HSBC France

Registration document and annual financial report 2016

HSBC

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Registration document and annual financial report 2016

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Report of the Board of Directors to the Annual General Meeting

HSBC France is part of HSBC Group, one of the largest and strongest banking groups in the world whose ambition is to become the leading international bank. In France, HSBC seeks to partner French corporates in respect of their international development and of retail clients for their wealth management needs.

Mission of HSBC Group

Main strategic development pillars

The HSBC Group has been developing a universal banking model which enables the bank to offer the full range of banking products and services to the full spectrum of clients, from individuals to multinational corporations, which want to benefit from the Group's international footprint and financial strength.

The HSBC's strategy is to maintain an international network to connect faster-growing and developed markets. This strategy is built around long-term trends and reflects the Group's distinctive advantages.

Long-term trends

HSBC Group's strategy is aligned with long term trends:

– increasing global connectivity: the international flow of goods, services and finance continues to expand, supported by the growing significance of technology and data in personal and commercial exchanges. We expect international flows to increase three-fold between 2012 and 2025 to USD 85 trillion;

– shifting economic powers: of the world's top 30 economies, we expect 18 to be in Asia, South America, Middle-East and Africa and to increase in size four-fold by 2050;

– development of the middle class in the world's fast growing economies: the size of the middle class is expected to grow by 3 billion individuals, from 1.8 billion in 2010 to 5 billion in 2030, of which 66 per cent in Asia;

– ageing populations: the world's population aged 60 and above will more than double from less than 1 billion in 2015 to more than 2 billion by 2050.

HSBC's business model is built around an international network that allows it to connect and serve a consistent portfolio of countries aligned with these opportunities.

Distinctive advantages

In this environment, HSBC's competitive advantages come from:

– unrivalled global presence: HSBC's network provides access to almost 90 per cent of global trade and capital flows. We enable clients to participate in the most attractive global growth opportunities and offer leading product capabilities to support global economic flows;

– universal banking model: we serve the full range of banking customers through four global businesses, from individual savers to large multinational corporations. This universal banking model enables HSBC to effectively meet its clients' diverse financial needs and generate attractive returns for shareholders.

Strategic priorities for HSBC Group

The Group has set out a plan of 10 strategic actions to be mostly completed by end 2017. HSBC France implements, in France, the HSBC Group's strategy with the objectives to:

– re-size and simplify the Group;

– redeploy capital and invest in strategic businesses and markets;

– implement Global Standards.

Together, these initiatives aim at creating value for the Group's clients and shareholders and contribute to its sustainable development.

Re-size and simplify the Group

Through its strategic plan, the Group is undertaking a re-alignment of its portfolio of activities. Beyond the sale of its business in Brazil, the Group intends to reduce significantly its Risk Weighted Assets (RWA), notably in Global Banking and Markets, that will represent less than a third of Group's RWA. Likewise, the Group has defined cost saving initiatives through primarily the simplification of processes and procedures, with a target of USD 4.5-5.0 billion of annual savings over 2017, with a non-recurring investment of USD 4.0-4.5 billion to achieve this goal.

Redeploy capital and invest

HSBC will accelerate its investments to guarantee the sustainable development of its activities. HSBC targets a growth rate above the global GDP through its international network, continuing to invest in international products and services, such as Global Trade and Receivable Finance, Global Liquidity and Cash Management, Rates and Foreign Exchange. HSBC will also leverage its leading position in the internationalisation of the Renminbi.

HSBC will also invest in fast growing economies, notably in Asia where the Group has set an ambitious growth plan that will foster connectivity between the region and the rest of the world.

Implement Global Standards

In terms of Financial Crime Compliance, HSBC is actively deploying best-in class controls across the organisation in every market HSBC is operating, through its Global Standards programme.

Global Standards will provide the highest standards to support commercial activities, today and in the future and will provide a distinctive competitive advantage. HSBC's ambition is to complete their implementation in 2017.

A strategy implemented in France

HSBC is focusing on 18 priority markets, including France, where the Group has been developing the full range of businesses and established global platforms for some Global Markets capabilities.

The strategy of HSBC France is to serve its clients through its universal model and to develop its businesses leveraging the Group's international network, while accelerating the implementation of Global Standards and the transformation of the bank to improve its efficiency and profitability.

Key initiatives are:

– continue to focus on mass affluent individuals and invest in digital in Retail Banking and Wealth Management;

– leverage the Group's strengths, notably its international connectivity to grow revenue in Commercial Banking;

– reinforce its positioning in Global Banking and Markets in Paris as a strategic platform for the Group;

– foster referrals across business lines;

– modernise its IT systems to gain efficiency and improve the quality of client service.

Initiatives to support this strategy in France

Throughout 2016 HSBC France has developed its offering of products and services with a view to improve the customer experience and introduce an omni-channel banking approach. The attention paid to the development of this relationship resulted in the introduction of new functions for smartphones: from April 2016, HSBC France's personal customers were the first in France to have access to their bank accounts and management functions using Touch ID biometric technology, followed in October 2016 by a budget management and bank account aggregation function (the Personal Economy app). More generally, in 2016 the digitalisation of Retail Banking and Wealth Management allowed the initiation of a relationship in a completely virtual way, the development of online applications for mortgages and personal loans and the option of making advised investments on line. Alongside this, in 2016 HSBC France opened a direct branch for corporate customers looking for simple, digital solutions.

2016 also saw the launch of an IT infrastructure modernisation programme at HSBC France. This 3-year plan will allow the optimisation and simplification of systems and procedures, thus making transactions within the bank easier, with a particular focus on continued improvements in the customer experience through shorter processing times and improved service quality.

Products and services

The HSBC Group is organised around four Global Business Lines: Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB), Global Banking and Markets (GB&M) and Global Private Banking (GPB).

HSBC's global businesses set globally consistent business strategies and operating models. They manage the products and business propositions offered to customers.

Retail Banking and Wealth Management (RBWM)
RBWM comprises four main business areas: Retail Banking, Wealth Management, Asset Management and Insurance. RBWM provides products and services to individuals across the world to manage their finances, save and invest for their future. RBWM offers solutions

from day-to-day transaction banking, including short and long term financing to insurance and investment products, advising clients to help them manage and protect their financial wealth.

HSBC France has the ambition to become the leading bank for wealth management. With a significant presence in all major cities as well as improved digital solutions, HSBC France can rely on expert teams, specialised by client segment and on dedicated propositions to meet HSBC client's specific needs. HSBC France is undertaking initiatives to:

- extend the range of solutions and advisory in discretionary mandates, brokerage and life-insurance to meet clients' increasing needs in long-term investments, notably to prepare for retirement;
- continue to strengthen the wealth management expertise of relationship managers, notably for HSBC Premier, in order to offer appropriate solutions and services to meet customer needs, with a focus on risk management;
- invest in digital and deploy online services, while simplifying processes to serve clients who increasingly require mobile and online access to banking services.

The development of its strategic client segments (Premier & Advance, Professionals and International), the strengthening of client relationship through a best-in class wealth management and credit offering and of its distribution capabilities, including digital, are the three key strategic ambitions of RBWM in France.

The implementation of Global Standards that will drive improvement in controls and risk management remain another key priority for the business.

Commercial Banking (CMB)

CMB serves corporate customers from small enterprises focused primarily on their domestic markets, through to large corporates operating globally. CMB support its customers with tailored relationship management and financial solutions to allow them to operate efficiently and to grow. This includes providing them with optimising working capital, term loans, payment services, international trade facilitation, project finance and the expertise for acquisitions and access to foreign exchange markets. HSBC is also a leader in the development of the Chinese currency, the Renminbi, with capacity to deal in more than fifty countries.

CMB's ambition in France is to be the leading international bank for French corporates. CMB offers the full range of banking products and services, dedicated relationship managers and product experts as well as the Group's international network to help customers develop their activities.

CMB has four priorities to drive growth in France:

- ensure consistency and efficiency to customers through a global model, organised around client segments with dedicated propositions;
- continue to support clients' international needs through the unique footprint of the Group to foster capital and trade flows around the world;
- invest in new products and systems to strengthen its proposition and quality of service, notably in Global Liquidity and Cash Management and Global Trade and Receivable Finance and digital;
- further collaborate with other business lines.

CMB will also continue to focus on its return on capital employed by developing business on strategic and profitable activities and clients. The implementation of Global Standards that will drive improvement in controls and risk management remain another key priority for the business.

Global Banking and Markets (GB&M)

GB&M operates in key capital markets, providing transactional and financing solutions to major corporate and institutional clients worldwide. GB&M is positioned as a key partner to assist customers in their projects and activities in France and globally, thanks to the HSBC Group's local and international capabilities. HSBC offers a full range of banking solutions, including advisory, vanilla and structured financing products, merger and acquisitions, access to debt and equity markets, project finance, Global Liquidity and Cash Management, Global Trade and Receivable Finance, and a wide range of market capabilities (rates, foreign exchange and equities).

The goal of GB&M in France is to be a "Top Five" bank to priority clients. Its business model and strategy support this ambition.

HSBC France will continue to fully play its role as the strategic platform for Euro-denominated rates products and all currencies structured rates derivatives, while maximising synergies with other countries and strengthening its range of products and services for the largest corporates. HSBC France will continue to adapt the business to the changing regulatory environment while maintaining its reputation and leading position in league tables.

Priorities for GB&M in France are the following:

– help clients seize international growth opportunities, leveraging its expertise and global network, connecting emerging and developed economies;

– continue to be a leading player in products that will benefit from global economic trends, such as Foreign Exchange, notably supporting the Renminbi internationalisation, Global liquidity and Cash Management and Global Trade and Receivable Finance;

– develop GB&M business, support the Group in reducing RWA, by lowering exposure to non-strategic and non-profitable activities and optimising its balance sheet management;

– reinforce the risk management, implement the Global Standards, collaborate with other business lines and simplify operations.

Global Private Banking (GPB)
Leveraging the HSBC Group's expertise and strongly tailored solutions, the Private Bank teams work closely with clients and other HSBC business lines to provide solutions to grow, manage and preserve wealth today and for the future. GPB serves high net worth individuals and families, offering tailored products and services, through the expertise of its discretionary and advisory management teams.

GPB will continue to develop through collaboration with other business lines to enlarge its client base and enrich its proposition in terms of services and products, notably in discretionary management and life insurance. The implementation of Global Standards, risk management, tax transparency and simplification of processes are also priorities for the private banking business.

Change of the organisational structures of HSBC Group in France

HSBC France legal structures simplification programme has continued with the objective to exit unnecessary corporate structures, make disposals or intra-group structures mergers. Investment policy is described on page 338.

The bank's performance in 2016

Environment

The bank has faced a difficult economic background as well as severe regulatory changes.

Macroeconomic environment
World economic activity decelerated in 2016 for the second year in a row, as the slowdown registered in Europe and even more significantly in the US was not offset by the slight improvement in the GDP growth forecast in emerging or developing economies. 2016 may even witness the global economic activity, despite being marginally above 3 per cent, reaching its lowest growth rate since 2009, in addition with a stubbornly weak inflation, which will most likely be below 1 per cent in the advanced economies. Such a subdued economic activity, in both real and nominal terms, is reflected in the world trade of goods and services, which may also have its lowest growth rate since the financial crisis, in spite of monetary and fiscal policies which are still very expansionary in most of the countries. However, equity markets bounced back in late 2016 and closed the year on a marked rise (+7 per cent for the CAC40, +4 per cent for the Eurostoxx 50 and +15 per cent for the Dow Jones), against the backdrop of a globally better-oriented economic activity in 2017, due in particular to a more expansionary US fiscal policy following the election of the new president.

In France, the economic activity, although undeniable, was still moderate in 2016 and will not exceed the 1.2 per cent growth reached in 2015. GDP growth rate has been particularly irregular over the quarters, as the activity has been affected by temporary factors. During the first quarter, economic expansion benefited from a catch-up effect of the households' consumption (after the trough appeared in the 4th quarter of 2015 in relation to the terror attacks) and from a fiscal stimulus for corporate investment. But these two impulses have then been quite negligible during the following two quarters, while the contribution of net foreign trade to GDP growth may be in 2016 still more negative than it already was in 2015. However, business climate has recovered, mainly during the second part of the year, when it then overtook its long-term average.

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

Regarding households, confidence sentiment also improved after a faltering first half of 2016. The situation of the labour market has been better oriented regarding the number of jobseekers as well as the unemployment rate. Similarly, the ECB monetary policy, which has been even more accommodating in 2016 than it was in 2015, contributed to make banking loans to companies and households more dynamic in France than in other Eurozone countries: the effective interest rate of new loans approximately reached at the end of 2016 1.6 per cent for housing loans with fixed rate and 1.5 per cent for corporate loans above EUR 1 million. Lastly, corporate bankruptcies, which had increased from 2011 to the beginning of 2015, decreased in 2016 the figure then followed. Nevertheless, the household saving ratio, evolving between 14.5 per cent and 15 per cent over the last quarters, should continue to be relatively high compared to other developed economies.

In 2017, even if an improvement in the international environment is expected, an unusually high degree of uncertainty prevails due to, among other things, the decisions to be taken by the new US government and the beginning of the negotiations for the UK to leave the European Union. In addition, despite the fact that the GDP growth may improve in the US, the economic activity in the Eurozone will probably be affected by the elections scheduled in several countries notably in Germany and France. As inflation might rise in the US more rapidly than in the euro area, the divergence in the monetary policies between the Federal Reserve and the ECB may still be clearer, with the former being expected to pursue the hike in the Fed funds it initiated in late 2015, while the latter having committed at the end of 2016 to continue its assets purchases until the end of 2017, and even beyond if necessary. Moreover, Asia, while continuing to represent a major contribution to the global GDP, may see its economic activity remain flat in 2017 compared to 2016, in spite of macroeconomic policies that should remain favourably oriented, in particular in Japan and in China.

In this context, the French economic activity should still depend on private consumption, which may benefit from a less unbalanced labour market but which should suffer from the expected rebound in inflation, and on corporate investment, helped by the trend for improving corporate profitability but still limited by a lack of visibility regarding prospects. Also, improved competitiveness would be necessary to avoid the net foreign trade still exerting a drag on GDP growth rate.

Regulatory environment

Since the adoption of Banking Union by the Eurozone member states in 2014, HSBC France has been supervised by the European Central Bank (ECB) in conjunction with the French Prudential Supervision and Resolution Authority (*Autorité de contrôle prudentiel et de résolution* – ACPR). The latter retains sole responsibility in certain areas. HSBC France is also supervised by the *Autorité des marchés financiers* (AMF) in its areas of responsibility. Lastly, as a member of the HSBC Group, HSBC France is subject to certain United Kingdom rules on prudential (security and solidity) issues, as applied by the Prudential Regulation Authority (PRA) and governing its behaviour, as monitored by the Financial Conduct Authority (FCA) with regards to consumers and the protection of the market.

2016 saw the gradual application of various rules adopted at a European level in accordance with G20 decisions. Most notably, these include the Basel III standards, which introduce new requirements for liquidity and solvency, have the effect of increasing the requirements for capital and liquid assets at banks and will gradually result in an adjustment in their risk profiles. HSBC has taken account of these new requirements and meets them.

Moreover, the introduction of international and European rules relating to the prevention of banking crises and resolution represents a major project for banking establishments. Although the global framework is now known, additional details were added at a national and European level in 2016, determining the order in which shareholders and creditors will be called upon to contribute should an establishment experience difficulties and setting the capacity of banks to absorb losses. The specific requirements for each establishment within the Eurozone continue to be discussed with the relevant authorities.

Lastly, the European Commission brought forward significant proposals at the end of 2016 with a view to implementing, at the European level, decisions taken internationally, for example in areas such as market risk or setting the details for the application of certain new requirements. Legislative work on these texts is likely to continue throughout 2017. In addition, a number of proposals being debated at the international level (Basel Committee project on the use of models) and European level (law on the separation of banking activities, financial transaction tax) could have a significant impact on the business model, organisation and activities of banking establishments.

As it has every year since the introduction of the Single Supervisory Mechanism, the European Central Bank conducted a supervision and evaluation process in 2016. This is an in-depth examination of the position of all significant establishments in the Eurozone, including HSBC France. In particular, this process evaluated the business model of the bank, its governance and risk management and its capital and liquidity positions.

Following discussions with the ECB, which lasted throughout 2016, the ECB requested that HSBC France maintain a capital level of 10.63 per cent (phased ratio) from 1 January 2017. HSBC France is not subject to the capital buffer required of systemically important banks.

This level, which corresponds to a 'Pillar II requirement' (P2R), was the subject of a publication by HSBC France on 4 November 2016, in accordance with European Banking Authority directives of December 2015. HSBC France has also received an indication of a 'Pillar II guidance' (P2G) from the ECB, in accordance with the framework of Pillar II implementation.

Scope of the performance review

Performance is analysed below on the basis of consolidated financial statements for the HSBC France group under IFRS as defined in Note 1 to the consolidated financial statements:

HSBC France's performance on the basis of its individual financial statements, prepared in accordance with the generally accepted accounting principles applicable to credit institutions in France, is analysed in the Note to the parent company financial statements entitled "Highlights".

HSBC France group's consolidated results

P&L statement

(in millions of euros)	**31.12.2016**	31.12.2015
Net interest income	**1,218**	1,474
Net fee income	**648**	665
Net trading income	**516**	223
Net income /(expense) from financial instruments designated at fair value	**258**	327
Gains less losses from financial investments	**121**	34
Net earned insurance premiums	**1,763**	1,957
Other operating income	**(9)**	176
Total operating income	**4,515**	4,856
Net insurance claims incurred, benefits paid and movement in liabilities to policyholders	**(2,198)**	(2,485)
Total operating income before loan impairment (charges)/release and other credit risk provisions	**2,317**	2,371
Loan impairment charges and other credit risk provisions	**(73)**	(121)
Net operating income	**2,244**	2,250
Total operating expenses	**(1,812)**	(1,632)
Operating profit	**432**	618
Share of profits in associates and joint ventures	**–**	–
Profit before tax	**432**	618
Tax expense	**(120)**	(171)
Profit for the year	**312**	447
Profit attributable to shareholders of the parent company	**310**	445
Profit attributable to non-controlling interests	**2**	2

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

Net interest margin was EUR 1,218 million at end-December 2016, from EUR 1,474 million in the previous year. Against a background of lastingly low interest rates, and even negative rates on some maturities, margins on deposits and interest income on bond portfolios at the life insurance subsidiary continued to fall, although this was in part offset by positive volume effects across all business lines. Lending activity saw volume growth across the various business lines, but also suffered from the impact of low interest rates, notably in the personal banking mortgage lending segment against a background of continued high levels of renegotiations and early redemptions in 2016.

Net fee income was EUR 648 million in 2016, from EUR 665 million in 2015. This change was due primarily to a reduction in fees received on flow business with corporate customers and the downward trend in asset management fees linked to trends in market indices. There was, however, growth in fees from advisory and foreign exchange activities.

Revenues from the trading portfolio rose from EUR 223 million in 2015 to EUR 516 million in 2016. This increase came from:

- Trading revenue in rates activities within Global Markets, which benefited from favourable client activity;
- The rise in Balance Sheet Management, including a positive effect relating to the partial discontinuation of macro hedging relationships under IAS 39 for EUR 122 million[1];
- A positive impact (EUR +58 million) from recycling the revaluation reserve previously recognized in OCI linked with the FX effect from a leasing subsidiary located outside France[1];
- Volatile accounting elements including certain significant items: the change in the market value of non-qualifying hedges, which was EUR -27 million, from EUR 36 million in 2015; the change in the Debit Valuation Adjustment reserve, which amounts to EUR -3 million in 2016, from EUR 15 million in the previous year;

Revenue from financial instruments designated at fair value was EUR 258 million, from EUR 327 million in 2015. This change includes the change in own debt under fair value option due to the credit spread: EUR -11 million compared with EUR 35 million the previous year, as well as the reduction in the market value of assets held by the life insurance company, partly in the form of unit-linked policies. The counterpart of that latter decrease is the change in liabilities to policyholders (see below).

Net profit on disposals of financial investments mainly related to the sale of Visa Europe share to Visa Inc, the capital gain on which was EUR 108 million[2].

Net earned insurance premiums for the year were EUR 1,763 million, compared with EUR 1,957 million in the previous year.

Other operating income, at EUR -9 million from EUR 176 million in the previous year, reflects the change in the accounting PVIF[3] of insurance contracts (EUR -26 million in 2016 and EUR +152 million in 2015). The change in PVIF is mainly due to the fall in expected yields, in a context of particularly low interest rates, partly offset by a change in assumptions to reflect regulatory changes which were integrated into the PVIF valuation model in the second quarter of 2016.

Net insurance claims incurred, benefits paid and movement in liabilities to policyholders were EUR -2,198 million in 2016, from EUR -2,485 million in 2015. This positive change should be seen in the light of the fall in PVIF, and in the market value of instruments recognised under fair value option by the insurance subsidiary.

Net Operating Income (NOI) before loan impairment charges was EUR 2,317 million for the year, from EUR 2,371 million in the previous year. This mainly reflected the reduction in the net interest margin at the French banking business, resulting from the continued fall in interest rates, partly offset by the performance of Global Banking and Markets.

Loan impairment charges stood at EUR -73 million, from EUR -121 million in 2015. The reduction was mainly due to a low level of new individual allowances in Commercial Banking and releases from collective provisions in Commercial Banking and Global Banking. The standardised cost of risk represented 0.21 per cent of average outstanding client loans, compared with 0.32 per cent in the previous year.

1 *See note 1 to the consolidated financial statements.*
2 *See note 1 to the consolidated financial statements.*
3 *Present Value of In Force, See note 16c to the financial consolidated statements.*

Operating expenses were EUR -1,812 million in 2016, from EUR -1,632 million in 2015. The year 2016 recorded goodwill impairment for a global EUR -127 million [4] on both Retail Banking and Wealth Management and Private Banking. HSBC France is continuing its programme of spending and investment for growth including a charge in respect of the Voluntary Redundancy Plan announced on September 2016. HSBC France also recorded a provision for litigation of EUR -13 million. Increase in the contribution to the European Single Resolution Fund was EUR -19 million over the year. Excluding these elements, operating expenses decrease by 2 per cent reflecting efforts to improve the bank's efficiency.

