to the company's strategy and the resultant reorganisation projets came into force from January 2011 after verification of national representativeness of a union organisation that had signed the agreement.*

2011 also saw the deployment of a new global training system, MyLearning, for France, which thus fell into line with the rest of HSBC. The introduction of this new system was accompanied by new global processes and a new organisation. Thus, the Training Specialists, and among them the training school Heads of the HSBC Business School, training engineering and training development, have been integrated into an HR Development Department, while the training management activities have been assigned to the HR Operations Department in France for the local and regulatory part, and to the Global Service Centre in Krakow for all HSBC Business School operations.

A change management effort was made throughout 2011, to allow the new training culture to develop successfully: this treats learners as active participants in their development, with the support and guidance of their line manager.

MyLearning thus gives all employees unrestricted access to e-learning modules in their training school and allows them to sign up for face-to-face training, subject to management approval.

Training invitations to employees are now targeted on regulatory training modules, training courses, induction and priority training actions developed at the request of the business line.

These developments form part of the ongoing commitment to online training (e-learning) which is already deeply rooted in all parts of the business: English-language courses for employees in all business lines, enriched by training involving the use of English in the work place and the development of tailor-made courses, banking applications for Retail Banking and Wealth Management and Commercial Banking and new joiners, regulatory and risk training for everybody, and ongoing Wealth Management training for branch customer advisers. 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 France 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. E-learning is thus often an essential pre-requisite for participation in face-to-face training.

Managers' progress up the leadership ladder is always supported by transition training for each stage: from operative or expert to team leader, and from team leader to senior manager, for example. This training is 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 dependable) to managerial practice and in the acquisition of leadership skills to be deployed at all levels of the company, following a responsible leadership model.

In 2011, a vast management training programme for the 1,500 managers, in place in all business lines and at all levels of the company, was designed and launched at the request of Senior Management. This training course of four and a half days, punctuated by returns to the office for practical application, is intended to improve managers' awareness of the fact that they are central to relations with their colleagues and that their day-to-day behaviour must be based on the HSBC values, "open, connected and dependable". At the end of the training, managers will be able to deliver the expected behaviour at key stages in the managerial relationship, recruitment and mobility, identification of talent, performance and development management. They will also be able to inspire their colleagues by their communication, manage with boldness and integrity and develop their leadership skills.

This extensive training effort has laid the first stone for progress in the years 2012 to 2014.

Overtime, temporary staff and sub-contracting

The total number of overtime hours declared by employees in 2011 was higher than in 2010 (+15 per cent), while total headcount increased slightly (+2 per cent) in 2011 compared with 2010. Time worked outside normal hours increased, mainly because of an increase in the number of hours worked under the Exceptional Working Time Agreement (+12 per cent), particularly in Investment Banking, compared with 2010.

IT developments in 2011 by the HSBC Group's Global Technology units in Asia were not as extensive as in 2010, but recourse to IT sub-contracting in France increased slightly during the year. The transfer of tasks previously performed by the back offices to HSBC's Group Services Centres continued in 2011.

Employees, remuneration, share offering and incentive schemes (continued)

Telecommuting

Since the end of 2010, HSBC France has set up a telecommuting system enabling employees to perform some of the tasks normally carried out on the company's premises within their own homes.

The system is based on alternating 1 to a maximum of 3 telecommuting days per week, with at least two consecutive days of office-based work.

By 31 December 2011, 361 employees had adopted this arrangement, mainly in the support functions.

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 2011, 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.

Medical Observatory of Stress

Since 2004, HSBC France has offered its employees, in the Paris region, the chance to complete the Medical Observatory of Stress questionnaire during their periodic medical check-ups. This was extended to employees in the regions in 2010.

Data from the questionnaire is processed by independent occupational risk prevention experts (IPRP) according to scientific methods.