Profit before tax was EUR 432 million, lower than the EUR 618 million recorded in the previous year. On an adjusted basis, excluding significant items [5], profit before tax was EUR 663 million, an increase on the EUR 548 million in the previous year. Excluding non-recurring elements, this increase was due to a satisfactory performance in Global Banking and Markets, decrease in loan impairment charges mainly in Commercial Banking and fall in result in Retail Banking and Wealth Management burdened by the low interest rates environment.

Profit attributable shareholders of the parent company in 2016 was EUR 310 million, from EUR 445 million in the previous year.

Consolidated balance sheet

ASSETS

(in millions of euros)	**31.12.2016**	31.12.2015
Cash and balances at central banks	**4,714**	395
Trading assets	**23,589**	27,161
Financial assets designated at fair value	**7,305**	6,768
Derivatives	**47,367**	49,484
Loans and advances to banks	**3,379**	4,660
Loans and advances to customers	**41,327**	38,524
Reverse repurchase agreements – non-trading	**11,862**	10,163
Financial investments	**26,504**	27,677
Other assets	**3,376**	3,626
TOTAL ASSETS	**169,423**	168,458

LIABILITIES AND EQUITY

(in millions of euros)	**31.12.2016**	31.12.2015
Liabilities		
Deposits by banks	**12,061**	7,086
Customer accounts	**34,220**	32,811
Repurchase agreements – non trading	**7,592**	10,283
Trading liabilities	**26,468**	22,647
Financial liabilities designated at fair value	**8,464**	8,476
Derivatives	**44,013**	46,903
Debt securities in issue	**6,616**	10,501
Liabilities under insurance contracts issued	**21,302**	20,943
Other liabilities	**2,814**	2,870
TOTAL LIABILITIES	**163,550**	162,520
Total shareholders' equity	**5,842**	5,838
Non-controlling interests	**31**	100
TOTAL EQUITY	**5,873**	5,938
TOTAL LIABILITIES AND EQUITY	**169,423**	168,458

4 *See note 16a to the consolidated financial statements.*
5 *See page 13.*

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

The consolidated balance sheet of HSBC France showed total assets of EUR 169 billion at 31 December 2016, stable on the figure of EUR 168 million at 31 December 2015.

HSBC France's deposits with the Central bank increased to EUR 4.7 billion. The trading portfolio was reduced by EUR 4 billion to EUR 23.6 billion and securities held under repurchase arrangements rose by EUR 1.7 billion to EUR 11.8 billion. Derivative instruments were EUR 2 billion lower, reflecting lower interest rates and the active management of the stock of transactions. The portfolio of client loans continued to grow, by EUR 3 billion, due to further strong loan origination.

On the liability side of the balance sheet, deposits by banking counterparties increased to EUR 12.1 billion, including HSBC France's involvement in the Targeted Long Term Refinancing Operation (TLTRO). The trading portfolio increased by EUR 4 billion due to an increase in market values as a result of falling interest rates, whilst securities under repurchase arrangements fell by EUR 3 billion. Derivative instruments were down by EUR 3 billion as a result of lower interest rates and active management of the stock of transactions. The value of insurance policies taken out by clients rose slightly.

Shareholders' equity was stable at EUR 5.9 billion.

The Liquidity Coverage Ratio (LCR) for HSBC France Group's lending establishments – HSBC France and HSBC SFH (France) – was 122 per cent at 31 December 2016. The Net Stable Funding Ratio (NSFR) was 120 per cent[4] at end-December 2016.

Outstanding medium-term and long-term financing (with maturity of more than 1 year on issue) was EUR 20.2 billion at 31 December 2016, an increase of EUR 1.6 billion compared with 31 December 2015.

In June 2016, HSBC France made early repayment of EUR 2.6 billion borrowed under TLTRO I, which had a remaining maturity of over two years, and borrowed EUR 3.0 billion under TLTRO II over a four-year maturity. In December 2016, HSBC France subscribed an additional tranche of EUR 0.5 billion.

In addition, as part of the strategy for redeploying Total Loss Absorbing Capacity (TLAC) resources, HSBC France received EUR 2.0 billion from its parent company HSBC Bank plc in the form of interbank loan in March and September 2016. Once final qualifying conditions have been determined, this resource could be converted into debt eligible for the Minimum Requirement for own funds and Eligible Liabilities (MREL).

The phased-in Common Equity Tier 1 ratio (CET1 ratio) stands 13.2 per cent at end-2016 from 14.9 per cent at end-2015. Fully loaded CET1 ratio was 13.1 per cent and Leverage ratio was 4.0 per cent as at 31 December 2016.

Performance review by business line

Customer realignment

During 2016, HSBC conducted a number of internal reviews aligning customer requirements to those global businesses best suited to service their respective needs, resulting in the transfer of a portfolio of customers from CMB to GB&M during the year. Comparative information has been re-presented accordingly.

4 *Given uncertainty about the definitive text, the HSBC Group has decided to calculate the NSFR using Basel Committee text BCBS295, and results may not be comparable with those of other banks.*

Information on the Profit/(Loss) of the year

(audited data in respect of operating segments' information regarding IFRS 8 in the consolidated financial statements)

Year 2016

(millions of euros	Retail banking and wealth management	Commercial banking	Global banking and markets	Private banking	Other	Inter-segment	Total
Net interest income	**731**	**337**	**152**	**36**	**(38)**	**–**	**1,218**
Net fee income	**289**	**194**	**144**	**21**	**–**	**–**	**648**
Hedging and trading income	**(37)**	**(1)**	**555**	**3**	**(4)**	**–**	**516**
Other income	**(100)**	**50**	**13**	**(15)**	**(10)**	**(3)**	**(65)**
Total operating income	**883**	**580**	**864**	**45**	**(52)**	**(3)**	**2,317**
Loan impairment charges	**(15)**	**(59)**	**2**	**(1)**	**–**		**(73)**
Net operating income	**868**	**521**	**866**	**44**	**(52)**	**(3)**	**2,244**
Total operating expenses	**(821)**	**(349)**	**(403)**	**(99)**	**(143)**	**3**	**(1,812)**
Operating profit	**47**	**172**	**463**	**(55)**	**(195)**	**–**	**432**
Share of profit in associates and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit before tax	**47**	**172**	**463**	**(55)**	**(195)**	**–**	**432**

Year 2015

(millions of euros	Retail banking and wealth management	Commercial banking	Global banking and markets	Private banking	Other	Inter-segment	Total
Net interest income	873	371	200	36	(6)	–	1,474
Net fee income	314	208	119	24	–	–	665
Hedging and trading income	5	(3)	234	4	(17)	–	223
Other income	(44)	17	26	(13)	25	(2)	9
Total operating income	1,148	593	579	51	2	(2)	2,371
Loan impairment charges	(20)	(93)	(7)	(1)	–	–	(121)
Net operating income	1,128	500	572	50	2	(2)	2,250
Total operating expenses	(773)	(378)	(420)	(38)	(25)	2	(1 632)
Operating profit	355	122	152	12	(23)	–	618
Share of profit in associates and joint ventures	–	–	–	–	–	–	–
Profit before tax	355	122	152	12	(23)	–	618

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

Year 2016

(millions of euros)	Retail banking and wealth management	Commercial banking	Global banking and markets	Private banking	Other	Inter-segment	Total
Net operating income	**868**	**521**	**866**	**44**	**(52)**	**(3)**	**2,244**
– external	**927**	**456**	**761**	**41**	**61**	**(2)**	**2,244**
– inter-segment	**(59)**	**65**	**105**	**3**	**(113)**	**(1)**	**–**

Year 2015

(millions of euros)	Retail banking and wealth management	Commercial banking	Global banking and markets	Private banking	Other	Inter-segment	Total
Net operating income	1,128	500	572	50	2	(2)	2,250
– external	1,199	461	518	47	–	25	2,250
– inter-segment	(71)	39	54	3	2	(27)	–

Information on Balance sheet

(audited data in respect of operating segments' information regarding IFRS 8 in the consolidated financial statements)

Year 2016

(millions of euros)	Retail banking and wealth management	Commercial banking	Global banking and markets	Private banking	Other	Inter-segment	Total
Loans and advances to customers (net)	**17,756**	**10,398**	**11,799**	**1,374**	**–**	**–**	**41,327**
Investment in associates and joint ventures	**2**	**–**	**–**	**–**	**–**	**–**	**2**
Total Assets	**43,396**	**10,603**	**126,563**	**816**	**68**	**(12,023)**	**169,423**
Customer accounts	**14,593**	**10,248**	**8,600**	**779**	**–**	**–**	**34,220**
Total liabilities and equity	**43,396**	**10,603**	**126,563**	**816**	**68**	**(12,023)**	**169,423**

Year 2015

(millions of euros)	Retail banking and wealth management	Commercial banking	Global banking and markets	Private banking	Other	Inter-segment	Total
Loans and advances to customers (net)	17,502	9,798	10,048	1,176	–	–	38,524
Investment in associates and joint ventures	2	–	–	–	–	–	2
Total Assets	45,649	13,640	119,254	1,026	46	(11,157)	168,458
Customer accounts	14,063	10,184	7,846	718	–	–	32,811
Total liabilities and equity	45,649	13,640	119,254	1,026	46	(11,157)	168,458

Non-GAAP measures

To make it easier to understand the performance review relating to the Group and its subsidiaries, HSBC has elected to supplement the accounting data published with a presentation of the main lines of business accounts on an "adjusted" basis. This approach consists of restating reported figures for the effect of changes in scope and currency variations between the two periods under review, together with certain "significant items", which are listed and quantified below where they concern France:

Year 2016

(millions of euros)	Retail banking and wealth management	Commercial banking	Global banking and markets	Private banking	Other including inter-segment	Total
Reported Net operating income before LICs	**883**	**580**	**864**	**45**	**(55)**	**2,317**
Revenue Significant items	**59**	**31**	**(10)**	**–**	**(13)**	**67**
– Change in credit spread on debt under Fair Value option	**–**	**–**	**–**	**–**	**(11)**	**(11)**
– Non-qualifying hedges	**(18)**	**–**	**(7)**	**–**	**(2)**	**(27)**
– Debit Valuation Adjustment	**–**	**–**	**(3)**	**–**	**–**	**(3)**
– Gain on sale of shareholding of Visa Europe	**77**	**31**	**–**	**–**	**–**	**108**
Adjusted Net operating income before LICs	**824**	**549**	**874**	**45**	**(42)**	**2,250**
Loan impairment charges	**(15)**	**(59)**	**2**	**(1)**	**-**	**(73)**
Reported Operating expenses	**(821)**	**(349)**	**(403)**	**(99)**	**(140)**	**(1,812)**
– Expenses Significant items	**(82)**	**(7)**	**(19)**	**(63)**	**(127)**	**(298)**
– Costs to Achieve	**(18)**	**(7)**	**(6)**	**–**	**(127)**	**(158)**
– Settlement and provisions in connection with legal and regulatory matters	**–**	**–**	**(13)**	**–**	**–**	**(13)**
– Goodwill impairment	**(64)**	**–**	**–**	**(63)**	**-**	**(127)**
Adjusted Operating expenses	**(739)**	**(342)**	**(384)**	**(36)**	**(13)**	**(1,514)**
Reported Profit before tax	**47**	**172**	**463**	**(55)**	**(195)**	**432**
Total significant items	**(23)**	**24**	**(29)**	**(63)**	**(140)**	**(231)**
Adjusted Profit before tax	**70**	**148**	**492**	**8**	**(55)**	**663**

Year 2015

(millions of euros)	Retail banking and wealth management	Commercial banking	Global banking and markets	Private banking	Other including inter-segment	Total
Reported Net operating income before LICs	1 148	593	579	51	–	2 371
Revenue Significant items	36	–	15	–	35	86
– Change in credit spread on debt under Fair Value option	–	–	–	–	35	35
– Non-qualifying hedges	36	–	–	–	–	36
– Debit Valuation Adjustment	–	–	15	–	–	15
Adjusted Net operating income before LICs	1 112	593	564	51	(35)	2 285
Loan impairment charges	(20)	(93)	(7)	(1)	–	(121)
Reported Operating expenses	(773)	(378)	(420)	(38)	(23)	(1 632)
– Expenses Significant items	(2)	–	(5)	(2)	(7)	(16)
– Restructuring costs	(2)	–	(5)	(2)	(7)	(16)
Adjusted Operating expenses	(771)	(378)	(415)	(36)	(16)	(1 616)
Reported Profit before tax	355	122	152	12	(23)	618
Total significant items	34	–	10	(2)	28	70
Adjusted Profit before tax	321	122	142	14	(51)	548

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

Retail Banking and Wealth Management

As part of the HSBC Group's strategic focus on Wealth Management, HSBC in France is consolidating its position as a leader in the mass affluent segment by focusing on three areas: wealth management and lending, as part of a comprehensive banking relationship, all supported by an omni-channel approach.

(millions of euros)	**2016**	2015
Reported Revenues	**883**	1,148
Revenue significant items	**59**	36
Adjusted Revenue	**824**	1,112
Loan impairment charges	**(15)**	(20)
Reported operating expenses	**(821)**	(773)
Expenses significant items	**(82)**	(2)
Adjusted operating expenses	**(739)**	(771)
Reported Profit before tax	**47**	355
Total significant items	**(23)**	34
Adjusted Profit before tax	**70**	321

HSBC now has around 805,000 Retail Banking & Wealth Management clients in France. The HSBC Premier client base remains the market in which HSBC France wishes to maintain a particular commercial focus. This segment thus continued to make dynamic customer recruitment, with around 29,000 new-to-bank clients, an increase of 5 per cent on the previous year. The proportion of HSBC Premier clients in the total rose to 52 per cent.

Total client assets rose 2 per cent to EUR 38.1 billion at end-2016 versus EUR 37.3 billion a year earlier, against a background of unfavourable market conditions throughout the year.

Retail banking benefited from an increase in customer deposits, which stood at EUR 14.6 billion at end-2016. Average deposit balances rose 3 per cent, with particularly sight deposits showing growth of 7 per cent.

In 2016 the life insurance business faced unfavourable economic conditions. Despite these conditions, earned premiums in life insurance were EUR 1.7 billion and net inflows remained positive across the HSBC France network and came to EUR 146 million in 2016. Assets under management by the insurance company increased by 3 per cent and now stand at EUR 19.1 billion. Assets in unit-linked policies grew by 4 per cent, and now represent 17.6 per cent of the total.

HSBC Assurances' expertise and good fit between its products and the needs of individuals, small businesses and corporate clients in the areas of life insurance, pensions and protection were once again recognised in 2016 through various awards, including Le Revenu magazine's Trophée d'Or life insurance award for HSBC Stratégie Patrimoine (for the second year running), and Dossiers de L'Epargne magazine's Label d'Excellence award for HSBC Homme Clé (also for the second year running).

Assets under management and distribution through the Asset Management business line for its individual, corporate and institutional customers came to EUR 81 billion, a 4 per cent increase on the figure of EUR 78 billion at end-2015. This increase was seen particularly in money market products.

The expertise of the Asset Management business line allowed it to develop its international clientele and to receive the following notable awards in 2016:

- The Lipper Fund Award (Thomson Reuters) for 5- and 10-year performance for 3 bond funds;
- The 2016 Globes de la Gestion ('*Gestion de Fortune magazine*') for 2 bond funds;
- The 2016 "excellence, performance and regularity" label ('*Mieux Vivre Votre Argent magazine*') for the Mix range of diversified funds;
- The prize for best performance over 15 years and best service to investors from Victoires de la Pierre Papier from '*Gestion de Fortune*' for the SCPI Elysées Pierre real estate fund.

Loans outstanding to individuals rose almost 2 per cent year-on-year to more than EUR 17.8 billion, in line with market trends with new mortgage production totalling EUR 3.5 billion.

As a result, on an adjusted basis, revenue was EUR 824 million from EUR 1,112 million at end-2015. This figure was significantly affected by the change in economic PVIF, which was EUR -33 million from

EUR +135 million in 2015. Excluding the impact of those changes, revenue fell 12 per cent, mainly because of the impact caused by low interest rates on interest margin on deposits and mortgages which renegotiation and early repayment volumes remained high in 2016. Moreover, fee income from managed and distributed financial assets fell in accordance with movements in equity markets.

Credit risk provisions in Retail Banking and Wealth Management were reduced to EUR -15 million, with normative cost of risk at 0.13 per cent of outstanding loans.

Adjusted operating expenses were 4 per cent lower, to EUR -739 million, thanks to the efforts made to improve the bank's productivity and efficiency.

In 2016, reported profit before tax in Retail Banking & Wealth Management was EUR 47 million, from EUR 355 million in the previous year. The year 2016 notably comprises a gain recognised on the sale of the Visa Europe share (EUR 77 million) and a goodwill impairment due to the low level of interest rates and assuming the persistence of this environment (EUR 64 million). Adjusted profit before tax was EUR 70 million as opposed to EUR 321 million in 2015. This sharp fall was due primarily to lower revenues from insurance production, linked to the negative change in PVIF, the impact of low interest rates on margins and the decline in asset management fees, which were partly offset by growth in deposits and outstanding loans and in distributed life insurance assets.

Commercial Banking

Commercial Banking provides a broad range of banking and financial services to enable customers to manage and grow their businesses in France and internationally.

(millions of euros)	2016	2015
Reported Revenues	**580**	593
Revenue significant items	**31**	–
Adjusted Revenue	**549**	593
Loan impairment charges	**(59)**	(93)
Reported operating expenses	**(349)**	(378)
Expenses significant items	**(7)**	–
Adjusted operating expenses	**(342)**	(378)
Reported Profit before tax	**172**	122
Total significant items	**24**	–
Adjusted Profit before tax	**148**	122

HSBC France continued to contribute to the development of companies and increased its outstanding loans to clients by 6 per cent, to EUR 10.4 billion, with particularly strong growth in the medium-sized and large corporates segment and in medium-term to long-term lending. Deposits grew to EUR 10.2 billion in 2016. Average deposit balances rose by 3 per cent relative to 2015.

In 2016 Commercial Banking took part in several major financial transactions for its largest clients, working with Global Banking and Markets.

Revenue generated by French customers for other international HSBC Group entities has since the end of 2015 represented over a third of revenues generated by the same companies in France. In 2016, this international revenue rose by 11 per cent. Revenue generated by clients of other international HSBC Group entities in France increased (5 per cent). HSBC remains a key partner for French companies seeking to set up abroad and for foreign companies seeking to expand in France.

Adjusted revenue before loan impairment charges was EUR 549 million, suffering from the protracted impact of historically low interest rates and from lower commission income on Cash Management and foreign exchange transactions.

Loan impairment charges in Commercial Banking were EUR -59 million, a significant reduction on the figure of EUR -93 million in 2015. Normative loan loss rate was at 0.62 per cent of outstanding loans versus 0.99 per cent in 2015.

Adjusted operating expenses were reduced significantly, and fell 9 per cent over the year to EUR -342 million, as a result of reductions in staff numbers and significant savings in support functions.

Commercial Banking's adjusted profit before tax was EUR 148 million, from EUR 122 million in 2015.

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

Global Banking and Markets

HSBC France supports large corporate clients, institutional investors and governments in their projects in both the French and international markets. It is the HSBC Group's platform for euro fixed-income products and all currencies structured rates derivatives.

(millions of euros)	**2016**	2015
Reported Revenues	**864**	579
Revenue significant items	**(10)**	15
Adjusted Revenue	**874**	564
Loan impairment charges	**2**	(7)
Reported operating expenses	**(403)**	(420)
Expenses significant items	**(19)**	(5)
Adjusted operating expenses	**(384)**	(415)
Reported Profit before tax	**463**	152
Total significant items	**(29)**	10
Adjusted Profit before tax	**492**	142

2016 saw the continuation of an environment of historically low interest rates coupled with significant market volatility, notably arising from uncertainty and key macroeconomic and political events of the year (the 'Brexit' vote, US elections, etc.).

Against this background, adjusted net operating income in Global Banking and Markets was EUR 874 million to be compared with EUR 564 million the previous year. Increase in revenue comes from the strong performance in Global Markets activities notably structured rates derivatives, increase in Global Banking business including the positive impact linked with the revaluation reserve in a leasing subsidiary (EUR 58 million) and the rise in revenue in Balance Sheet Management including, among others, the positive impact of the partial discontinuation of a macro-hedging relationship (EUR 122 million).

With regards to Global Markets, the first part of the year saw high levels of uncertainty in the run-up to the British referendum and then the US elections, before returning to a more favourable environment at the year end. Despite these conditions, HSBC France returned a very satisfactory performance, particularly in USD-denominated structured interest rate products for major international institutional clients, and maintained its position amongst the main market makers for countries issuing sovereign debt in the Eurozone.

In 2016, HSBC also strengthened its position as the leading international bank in the French market for bond issues and the leader in European government debt for sovereign, supranational, agency and local authority issuers. In particular, HSBC set itself apart by managing issues at very long maturities for the French, Italian, Belgian and Spanish governments as well as multi-tranche, multi-currency and hybrid issues. HSBC also continued to support its issuer clients in major international transactions and in new markets, notably the Green Bond compartment or through record issuance of *Formosa* and *Schuldscheindarlehen* securities.

In the Global Banking activity, results were also driven by the excellent performance in M&A advisory and strong results in asset financing activities notably aviation, project and structured finance. This more than offset continued pressure on the margin on deposits and on non-structured lending to major companies.

Revenue generated by French clients in international markets rose by 5 per cent relative to 2015 at constant exchange rates, and continues to account for the majority of revenue generated by French clients within the HSBC Group. Revenue in France from clients of other Group entities was stable.

Loan impairment charges display a net reversal of EUR 2 million in 2016. Limited individual allowances in the year are more than offset by reversal on previous provisions.

Adjusted operating expense was EUR -384 million. The 7 per cent reduction relative to 2015 reflects efforts to control direct costs, combined with the benefits of initiatives to transform services and support and despite the rise in HSBC France's contribution to the European Single Resolution Fund.

Adjusted profit before tax was EUR 492 million, from EUR 142 million in 2015.