The results for 2010 show a slight reduction in average stress levels within the company. They highlight groups that report a less favourable psychological experience, notably women, employees aged 50-59 years, those with more than 20 years' service in their job, persons having to commute for more than 120 minutes per day, technicians and employees of the Retail network.

These surveys have enabled the HSBC France group to establish the facts and implement action plans aimed at strengthening awareness of stress factors, and reducing stress through targeted actions mainly aimed at work load, work organisation, ergonomics of workstations, specific support during organisational changes, and tailored training courses that reflect changes in the business activities.

Absenteeism

Maternity leave taken, in 2011, was slightly lower than in 2010, after recruitment in recent years resulted in a higher proportion of women and younger staff. Absences caused by sickness remain at comparable levels to those of the previous year.

Organisation of working time

In application of the working time agreement signed in October 2008, employees' annual working time amounts to 1,592 hours, not counting the solidarity day.

For employees whose working time is calculated in hours, working time is based on:

- either a 38-hour working week, *i.e.* 7 hours 36 minutes per day, for working time based on a five-day week;

  In 2011, the right to reduced working time (RTT) was 17.5 days for a week from Monday to Friday, and 21.5 days for a week from Tuesday to Saturday;

- or a 37-hour working week, *i.e.* 7 hours 24 minutes per day, for working time based on a 4.5-day week.

  In 2011, the right to reduced working time was 12 and 15 days as per the distinction made above.

Executive employees subject to a working time allowance calculated in days per year are managers whose positions imply a significant degree of autonomy in the organisation of their working time and whose main task is to manage and direct a team and/or to provide a high level of expertise in their business line.

The rights to RTT rest days of employees subject to a working time allowance calculated in days per year vary according to their work rate per week, as do those of Senior Management.

Company welfare schemes

The consolidated amount of payments to establishment-level work councils (*Comités d'Etablissements*) and the central work council (*Comité Central d'Entreprise*), based on a percentage of total wage costs, is EUR 3.9 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 9.7 million to additional employee benefits (housing, compensation for children starting a new school year, travel, childcare, parental allowance, loyalty and long-service awards).

Employee share capital issue for the employees of the HSBC France group ("the group")

In 2011, 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 4 May and 26 May 2011;

– subscription price in euros: the subscription price was based on the average HSBC Holdings plc share price during the twenty London Stock Exchange trading sessions preceding 31 March 2011, 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 5.9310;

– 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 3,269,545 HSBC Holdings plc shares, amounting to EUR 19.4 million.

Employees, remuneration, share offering and incentive schemes (continued)

Collective incentive schemes

A three-year employee profit-sharing agreement and collective 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.

Collective incentive scheme

The HSBC France collective 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.

Agreement concerning profit-sharing allowance

A profit-sharing allowance agreement was signed on 26 October 2011 for HSBC France, in accordance with Financing Law no. 2011-894 of 28 July 2011 adjusting social security for 2011. The agreement was concluded for a fixed period up until 31 December 2011.

The profit-sharing allowance was fixed at EUR 450 gross per beneficiary. This individual amount was paid uniformly for full-time employees and part-time employees. The amount was based on an employee being present throughout 2010. The actual individual amount was prorated according to how long each employee was present during 2010.

The profit-sharing allowance was paid together with the salary for the month of November 2011.

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 a year;
- making a total contribution from the company of up to EUR 2,424 a year.

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 from 2001 to 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 rules) which complies with the legal and tax regulations applicable in France.

This regulation was revised in 2011 firstly, to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the "Group Performance Share Plan" which aim the Senior Executives. In this context, the French sub-plan (schedule 5 of the new rules) has also been subject of a review to comply with local social and tax rules.

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 from now two categories of shares:

- "Group Performance Shares" awarded under specific conditions detailed below:
  - a five-year vesting period;
  - a period of unavailability, beyond the vesting period, which runs until retirement;
  - a performance condition measured through the eight indicators (four financial and four non-financial) identified in the "Performance Scorecard" of the manager concerned.
- "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.