Private Banking

The Private Banking business focuses on wealthy clients with assets of more than EUR 3 million with the bank. It provides a broad and diverse range of investment and financing solutions, supported by strong synergies with the HSBC Group's network and particularly with Commercial Banking in France.

(millions of euros)	**2016**	2015
Reported Revenues	**45**	51
Revenue significant items	**–**	–
Adjusted Revenue	**45**	51
Loan impairment charges	**(1)**	(1)
Reported operating expenses	**(99)**	(38)
Expenses significant items	**(63)**	(2)
Adjusted operating expenses	**(36)**	(36)
Reported Profit before tax	**(55)**	12
Total significant items	**(63)**	(2)
Adjusted Profit before tax	**8**	14

The Private Banking industry as a whole continues to evolve in a demanding regulatory framework. HSBC sets and respects high standards to have an in-depth knowledge of its clients and their transactions.

At EUR 7.2 billion, assets under management rose by 3 per cent compared to end-2015, when they stood at EUR 6.9 billion, under the effect of net new money of EUR 195 million, mainly from the domestic clientele and referrals from other business lines.

Revenue was boosted by strong lending activity and an improvement in the product mix, but this was not sufficient to offset the decreasing margin on deposits resulting from lower interest rates, nor the impact of weak equity markets for a part of the year. Revenue was also hit by a negative change in PVIF of the insurance company relating to Private Banking's customers of EUR -4.1 million. Excluding this change in PVIF, the revenue variation was -3 per cent over the year.

On an adjusted basis, expenses were stable on the previous year.

Reported PBT was EUR -55 million. It recorded a EUR -63 million goodwill impairment due to macro-economic context and to the financial and regulatory environment. Adjusted profit before tax at Private Banking was EUR 8 million.

Other Activities

(millions of euros)	**2016**	2015
Reported Revenues	**(55)**	–
Revenue significant items	**(13)**	35
Adjusted Revenue	**(42)**	(35)
Loan impairment charges	**–**	–
Reported operating expenses	**(140)**	(23)
Expenses significant items	**(127)**	(7)
Adjusted operating expenses	**(13)**	(16)
Reported Profit before tax	**(195)**	(23)
Total significant items	**(140)**	28
Adjusted Profit before tax	**(55)**	(51)

The "Other Activities" heading covers items of revenue and expense which are not allocated to other business lines. They mainly include the change in fair-valued own debt due to the credit spread, and profit or loss related to the inefficiency linked with accounting for hedging transactions under IAS39. This heading also included restructuring costs and the costs of projects deployment relating to strategic initiatives in the areas of digital banking and the modernisation of systems.

Re-segmentation project

The HSBC Group has directed a strategic change in the composition of Global Businesses. The most significant change is the introduction of a newly established 'Corporate Centre' segment which will be comprised of the current 'Other Activities' heading, the inter-segment and Balance Sheet Management (BSM) activities. Certain costs previously retained in the 'Other Activities' will be allocated back to the business lines to which they relate.

Following this change, expected early 2017, HSBC France's reporting segments will be Retail Banking and Wealth Management (RBWM), Global Banking and Markets (GB&M), Commercial Banking (CMB), Global Private Banking (GPB) and The Corporate Centre.

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

Historical data (non audited)

HSBC France group

(in millions of euros)	2016	2015	2014	2013	2012
Profit before tax	**432**	618	232	546	388
Profit attributable to shareholders	**310**	445	198	383	321
At 31 December					
Shareholders' equity	**5,842**	5,838	5,733	5,391	5,213
Loans and advances to customers and banks	**44,706**	43,184	42,262	40,235	76,486 [1]
Customer accounts and deposits by banks	**46,281**	39,897	40,656	36,974	75,356 [2]
Total Balance Sheet	**169,423**	168,458	201,018	208,893	225,208
Number of employees (full-time equivalents)	**8,647**	9,217	9,402	9,533	9,570
Ratios					
Total capital ratio [3]	**13.2%**	14.9%	14.1%	13.7%	12.6%
Common Equity Tier One Ratio [3]	**13.2%**	14.9%	14.1%	13.7%	12.6%
Cost efficiency ratio	**72.7%[4]**	68.8%	82.2%	70.9%	75.9%

1 *Including Reverse repos.*
2 *Including Repos.*
3 *Capital ratios under Basel 2.5 in 2012 and 2013 and under Basel III "transitional" as of 2014.*
4 *Excluding goodwill impairment.*

Credit ratings

HSBC France is rated by three major agencies: Standard & Poor's, Moody's and FitchRatings.

	Standard & Poor's	Moody's	FitchRatings
Long term Unsecured Debt	AA -	A2	AA -
Long term Banking Deposits	AA -	A1	AA -
Outlook	Negative	Negative	Stable
Short Term Rating	A-1+	P-1	F1+
Last update	7 July 2016	28 June 2016	20 October 2016

For FitchRatings and Standard and Poor's, HSBC France's ratings are aligned with those of HSBC Bank plc (Standard and Poor's) and HSBC Holdings plc (FitchRatings), given HSBC France's strategic importance for the HSBC Group.

During the year 2016, Moody's and Standard and Poor's revised their outlook on HSBC France's long-term rating to negative because they also revised their outlook on HSBC Holdings plc to negative due to i) China's deteriorating economic prospects and ii) the uncertainty following the UK's referendum on the EU membership.

Principal and emerging risks

HSBC France continuously monitors and identifies risks. This process, gives rise to the classification of certain principal risks. Changes in the assessment of principal risks may result in adjustments to the bank's business strategy and, potentially, its risk appetite.

Principal banking risks are credit risk, operational risk, market risk, liquidity and funding risk, structural interest rate risk, compliance risk and reputational risk. HSBC France also incur insurance risk. The exposure to these risks and the bank's risk management are explained in more detail in the Risk section (see page 111 et seq).

Each of these risks as well as non-banking risks have the potential to have a material impact on HSBC France's financial results or reputation and the sustainability of its long-term business model.

Macro-Economic Risks

Economic growth in the Eurozone remained very low in 2016 and in particular in France. The economic policies have contributed to the continuation of historically low interest rates. The decline in revenues which directly result from this and the increased competition on retail home loans, leading to renegotiations, impact the banking sector as a whole and increase the challenges on the banking model for the French banking sector.

In the longer term, the low level of yields also impacts the profitability of the life insurance activities. Therefore HSBC France's results could be significantly impacted by a prolonged period of low or negative interest rates with a low inflation environment.

In addition, the impact of the recent regulatory measures on the volumes of financial assets traded in the markets reduces the revenue base of investment banking activities. Furthermore, the economic and geopolitical environment could drive investors into seeking higher yields by investing into higher risk assets which could generate financial bubbles in certain sectors and expose HSBC France to higher levels of risk. Finally, certain Eurozone countries remain exposed to systemic risks such as Greece and Italy. In addition, the conditions under which the United Kingdom will exit the EU, which remain to be negotiated, add to the uncertainty.

Faced with these challenges, HSBC France has continued during 2016 to implement a series of measures designed to improve its profitability and reinforce the sustainability of its economic model:

– maintain the extremely strict cost control program;
– pursue the IT modernisation programme launched in the beginning of 2016 and which should finish in 2018 and result in significant efficiency gains;
– continue to increase its market share in the different client segments;
– modify tariffs of certain services in compliance with the principles of fair treatment of its clients; an example of which would be the fixing of negative interest rates on overnight deposits for customers having a bank status or financial institutions;
– in terms of life insurance activities, maintain its long term management strategy of its assets and hedging, which mitigate and differ the impact of the decline in yields;
– continue to develop risk management tools;
– maintain extremely limited market risk positions in its trading book portfolio;
– closely monitor the evolution of the economic situation and undertake regular stress tests to measure the impact on its activities from a range of economic scenarios and to modify its business strategy accordingly where appropriate.

Geo-Political Risks

The choice by the United Kingdom to exit the European Union may reinforce expressed mistrust, to varying degrees, in the European Institutions. Legislative elections will be held in 2017 in several countries, which could result in a re-evaluation of the European project. Lastly, the new American government could introduce changes in international relations. The possible consequences of these evolutions are difficult to evaluate and impact on the investment decisions.

HSBC France follows these geopolitical evolutions very closely. Their possible effects on the economy and the markets are taken into account in the evaluation of the risks that the bank faces. Concerning "Brexit" more specifically, and although HSBC France has only a relatively small exposure to the United Kingdom economy or the exchange rate risk on the pound sterling, HSBC France keeps itself closely informed of the various scenarios being considered and their possible consequences for the HSBC group. One of the objectives of HSBC France remains to support the Franco British trade corridor.

An increase in terrorist activities could be expected. In addition to its economic consequences, this threat remains principally on assets and people.

With regard to the potential terrorist threat, HSBC France monitors the evolution of this risk, in connection with the French authorities and the other specialised teams of the HSBC Group. The bank continues to reinforce its physical security plans, and makes sure that its staff and its senior management team are regularly trained and remain prepared in case of such an attack.

Technology Risks

The banking industry is beginning to find itself confronted by competition from new non-banking entrants ("Fintechs", "Insurtechs"…) which have specialised expertise notably in IT technologies and which could therefore capture a part of the "value chain" of the services and products offered by the banking sector by offering to their customers potentially more flexible and low-priced services via smartphones or tablets. The transposition into national laws of the European revised Payment Services Directive - PSD2 scheduled for January 2018 will accelerate this competition, which is encouraged by venture capital companies.

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

The HSBC Group maintains close contacts with these new entrants. The bank's innovation team makes direct investments in these types of companies on behalf of the Group and collaborates with certain companies to integrate their best practices into its customer propositions. As an example the bank already offers its clients the ability to consult their accounts at other banks. HSBC France also has an ambitious plan to progressively "digitalize" its products.

Regulatory risks
Increasingly stringent regulatory requirements and structural reforms imposed by bank regulators for many years have resulted in higher regulatory capital and liquidity requirements, as well as customer protection. Existing regulations may also imply significant investment in IT systems and human resources, adversely affecting profitability. Finally, should the bank breach any regulatory requirements, it would face sanctions, including criminal proceedings, fines and penalties, while endangering its reputation.

The HSBC Group and HSBC France monitor and anticipate regulatory change wherever possible and maintain a permanent and intensive dialogue with their key regulators. The impact of regulatory evolution on capital requirements and more generally on their financial results are regularly assessed, presented and discussed by management. Especially with respect to its commercial policy, HSBC France continues to strengthen its procedures and its monitoring of fragile clients.

Model Risks
Regulatory requirements linked to developing, validating and monitoring RWA models including governance issues, have substantially increased and require significant upgrading work. In 2016, the ECB launched a comprehensive programme, called Targeted Review of Internal Models (TRIM) to review, assess and, as far as possible, harmonise RWA models. It is possible that uncertainties will remain with respect to HSBC France's capacity to keep some of its internal models over the long run or to have necessary model upgrades validated by the regulator. Uncertainty becomes more pronounced as HSBC France is also subject to the supervision of the British Prudential Regulation Authority (PRA).

In 2016, the Basel Committee presented its preliminary conclusions on the work conducted with a view to modifying some of the parameters for calculating RWA. Simulations carried out during the first consultation have shown a potential significant increase in regulatory capital requirement for HSBC France. To date, negotiations within the Basel Committee have continued regarding this issue.

Taken together, all these developments present for the bank a risk of an increase in capital requirements. To cope with these new constraints and to comply with the new regulatory requirements, HSBC France is improving its internal models and adjusting its corporate governance and is calling on specialist teams within HSBC Bank plc whenever necessary. The internal validation of models, contingent upon submission to the regulators, is carried out by an independent and dedicated team from HSBC Group.

Financial crime risks
An independent corporate compliance monitor, the "Monitor", was appointed in 2013 as part of the Deferred Prosecution Agreement (DPA). It is an agreement signed in 2012 by the HSBC Group, the US Department of Justice and the UK Financial Compliance Authority to assess on a yearly basis the efficiency of the group's programme to fight financial crime and comply with international sanctions.

Like all HSBC Group member companies, HSBC France follows a remediation programme to address the failures identified by the Monitor in its programme to fight financial crime and comply with international sanctions. This programme requires significant investment in IT systems and personnel. Its complexity generates significant execution risk, which could affect HSBC's ability to efficiently address unveiled shortcomings within the expected timeframe. Such a violation of the DPA could have consequences that are not foreseeable at present.

In response to this scenario, the HSBC group and HSBC France are firmly implementing ongoing remediation actions. HSBC France introduced a very precise monitoring process for the implementation of the Global Standards programme to enhance financial crime compliance controls and capabilities and to meet international commitments. HSBC France is also working on awareness campaigns and training to put safeguarding against financial crime at the forefront of the overall bank's personnel priorities.

Tax risks
In common with all companies, HSBC France is potentially exposed to the risk that increasingly complex tax rules could be misinterpreted or incorrectly applied. In particular, the tax authorities are increasingly attentive to the transfer pricing that apply between member companies of large international groups such as HSBC.

Moreover, certain clients of HSBC France could use some of its services with the objective of tax evasion which could expose the bank to charges of collusion and which, if confirmed, could also lead to severe financial, legal and reputational risks.

HSBC France Tax department works closely with other central functions and the various global business lines as well as with other Group entities to verify that the transactions undertaken for the bank's own account or on behalf of its clients are consistent with the spirit and letter of the tax laws.

People Risks

The various transformation programs in progress at HSBC France impact a significant proportion of the bank's staff, which, together with the voluntary redundancy program announced in September 2016, could create an environment that certain staff may feel as complex and uncertain. This situation could potentially lead to a decrease in staff engagement, increased sick leave and unwanted staff turnover.

In order to mitigate the above risks, HSBC France is making regular and clear communications to all staff concerning the reorganisations and projects in progress. The bank also monitors with attention the workload and stress levels of its employees via bi-annual surveys and adapted questionnaires for its executives. Line managers are equally made aware of this risk regularly and are encouraged to take appropriate action when the satisfaction index demonstrates a deterioration in the working conditions or employee perception thereof.

Execution and operational risks

The different projects and transformation programmes in progress at HSBC France could generate conflicting priorities and conflicts vis-à-vis the allocation of resources. This could impact on the management of each project, its correct and timely completion and on the running of the bank with possible consequences such as financial losses, reputational damage or also regulatory sanctions.

HSBC France provides the necessary means to manage its various projects, be they technical financial or human. These are subject to regular monitoring as part of the governance framework adapted to the nature and complexity of the projects, while considering possible interactions with other change programmes.

Fraud and Cyber-attack risks

HSBC France, like other institutions, is the target of cyberattacks, which, in some cases, may affect its operations both for its clients and for its own account. A cyberattack resulting from hacking into the Group's computer systems could result in financial losses and reputational damages. In addition, the loss or theft of client data may constitute a regulatory violation which could result in fines and penalties.

IT system's security is crucial to the effective operation of HSBC France's banking services, to customer protection and brand value. HSBC France continues to build its IT infrastructure, its IT control framework and its corporate governance in order to resist the threat of cyber-attacks.

Data management risks

HSBC France must ensure that it collects, manages and stores data in a consistent and reliable way, for its own use, the use of regulators and the use of its customers, who require increasingly frequent and detailed financial disclosures. Data storage and the bank's capacity to index and retrieve it, are equally important in some instances, such as in the case of litigation, enquiry or control. Should the bank's data maintenance systems fail, the bank could take uninformed decisions, produce unreliable financial disclosures or could be liable to penalties and other financial losses.

As part of HSBC Group's global data quality improvement programme, HSBC France is always looking to streamline data collection, to organise data storage and to rationalise and optimise data flows and data retrieval in IT systems.

IT systems risks

Apart from malicious activities, the bank's IT systems are also exposed to malfunction or breakdown risk, which would affect HSBC France's clients, operations or its ability to comply with regulatory obligations. Such risks could seriously affect the image and the reputation of the bank and lead to significant operational losses due to the costs of returning the systems to normal conditions, to potential compensation for the prejudice caused and for possible penalties and fines.

To guard against such risks, HSBC France is constantly conducting comprehensive maintenance work on its IT systems and software updates. HSBC France is implementing a major programme of IT systems upgrade, which is leading to the complete overhaul and replacement of its current banking IT infrastructure, which had gradually become too complex.

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

Legal risks

Besides compliance risk with existing regulation and laws, HSBC France is exposed, like any institution, to third party litigation risks, whatever they may be. Such risks may have financial implications, in the form of fines and penalties, as well as reputational risk. French and EU legislations have recently evolved in many critical areas, such as:

- administrative penalties and fines that can be levied for violation of the new conditions against late payment;
- data protection legislation, including the so called “right to be forgotten”, data portability and restricting profiling;
- legislation to identify and prevent any violation to human rights, to health and safety and the environment.

Legal and information monitoring system is available to HSBC France’s top management to prevent risks arising from legislative and regulatory reforms. Bills are continuously analysed to determine the practical consequences and appropriate adaptations for full compliance.

Post-balance sheet events

There has been no significant change since the date of the last published financial statements.

Outlook

Economic growth in the Eurozone remained very low during 2016 and in particular in France. The quantitative easing policies have contributed to the ECB interest rates remaining historically low. This context of decline in returns in a very low growth context burdens the bank’s interest margin and increases the challenges on the banking model for the French banking sector. HSBC France’s results could be impacted by a prolonged period of low or negative interest rates with a low inflation environment

HSBC France has a clear and focused strategy that is consistent with the HSBC Group’s strategy and adapted to France, a priority market. It focuses on three main orientations:

- driving up business by continuing to develop its wealth management business and investing in digital capabilities in Retail banking, leveraging strengths of the Group, notably its international footprint to reinforce its positioning in Commercial banking and Global Banking and Markets;
- investing in Global Standards in order to implement highest standards in financial crime compliance;
- simplifying processes and procedures to gain efficiency with improvements in the customer experience. HSBC France launched in 2016 a 3-years IT infrastructure modernisation programme and also has an ambitious to progressively “digitalise” its products.

HSBC France’s growth model aims to develop connectivity among the HSBC Group’s entities and to preserve the strength of its balance sheet.

Other information on HSBC France

Information on inactive banking accounts

At 31 December 2016

(Articles L. 312-19 and R. 312-21 of the French monetary and commercial code)

	Number of accounts *(units)*	Outstanding amounts *(thousand of euros)*
Inactive accounts open in our books	48,920	88,269
Accounts transferred to CDC during the year	1,884	4,135
Accounts transferred to French *domaines* during the year	13	68

Information on supplier payable amounts schedule

(Articles L. 441-6-1 and D. 441-4 of the French Commercial code)

At 31 December 2016, amounts payable to suppliers of HSBC France were EUR 71.1 million, of which 79 per cent with a due date less than 30 days.

At 31 December 2015, amounts payable to suppliers of HSBC France were EUR 43.6 million, of which 62 per cent with a due date less than 30 days.

Except for specific agreements with suppliers, payments are made within 45 days of invoice date.

Senior Executives

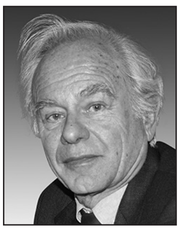
Directors and members of the Executive Committee

Jean Beunardeau
Chief Executive Officer, Head of Global Banking and Markets, France.
Group General Manager of the HSBC Group.

Age 55. Graduated from Ecole Polytechnique, Telecom engineer and Master of Economics, he began his career at the Ministry of Finance, mainly at the Treasury. He became Technical Advisor to the Prime Minister in 1995. He joined HSBC France in 1997 in Corporate Finance and became Managing Director in 2000. He was appointed Co-Head of Corporate Investment Banking and Markets, mainly in charge of Corporate and Investment Banking in March 2004. In 2005, he was appointed Senior Corporate Vice-President. In September 2007, he was appointed Head of Global Banking and Markets of HSBC France. Since 1 February 2010, he has been Deputy CEO and Deputy to the CEO, in addition to his current role as Head of Global Banking and Markets France. In November 2010, he was appointed Head of Global Banking, Continental Europe, HSBC Group. Since 10 January 2012, he has been CEO of HSBC France and Head of Global Banking and Markets, France.

Andrew Wild
Deputy Chief Executive Officer, Deputy to the CEO, HSBC France.
Head of Commercial Banking in France.

Age 46. British nationality. Graduate of the Business School of the University of Nottingham. He is also qualified as a chartered accountant. He joined the HSBC Group in 2005, after having been, in particular, Senior Manager Transaction Services at KPMG then, Corporate Finance Director at KPMG Corporate Finance. In June 2008, he was appointed Deputy Head of Commercial Banking of HSBC France. In April 2011, he was appointed Global Head of Corporate, Business Banking and Products of Commercial Banking, HSBC Group, then he became, in August 2013, Global Head of Mid-Market and Business Banking of Commercial Banking, HSBC Group. Since 2 February 2015, he has been Head of Commercial Banking in France and Deputy Chief Executive Officer, Deputy to the CEO of HSBC France since 1 March 2015.



Philippe Pontet
Chairman Investment Banking.

Age 74. He joined HSBC France in 2005 as Vice-Chairman of Corporate Finance Europe. In February 2005, he was appointed member of HSBC France's Board. At the end of August 2007, he was appointed member of HSBC's New European Advisory Council. Over the last 30 years he has held a number of leading positions in the French banking and industrial sectors, including Chairman and CEO of the banking group Crédit Industriel et Commercial; Chairman and CEO of Framatome; and Chairman of AREVA prior to joining HSBC in January 2005. Since September 2007, he has been Chairman Investment Banking.

Other members of the Executive Committee

Anne-Lise Bapst	Head of Communication
Marine de Bazelaire	Head of Corporate Sustainability
Xavier Boisseau	Deputy Head of Global Banking and Markets
Hubert Bouxin	Co-Head of Banking
Myriam Couillaud	Head of Human Resources
Eric Emoré	Head of Insurance
François Essertel	Head of Private Banking
Emma Evans	Head of Financial Crime Compliance
Laurent Facque	Head of Regulatory Compliance
Sébastien Guillo	Head of Strategy and Organisation
Marc de Lapérouse	Head of Legal
Nathalie Léonard	Head of Tax
Philippe Moiroud	Chief Operating Officer
François Mongin	Head of HSBC France Internal Audit
Matteo Pardi	Head of Asset Management
Emmanuel Rémy	Chief Risk Officer
Laurence Rogier	Chief Financial Officer
Thomas Vandeville	Head of Retail Banking and Wealth Management
Simon Vaughan Johnson	Head of Remediation Management Office

Composition of the Board of Directors

Composition of the Board of Directors of HSBC France on 9 February 2017 [1]

Samir Assaf *Born in 1960*
First elected: 2012. Last re-elected: 2016. Term ends: 2019.
Chairman of the Board of Directors, HSBC France. Member of the Nomination Committee and of the Remuneration Committee, HSBC France.

Principal position:
Member of the Group Management Board. Chief Executive Officer Global Banking and Markets, HSBC Group*.

Other directorships in the HSBC Group:
Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG*. Director, The Saudi British Bank* (since April 2016). Directorship expired in 2016: Director, HSBC Bank plc.

Other directorship outside of the HSBC Group:
Directorship expired in 2016: Chairman of the Board of Directors, Global Financial Markets Association.

Résumé:
Joined CCF in 1994 from Group Total, where he was Head of Treasury. At CCF, he was appointed Head of Markets in 1998. He joined HSBC in 2000 when the bank acquired CCF. Started at HSBC as Head of Global Markets at HSBC France and Head of Fixed Income Trading, Europe. In 2006, promoted to Head of Global Markets, Europe and Middle-East. In January 2008, he became Head of Global Markets and a Group General Manager in May 2008. On 1 January 2011, he was appointed Group Managing Director and a member of the Group Management Board. Since November 2012, he has been Chairman of the Board of Directors of HSBC France.

Jean Beunardeau *Born in 1962* [2]
First elected: 2008. Last re-elected: 2014. Term ends: 2017[3].

Principal position:
Chief Executive Officer, HSBC France. Head of Global Banking and Markets, France. Group General Manager, HSBC Group.

Other directorships in the HSBC Group:
Chairman of the Board, HSBC Global Asset Management (France). Chairman of the Board, HSBC Assurances Vie (France). Director, Valeurs Mobilières Elysées.

Other directorship outside of the HSBC Group:
Director, Institut de la Gestion Déléguée. Member of the Supervisory Board, Société Anonyme des Galeries Lafayette. Member of the Supervisory Board, Fonds de garantie des dépôts et de résolution (permanent representative of HSBC France) (since April 2016).

Andrew Wild *Born in 1970* [2]
First elected: 2015. Last re-elected: 2016. Term ends: 2019.

Principal position:
Deputy CEO, Deputy to the CEO, HSBC France. Head of Commercial Banking in France.

Other directorship outside of the HSBC Group:
Treasurer, Association Française des Banques (since September 2016). Chairman of the Group of Banks under foreign control in France, Fédération Bancaire Française (since April 2016).

1 *As far as their directorship at HSBC France is concerned, the address of HSBC France's Directors and Senior Executives is the company's registered office, 103 avenue des Champs-Elysées, 75419 Paris Cedex 08, France.*
2 *Résumé available on page 24.*
3 *Director standing for re-election at the Annual General Meeting to be held on 26 April 2017.*
* *Listed company.*

Ibtissam Bara *Born in 1982*
First elected: 2016. Term ends: 2019.
Director elected by employees.

Principal position:
Project Officer, Pro Clients Proposition Department, RBWM, HSBC France.

Résumé:
Joined HSBC France in 2007.

Ludovic Bénard *Born in 1978*
First elected: 2016. Term ends: 2019.
Director elected by employees.

Principal position:
Wealth Management Advisor, Opéra Patrimonial Center, RBWM, HSBC France.

Other directorships in the HSBC Group:
Member of the Supervisory Board, HSBC France Actionnariat.

Résumé:
Joined HSBC France in 2009.

Xavier Bertrand *Born in 1960*
First elected: 2016. Term ends: 2019.
Director elected by employees.

Principal position:
Project Officer, Pro Clients Proposition Department, RBWM, HSBC France.

Résumé:
Joined HSBC France in 1999.

Paule Cellard *Born in 1955*
First elected: 2017. Term ends: 2019.
Independent Director.

Other directorships:
Founder and Chairman: Klefi Conseil. Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex. Member of the Supervisory Board: Somfy.

Résumé:
After having held various operational responsibilities within banking and markets activities at Banque Indosuez, The Chase Manhattan Bank and then between 1989 and 2000 at Crédit Agricole group, she was Head of the central team of Calyon's *Inspection Générale* between 2000 and 2005, CEO of Gestion Privée Indosuez between 2006 and 2009, and subsequently Global Head of Compliance for Crédit Agricole Corporate & Investment Bank, until 2013 when she retired. Since 2013, she has been holding several directorships in boards and board committees and she founded Klefi Conseil, specialised in consultancy and training services.

Composition of the Board of Directors (continued)

Martine Gerow *Born in 1960*
First elected: 2012. Last re-elected: 2016. Term ends: 2019.
Independent Director. Member of the Audit Committee and of the Risk Committee, HSBC France.

Principal position:
Executive Vice-President and Chief Financial Officer, Carlson Wagonlit Travel.

Other directorships:
Chief Executive Officer, CWT SAS. Director, Bpifrance Participations. Director, Bpifrance Investissement.

Résumé:
Internal Auditor at PPG Industries in France and in the USA (1983-1985) and Strategy Consultant within The Boston Consulting Group in New York until 1989. From 1989 to 2002, held various positions within the Strategy and Development Department of the Pepsico Group then Chief Financial Officer of Pepsico in France. From 2002 to 2007, Chief Financial Officer - Beverage Division then Group Financial Controller of the Danone Group. From 2008 to 2010, Chief Financial Officer of the Smithfield Group then Chief Financial Officer of the Campofrio Food Group. From 2010 to 2014, Executive Vice-President in charge of Finance, Purchasing and IT of Solocal Group. Since September 2014, Executive Vice-President and Chief Financial Officer of Carlson Wagonlit Travel.

Lindsay Gordon *Born in 1952*
First elected: 2013. Last re-elected: 2016. Term ends: 2019.
Independent Director. Chairman of the Risk Committee and Member of the Audit Committee, HSBC France.

Other directorships in the HSBC Group:
Director, HSBC Bank Bermuda Limited.

Other directorships:
Chancellor, University of British Columbia. Governor and Co-Founder, C.H.I.L.D. Foundation. Director, Clear Seas Centre for Responsible Marine Shipping. Director, Export Development Canada. Director, Canadian Institute for Advanced Research. Directorship expired in 2016: Co-Chair, University of British Columbia Capital Campaign.

Résumé:
British and Canadian nationality. He joined HSBC Bank Canada in 1987 and has served in various roles in Toronto and Vancouver including Senior Executive Vice-President, Chief Credit Officer, Senior Vice-President and Head of Special Credit, and Vice-President Toronto Commercial Banking. He was appointed Chief Operating Officer in December 1999 then President and Chief Executive Officer of HSBC Bank Canada from October 2003 to January 2013, date of his retirement.

Philippe Houzé *Born in 1947*
First elected: 1999. Last re-elected: 2016. Term ends: 2019.
Independent Director. Chairman of the Nomination Committee and of the Remuneration Committee, HSBC France.

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

Other directorships:
Deputy Chairman and Chief Executive Officer, Motier. Chairman, Motier Domaines. Chairman, Guérin Joaillerie. Director, Carrefour*. Director, Lafayette Anticipation - Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Supervisory Committee, BHV Exploitation. Member of the Steering Committee, Union du Grand Commerce de Centre-Ville (UCV). Elected Member, Chambre de Commerce et d'Industrie de Paris. Elected Member, Chambre de Commerce et d'Industrie de la région Paris Ile de France (since December 2016). President of the Council, France INSEAD. Director, INSEAD. Chairman of the Governing Board, Novancia Business School. Deputy Chairman, Association Alliance 46.2 Entreprendre en France pour le Tourisme. Director, Expofrance 2025. Director, EESC ESCP (since December 2016).

Résumé:
Director of Galeries Lafayette since 1974. Chairman of Monoprix from 1994 to 2013.

* *Listed company.*

Anne Méaux *Born in 1954*
First elected: 2011. Last re-elected: 2015. Term ends: 2018.
Independent Director.

Principal position:
Chairman, Anne Méaux Conseil.

Other directorships:
Deputy Chairman, Association Force Femmes. Chairman of the Board of the Founders, Les Napoléons.

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). Until 2015, Chairman of Image 7 which she founded in 1988.

Thierry Moulonguet *Born in 1951*
First elected: 2009. Last re-elected: 2016. Term ends: 2019.
Independent Director. Chairman of the Audit Committee and member of the Risk Committee, HSBC France.

Other directorships in the HSBC Group:
Independent Director, Chairman of the Audit Committee and Member of the Risk Committee, HSBC Bank plc.

Other directorship outside of the HSBC Group:
Chairman and Chief Executive Officer, Revue Des Deux Mondes[1]. Vice-Chairman of the Supervisory Board, Webedia[1]. Director, Fimalac*[1]. Director, Groupe Lucien Barrière[1]. Director, Valeo*. Director, Prodways Group[1]. Director, Trois-S Entertainment[1].

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 2010, Executive Vice-President and Chief Financial Officer of the Renault Group, and then, until 2011, Director and Special Adviser to the President of the Renault-Nissan Alliance.

Philippe Pontet *Born in 1942*[2]
First elected: 2005. Last re-elected: 2015. Term ends: 2018.

Principal position:
Chairman Investment Banking, HSBC France.

Other directorships in the HSBC Group:
Director, Valeurs Mobilières Elysées.

Arnaud Poupart-Lafarge *Born in 1965*
First elected: 2016. Term ends: 2019.
Independent Director.

Principal position:
Chief Executive Officer, Nexans.

Résumé:
Within the ArcelorMittal group, he managed various operations in Europe, Africa and CIS; he was a member of ArcelorMittal Management Council until July 2013. Chief Executive Officer of Nexans since October 2014, after joining the company in July 2013 as Chief Operating Officer.

1 *Companies owned by the Fimalac group.*
2 *Résumé available on page 24.*
* *Listed company.*

Composition of the Board of Directors (continued)

Philippe Purdy *Born in 1958*
First elected: 2004. Last re-elected: 2016. Term ends: 2019.
Director elected by employees.

Principal position:
Sales representative, Mandelieu branch, HSBC France.

Résumé:
Joined HSBC France in 1982.

Lucile Ribot *Born in 1966*
First elected: 2016. Term ends: 2017[1].
Independent Director.

Other directorships:
Directorships expired in 2016: Director: Fives Celes, Fives Cryo, Fives Manufacturing Industries, Fives Proabd, Fives Stein, Fives Solios (permanent representative of Fives), Fives Cail (permanent representative of Fives). Directorships expired on 15 January 2017: Member of the Management Board, Fives. Member of the Management Board and Chief Executive Officer, Novafives. Director, Fives DMS, Fives Pillard, FL Metal, Fives Landis Limited, Fives UK Holding Limited.

Résumé:
Senior Audit Manager at Arthur Andersen (audit and consulting) from 1989 to 1994. She joined the Fives Group in 1995 as a Group Financial Controller. From 1996 to 1997, Chief Financial and Administrative Officer of the subsidiary Five Solios. From 1998 to January 2017, Chief Financial Officer of Fives and Member of the Management Board since 2002.

Carola Von Schmettow *Born in 1964*
First elected: 2015. Term ends: 2018.

Principal position:
Chairman of the Management Board, HSBC Trinkaus & Burkhardt AG*.

Other directorship outside of the HSBC Group:
Member of the Advisory Board, L-Bank. Chairman of the Exchange Council, EUREX. Member of the Exchange Council, Frankfurt Stock Exchange. Member of the Supervisory Board, ThyssenKrupp AG*. Member of the Supervisory Board, BVV.

Résumé:
German nationality. Joined HSBC Trinkaus & Burkhardt AG in September 1992 as Associate Trading. From October 1995 to July 1997, Head of Treasury then Head of Global Markets Coordination until September 1999. From October 1999 to June 2003, Chief Executive Officer of HSBC Trinkaus Capital Management GmbH. She was also Member of the Executive Committee of HSBC Trinkaus & Burkhardt AG from June 2001 to May 2004, firstly as Responsible for Private Banking and Asset Management then as Responsible for Institutional Clients, Markets and Asset Management. From June 2004 to May 2006, Managing Partner with unlimited liability of HSBC Trinkaus & Burkhardt KGaA, company for which she was Responsible for Institutional Clients, Markets and Asset Management. Since 2006, Member of the Management Board of HSBC Trinkaus & Burkhardt AG and Responsible for Markets, Capital Financing, Global Markets and Asset Management. On 2 June 2015, she was appointed Chairman of the Management Board of HSBC Trinkaus & Burkhardt AG.

1 *Director standing for re-election at the Annual General Meeting to be held on 26 April 2017.*
* *Listed company.*

Antonio Simoes *Born in 1975*
First elected: 2012. Last re-elected: 2016. Term ends: 2019.

Principal position:
Member of the Group Management Board, HSBC Group*. Chief Executive Officer, HSBC Bank plc. Chief Executive Officer of Europe.

Other directorships in the HSBC Group:
Director, HSBC Bank plc.

Other directorship outside of the HSBC Group:
Chairman, Financial Conduct Authority Practitioner Panel. Member, Banking Standards Board.

Résumé:
Portuguese nationality. Joined HSBC in 2007 from McKinsey & Co, where he was a Partner in the London office. From September 2007 to September 2009, Group Head of Strategy, HSBC Holdings plc. From October 2009 to December 2011, Group Head of Strategy and Planning and Chief of Staff to the Group CEO, HSBC Holdings plc. He was appointed Group General Manager in 2011. From December 2011 to June 2014, Head of United Kingdom and of Retail Banking and Wealth Management Europe. From June 2014 to September 2015, Deputy Chief Executive, HSBC Bank plc and Chief Executive Officer of United Kingdom. Since September 2015, Chief Executive Officer, HSBC Bank plc and Chief Executive of Europe.

Brigitte Taittinger *Born in 1959*
First elected: 2008. Last re-elected: 2016. Term ends: 2019.
Independent Director.

Principal position:
Director of Strategy and Development at Sciences Po, Paris.

Other directorships:
Member of the Board of Directors, Centre Georges Pompidou. Director, Groupe Fnac*. Directorship expired in 2016: Vice-President of the Board of Directors, Festival d'Aix-en-Provence.

Résumé:
Advertising Manager for Publicis from 1984 to 1988. Marketing Department of Groupe du Louvre from 1988 to 1991. Chairman and CEO of Annick Goutal from 1991 to 2012. Since April 2013, Director of Strategy and Development at Sciences Po, Paris.

Jacques Veyrat *Born in 1962*
First elected: 2009. Last re-elected: 2016.Term ends: 2019.
Independent Director. Member of the Nomination Committee and of the Remuneration Committee, HSBC France.

Principal position:
Chairman, Impala SAS.

Other directorships:
Chairman, Impala Holding. Director, Groupe Fnac*. Director, Nexity*. Member of the Supervisory Board, Eurazeo*. Member of the Supervisory Board, Neoen. Member of the Supervisory Board, Pacemar. Member of the Board of Directors, Cameron France Holding SAS. Censor, Sucres et Denrées.

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.

* *Listed company.*

Composition of the Board of Directors (continued)

Directorships held by the members of the Board of Directors (composition at 9 February 2017)

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	2016	2015	2014	2013	2012
Samir Assaf Member of the Group Management Board. Chief Executive Officer, Global Banking and Markets, HSBC Group. Chairman of the Board of Directors, HSBC France.	2012	2019	Directorships in the HSBC Group: Chairman of the Board of Directors, HSBC France. Director: The Saudi British Bank Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.	Directorships in the HSBC Group: Chairman of the Board of Directors, HSBC France. Director: HSBC Bank plc. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG. Directorship outside of the HSBC Group: Chairman of the Board of Directors: Global Financial Markets Association.	Directorships in the HSBC Group: Chairman of the Board of Directors, HSBC France. Director: HSBC Bank plc. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG. Directorship outside of the HSBC Group: Chairman of the Board of Directors: Global Financial Markets Association.	Directorships in the HSBC Group: Chairman of the Board of Directors: HSBC France. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.	Directorships in the HSBC Group: Chairman of the Board of Directors: HSBC France. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.
Jean Beunardeau Chief Executive Officer, HSBC France. Head of Global Banking and Markets, France. Group General Manager, HSBC Group.	2008	2017 [1]	Directorships in the HSBC Group: Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: Valeurs Mobilières Elysées. Directorships outside of the HSBC Group: Director: Institut de la Gestion Déléguée. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette. Member of the Supervisory Board: Fonds de garantie des dépôts et de resolution (permanent representative of HSBC France).	Directorships in the HSBC Group: Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: Valeurs Mobilières Elysées. Directorships outside of the HSBC Group: Director: Institut de la Gestion Déléguée. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette.	Directorships in the HSBC Group: Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France). Director: Valeurs Mobilières Elysées, HSBC Assurances Vie (France). Directorships outside of the HSBC Group: Director: Institut de la Gestion Déléguée. Director and Treasurer: Fondation ESTP. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette.	Directorships in the HSBC Group: Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France). Director: Valeurs Mobilières Elysées, HSBC Assurances Vie (France). Directorships outside of the HSBC Group: Director: Institut de la Gestion Déléguée. Director and Treasurer: Fondation ESTP. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette.	Directorships in the HSBC Group: Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France). Director: Valeurs Mobilières Elysées, HSBC Assurances Vie (France). Directorships outside of the HSBC Group: Director: Institut de la Gestion Déléguée. Director and Treasurer: Fondation ESTP.

1 *Director standing for re-election at the Annual General Meeting to be held on 26 April 2017.*

Director's name Principal position	First elected	Term ends	**2016**	2015	2014	2013	2012
Andrew Wild Deputy Chief Executive Officer, Deputy to the CEO, HSBC France. Head of Commercial Banking in France.	2015	2019	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Directorships outside the HSBC Group: Treasurer: Association Française des Banques. Chairman of the Group of Banks under foreign control in France: Fédération Bancaire Française.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France.	–	–	–
Ibtissam Bara Project Officer, Pro Clients Proposition Department, RBWM, HSBC France.	2016	2019	Director elected by employees: HSBC France	–	–	–	–
Ludovic Bénard Wealth Management Advisor, Opéra Patrimonial Center, RBWM, HSBC France.	2016	2019	Director elected by employees: HSBC France.	–	–	–	–
Xavier Bertrand Project Officer, Pro Clients Proposition Department, RBWM, HSBC France.	2016	2019	Directorships in the HSBC Group: Director elected by employees: HSBC France. Member of the Supervisory Board: HSBC France Actionnariat.	–	–	–	–
Martine Gerow Executive Vice-President and Chief Financial Officer, Carlson Wagonlit Travel.	2012	2019	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chief Executive Officer: CWT SAS. Director: Bpifrance Participations, Bpifrance Investissement.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chief Executive Officer: CWT SAS. Director: Bpifrance Participations, Bpifrance Investissement.	Directorship in the HSBC Group: Independent Director: HSBC France.	Directorship in the HSBC Group: Independent Director: HSBC France.	Directorship in the HSBC Group: Independent Director: HSBC France.

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2016**	2015	2014	2013	2012
Lindsay Gordon Company Director.	2013	2019	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chancellor: University of British Columbia. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chancellor: University of British Columbia. Co-Chair: University of British Columbia Capital Campaign. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chancellor: University of British Columbia. Co-Chair: University of British Columbia Capital Campaign. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Co-Chair: University of British Columbia Capital Campaign. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Centre of Excellence for Marine Transportation.	–

Director's name Principal position	First elected	Term ends	**2016**	2015	2014	2013	2012
Philippe Houzé Chairman of the Management Board, Groupe Galeries Lafayette.	1999	2019	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines, Guérin Joaillerie. Director: Carrefour. Director: Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Steering Committee: Union du Grand Commerce de Centre-Ville (UCV). Elected member: Chambre de Commerce et d'Industrie de Paris, Chambre de Commerce et d'Industrie de la région Paris Ile de France. Member of the Supervisory Committee: BHV Exploitation. President of the Council: France INSEAD. Director: INSEAD, Expofrance 2025, EESC ESCP. Chairman of the Governing Board: Novancia Business School. Deputy Chairman: Association Alliance 46.2 Entreprendre en France pour le Tourisme.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines, Didier Guérin. Director: Carrefour. Director: Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Steering Committee: Union du Grand Commerce de Centre-Ville (UCV). Elected member: Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee: BHV Exploitation. President of the Council: France INSEAD. Director: INSEAD, Expofrance 2025. Chairman of the Governing Board: Novancia Business School. Deputy Chairman: Association Alliance 46.2 Entreprendre en France pour le Tourisme.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines. Director: iDbyMe, Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Steering Committee: Union du Grand Commerce de Centre-Ville (UCV). Elected member: Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee: Bazar de l'Hôtel de Ville-B.H.V. Censor: Groupe Carrefour. President of the Council: France INSEAD. Chairman of the Governing Board: Novancia Business School. Deputy Chairman: Association Alliance 46.2 Entreprendre en France pour le Tourisme.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. 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. Member of the Supervisory Committee: Bazar de l'Hôtel de Ville-B.H.V. President of the Council: INSEAD France. Chairman of the Governing Board: Novancia Business School.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. 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.

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2016**	2015	2014	2013	2012
Anne Méaux Chairman, Anne Méaux Conseil.	2011	2018	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Anne Méaux Conseil. Deputy Chairman: Association Force Femmes. Chairman of the Board of the Founders: Les Napoléons.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Anne Méaux Conseil. Deputy Chairman: Association Force Femmes. Chairman of the Board of the Founders: Les Napoléons.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Image 7, Com Sept Finance, Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Image 7, Image 8, Com Sept Finance. Managing Director: Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Image 7, Image 8, Com Sept Finance. Managing Director: Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.
Thierry Moulonguet Company Director.	2009	2019	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, Prodways Group, Valeo, Trois-S Entertainment.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, Prodways Group, Valeo.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, Valeo.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, Valeo.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, Valeo.
Philippe Pontet Chairman Investment Banking, HSBC France.	2005	2018	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.
Arnaud Poupart-Lafarge Chief Executive Officer, Nexans.	2016	2019	Directorships in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chief Executive Officer: Nexans.	–	–	–	–
Philippe Purdy Sales representative, Mandelieu branch, HSBC France.	2004	2019	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.