HSBC France options

Following the merger of HSBC Private Bank France on 31 October 2011, options relating to shares in HSBC Private Bank France were exchanged for options for shares in HSBC France according to the ratio set for the merger.

The number of options outstanding at the time of the merger was adjusted. In addition, the liquidity contract granted to beneficiaries of HSBC Private Bank France options was maintained and adjusted according to the ratio set for the merger. The other terms of the liquidity contract remained unchanged.

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 2011 in respect of 2010

– Shares with 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	23.06.2011	8,448	EUR56,000	15.03.2016 for 100%	Retirement

– 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 for 100%	15.09.2011 for 100%
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%

HSBC Holdings plc shares awarded in 2012 in respect of 2011

In respect of 2011, no HSBC France Executive Director, except Stuart Gulliver but who does not receive any remuneration from HSBC France, has been awarded shares with performance conditions.

– 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[1]	12.03.2012	–	–	N/A	N/A
J Beunardeau	12.03.2012	73,457	EUR487,463	12.03.2014 for 66% and 12.03.2015 for 34%	12.03.2016 for 66% and 12.03.2017 for 34%
J Beunardeau	12.03.2012	48,972	EUR324,976	12.03.2012 for 100%	12.09.2012 for 100%
G Denoyel	12.03.2012	64,919	EUR430,800	12.03.2014 for 66% and 12.03.2015 for 34%	12.03.2016 for 66% and 12.03.2017 for 34%
Total value of the 10 highest awards of shares (employees or former employees)	12.03.2012	439,638	EUR2,917,437	12.03.2014 for 66% and 12.03.2015 for 34%	12.03.2016 for 66% and 12.03.2017 for 34%

1 *Resignation on 10 January 2012.*

Information on options exercised and shares which became available in 2011

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)	79,983	6.02	02.05.2003	01.05.2013

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 in 2011 in case of "Group Performance Shares" and those awarded in 2007 became available on 5 March 2011.

– 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			
C de Backer	21.03.2006	41,937	
C de Backer	05.03.2007	77,985	
J Beunardeau	21.03.2006	38,442	
J Beunardeau	05.03.2007	82,413	
G Denoyel	21.03.2006	13,979	
G. Denoyel	05.03.2007	35,373	
Total value of the 10 highest awards of shares (employees or former employees)	21.03.2006	362,917	
Total value of the 10 highest awards of shares (employees or former employees)	05.03.2007	453,024	

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).*

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 commitees – 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 risks 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*.

Employees, remuneration, share offering and incentive schemes (continued)

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 committees. 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 summary 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 performance of employees.

The overall performance of the company is analysed by business lines and activities and measured by financial metrics, such as a comparison of revenue and cost trends, the cost efficiency ratio, pre-tax profit and 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 the determination of 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 is subject to specific rules on deferment of compensation, and on structuring variable compensation between cash and shares.

As permitted under French regulations, HSBC France has opted to implement the HSBC Group's policy in these areas. This has resulted in the identification, at a global level, of a target population which is subject to the rules set out in the Financial Services Authority's Remuneration Code, which closely resemble French rules.

This target population at the level of the HSBC Group ("code staff") includes HSBC Group top management as well as any HSBC Group employee whose function may have a significant impact on the bank's risk profile, *i.e.* "Group Executive Directors", "Group Managing Directors", "Group General Managers", "Significant Influence Functions (SIFs)" and "risk holders" (mainly members of Group and Regional executive committees of the Global Banking and Markets activities), *i.e.* around 300 employees.

In France, a list of 8 employees has been identified by the HSBC Group as belonging to this target population.

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, it was decided that 53 additional employees, who do not belong to the target population defined at HSBC Group level but who nevertheless play a significant role within HSBC France, would be subject to a large part of the rules applicable to the target population, in accordance with the principle of proportionality provided for in the regulations.

This additional population ("reinforced-rule population"), which is identified locally, includes financial market professionals considered to be risks takers, the Heads of the Finance Function and the Risk Functions, the Executive Directors of HSBC France and the Heads of HSBC France's various business lines.