Director's name Principal position	First elected	Term ends	**2016**	2015	2014	2013	2012
Lucile Ribot	2016	2017 [1]	Directorship in the HSBC Group. Independent Director: HSBC France. Directorships outside of the HSBC Group: Member of the Management Board: Fives. Member of the Management Board and Chief Executive Officer: Novafives. Director: Fives DMS, Fives Pillard, FL Metal, Fives Landis Ltd, Fives UK Holding Limited.	–	–	–	–
Carola Von Schmettow Chairman of the Management Board, HSBC Trinkaus & Burkhardt AG.	2015	2018	Directorship in the HSBC Group: Director: HSBC France. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. Directorships outside of the HSBC Group: Member of the Advisory Board: L-Bank. Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp, BVV.	Directorship in the HSBC Group: Director: HSBC France. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. Directorships outside of the HSBC Group: Member of the Advisory Board: L-Bank. Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp, BVV.	–	–	–
Antonio Simoes Chief Executive Officer, HSBC Bank plc and Chief Executive Officer of Europe.	2012	2019	Directorships in the HSBC Group: Chief Executive Officer and Director: HSBC Bank plc. Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Financial Conduct Authority Practitioner Panel. Member: Banking Standards Board.	Directorships in the HSBC Group: Chief Executive Officer and Director: HSBC Bank plc. Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Financial Conduct Authority Practitioner Panel. Member: Banking Standards Board.	Directorships in the HSBC Group: Director: HSBC France, HSBC Bank plc.	Directorships in the HSBC Group: Director: HSBC France, HSBC Bank plc, HSBC Bank A.S.	Directorships in the HSBC Group: Director: HSBC France, HSBC Bank plc, HSBC Bank A.S.

1 *Director standing for re-election at the Annual General Meeting to be held on 26 April 2017.*

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2016**	2015	2014	2013	2012
Brigitte Taittinger Director of Strategy and Development at Sciences Po, Paris.	2008	2019	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Member of the Board of Directors: Centre Georges Pompidou. Director: Groupe Fnac.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Vice-President of the Board of Directors: Festival d'Aix-en-Provence. Member of the Board of Directors: Centre Georges Pompidou. Director: Groupe Fnac.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Vice-President of the Board of Directors: Festival d'Aix-en-Provence. Member of the Board of Directors: Centre Georges Pompidou. Director: Groupe Fnac.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Director: Ensemble Orchestral de Paris, Opéra Comique, Groupe Fnac.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Director: Ensemble Orchestral de Paris, Opéra Comique.
Jacques Veyrat Chairman, Impala SAS.	2009	2019	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Impala SAS, Impala Holding. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen, Pacemar. Censor: Sucres et Denrées.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Impala SAS, Impala Holding. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen, Pacemar. Censor: Sucres et Denrées.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Impala SAS, Impala Holding. Chairman of the Board of Director: Maison Lejaby SA. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen. Censor: Sucres et Denrées.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Impala SAS, Impala Holding. Director: Imerys, Groupe Fnac, Nexity. Member of the Supervisory Board: Eurazeo, Neoen, Sucres et Denrées.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Impala SAS. Director: Poweo Direct Energie, Imerys, ID Logistics Group. Member of the Supervisory Board: Eurazeo.

Chairman's report on the Board of Directors and internal control and risk management prodecures

Under 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 on the application of the principle of balanced representation of men and women on the Board, the preparation and organisation of the Board's work, and the internal control and risk management procedures. This report also includes 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. It also reports on the financial risks associated with the effects of climate change and the measures taken by the company to reduce them by implementing a low carbon strategy in all the components of its activity.

I am pleased to present my report in this respect for the year ended 31 December 2016. Management is responsible for defining and implementing adequate and effective internal control and risk management procedures with oversight by the Board of Directors.

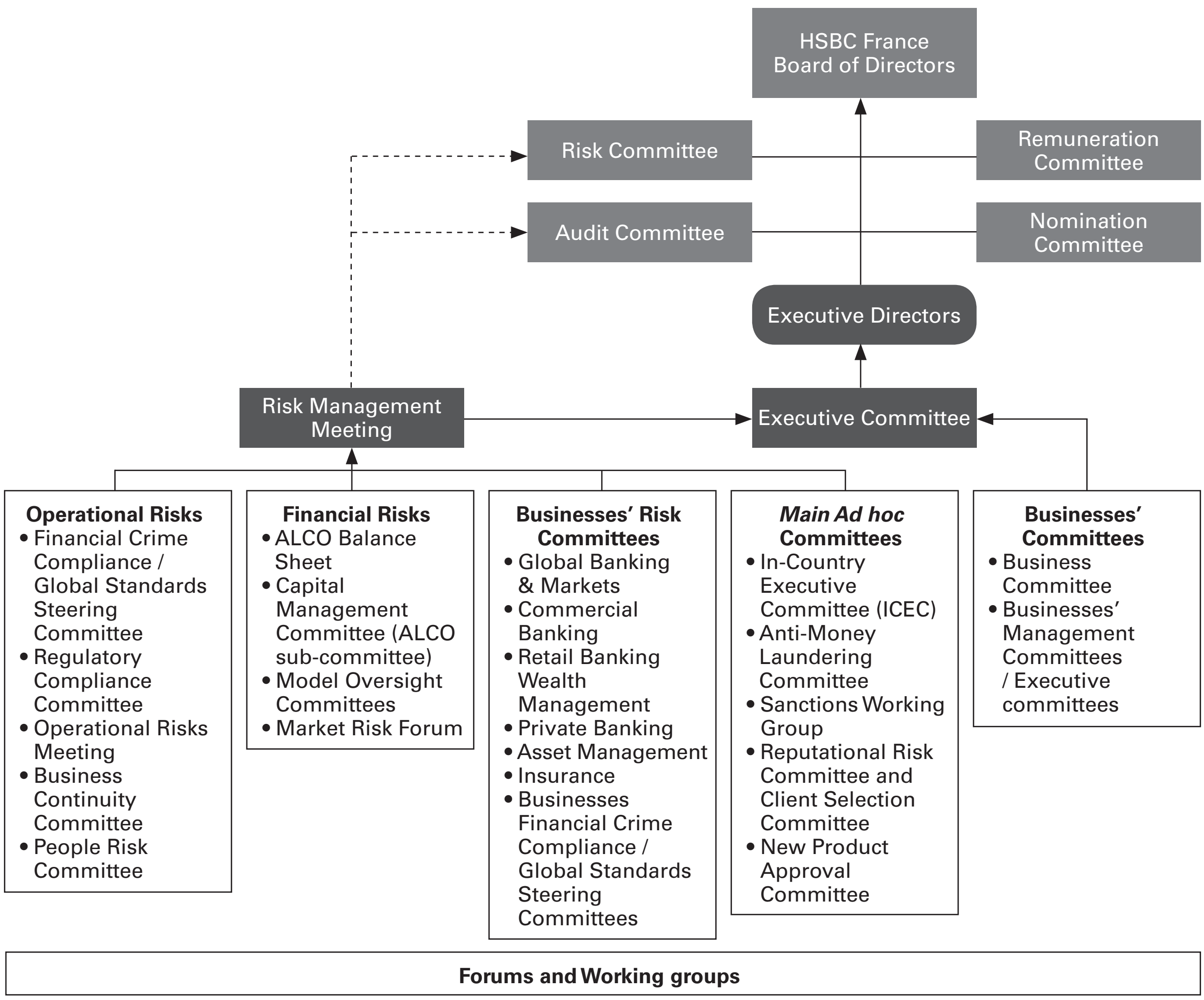
The first part of this report, regarding corporate governance and remuneration, was submitted to the Nomination Committee and to the Remuneration Committee on 30 January 2017 and the second part, on internal control and risk management procedures to the Audit Committee and to the Risk Committee, on 6 February 2017. The Board then approved the whole report on 8 February 2017.

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 THE BOARD OF DIRECTORS

Governance structure and principles

Committees' governance and structure



Board composition is detailed on pages 26 et seq of the Registration Document and presented in this Chairman report (see from page 41).

Membership, missions and work of the Board Committees are presented in relevant sections of this Chairman report (see pages 47, 49, 52 and 53).

General Management and Executive Committee membership is detailed on pages 24 et seq of the Registration Document.

Corporate governance regime

Corporate governance code

In accordance with the requirements under article L. 225-37 of the French Commercial Code, it is stated that the Corporate governance code to which HSBC France refers, as a priority, is the Corporate Governance Code for HSBC Group companies (the "Code"), adopted by HSBC France Board of Directors at its meeting of 14 February 2014. The aim of this code is to provide consistent and high standard corporate governance practices throughout the HSBC Group and is consistent with HSBC France's specific situation of 99.9 per cent owned subsidiary of the HSBC Group and which capital securities are not admitted to trading on a regulated market.

Information on governance structure, Chairman's role, on Board's composition, functioning, organisation and work, and on Executive Directors' compensation are presented in the sections of this Report.

Board of Directors' internal rules

The Board of Directors' internal rules were first established in 1996, and have been updated several times since their implementation. In 2016, the Board updated this internal rules twice, at its meetings held on 8 February and on 22 July 2016, in order to take into account the review, by the HSBC Group, of the core terms of reference for the Board's Committees and the entry into force of the European Regulation on Market Abuse.

The Board's internal rules define the conducting of the Board meetings and the information to the Board of Directors. They indicate the main duties and arrangements for exercising the function of 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 Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee (as stipulated below in the parts related to each of 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.

Board Chairmanship and Executive management

Since 2007, HSBC France's Board of Directors has chosen to separate the functions of Chairman of the Board and Chief Executive Officer. This choice has been maintained since then and is, furthermore in compliance with obligations for credit institutions since 2014.

Missions of the Chairman of the Board

The Chairman of the Board has a duty to ensure the proper functioning of HSBC France's governing organs. In particular he conducts the work of the Board and coordinates it with that of the specialised Committees. He ensures that the Directors are in a position to perform their mission, and in particular ensures that they are in possession of all of the information they require for the discharge of their duties.

Chief Executive Officer's powers

The CEO has the widest powers to act on the company's behalf 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. At present, there are no specific restrictions on the Chief Executive Officer's powers set by the Board, but in practice, decisions involving the orientation of company activities are submitted to the Board of Directors for approval.

Furthermore, the Board of Directors has delegated powers to issue bonds to Jean Beunardeau (Chief Executive Officer), Andrew Wild (Deputy Chief Executive Officer) and a certain number of Global Markets officers.

Even if the Chief Executive Officer has the widest powers to act on the company's behalf, he has delegated certain powers to the Deputy Chief Executive Officer and to employees under his immediate direct authority, who may in turn delegate some of these powers to agents holding general powers of attorney.

These delegated powers concern:

- representation of the bank;
- banking operations;
- bank-related operations;
- litigation.

These 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[1] and market[2] risk, for which the CEO delegates his powers.

Board of Directors

Composition of the Board

At 31 December 2016, the Board of Directors comprised 19 Directors, of which 15 appointed by the Shareholders' General Meeting and 4 elected by employees. A representative of the Central Works Council attends Board meetings, without voting rights.

The Directors elected by Shareholders' General Meeting or by employees have a three-year term of office.

Changes occurred during 2016

The Nomination Committee reviewed the position of the Directors whose term of office expired at the AGM on 19 April 2016: Samir Assaf, Martine Gerow, Lindsay Gordon, Philippe Houzé, Alan Keir, Thierry Moulonguet, Antonio Simoes, Brigitte Taittinger, Jacques Veyrat and Andrew Wild, and proposed that the Board vote to reappoint them, taking into account their performance, skills and active contribution to the work done by the Board. At the AGM held on 19 April 2016, shareholders re-elected those Directors.

On the Nomination Committee's proposal, the Board of Directors, at its meeting on 19 April 2016, co-opted Lucile Ribot as a Director, to replace Gilles Denoyel who resigned.

On the Nomination Committee's proposal, the Board of Directors decided, at its meeting on 22 July 2016 to submit to the Shareholders' General Meeting, the appointment of Arnaud Poupart-Lafarge as a Director of HSBC France.

At its meeting on 22 September 2016, shareholders appointed Arnaud Poupart-Lafarge as a Director for a three-year term and ratified Lucile Ribot's co-optation.

On 26 September 2016, HSBC France employees elected Ibtissam Bara, Ludovic Bénard and Xavier Bertrand as Directors representing the employees and re-elected Philippe Purdy for a three-year term. The terms of office of Véronique Duquesne, Michel Gauduffe and Guillaume Praud ended on that date.

At its meeting on 26 October 2016, the Board of Directors noted the resignation of Alan Keir from his term as Director on 12 October 2016.

Board diversity

Board membership aims to include a balance and a complementarity of experience, skills, knowledge, independence and diversity. Global Board membership has thus to reflect a sufficiently broad range of experience and profiles. Knowledge and experience of the financial industry, business management and international dimension are basic criteria to select candidates.

The Board includes five different nationalities. The average age of the Directors in office is 55.

Other than the Directors elected by employees, the Board comprises five women and ten men. The objective for HSBC France Board membership, set by the Nomination Committee, is to reach at least 40 per cent of women and 40 per cent of men (excluding Directors elected by employees), no later than the Annual General Meeting to be held in 2017. The Committee organised the succession plan for the Directors in order to achieve this objective.

Independent Directors

In accordance with the Corporate Governance Code for HSBC Group companies, the Board of Directors determines, on appointment and annually thereafter, whether each non-executive Director is independent in character and judgement. To do this, it examines whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board should record its reasons if it determines that a Director is independent notwithstanding the existence

1 *See Risk Management, page 122.*
2 *See Risk Management, page 150.*

of relationships or circumstances which may appear relevant to its determination, including if the director:

(i) is a former employee of the company or of the Group, until five years after employment, or any other material connection, has ended during this period;

(ii) has, or has had within the last three years, a material business relationship with a company in the HSBC Group either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with that company (including if the director has been a director, partner or principal of a professional adviser which currently provides services or provided services within one year of the date of appointment of the director or is an employee of such professional adviser who is or has been involved in providing such services to that company);

(iii) has received or receives additional remuneration from the company, apart from a director's fee, or additional remuneration from any other company in the HSBC Group, participates in a company or HSBC Group share option or a performance-related pay scheme, is a member of an HSBC Group pension scheme or is financially dependent on any company in the HSBC Group;

(iv) has close family ties with any advisers, directors or senior employees of any company in the HSBC Group;

(v) holds cross-directorships or has significant links with other directors of the company through involvement in other companies or bodies; or

(vi) represents a significant external shareholder.

Furthermore, the Board rigorously reviews all relevant circumstances before determining that a non-executive Director who has served on the Board for more than nine years remains independent.

Based on the Nomination Committee's report, the Board of Directors reviewed the situation of each of its members as at 31 December 2016 in the light of the criteria detailed above. It considered that nine Directors can be deemed independent. Nonetheless, one of them has served on the Board for more than nine years. Nevertheless, the Board of Directors found that this criterion alone did not call into question his independence vis-à-vis the company.

This proportion of independent Directors is higher than a third (excluding the Chairman of the Board), as recommended by the Code.

Conflicts of interest and ethical rules

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

For information, it has to be noted that Samir Assaf is Chairman of the Board of HSBC France and Chief Executive of Global Banking and Markets for the HSBC Group and a member of the HSBC Holdings plc Group Management Board.

At its meeting on 8 February 2016, the Board of Directors adopted a new policy on conflicts of interest, in particular to take into account the principles of corporate governance for banks published by the Basel Committee in July 2015. This policy is annexed to the Board's internal rules and includes, in particular, a list of questions to assist the Directors in identifying situations of conflict of interest, examples of situations that may give rise to conflicts of interest and situations the Board will generally determine that there are not conflicts of interest, and an application for authorisation and for declaration of a potential conflict of interest. In order to strengthen the conflict of interest avoidance mechanism, Directors must seek authorisation from the Board before accepting a mandate or position in a company or organisation outside the HSBC Group and a process of authorisation, review and possible withdrawal of authorisation by the Board is in place.

Board evaluation

Pursuant to the Code's recommendations, a Board assessment was conducted internally at the end of 2015, under the responsibility of the Nomination Committee and on the basis of a questionnaire covering five themes: business performance, human resources, customers, conduct and culture, Board leadership, and Board efficiency. Results were discussed by the Nomination Committee and then by the Board of Directors at its meeting of 8 February 2016.

The overall opinion regarding the Board and its operations remains broadly favourable. In particular, Directors underline the culture based on openness, frankness and debates supported by the Chairman and the Board's Committees efficiency, but also the desire to dedicate more time to topics related to customer orientation, covering human resources, culture and values, including fair and equitable treatment of customers ("conduct"), and the attention that should be paid to the understandability of the material related to risk reporting.

A new Board assessment was conducted at the end of 2016 based on a questionnaire. Results will be presented to the Board during the first quarter of 2017.

Directors' training and information

As required by the Board's internal rules, Directors receive the information they need to fulfil their duties and may ask to receive any documents they deem useful. In particular, the Board and the Board Committees may ask for a presentation on a particular subject or issue at a future meeting.

Upon their initial election, new Directors receive an information pack on HSBC France, including, among others, legal information about the company and the role of directors, as well as the latest Registration Document and minutes of Board meetings for the past twelve months. In addition, the Company Secretary organises, to the new Director's intent and depending on his/her needs and priorities, a programme of working meetings with HSBC France's main executives in the business lines and functions.

In 2016, all Directors have attended training sessions, in elearning, on anti-money-laundering, anti-fraud and corruption issues, international sanctions, protection of information, rebuilding confidence in the bank, and integration of good behavior to ensure fair and equitable treatment of customers ("Embedding Good Conduct").

Meetings of the Board and Board Committees are also used to bring Directors information necessary to their role and to update their knowledge.

Moreover, some of the Directors external to the HSBC Group are invited every year to the forum organised by the HSBC Group for non-executive Directors. Two forums are also organised every year to the intent of Audit and Risk Committees Chairmen, one by the HSBC Group and the other one by HSBC Bank plc for Europe.

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.

The fees are allocated according to the following rules, decided by the Board of Directors at its meeting on 6 February 2015:

- each Director is allocated an annual flat fee of EUR 35,000, paid at the conclusion of the Annual General Meeting;
- the additional annual flat fee paid to Board Committees members amounts to:
  - EUR 22,500 for the Chairmen of the Audit Committee and of the Risk Committee;
  - EUR 15,000 for the members of the Audit Committee and of the Risk Committee;
  - EUR 7,000 for the Chairmen of the Nomination Committee and of the Remuneration Committee;
  - EUR 6,000 for the members of the Nomination Committee and of the Remuneration Committee.

Furthermore, within the HSBC Group, it is customary for Directors performing other executive duties in the Group and Executive Directors to renounce Directors' fees from HSBC Group companies. This recommendation has been implemented by the Directors and Executive Directors of HSBC France and its subsidiaries.

In 2016, in respect of 2015, Jean Beunardeau, Gilles Denoyel, Alan Keir, Philippe Pontet, Carola von Schmettow, Antonio Simoes and Andrew Wild renounced the payment of their fees. It has to be noted that, according to this rule, Samir Assaf, Chairman of the Board of HSBC France, does not receive any fee from HSBC France for his office.

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.

The total Directors' fees net of social contributions, income tax prepayment and withholding tax to be paid in 2017 in respect of 2016 amount to EUR 0.39 million, to be compared to EUR 0.35 million paid in 2016 in respect of 2015.

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 2015 in respect of 2014	Directors' fees paid in 2016 in respect of 2015	Other compensation paid in 2015[1]	Other compensation paid in 2016[1]
Directors performing executive duties within the HSBC Group				
Gilles Denoyel[2]	–	–	EUR1,111,635	EUR584,749
Alan Keir[3, 4]	–	–	GBP3,325,881	GBP187,362
Philippe Pontet	–	–	EUR965,319	EUR510,317
Carola von Schmettow[5, 6]	–	–	–	–
Antonio Simoes[3]	–	–	GBP2,285,712	GBP3,340,237
Directors elected by the employees				
Ibtissam Bara[7]	–	–		
Ludovic Bénard[7]	–	–		
Xavier Bertrand[7]	–	–		
Véronique Duquesne[8, 9]	EUR22,815	EUR29,575		
Michel Gauduffe[9, 10]	EUR17,145	EUR25,082		
Guillaume Praud[9, 10]	EUR17,145	EUR22,225		
Philippe Purdy[8]	EUR22,815	EUR29,575		
Independent directors[10]				
Martine Gerow	EUR28,575	EUR41,275	–	–
Lindsay Gordon	EUR31,500	EUR45,500	–	–
Philippe Houzé	EUR26,035	EUR31,115	–	–
Anne Méaux	EUR17,145	EUR22,225	–	–
Thierry Moulonguet	EUR247,289[11]	EUR232,076[12]	–	–
Arnaud Poupart-Lafarge[13]	–	–	–	–
Lucile Ribot[14]	–	–	–	–
Peter Shawyer[15]	EUR31,500	–	–	–
Brigitte Taittinger	EUR17,145	EUR22,225	–	–
Jacques Veyrat	EUR24,765	EUR29,845	–	–

1 *Fixed and other fixed remuneration, variable remuneration and benefits in kind.*
2 *Deputy CEO until 1 March 2015. Ending of his directorship on 19 April 2016.*
3 *Compensation shown are paid by other HSBC Group companies in respect of his/her executive functions within the Group.*
4 *Resignation from his directorship on 12 October 2016.*
5 *Appointed on 23 April 2015.*
6 *Does not receive remuneration from controlled companies by HSBC France nor from companies which control HSBC France.*
7 *Elected on 26 September 2016.*
8 *Directors' fees paid to a trade union organization, net of social contributions.*
9 *Appointment ended on 26 September 2016.*
10 *Amounts paid, net of social contributions, income tax prepayment, and, where applicable, withholding tax.*
11 *Of which EUR 36,195 paid by HSBC France.*
12 *Of which EUR 50,800 paid by HSBC France.*
13 *Appointment on 22 September 2016.*
14 *Co-optation on 19 April 2016.*
15 *Appointment ended on 31 December 2014.*

Missions and procedures of the Board of Directors

The Board internal rules govern Board's functioning and include the main missions under Board's responsibility. The Board takes into account HSBC France's position, 99.9 per cent held by the HSBC Group:

– it determines orientations, on the basis of the strategy formulated by HSBC France, at the Chairman's motion, and supervises implementation by the approved senior managers ("*dirigeants effectifs*");

– it approves strategic investments/divestments and all transactions liable to impact earnings significantly;

– it ensures the quality of the information disclosed to shareholders and markets via the annual financial report;

– it sets HSBC France's values and principles;

– regarding governance system oversight and risk supervision, it:

  • reviews the company's governance system, assesses regularly its efficiency and ensures that corrective measures to remedy possible deficiencies have been taken,

  • approves and reviews regularly strategies and policies governing risks taking, management, monitoring and mitigation,

- approves global risk limits,
- is informed by the approved senior managers of all significant risks, of risk management policies and amendments made to them,
- controls publication and communication process;

– it cares about HSBC Group reputation in France;

– it deliberates on all questions pertaining to its legal and regulatory obligations and those stemming from its articles of association.

In the week prior to the meeting, the Directors receive the meeting file, including the agenda, the draft minutes of the previous Board meeting and supporting papers to the agenda items to be discussed at the meeting. In the case of highly confidential matters, 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.

Board of Directors' meetings

The Board of Directors met four times during 2016. The average attendance rate was 89.5 per cent, compared to 80.4 per cent in 2015, where three exceptional Board meetings were held:

– 8 February 2016 (attendance rate: 89.4 per cent);

– 19 April 2016 (attendance rate: 89.5 per cent);

– 22 July 2016 (attendance rate: 84.2 per cent);

– 26 October 2016 (attendance rate: 94.7 per cent).

The Board's work

Businesses and strategy

At each meeting, the Board was informed of developments in business activity, the Group's position, the important issues for each of its businesses, and strategy execution, in particular as regards IT projects and digital transformation. Specific presentations were given to the Board of Directors on a project to modernise the IT infrastructure initiated by HSBC France in 2016 and RBWM's digital transformation programme (meeting on 19 April 2016). The Board also paid particular attention to the impacts of the low interest rate environment on business, financial performance and internal models, as well as the measures taken in response.

In the meeting held on 22 July 2016, the Board of Directors approved the company's strategic directions, then answered the opinion issued by the Central Works Council on those strategic directions.

As regards corporate values, the Board was informed of the Charter drawn up by the HSBC Group designed to help employees understand and assess the potential impacts of their decisions on the bank, its customers, employees and various stakeholders (meeting on 22 July 2016). At the meeting held on 26 October 2016, the results of the annual employee engagement survey were presented to the Board.

HSBC France's sustainability policy was presented to the Board at its meeting held on 8 February 2016.

The Chairman of the Board, who is also a Member of the Group Management Board of the HSBC Group, and Chief Executive Officer, Global Banking and Markets of the HSBC Group, commented, on a regular basis, the HSBC Group's development, results, latest news, as well as trends in the world economic and regulatory environment. The Independent Directors shared with the Board their view of the economic situation and economic conditions in their business sector.

Regulatory environment and supervision

Given the many developments in this area in 2016, the Board was informed at each of its meetings of the main regulatory developments and projects, their implementation and their impacts on HSBC France, in particular as regards capital projections, liquidity, structural banking model and resolution.

The Board was regularly informed about discussions with the various supervisory authorities, their audits and investigations, in particular the European Central Bank (ECB), the *Autorité de contrôle prudentiel et de résolution* (ACPR, the authority responsible for supervising the banking and insurance sectors in France) and the *Autorité des marchés financiers* (AMF, the stock market regulator in France), as well as their findings, follow-on letters received and HSBC France's responses. The Board was also informed of the implementation and results of the Supervisory Review and Evaluation Process (SREP) performed by the Joint Supervisory Team responsible for supervising HSBC France.

At its meeting on 22 July 2016, the Board also hosted representatives of the European Central Bank and of the *Autorité de contrôle prudentiel et de résolution*.

Chairman's report on the Board of Directors and internal control and risk management prodecures (continued)

Finance

In 2016, the Board of Directors reviewed the quarterly, half-yearly and annual financial statements and signed off the half-yearly and annual financial statements. At each of its meetings, the Board reviewed HSBC France's revenue, costs, results and balance sheet. For each period reviewed, the Board heard the conclusions of the Statutory Auditors, who were invited to attend all Board meetings.

At its meeting on 8 February 2016, the Board reviewed and approved the budget and risk appetite for 2016. At its meeting on 26 October 2016, it reviewed the initial budget guidance and an initial version of the 2017 risk appetite.

The Board of Directors was informed of developments in regulatory capital and regulatory ratios, in particular capital, liquidity, solvency and leverage ratios, as well as the impacts of the various regulatory developments in these areas, particularly on revenue and the balance sheet. At each of its meetings, the Board received information on the funding plan, funding position and trends in medium and long-term debt. It also authorised various transactions in those areas. The Board also reviewed and signed off the dividend policy, the ICAAP (Internal Capital Adequacy Assessment Process) reports at 30 September 2015 (meeting on 8 February 2016) and at 31 December 2015 (meeting on 19 April 2016) and the ILAAP (Internal Liquidity Adequacy Assessment Process) report at 31 December 2015 (meeting on 19 April 2016).

Risk management

At each meeting, the Board reviewed the Group's risk position, and in particular financial risks such as stress test, credit, market, model, capital, liquidity and interest rate risk, as well as operational risk, including security and fraud, information systems, litigation, fiscal and human resources risks. Its review was based mainly on the key risk summary reports (risk control and assessment, top and emerging risks and risk appetite monitoring dashboard), as well as the reports given by the Head of Risk and Chairman of the Risk Committee at the Board meetings. The Directors have also access to the Risk Committee's supporting documentation.

As regards Financial Crime Compliance, the Board reviewed progress in the deployment of Global Standards and actions decided following the Monitor's report. At the meeting on 26 October 2016, the Head of Financial Crime Compliance reported to the Board on Financial Crime Compliance and, on that occasion, the Head of Remediation Management Office also gave a progress report on the financial crime compliance cultural transformation programme.

As regards Regulatory Compliance, the Board monitored developments in the function's organisation and deployment of the "Conduct" programme. The Head of Regulatory Compliance reported to the Board on Regulatory Compliance at the meeting held on 8 February 2016. The Board also reviewed the Ombudsman's report on his activity in 2015 (meeting on 22 July 2016).

The Board reviewed and approved the annual internal control report, prepared in accordance with the French Government Order of 3 November 2014 (at its meeting on 19 April 2016), which was sent to the ACPR, as well as the update of HSBC France's recovery plan (meeting on 26 October 2016).

The CEO and the Chairman of the Audit Committee commented on the Internal Audit work, in particular audit reports adverse graded and changes in the number of open recommendations at each Board meeting, except at the meeting held on 22 July 2016. In fact, at this meeting, this report was commented in detail to the Board of Directors by the Head of Internal Audit.

Governance

The work of the Board Committees was set out in regular, detailed reports from their respective Chairmen and was debated during Board meetings. Within this framework, the Board was kept informed about the main topics discussed and points of action identified by the Audit Committee and by the Risk Committee, particularly with regards to accounting matters, risks, control and risk management system, internal audit, compliance and permanent control.

At the beginning of each Board meeting, a report was given on the action points requested by the Board at previous meetings, with specific presentations where necessary.

In addition, the Board was informed of progress in the programme to simplify the HSBC France group's legal structure and was advised of or asked to approve various transactions.

Apart from these issues, the Board also discussed various other issues which are its responsibility in accordance with the law and regulations in force, in particular as regards compensation, composition of the Board, revision of the Board's internal rules, assessment of Board practices and procedures, and authorisation of non-audit services provided by the Statutory Auditors. In this respect, it approved the Board of Directors' report and the Chairman's report on corporate governance and internal control and risk management procedures for 2015 (meeting on 8 February 2016), as well as the Board's interim report at 30 June 2016 (meeting on 22 July 2016). Likewise, the Board reviewed related-party agreements entered into and authorised by the Board in prior years which remained valid in the current year, in accordance with the provisions of article L. 225-40-1 of the French Commercial Code, and also authorised a new related-party agreement (meeting on 22 July 2016).

In 2016, the Board adopted three Board policies on conflicts of interest, diversity and training.

Board Committees

Following a decision of the Board and in accordance with CRD IV Directive, the Board is assisted from the beginning of 2015 by four specialised Committees: Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee.

Audit Committee

Composition of the Audit Committee
Chairman:

– Thierry Moulonguet (independent)	Appointed 2009 and 2010 as Chairman

Members:

– Martine Gerow (independent)	Appointed 2012
– Lindsay Gordon (independent)	Appointed 2013

The three Audit Committee members are highly qualified in banking, financial, accounting and control areas, as they serve or have in the past served in the capacity of Chairman and Chief Executive Officer of a bank, Audit Committee member, including of banks, or Chief Financial Officer.

The Audit Committee's missions
The Audit Committee's duties were reviewed, for the last time, in July 2016 and are defined in the Board's internal rules. The Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on matters relating to the budget, financial reporting, control of financial information, capital and liquidity ratios to support the Risk Committee, the dividend and capital allocation policy, management of the Finance function and Internal Audit, in particular:

- to monitor the integrity of the financial statements in order to ensure that information provided gives a true and fair view of the company's position and to examine the findings of the reports issued by permanent and periodic control and compliance teams regarding accounting and financial reporting;
- to review financial and accounting policies and practices;
- to review and discuss with management the effectiveness of internal control systems relating to financial reporting;
- to monitor and review the effectiveness of the Internal Audit function, to consider the major findings of internal investigations and management's response, and to ensure that the Internal Audit function is adequately resourced and has appropriate positioning;
- to discuss with the Statutory Auditors their general approach, nature and scope of their audit and reporting obligations including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from their interim reviews and final audits, major judgemental areas, all alternative accounting treatments that have been discussed with management together, the nature of any significant adjustments, compliance with accounting standards and other regulations and any other matters the Statutory Auditor may wish to discuss (in the absence of management where necessary);
- to make recommendations to the Board of Directors regarding the appointment, renewal or removal of the Statutory Auditors, their fees and any other issues concerning their duties;

- to review and assess the independence and objectivity of the Statutory Auditors, including supervision of the turnover of the signing partners and the effectiveness of the audit process;
- to apply the code of conduct and the HSBC Group policy concerning the provision of non-audit services by the Statutory Auditors;
- to review the Statutory Auditors' annual report and management letter together with management's response to it, and to monitor the implementation of recommendations made;
- to ensure compliance of the company and its subsidiaries with directives issued by the supervisory authorities and with regulations applicable to them.

The Committee meets the Statutory 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 Committee meets a few days before the Board insofar as possible.

Lastly, at the request of the HSBC Bank plc's Audit Committee, the HSBC France's Audit Committee Chairman provides a half-yearly certificate to the Audit Committee Chairman 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 of financial reporting appears to be appropriate. The certificate is based on work done by HSBC France's Audit Committee as well as the certificates signed by the Chairmen of the Audit Committees or Audit and Risk Committees of HSBC France's subsidiaries.

Audit Committee's work in 2016

The Audit Committee met four times in 2016, with an attendance rate of 100 per cent, as in 2015:

- 5 February 2016 (attendance rate: 100 per cent);
- 18 April 2016 (attendance rate: 100 per cent);
- 20 July 2016 (attendance rate: 100 per cent);
- 24 October 2016 (attendance rate: 100 per cent).

Each meeting was also attended by the Statutory Auditors, the Chief Financial Officer, the Chief Accounting Officer, the Head of Audit and the Chief Risk Officer. The Chief Executive Officer and the Deputy Chief Executive Officer also attended Committee meetings to answer any questions. HSBC France executives also attend Committee meetings covering any subjects falling under their responsibility. Audit Committee Chairman or members also met with the Statutory Auditors in private sessions prior to the four quarterly Committee meetings.

The first aspect of the Committee's work involved an in-depth review of the annual, half-yearly and quarterly financial statements prior to their presentation to the Board. The Audit Committee reviewed the parent-company and consolidated accounts. The Committee was informed by the Finance Department of the main accounting points of attention and discussed the choices made by the company in drawing up its financial statements and verified the adequacy of provisions for identified risks. At its meeting on 24 October 2016, a presentation of the new IFRS 9 accounting standard on financial instruments and its impacts on HSBC France was given to the Committee.

The Committee also examined, at each of its meetings, the bank's risk weighted assets, the various regulatory and internal capital, liquidity and leverage ratios, its liquidity and funding situation, and structural interest rate risk.

Once again in 2016, the Committee paid careful attention to monitoring the cost base and cost saving initiatives implemented.

It also reviewed the plan to restructure the Finance Department (meeting on 24 October 2016).

The second area of the Committee's work concerned controls. To this end, the Statutory Auditors commented on their management letter and the aspects subject to particular attention at the time of preparing the 2015 financial statements. The Committee discussed the Statutory Auditors' audit programme and independence, approved the fees paid in 2015 by the HSBC France group to the Statutory Auditors (meeting on 5 February 2016).

Statutory Auditors presented their diligences on the financial statements at 31 March 2016, 30 June 2016 and 30 September 2016 (meetings on 18 April, 20 July and 24 October 2016), as well as their annual audit plan (meetings on 20 July and 24 October 2016).

The Committee was also informed of 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. It reviewed the points raised in the account controls certificates and by accounting assurance reviews, as well as implementation of the recommendations raised in the Statutory Auditors' management letters.

The Committee was informed of the implications of the coming into effect on 17 June 2016 of the new reform of the auditing sector and authorised the provision of a list of non-audit services by the Statutory Auditors to HSBC France and its subsidiaries (meeting on 20 July 2016).

At its meeting on 20 July 2016, the Committee reviewed a new related-party agreement and recommended its approval to the Board of Directors.

The third aspect of the Committee work concerned the detailed review, at each meeting, of Internal Audit work. It reviewed the findings of the main audit missions, particularly those adversely rated. The Committee remained extremely attentive to the proper implementation of the audit recommendations. It has also approved the update of the audit charter and the 2016 annual audit plan (meeting on 5 February 2016) as well as the agreement on Internal Audit between HSBC France and the HSBC Group.

Regarding governance matters, the last area of the Committee's work, the Committee examined the section of the Chairman's report on financial information and Internal Audit and reviewed the section of the Board internal rules dealing with the Audit Committee. The Committee was also informed of progress in the programme to simplify HSBC France's legal structure (meeting on 20 July 2016).

The Chairman of the Audit Committee reported on the key points discussed during Audit Committee meetings at the Board meetings held on 8 February, 19 April, 22 July and 26 October 2016.

Risk Committee

Composition of the Risk Committee

Chairman:

- Lindsay Gordon (independent) — Appointed November 2015 and from 2013 to 2015 as member

Membres :

- Martine Gerow (independent) — Appointed 2012
- Thierry Moulonguet (independent) — Appointed 2009 and from 2010 to 2015 as Chairman

The three Committee members are highly qualified in the banking, financial, risk and internal control areas, as they serve or have in the past served in the capacity of Chairman and Chief Executive Officer of a bank, Risk Committee member or Chief Financial Officer.

The Risk Committee's missions

The Risk Committee's duties were reviewed, for the last time, in February 2016 and are defined in the Board's internal rules. The Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on matters relating to high level risk related matters and risk governance:

- to oversee and advise the Board on current and forward-looking risk exposures, HSBC France group's risk appetite and future risk strategy, including capital and liquidity management strategy, and management of risk within HSBC France group;
- to advise the Board on risk appetite and tolerance in determining strategy;
- to advise the Board and/or the Remuneration Committee on alignment of remuneration with risk appetite, and examine whether the incentives resulting from the bank's remuneration policy and practice are compatible with the bank's situation;
- to examine regular reports on risk management related to the HSBC France group's activities, the way in which risks are controlled and monitored by management, and on emerging risks;
- to examine the effectiveness of the HSBC France group's risk management framework and internal control systems (other than internal financial control systems);
- to examine whether the prices of products and services concerned and offered to customers are compatible with the risk strategy;
- to approve the appointment and removal of the officer responsible for the risk management function (Chief Risk Officer) and to ensure his effective role;
- to seek to embed and maintain throughout HSBC France group a supportive culture in relation to the management of risk and maintenance of internal controls alongside prescribed rules and procedures;

– to review any issue which arises from any report from Internal Audit, the Statutory Auditors' annual report and any queries raised by the Statutory Auditors, and responses from management, which relates to the management of risk or internal control;

– to examine management's reports and statements on the internal control system.

The Committee meets the Statutory 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.

At the request of the HSBC Bank plc's Risk Committee, the HSBC France's Risk Committee Chairman provides a half-yearly certificate to the Risk Committee Chairman of HSBC Bank plc, confirming, in particular, that the Committee examined the reports on risks and that no subject was brought to its attention other than those described in the supports. The certificate is based on work done by HSBC France's Risk Committee as well as the certificates signed by the Chairmen of the Risk Committees or Audit and Risk Committees of HSBC France's subsidiaries.

Risk Committee's work in 2016

The Risk Committee met four times in 2016, with an attendance rate of 100 per cent, compared with 96.4 per cent in 2015:

– 5 February 2016 (attendance rate: 100 per cent);

– 18 April 2016 (attendance rate: 100 per cent);

– 20 July 2016 (attendance rate: 100 per cent);

– 24 October 2016 (attendance rate: 100 per cent).

Each meeting was also attended by the Statutory Auditors, the Chief Risk Officer, the Chief Financial Officer, the Chief Accounting Officer and the Head of Internal Audit. The Chief Executive Officer and the Deputy Chief Executive Officer attended Committee meetings to answer any questions. HSBC France executives also attend Committee meetings covering any subjects falling under their responsibility. The Risk Committee Chairman or members also met with the Statutory Auditors in private sessions prior to the four quarterly Board meetings (meetings on 5 February, 18 April, 20 July and 24 October 2016).

Again in 2016, the Committee remained extremely attentive to developments in the regulatory and supervisory environment in which HSBC France operates and to the implications of such developments, in particular:

– the Work of the Basel Committee and of the European Banking Authority, referred to in conjunction as "Basel IV", on risks regarding credit, market (notably the fundamental reviews of trading books) and operational risks, the determination of minimum capital requirements and the revision of the CRR (Capital Requirements Regulation);

– as regards restoration and resolution, the future rules on MREL (Minimum Requirement for Own Funds and Eligible Liabilities) and TLAC (Total Loss-Absorbing Capacity) and the impacts in terms of funding for HSBC France;

– the European Single Supervisory Mechanism, 2016, initiated a Targeted Review of Internal Models;

– application of the French law on the Separation and Regulation of Banking Activities and of the US Volcker Rule, as well as other legislation on the same topic (the structure of banks), which has either been enacted or which is in the pipeline;

– legislation concerning the structure of markets, such as EMIR (the European Market Infrastructure Regulation), or MiFID II (the Markets in Financial Instruments Directive);

– preparatory work on various forthcoming regulations, such as the Market Abuse Regulation, PRIIPS (Packaged Retail and Insurance-based Investments Products) and MiFID II (Markets in Financial Instruments Directive);

The Committee was kept regularly informed of preparatory work conducted ahead of the UK referendum on the United Kingdom's continued membership of the European Union and the impact of its outcome. Similarly, the Committee remained extremely attentive to the impacts of the interest rate environment on HSBC France and actions taken in response.

As regards the risk management system, the Committee reviewed the new risk management system implemented by the HSBC Group (meeting on 18 April 2016). It also approved HSBC France's updated recovery plan (meeting on 24 October 2016).

The Committee approved HSBC France's risk appetite in the 2016 financial year (meeting on 5 February 2016) and the half-yearly updating (meeting on 20 July 2016), and then examined, at each of its meetings, the monitoring dashboard, in particular indicators which were not in line with the thresholds that had been set out. At its meeting on 24 October 2016, it examined a first draft regarding risk appetite for the year 2017. At each of its meetings, it reviewed HSBC France's risk map, top and emerging risks facing it, as well as their assessment and the action plans which had been implemented.

At each of its meetings, the Risk Committee continued to carry out a review of financial and operational risk, each of the individuals in charge of controlling such risks spoke, in particular concerning:

– Credit risks, with an individual review of major exposures, changes in outstanding credit and non performing advances by businesses, changes in risk-weighted assets and the evolution of the cost of risk, and worrying exposures and sectors. In relation to economic and geopolitical developments, the Committee examined the HSBC France's exposures to certain sectors;

– Market risks, including their trends compared with limits, changes in exposure, the setting of limits, changes in market activities' risk weighted assets and the results of internal stress exercises; the Committee was informed of communications with supervisory bodies, in terms of market risks, in particular as regards an application for approval of a new internal model;

– Liquidity, capital and interest rate in the banking book risks. The Committee approved the ICAAP (Internal Capital Adequacy Assessment Process) reports at 30 September 2015 and at 31 December 2015 (meetings on 5 February and 18 April 2016) and the ILAAP (Internal Liquidity Adequacy Assessment Process) report at 31 December 2015 (meeting on 18 April 2016);

– Operational Losses;

– Legal risks, included emerging risks, and legal disputes;

– Security and fraud risk, included physical security of premises, cybersecurity, highly privilege access management, information security and business continuity;

– Information systems, including the main incidents and risks, as well as progress in the key projects. The Committee devoted a considerable part of its work to the project to modernise the IT infrastructure initiated by HSBC France in 2016, with a specific progress report being given at each meeting.

At each of its meetings, the Committee reviewed the work carried out on the internal stress test programme and HSBC France's contribution to the HSBC Group stress test performed by the European Central Bank (ECB) and the Prudential Regulation Authority (PRA), as well as the results.

In relation to permanent control, compliance and relations with regulators, the Committee was informed, at each of its meetings, of the progress made as regards internal control plans and the main areas of weakness identified, as well as the action plans drawn up to deal with them.