It must to be noted that out of these 53 employees, 18 are employees of the French branch of HSBC Bank plc.

This second category of "reinforced-rule population" is submitted to rules noticeably more restrictive than the rest of the other employees who are subject to deferral rules (higher deferred proportion, from 40 to 60 per cent, in most cases).

For these two categories of employee (*i.e.* a total of 61 employees), 46 per cent of variable remuneration is deferred, and variable remuneration represents 58 per cent of total remuneration (fixed + variable). 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 these two employee categories, the great majority of the business' senior managers are affected by the minimum deferred compensation rules laid down by the HSBC Group which, for 2011, provide for deferred compensation in the form of shares of between 10 per cent and 50 per cent of variable compensation, and to which the above rules on vesting and retention apply.

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.

Employees, remuneration, share offering and incentive schemes (continued)

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
The tables show the remuneration of professionals that have a significant impact on risk as at 31 December 2011.

Distribution between the fixed and variable portion

	Number of people concerned	Total 2011 compensation (in EUR)	Total fixed compensation (in EUR)	Total variable compensation (in EUR)
Executive members	3	3,692,878	1,350,000	2,342,878
Professionals having a significant impact on risks	58	26,365,924	12,059,008	14,306,916

Distribution between vested, paid or delivered amount and conditional deferred amount

(in euros)	Vested, paid or delivered amount	conditional deferred amount
Executive members	937,151	1,405,727
Professionals having a significant impact on risks	8,287,657	6,019,259

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	1,099,639	1,243,239
Professionals having a significant impact on risks	8,460,095	5,846,821

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	1,405,727	5,435,018
Professionals having a significant impact on risks	6,019,259	47,538,051

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	2,837,970	–
Professionals having a significant impact on risks	9,079,282	–

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	–	–	–	–

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 2011, the date of the last audited and published financial statements.

Main post-balance sheet events

Appointments and changes to Executive Management of HSBC France
(extract of press release dated 10 January 2012)
Jean Beunardeau, Deputy CEO and Deputy to the CEO since February 2010, has been appointed CEO of HSBC France. He keeps in parallel his role as Head of Global Banking and Markets France.

Christophe de Backer, CEO of HSBC France, leaves the Group after 21 years.

Gilles Denoyel will remain Deputy CEO of HSBC France and has been appointed Deputy to the CEO. He retains in parallel his position as Risk Chief Officer and responsible for relations with regulators.

The appointments will be effective as of 10 January 2012.

Outlook

There has been no significant deterioration affecting the issuer's or its subsidiaries' outlook since 31 December 2011, the date of the last audited and published financial statements.

HSBC France's clearly defined strategy, which is consistent with that of the HSBC Group, was the subject of a presentation on 5 July 2011. The strategy has the following objectives:

– in Commercial Banking, to become the key banking partner for companies operating internationally;
– in Global Banking and Markets, to be the leading international bank for HSBC France clients and the HSBC Group's platform for eurozone equity derivatives and fixed-income activities;
– in Retail Banking and Wealth Management, to become the key banking partner for wealth management customers;
– in Private Banking, to build on an international range of investment products in order to achieve faster development.

HSBC France's growth model aims to balance the contribution of each business line and maintain a solid balance sheet.

Persons responsible for the Registration Document and for auditing the financial statements

Person responsible for the Registration Document

Mr Jean Beunardeau, 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 on the parent company financial statements and on the consolidated financial statements found on pages 213 to 214 and on pages 170 to 171, and respectively on pages 210 to 211 and 167 to 168 of the Registration Document 2010 filed with the AMF under the reference number D11-0365. The Statutory Auditors' report on the 2010 parent company financial statements, on page 210 of the Registration Document 2010, contains a remark.

Paris, 24 April 2012

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

	Date first appointed	Date re-appointed	Date term ends
Incumbents			
KPMG [1] Represented by Pascal Brouard [2] 1, cours Valmy 92923 Paris-La Défense Cedex	2001	2006	2012 [4]
BDO France – Léger & Associés [3] Represented by Michel Léger 113, rue de l'Université 75007 Paris	2007	–	2012 [5]
Alternates			
Gérard Gaultry [1] 1, cours Valmy 92923 Paris-La Défense Cedex	2001	2006	2012 [4]
François Allain [1] 2, rue Hélène-Boucher 78286 Guyancourt Cedex	2007	–	2012 [5]

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.*
4 *It will be proposed to the Annual General Meeting to be held on 15 May 2012 to appoint KPMG Audit FS II and KPMG Audit FS I to respectively replace KPMG and Mr Gérard Gaultry, for a term of six years.*
5 *The renewal of the Incumbent and Alternate Auditors for the further term of six years will be proposed to the Annual General Meeting to be held on 15 May 2012.*

Auditors' fees paid in 2011 within the HSBC France group are available in Note 38 to the consolidated financial statements on page 169.

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”.

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 2010 and the Statutory Auditors' report on the financial consolidated statements, presented on pages 84 to 166 and 167 to 168 of the Registration Document 2010 filed with the AMF on 26 April 2011 under reference number D11-0365; and

– the parent company financial statements for the year ended 31 December 2010 and the Statutory Auditors' report on the parent company financial statements, presented on pages 169 to 209 and 210 to 211 of the Registration Document 2010 filed with the AMF on 26 April 2011 under reference number D11-0365.

This Registration Document includes the annual financial report:

– Parent company financial statements	pages 172 to 212
– Consolidated financial statements	pages 83 to 169
– Management report	pages 2 to 7
– Statement by person responsible	page 245
– Statutory Auditors' report	pages 170 to 171 and pages 213 to 214

These documents are available on the website www.hsbc.fr and on the AMF's website www.amf-france.org.

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HSBC GROUP INTERNATIONAL NETWORK*

Around 7,200 offices in 85 countries and territories:

EUROPE	OFFICES
Armenia	7
Austria	1
Belgium	2
Channel Islands	31
Czech Republic	2
France	409
Germany	14
Greece	21
Ireland	7
Isle of Man	3
Italy	2
Kazakhstan	10
Luxembourg	6
Malta	43
Monaco	3
Netherlands	1
Poland	8
Russia	3
Slovakia	2
Spain	4
Sweden	2
Switzerland	17
Turkey	333
United Kingdom	1,276

ASIA-PACIFIC	OFFICES
Australia	35
Bangladesh	13
Brunei Darussalam	11
China	185
Cook Islands	1
Hong Kong SAR	261
India	113
Indonesia	144
Japan	10
Korea, Republic of	14
Macau SAR	7
Malaysia	65
Maldives	1
New Zealand	11
Pakistan	11
Philippines	21
Singapore	22
Sri Lanka	17
Taiwan	52
Thailand	2
Vietnam	20

AMERICAS	
Argentina	186
Bahamas	4
Bermuda	11
Brazil	1,344
British Virgin Islands	2
Canada	241
Cayman Islands	8
Chile	8
Colombia	23
Costa Rica	33
El Salvador	84
Guatemala	1
Honduras	75
Mexico	1,071
Nicaragua	1
Panama	69
Paraguay	7
Peru	24
United States of America	481
Uruguay	15
Venezuela	1

MIDDLE EAST AND AFRICA	
Algeria	2
Angola	1
Bahrain	6
Egypt	86
Iraq	11
Israel	1
Jordan	4
Kenya	1
Kuwait	1
Lebanon	5
Libya	1
Mauritius	12
Nigeria	1
Oman	5
Palestinian Autonomous Area	1
Qatar	3
Saudi Arabia	83
South Africa	5
United Arab Emirates	20

* *At 27 February 2012.*
Associated companies are included in the network of offices.

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