At each of its meetings, the Committee was informed of progress made in the work being carried out by Operational Risk department, notably of progress made in the roll-out of HSBC Group's operational risk management transformation programme, as well as progress in and the results of the control plans. In accordance with the French Government Order of 3 November 2014, the Committee was informed of the essential services governance procedure, whether these services are sub-contracted within HSBC Group or to external suppliers, and likewise of a list of essential services sub-contracted externally, and the results of controls carried out (meeting on 24 October 2016).

In the area of financial crime compliance, the Committee took note of the quarterly reports, which set out the main new matters and those already detailed during the course of previous meetings. In particular, the Committee was informed in detail of developments in financial crime compliance organisation, the conclusions of the 2015 EWRA (Enterprise Wide Risk Assessment), the situation regarding the handling of alerts, Know Your Customer (KYC) documentation, tools concerning, the application of international sanctions and prevention of corruption, and likewise the progress made as regards action plans and the implementation of recommendations made by the bank's various control bodies concerning financial crime compliance. Moreover, the Committee took note, at each of its meetings, of the progress made regarding the Global Standards programme – one of the strategic priorities of HSBC Group – whose aim is to apply, in a uniform fashion across the whole of HSBC Group, the highest standards in the area of financial crime compliance – anti-money laundering.

The Committee was informed, at each of its meetings, of the actions decided following the Monitor's visit to HSBC France in 2015, and then of progress in their implementation, including the Financial Crime Compliance cultural transformation programme. The Monitor is an independent controller appointed under the agreements reached in 2012 by the HSBC Group with the US and UK authorities for the purpose of assessing progress made by HSBC in fulfilling its obligations under those agreements and producing regular reports on the effectiveness of HSBC's Compliance function.

In the area of regulatory compliance, the Committee took note of the quarterly reports, which set out the main new matters and updates on those already detailed in the course of previous meetings. It also examined the progress made in the implementation of HSBC Group's Conduct programme in France as well as the Ombudsman's annual report (meeting on 20 July 2016). Furthermore, it reviewed the results of compliance assurance review work and controls of inspections of the mechanism which monitors the contributions made by HSBC France to the markets' benchmarks. It was informed of the Regulatory Compliance plan for 2016 (meeting on 6 February 2016) and monitored trends in risk appetite indicators as regards Regulatory Compliance.

The Committee approved the Chairman's report on internal control and risk management procedures (meeting on 5 February 2016) and the annual report to the *Autorité de contrôle prudentiel et de résolution* (the ACPR, the authority responsible for supervising the banking and insurance sectors in France) concerning internal control (meeting on 18 April 2016) examined the other reports intended for the supervisory authorities, such as the annual reports to the *Autorité des marchés financiers* (the AMF, the stock market regulator in France) regarding the compliance of investment service providers and regarding the protection of customer's deposits in financial instruments (meeting on 20 July 2016); the questionnaires to be sent to the ACPR on commercial practices and customer protection (meeting on 24 October 2016) and on dormant accounts and safe boxes, and organisation and control arrangements (meeting on 24 October 2016).

The Committee was informed of communications with supervisory bodies and of the conclusions of various audits and reviews carried out by supervisory bodies, and examined follow-up letters and replies to them in relation to these assignments, regarding following bodies: The AMF, the European Central Bank, the ACPR and the Prudential Regulation Authority, and of action plans initiated to implement their recommendations.

In terms of governance, the Committee reviewed the section of the Board of Directors' internal rules concerning the Risk Committee The Chairman of the Risk Committee reported on the key points discussed during Risk Committee meetings at the Board meetings held on 8 February, 19 April, 22 July and 26 October 2016.

Nomination Committee

Composition of the Nomination Committee

Chairman:

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

Members:

– Samir Assaf	Appointed 2012
– Jacques Veyrat (independent)	Appointed 2010

In accordance with the Governance Code for the companies of the HSBC Group, at least half of the Nomination Committee's membership are independent non-executive, non-employee Directors.

The Nomination Committee's missions

The Nomination Committee's duties were reviewed, for the last time, in February 2016 and are defined in the Board's internal rules. This Committee reports its activities to the Board and is responsible for leading the processes for Board and Board Committees appointments and for identifying and nominating for the approval of the Board, candidates for appointment to the Board and its Committees. To this end, it:

- assesses regularly the structure, size, composition (including skills, knowledge, experience and diversity) and efficiency of the Board of Directors and Board Committees and makes recommendations to the Board with regard to any changes regarding the appointment of any director, the renewal of their terms of office and membership of Board Committees;
- prepares any question regarding corporate governance for the Board's consideration;
- conducts the evaluation of the Board of Directors;
- assesses non-executive Directors' independence;
- reviews and monitors the training and continuous professional development of Directors;
- ensures that plans are in place for orderly succession to senior management positions within HSBC France.

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

Nomination Committee's work in 2016

The Nomination Committee met four times in 2016, with an attendance rate of 100 per cent. Its main work concerned:

- reflections on the Board and Board Committees' membership, based, in particular, on considerations regarding skills, knowledge, experience, independence and diversity balance, the search for new independent Directors and proposals to the Board to co-opt and appoint new Directors: Lucile Ribot, Arnaud Poupart-Lafarge and Paule Cellard (meetings on 8 April, 17 May and 7 December 2016);
- proposals to the Board on the re-appointment of the Chairman of the Board following his re-election as Director, and the continuation in office of the Chief Executive Officer and Deputy Chief Executive Officer (meeting on 8 April 2016);
- proposals to the Board on renewing Directors' term of office at the Annual General Meeting to be held in 2017 (meeting on 7 December 2016);
- proposals to the Board on the re-appointment of the Chief Executive Officer and the Deputy Chief Executive Officer following the re-election of the Chief Executive Officer as Director (meeting on 7 December 2016);
- assessment of the knowledge, skills and experience of the Directors and the Board of Directors, including the preparation of an analysis grid and a review of the results after completion of the grid (meetings on 8 April and 17 May 2016);
- assessment of the composition of the Board of Directors in 2016, based on the assessment of the knowledge, skills and experience of the Directors and the Board of Directors, the review of Directors' independence with regard to the criteria defined in the Corporate Governance Code for HSBC Group companies, to which HSBC France refers, but also of criteria regarding experience, skills, independence of thought and involvement, and on the assessment of the structure, size and effectiveness of the Board (meeting on 7 December 2016);
- the review of the first part of the Chairman's report on corporate governance (meeting on 1 February 2016);
- proposals to the Board regarding the update of the Board internal rule in particular to include the HSBC Group's update of the basic terms of reference of the Board Committees (meeting on 1 February 2016);
- the review of the results of the Board evaluation conducted at the end of 2015 and actions to implement (meeting on 1 February 2016);
- the review and proposal to the Board of a training policy for Directors (meeting on 1 February 2016);

The Chairman of the Nomination Committee reported to the Board on its work at the Board meetings on 8 February, 19 April and 22 July 2016. All of the Committee's work was submitted to the Board for approval.

Remuneration Committee

Composition of the Remuneration Committee

Chairman:

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

Members:

– Samir Assaf	Appointed 2012
– Michel Gauduffe (elected by employees)	Appointed 2015
– Jacques Veyrat (independent)	Appointed 2010

In accordance with the Governance Code for the companies of the HSBC Group, at least two members of the Remuneration Committee are independent non-executive Directors.

The Remuneration Committee's missions

The Remuneration Committee's duties were reviewed, for the last time, in February 2016 and are defined in the Board's internal rules. This Committee reports its activities to the Board and is responsible for:

- considering remuneration matters for HSBC France and its subsidiaries in the context of the HSBC Group's remuneration policy and in compliance with local rules, and providing advice to the Board of HSBC France and to the HSBC Group Remuneration Committee on the remuneration policy and structure relevant to HSBC France based on the regulatory context and market conditions. In particular, the Committee makes recommendations and proposals to the Board concerning remuneration, pension and health insurance plans, additional retirement plans, benefits in kind, and other compensation of Executive Directors;

– reviewing annually the policy for the compensation of employees prepared in accordance with the order of 3 November 2014 and the French Monetary and Financial Code, particularly risk takers, employees exercising a control function and any employee with similar compensation levels, whose activities have a significant impact on the Company's risk profile, financial markets professionals whose activities may have a significant impact on the Company's risk exposure;

– proposing the fees for directors for approval by the Board and the Shareholders' General Meeting;

– reviewing and approving any statement required by HSBC France's regulators on the remuneration policy. In particular the Committee reviews the report prepared in accordance with Article 266 of the order of 3 November 2014 and the chapter of the Chairman's report regarding remuneration;

– seeking confirmation from the Risk Committee or Chief Risk Officer, that risk appetite was aligned with performance objectives set in the context of incentive packages.

The Committee's recommendations on Executive Directors' remuneration are presented to the Board after prior approval by the Remuneration Committee of HSBC Holdings plc or are then submitted for approval.

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

The Remuneration Committee's work in 2016

The Remuneration Committee met twice in 2016, with an attendance rate of 100 per cent. Its main work concerned:

– the review HSBC's general remuneration policy in France, in respect of 2015 and 2016 years, taking into account regulations concerning compensation, in particular risk control and the contribution of the Risk and Compliance functions to the process for determining variable compensations, the review of the list of employees, identified as not entirely complying with the risk and compliance rules and impacts on their remuneration, as well as the review of the rules and remuneration for employees defined as risk takers (meetings on 1 February and 7 December 2016);

– the review of the 20 highest remunerations in respect of 2015 and 2016 years (meetings on 1 February and 7 December 2016);

– proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the remuneration of Jean Beunardeau and Andrew Wild in respect of 2015 and 2016 and setting out the fixed and variable elements of their remuneration and the number of shares to be awarded to them (see section "Executive Directors' compensation") (meetings on 1 February and 7 December 2016);

– impacts of the "Macron" law on growth, business and equality of economic opportunity on the HSBC qualified share award plan (meeting on 1 February 2016);

– the review of the section of the Chairman's report on remuneration (meeting on 1 February 2016);

– the review of the section of the Board's internal rules concerning the Remuneration Committee (meeting on 1 February 2016).

The Chairman of the Remuneration Committee reported to the Board on its work at the Board meeting on 8 February 2016. All of the Committee's work was submitted to the Board for approval.

Shareholders' 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 21 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 no later than midnight, Paris time, on the second 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.

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 Remuneration Committee, and approved 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, on one hand, market practices with the help of spe-cialist consulting firms and the other hand, Group references.

The variable component is determined on the basis of the overall HSBC holdings and HSBC France performance and indicators covering Business Performance & Stragegic actions targets (profit before tax, comparative growth between revenue and costs (JAW), return on risk-weighted assets, etc.), Global Standards aspects covering risk and compliance areas (implementation of Global Standards, observance of compliance rules, in particular in term of Financial crime, appropriate application of internal rules, enhancement of Know Your Customer process, closure of Audit points, active operational risk management, relationship quality with regulators, etc.), and, finally, Personal objectives, covering in particular effective implementation of restructuring plans, improvement of internal culture on financial crime, increase of women representation in GCB0-3. These indicators, embedded in a balanced-scorecard, are reviewed in comparison with the objectives set at the beginning of the year. All parameters taken into account result in a performance rating. In addition, from 2016, a specific rating is granted with regard to the Global Standard objectives. The variable component also takes account of market trends 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.

The Deputy CEO of HSBC France, Head of CMB France, also has specific objectives related to his Business.

Award of shares

In 2016, Executive Directors benefited from the allocation of bonus shares in HSBC Holdings plc in accordance with the HSBC Group's general policy.

The HSBC Group awards various categories of bonus shares:

– Group Performance Shares are awarded, until 2015, to Executives of the HSBC Group and which have the following specific conditions:
  - a five year vesting period,
  - a restricted period beyond the vesting period, which runs until retirement,
  - a performance condition measured using eight indicators (four financial and four non-financial) from the performance scorecard of the manager concerned;

– 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 either of a two and three-year period, which is the period in force for France, or a five year period for part of the "Material risk takers" identified at Group level.

With respect to 2016, HSBC France Executive Directors received Restricted Shares, for which the only criterion is to be with the company after a period of five 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 the French State pension scheme.

At 31 December 2016, Jean Beunardeau had accrued pension rights representing 7.1 per cent of his 2016 fixed remuneration and 3.7 per cent of his 2016 total remuneration. Andrew Wild, is not entitled to this pension scheme, since he takes benefit of UK pension schemes. The provision corresponding to the present value of these HSBC France pension commitments has been recorded in the HSBC France accounts at 31 December 2016, for an amount of EUR 2.6 million.

Remuneration

Samir Assaf, 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.

The remuneration of Jean Beunardeau, CEO of HSBC France, and Andrew Wild Deputy CEO of HSBC France since 1 March 2015 is detailed on next page.

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 following information is published in accordance with the provisions of article L. 225-102-1, para-graphs 1, 2 and 3 and article L. 225-184 of the French Commercial Code. It concerns remuneration paid by HSBC France, the companies it controls and the companies that control it (the HSBC Group). The remuneration of the Executive Directors below is presented in accordance with the Autorité des marchés financiers recommendations of December 2009[1].

Summary of compensation awarded to each Executive Director

Chief Executive Director[1]

(in euros)	2013 Compensation paid in 2013	2014 Compensation paid in 2014	2015 Compensation paid in 2015	**2016** **Compensation paid in 2016**
Jean Beunardeau				
Fixed remuneration	542,007	545,826	545,826	**545,826**
Allowance "Material RiskTaker"[2, 3]	–	564,000	564,000	**564,000**
Variable remuneration in cash	342,905	274,324	189,413	**178,140**
Variable remuneration in shares[4]	342,905	274,324	189,413	**178,140**
Deferred variable remuneration in cash[5]	514,358	411,487	284,120	**267,210**
Deferred remuneration in shares without performance conditions[6]	514,358	411,487	284,120	**267,210**
Deferred remuneration in shares with performance conditions[7]	–	342,905	105,229	**98,967**
Directors' fees[8]	–	–	–	**–**
Benefits in kind	–	–	–	**–**
Total	2,256,533	2,824,353	2,162,121	**2,099,493**

(in euros)	2013 Compensation for 2013	2014 Compensation for 2014	2015 Compensation for 2015	**2016** **Compensation for 2016**
Jean Beunardeau				
Fixed remuneration	542,007	545,826	545,826	**545,826**
Allowance "Material RiskTaker"[2, 3]	–	564,000	564,000	**564,000**
Variable remuneration in cash	274,324	189,413	178,140	**244,033**
Variable remuneration in shares[4]	274,324	189,413	178,140	**244,033**
Deferred variable remuneration in cash[5]	411,487	284,120	267,210	**366,049**
Deferred remuneration in shares without performance conditions[6]	411,487	284,120	267,210	**366,049**
Deferred remuneration in shares with performance conditions[7]	342,905	105,529	98,967	**–**
Directors' fees[8]	–	–	–	**–**
Benefits in kind	–	–	–	**–**
Total	2,256,534	2,162,421	2,099,493	**2,329,990**

1 *Deputy CEO then Chief Executive Officer since 10 january 2012.*
2 *Allowance awarded to "Material RiskTakers" identified by Group according to the Prudential Regulatory Authority regulation.*
3 *Allowance awarded in form of shares and subject to a 5 years holding period (20 per cent available for sale in year n+1 and 80 per cent in year n+5) till 2015. From 2016, the allowance is awarded monthly in form of cask.*
4 *Shares that vest immediatly and are subject to a 6 months retention period.*
5 *Variable remuneration in cash deferred over 3 years (33 per cent will vest in year n+1, 33 per cent in year n+2 et 34 per cent in year n+3) till 2015. From 2016 this variable remuneration is deferred over 5 years (20 per cent per year will vest from year n+1)..*
6 *Variable remuneration in shares without performance conditions deferred over 3 years (66 per cent will vest in year n+2 and 34 per cent in year n+3) and subject to a 6 months retention period till 2015. From 20216, this variable remuneration is deferred over 5 years (20 percent per year from year n+1) and subject to a 6 months retention period.*
7 *Variable remuneration in shares with performance conditions deferred over 5 years (100 per cent will vest in year n+5) and subject to a retention period up to retirement.*
8 *Renunced the payment of his fees by HSBC France (see page 43).*

1 *Tables numbers refer to table models provided by the Autorité des marchés financiers in its 10 December 2009, as amended lastly on 13 April 2015, recommendation 2009-16 concerning the guide for compiling registration documents.*

Chief Executive Officer [1]

(in euros)	2013 Compensation paid in 2013	2014 Compensation paid in 2014	2015 Compensation paid in 2015	**2016 Compensation paid in 2016**
Andrew Wild				
Fixed remuneration	–	–	329,167	**395,000**
Allowance "Material Risk Taker" [2, 3]	–	–	81,667	**98,000**
Variable remuneration in cash	–	–	–	**76,875**
Variable remuneration in shares [4]	–	–	–	**76,875**
Deferred variable remuneration in cash [5]	–	–	–	**51,251**
Deferred remuneration in shares without performance conditions [6]	–	–	–	**51,251**
Directors' fees [7]	–	–	–	**–**
Benefits in kind [8]	–	–		**4,626**
Total	–	–	410,834	**753,878**

(in euros)	2013 Compensation for 2013	2014 Compensation for 2014	2015 Compensation for 2015	**2016 Compensation for 2016**
Andrew Wild				
Fixed remuneration	–	–	329,167	**395,000**
Allowance "Material Risk Taker" [2, 3]	–	–	81,667	**98,000**
Variable remuneration in cash	–	–	76,875	**93,000**
Variable remuneration in shares [4]	–	–	76,875	**93,000**
Deferred variable remuneration in cash [5]	–	–	51,251	**62,000**
Deferred remuneration in shares without performance conditions [6]	–	–	51,251	**62,000**
Directors' fees [7]	–	–	–	**–**
Benefits in kind [8]	–	–		**4,626**
Total	–	–	667,085	**807,626**

1 *Chief Executive Officer since 1 march 2015.*
2 *Allowance awarded to "Material Risk Takers" identified by Group according to the Prudential Regulatory Authority regulation.*
3 *Allowance awarded in form of cash on a monthly basis.*
4 *Shares that vest immediatly and are subject to a 6 months retention period.*
5 *Variable remuneration in cash deferred over 3 years (33 per cent will vest in year n+1, 33 per cent in year n+2 and 34 per cent in year n+3) till 2015. From 2016 this variable remuneration is deferred over 5 years (20 per cent per year will vest from year n+1).*
6 *Variable remuneration in shares without performance conditions deferred over 3 years (66 per cent will vest in year n+2 and 34 per cent in year n+3) and subject to a 6 months retention period till 2015. From 2016, this variable remuneration is deferred over 5 years (20 percent per year from year n+1) and subject to a 6 months retention period.*

Shares awarded to each Executive Director in 2017 in respect of 2016 (Table 6)

HSBC Holdings plc shares with performance condition

From 2016, shares with performance conditions ("Group Performance Share") are not awarded anymore.

HSBC Holdings plc 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
Jean Beunardeau	27.02.2017	ND	EUR366,049	20% on each following dates: 27.02.2018 27.02.2019 27.02.2020 27.02.2021 27.02.2022	20% on each following dates: 27.08.2018 27.08.2019 27.08.2020 27.08.2021 27.08.2022
Jean Beunardeau	27.02.2017	ND	EUR244,033	27.02.2017 for 100%	27.08.2017 for 100%
Andrew Wild	27.02.2017	ND	EUR62,000	20% on each following dates: 27.02.2018 27.02.2019 27.02.2020 27.02.2021 27.02.2022	20% on each following dates: 27.08.2018 27.08.2019 27.08.2020 27.08.2021 27.08.2022
Andrew Wild	27.02.2017	ND	EUR93,000	27.02.2017 for 100%	27.08.2017 for 100%

Performance shares which became available for each Executive Director in 2016 (Table 7)

	Date of award	Number of shares which became available during the year	Vesting conditions
None			

HSBC Holdings plc shares, without performance conditions, which vested for each Executive Director in 2016 (Table 8)

The shares awarded in 2013 were vested for 34 per cent in 2016.

The shares awarded in 2014 were vested for 66 per cent in 2016.

The shares awarded in 2016 were vested for 100 per cent in 2016.

	Date of award	Number of shares vested[1]	Vesting conditions (in case of special conditions)
Jean Beunardeau	11.03.2013	20,628	
Jean Beunardeau	10.03.2014	35,986	
Jean Beunardeau	29.02.2016	30,136	
Andrew Wild	29.02.2016	15,605	

1 *The shares awarded under the French sub-plan in 2013 and 2014 are available two years after the vesting. The shares awarded under the UK plan are available at the vesting. The immediates shares awarded and vested in 2016 under the UK plan are available for sale 6 months after the vesting.*

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	–	–	–	–

HSBC Holdings plc free shares, without performance conditions, awarded in 2016 in respect of 2015, to the ten employees whose number of awarded shares is the highest (Table 10)

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	29.02.2016	462,973	EUR2,763,719	13.03.2018 for 66% and 13.03.2019 for 34% or 29.02.2016 for 100%	13.03.2018 for 66% and 13.03.2019 for 34% or 29.08.2016 for 100%

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 56 vests immediately and is available for sale after six months of vesting.*

HSBC Holdings plc free shares, without performance conditions, awarded in 2017 in respect of 2016, to the ten employees whose number of awarded shares is the highest

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	27.02.2017	ND	EUR2,869,266	27.02.2019 for 66% and 27.02.2020 for 34% or 27.02.2017 for 100%	27.02.2019 for 66% and 27.02.2020 for 34% or 27.08.2017 for 100%

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 56) vests immediately and is available for sale six months after of vesting.*

HSBC Holdings plc free shares, without performance conditions, vested in 2016, for the ten employees whose number of awarded shares is the highest

	Number of shares vested[1]	Vesting dates
Total value of the 10 highest awards of shares, vested in 2016 (employees or former employees)	738,566	
Of which award 2013	154,497	11.03.2016
Of which award 2014	349,447	10.03.2016
Of which award 2016	234,622	29.02.2016

1 The shares awarded under the French sub-plan in 2013 and 2014 are available for sale two years after the vesting. The immediates shares awarded and vested in 2016 under the UK plan are available for sale 6 months after the vesting.

Other information required by the Corporate Governance Code (Table 11)

Executive Director Function First appointed Term ends	Employment contract	HSBC France supplementary pension scheme[1]	Compensation or benefits due or that may be due upon termination or change in duties	Compensation due under terms of non-compete agreement
Jean Beunardeau Chief Executive Officer[2] 1 February 2010[3] 2017	Suspended	Yes	No	No
Andrew Wild Deputy CEO 1 March 2015[4] 2017	Suspended	No	No	No

1 *See page 56.*
2 *Deputy CEO since 10 January 2012.*
3 *Date of appointment as Deputy CEO.*

Compensation policy for employees whose professional activities have a significant impact on the risk profile of the business

The following information is published in accordance with article 266 of the order of 3 November 2014 on internal control of banking sector companies, based on articles L. 511-64, L. 511-71 and L. 511-72 of the French Monetary and Financial Code and article 450 of (UE) regulation 575/2013.

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 global policy, while also ensuring that local regulations, in particular those arisen from European Directive CRD III of July 2010 repealed by the Directive CRD IV of June 2013, since 1 January 2015 from AIFM Directive and since 1 January 2016 from Solvency II Directive are observed.

Two committees – the People Committee and the 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 also in charge of Global Banking and Markets, the Deputy Chief Executive Officer in charge of the Commercial Banking, the Chief Risk Officer, the Chief Operating Officer, the Chief Financial Officer, the Head of Human Resources and the main Heads of Businesses), reviews the main aspects of the compensation policy proposed by HR function 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 et de Résolution* and the European Central Bank since 4 November 2014, the *Autorité des Marchés Financiers* and the *Fédération Bancaire Française*.

In addition, as regards variable compensation, it checks that all of the measures in place within the bank's various business lines adhere to the general principles defined in compensation policies edited by France Group and global business lines, 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 both of the overall performance of each business line and of the relative performance of French teams and by taking into account risk and compliance aspects. It approves the structure of these compensation pools, i.e. the breakdown between cash and shares, between immediate remuneration and deferred remuneration in accordance with the HSBC Group's rules and local professional standards.

Lastly, on an individual basis, after approval of the list, it reviews and validates the consistency of compen-sation paid to professionals whose activities have a significant impact on the company's risk profile (excluding People Committee's members), before submission to HSBC Group's decision-making bodies. It reviews the 20 highest compensation packages (excluding People Committee's members), 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 breaches with respect to internal rules in term of credit risk, compliance and reputation, and for specific employees, to mandates provided for Volker and SRAB rules. On the basis of the compensation policy papers prepared by the People Committee, the Remuneration Committee, chaired by an independent Director, gives his view 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.

Finally, it reviews the remuneration of any Executive Directors and submit its proposals to the Board.

Main characteristics of the compensation policy

At HSBC Group level, the compensation policy defined takes into account, on one hand, the sustainable financial performance and the commercial competitiveness of the company as a whole and each of its businesses and, on the other hand, the overall performance regarding risk management, and finally the company's capacity to fund this policy on its own profit.

The main performance indicator used by the HSBC Group, to fix variable compensation budgets, is the profit before tax before variable compensation and excluding the change in value of own debt under Fair Value Option due to credit spread and capital gains or losses on businesses' and subsidiaries' disposals. On the other hand, it includes model and credit risk provisions.

Variable compensation budgets on a global basis and by businesses are reviewed and approved by the Group Chief Risk Officer, the Group CEO, the Group Chief Financial Officer and the Group Remuneration Committee.

Once these variable compensation budgets are approved, they are divided, for each business/segment/product/function/Host by regions and countries depending on their respective performance. Local performances are measured on one hand through financial metrics such as evolution of Profit Before Tax, growth in revenue, costs control, comparison of revenue and cost trends (jaws), trend in provisions for risks (LICs), return on risk weighted assets, completion of Group strategic objectives (in particular increase of cross border revenues, etc.) or regional priorities (customer experience improvement, implementation of local strategic plan if any, etc.) and on the other hand through non-financial metrics such as respect of obligations related to DPA (Deferred Prosecution Agreement), implementation of Monitor and/or regulator or Audit recommendations, continuation in implementing Global Standards, risk management which assessment is based on trends on provision for risks, level of risk weighted assets and corresponding return, liquidity ratio, operational losses, improvement of risk culture within the company, growth in women representation among GCB0-4. These indicators are included in performance scorecard and are analyzed by comparison to the previous year and against the budget.

These budgets are then granted in a differentiating manner according to the individual performance of each employee. The individual performance of an employee is appraised by the manager twice a year (mid-year and at year-end) and an appraisal based on four points rating scale, which was implemented for the year-end review in respect of 2014, is awarded:

– top performer;

– strong performer;

– good performer;

– inconsistent performer.

The four points performance rating scale aims to encourage differentiation in performance and variable compensation levels, accordingly.

The performance appraisal is based on achieving targets set for the employee by the manager at the start of the year. These targets include both qualitative criteria (observance of compliance and internal control rules, adherence to Global Standards, quality of sales or quality of service, risk management – especially in terms of operational risks and follow-up of audit points –, customer recommendations, cross-businesses synergies, winning customers, etc.) and collective and/or individual financial criteria (income growth, cost control, growth of the profit before tax, etc.).

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 (performance scorecards).

In compliance with the rules under CRD III and CRD IV directives, some employee categories are subject to specific rules regarding variable compensation award. These employees, considered to have an impact on the entity's risk profile (Material Risk Takers), were identified on the basis of qualitative and quantitative criteria defined by the European Banking Authority in March 2014. Pursuant to these criteria, the HSBC Group, which is itself submitted to this regulation, identified at France level a list of 45 employees coming under this Material Risk Takers category.

As these new criteria have to be applied both at a consolidated and an individual basis, an additional list of 37 employees who can have a significant impact on the company's risk profile at a local level was added to this list of Material Risk Takers identified at HSBC Group level.

This whole list of 82 employees includes mainly the executive directors, the heads of business lines, the heads of risk functions and the market operators who have an impact on the company's risk profile. It has to be noted that among these 82 employees, 7 of them are employees of HSBC Bank plc branch in France.

For this population, variable remuneration are limited to twice the fixed remuneration, according to the decision made by HSBC France shareholders' general meeting held on 13 June 2014. In order to maintain the competitiveness of Material Risk Takers remuneration, Group has modified the remuneration of several of them by allocating a monthly fixed pay allowance linked to their function. In addition their variable is deferred by 40 per cent and even by 60 per cent for the highest variable. Finally, 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.

It should be noted that if the variable remuneration amount is lower than 33 per cent of total remuneration, the variable remuneration is granted in cash immediately paid and deferred shares according to HSBC Group standard deferred rules.

For this population as a whole, 42 per cent of variable remuneration is deferred, and variable remuneration represents 44 per cent of total remuneration. The deferred share-based portion is not vested by the employee until after either a period of two years for 66 per cent and after three years for the remaining 34 per cent or a period of 2 years for 40 per cent, three years for 20 percent, four years for 20 per cent and 5 years for the remaining 20 per cent. This is furthermore subject to a six month retention period starting from vesting, and there is a prohibition on hedging it.

In addition, with effect from 1 January 2015, management companies under certain conditions are governed by the AIFM Directive (Alternative Investment Funds Management). In accordance with this Directive, categories of employees of HSBC Global Asset Management (France) and HSBC REIM (France) are subject to specific rules in term of variable remuneration. The employees concerned, are those whose professional activity has a significant impact on the risk profile of the management company or its alternative investment funds. The list of these risk takers mainly comprises Executive Directors, Heads of Risk functions, Finance function and Legal function, Heads of sales and Heads of Funds management. In 2016, a total of 40 risk takers have been identified. For this population, subject to have a variable remuneration of more than EUR 100,000 and representing more than 30 per cent of fixed pay, variable remuneration is 40 per cent deferred. The non deferred part comprises half cash variable and half cash variable indexed on the funds' performance. The deferred part comprises half cash variable deferred one third over 3 years and indexed on the funds performance and half shares. The shares vest after 2 years for 66 per cent of the award and after 3 years for 34 per cent of the award. The part of the variable awarded in form of shares, both in the non deferred part and in the deferred part, is subject to a 6 months retention period from the vesting date. Risk takers who do not meet the conditions above are subject to Group deferral standard rules.

Finally, with effect from 1st of January 2016, insurance companies considered as companies within the scope of the Solvency II regime are bound by the remuneration requirements set out in the Solvency II Directive (with regards to Article 275 of the Commission Delegated Regulation (EU) 2015/35).

In accordance with this Directive, categories of employees of HSBC Assurances Vie (France) identified as risk takers are subject to specific rules in term of variable remuneration. The employees concerned are those who effectively run the company and other categories of staff whose professional activities have a significant impact on the company's risk profile.

For HSBC Assurance Vie (France), the following have been identified as Solvency II staff:

– Executive Directors : Chief Executive Officer and deputy Chief Executive Officer;
– Key functions : Heads of Risk functions, Head of Compliance, Head of Actuarial, Head of Audit;
– Head of Finance: Board committee member of HSBC Assurances Vie (France) and under his strategic function in the company.

In 2016, 7 employees have been identified as risk takers under Solvency II. For this population, a part of their variable remuneration is deferred. This deferred part comprises shares that totally vest after a 3 years vesting period and that is applied under specific conditions described below:

- 60% of the variable remuneration is deferred when its total amount is equal or above GBP 500,000;
- 40% of the variable remuneration is deferred when its total amount is under GBP 500,000.

However, risk takers whose variable remuneration is lower than GBP 500,000 (or an equivalent amount in local currency) and whose variable remuneration is under 33% of their total compensation, are considered as "de minimis". On this basis, they are subject to Group deferral standard rules.

It should be noted that beyond this Material Risk Takers population, the great majority of the company's senior managers are affected by the minimum deferred compensation rules laid down by the HSBC Group which, for 2016, 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 apply. Nevertheless, deferred shares are no more subject to any retention period.

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.

In accordance with CRD IV Directive

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).

Remunerations awarded to overall staff

(in euros)	FTE Headcount[1]	Total Remuneration 2016
Executive members	2	3,132,990
Global Banking and Markets	691	109,047,030
Retail Banking and Global Functions	7,406	436,109,391
Total	**8,098**	**548,289,412**

1 *HSBC Staff in France as of 31 December 2016 excluding pre-retirement,*

Remuneration awarded to Executive members and professionals whose roles have a significant impact on risk profile of the company

Total remuneration: distribution between fixed pay and variable pay

(in euros)	Number of people concerned	Total Remuneration 2016	Total fixed pay	Total variable pay
Executive members	2	3,132,990	1,602,826	1,530,164
Global Banking and Markets	44	30,845,066	16,663,600	14,181,466
Retail Banking and Global Functions	36	13,427,097	8,494,663	4,932,434
Total	82	47,405,154	26,761,089	20,644,065

Total variable pay: distribution between payments in cash and payments in shares

(in euros)	Payments in cash	Payments in shares	Total variable pay
Executive members	765,082	765,082	1,530,164
Global Banking and Markets	7,236,476	6,944,991	14,181,467
Retail Banking and Global Functions	3,042,375	1,890,059	4,932,434
Total	11,043,933	9,600,132	20,644,065

Total variable pay: distribution between non deferred and deferred amount

(in euros)	Non deferred amount	Deferred amount	Total variable pay
Executive members	674,066	856,098	1,530,164
Global Banking and Markets	8,113,722	6,067,744	14,181,466
Retail Banking and Global Functions	3,228,319	1,704,115	4,932,434
Total	12,016,107	8,627,957	20,644,064

Total deferred variable pay: distribution between payments in cash and payments in shares

(in euros)	Payments in cash	Payments in shares	Total deferred variable pay
Executive members	428,049	428,049	856,098
Global Banking and Markets	3,009,168	3,058,577	6,067,744
Retail Banking and Global Functions	794,494	909,621	1,704,115
Total	4,231,711	4,396,247	8,627,958

Amount of unvested deferred variable pay in respect of previous financial years

(in euros)	Amount of unvested deferred variable pay in respect of previous financial years
Executive members	2,362,527
Global Banking and Markets	15,344,393
Retail Banking and Global Functions	4,190,212
Total	21,897,132

This table shows outstanding deferred variable pay corresponding to total unvested deferred remuneration, i.e. variable pay that has been awarded but not yet paid (cash) or delivered (shares) and which is still subject to a future 'malus' mechanism or early departure. Shares and equivalent instruments are valued on the basis of value at the award. Outstanding vested variable pay in respect of prior year can be impacted by departures from the company.

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

Amounts paid in respect of hiring (guaranteed variable)

(in euros)	Number of people concerned	Amount paid in respect of hiring (guaranteed variable)
Executive members	–	–
Global Banking and Markets	–	–
Retail Banking and Global Functions	NC	200,000
Total	NC	200,000

The first column corresponds to all sums paid on termination of the employment contract (severance payment), which include redundancy compensation and contractual indemnities.

Amount of severance payments[1]

(in euros)	Number of people concerned	Amount of severance payments
Executive members	–	–
Global Banking and Markets	–	–
Retail Banking and Global Functions	NC	3,300,697
Total	NC	3,300,697

Contributions to defined benefit plan

(in euros)	Number of people concerned	Contribution to defined benefit plan
Executive members	1	402,759
Global Banking and Markets	–	–
Retail Banking and Global Functions	–	–
Total	1	402,759

Information on highest remunerations

Total remuneration

(in euros)	Number of Material Risk Takers
Between 1 million and 1.5 million excluded	3
Between 1.5 million and 2 million excluded	2
Between 2 million and 2.5 million excluded	1
Total	6

In accordance with AIFM Directive

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 in the entities HSBC Global Asset Management (France) and HSBC REIM (France).

Amounts are expressed in EUR and correspond to gross salary (excluding employer social security contributions and before deduction of payroll costs).

HSBC Global Asset Management and HSBC REIM (France)

(in euros)	Total fixed pay	Total variable pay	Total Remuneration
Total of Employees (number: 385)	26,220,430	8,574,404	34,794,834
Including employees who have a significant impact on the risk profile AIFMD (number: 40)[1]	5,592,491	3,206,913	8,799,404,
Including Senior Managers (number: 20)	2,987,742	1,642,340	4,630,082

1 *Including 3 Executive managers who are already in the CRD IV material risk takers.*

In accordance with Solvency II Directive

Consolidated quantitative information about compensation paid to employees indentified as Solvency II staff in the entities HSBC Assurances Vie (France).

Amounts are expressed in EUR and correspond to gross salary (excluding employer social security contributions and before deduction of payroll costs).

(in euros)	Total fixed pay	Total variable pay	Total Remuneration
Employees identifies as Solvency II staff (number: 15)[1]	3,816,897	3,193,251	7,061,665

1 *Including 9 Executive managers who are already in the CRD IV material risk takers.*

CHAIRMAN'S REPORT ON INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES INCLUDING FINANCIAL RISKS RELATED TO THE EFFECTS OF CLIMATE CHANGE

Operational risk management framework

At the end of 2012, HSBC adopted a risk management and internal control framework called the Three Lines of Defence to ensure completion of its commercial objectives and meeting regulatory and legal requirements and its accountabilities towards shareholders, customers and employees.

This framework was updated in 2015 through the ORTP Programme (Operational Risks Transformation Programme) and precised in December 2015 in the Global Risk FIM (Functional Instructions Manual) to clarify responsibilities regarding identification, evaluation, assessment, monitoring and mitigation of operational risks and to strengthen the management of those risks. This clarification of roles and responsibilities aims at strengthening the articulation of the various internal control and operational risks management levels and efficiently coordinating the risks and control activities. This update led HSBC France to upgrade the definition and the structure of risk management departments defined in 2009. Moreover, to comply with the French regulation (Order of 3rd November 2014), risk management departments have been renamed to adopt the terminology of "risk functions".

The implementation of this model will be fully rolled out in 2017 with the implementation of a new operational risk system, Helios, which is underpinned by the ORMF.

The First Line of Defence includes businesses, functions and HOST responsible for managing operational risks within their activities and operations and is in charge of first level controls to mitigate those risks. Since some activities and processes can be outsourced externally or internally to HOST or other functions, these responsibilities are extended to outsourced activities to ensure complete risk management and monitoring.

There should be a clear separation between the First, Second and Third Line of Defence responsibilities. The First Line has ultimate ownership for risk and controls, with an independent Second Line providing oversight, challenge and advice to the First Line of Defence. This organization has been strengthened over 2016 notably by transferring first line of defense activities from functions to businesses where appropriate.

Businesses, functions and HOST are responsible for ensuring that risks in their perimeters are identified, managed and mitigated by a first level control framework in line with the risk appetite.

The Second Line of Defence includes functions and HOST. They are responsible for ensuring that all activities they oversee within HSBC France risks are effectively managed by the First Line in line within the risk appetite defined. They have a significant responsibility to ensure that HSBC France meets its operational risks management and internal control requirements for their risk areas. They have an advisory and expertise role and ensure that first line activities are appropriate in terms of risk and control management.

The Second Line of Defence is independent from the risk taking activities in the First Line of Defence.

The Third Line of Defence, Internal Audit, provides independent assurance to management and the non-executive Risk and Audit Committees that HSBC's risk management, governance and internal control processes are operating effectively.

Periodic controls of HSBC France aim to ascertain the compliance of operations, the levels of risk actually incurred by the institution, due observance of the procedures and the effectiveness and appropriateness of the control frameworks, by means of independent investigations conducted centrally by staff qualified for this purpose. Internal Audit assurance assesses the management of the risks and controls by the first line as well as controls oversight by the second line.

Permanent control

The 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 control falls to the managers of the various businesses, functions and HOST who must ensure that primary controls are conducted in a proper manner compliant with the HSBC Global Standards Manual (GSM), which states: "controls should be considered as fully embedded in the activities".

In addition to first level of controls, the HSBC France group's permanent control is based on risk management framework, under the responsibility of the Chief Risk Officer. This comprises mainly:

– the Business Risk and Control Management teams (BRCM), who monitor and manage risks in their business/function;

- the functions acting as the second line of defence Particularly, Compliance responsible for risk of non-compliance for HSBC France as a whole as defined in the French order of 3 November 2014;
- the Operational Risk function, in charge of overseeing the Operational Risk Management Framework. The Operational Risk function oversees the work carried out by the BRCMs (Business Risk and Control Managers) on operational risks teams within the businesses, functions and HOST who reports hierarchically to these businesses and functions heads. Operational Risk function works closely with Risk Stewards, responsible for overseeing risks, internal control and issues over their perimeter;
- and lastly, a number of committees, forums and working groups that examine the results of controls and the main deficiencies.

To comply with the American Sarbanes-Oxley law (SOX), the HSBC Group has implemented since 2006 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 Operating Officer (COO) of HSBC France, reviews:

- any deficiencies revealed by SOX control measures (documentation and "self-assessment" of businesses and function within the scope);
- the result of tests run by the Statutory Auditors;
- action plans progress and status.

On a quarterly basis, HSBC France's Audit Committee and the Risk Committee are informed of the results of controls carried out for SOX compliance purposes and of progress made in the action plans.

Permanent control Framework

First Line of Defence

The main activities of the First Line of Defence led by businesses, functions and HOST consist in:

- identifying risks and ensuring the implementation of an adequate and complete first level control environment to address risk recorded in their Risk Maps;
- ensuring deficiencies are identified, prioritized and escalated to the Operational Risk function and other second line of defence, and ensuring that remediation actions that have been designed and implemented;
- communicating and training about risk culture in order to enhance risk knowledge;
- establishing dedicated teams, independent from operations that perform internal controls and manage operational risks (BRCM - Business Risk and Control Managers) and ensuring that they have available qualified resources;
- evaluating, with the support of the BRCM teams, the efficiency of primary controls to ensure that they are effective. This evaluation can take form of indicators, tests or detailed thematic examinations. They are formalized in a dedicated Independent Control Monitoring Plan (ICMP);
- ensuring that adequate means are implemented for this oversight following a documented risk approach;
- ensuring that activities and processes are performed in accordance with all external and internal rules.

Second Line of Defence

The Risk Stewards' key responsibilities consist in:

- developing policies and standards required to manage risks within risk appetite and tolerances, oversee their effective implementation;
- coordinating the permanent control framework within businesses, functions and HOST for their risk categories;

– providing independent oversight of the operational risk profile, as well as independent oversight and challenge of control efficiency and action plans performed by Businesses, functions and HOST through Risk and Control Assessment, risk indicators and other reviews, and carrying out specific reviews of key risk issues;

– analyzing and documenting risks, escalating risk issues to the appropriate governance committees, particularly to the Risk Management Meeting, through the Risk map and the list of Top Risks.

– preparing and chairing dedicated forums.

Within the second line of defence, the Risk function, led by the Chief Risk Officer (CRO), plays a major role. The main second lines of defence functions are:

– Financial Crime Compliance;

– Regulatory Compliance;

– Security and Fraud, which oversees fraud risk, physical security, information security and business continuity;

– Retail Credit Risk; which oversees retail credit risks;

– Wholesale Credit and Market Risk; which oversees credit risks on wholesale market and market risk;

– Operational Risk, function in charge of oversight operational risk and manage the permanent control framework.

The CRO relies also on other functions to ensure a complete and accurate risk oversight (Legal, Human Resources, Finance function as regard accounting, liquidity, structural interest rate, forex and tax risks, and HOST in particular for the oversight of IT and outsourced services).

Since 2015, Legal, Financial Crime Compliance and Regulatory Compliance functions report directly to the Chief Executive Officer (CEO), in accordance with HSBC Group's organisation. The FCC and RC remain part of the Risk function and FCC and RC Heads report functionally to the CRO and to the Heads of FCC and RC for the region. According to that organisation, the Tax function is part of the Finance function.

HSBC Group Manuals

The GSM (HSBC Global Standards Manual) sets out the standards that all HSBC Group companies must observe. It applies to all the HSBC Group's businesses 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 business or 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 their operating procedures and their specific practices (Business Instruction Manuals – BIMs – or equivalent, and 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 the HSBC Group structures operating in France. They are readily available on the HSBC France Intranet. The drafting, circulation and storing of circulars are governed by precise rules (also formally set out in a circular) and are regularly updated.

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 businesses or activities may have 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 "High Risk Role" are also subject to specific requirements relating to personal transactions.

In 2016, HSBC implemented its "charter" to complement the local Codes of Conduct to offer a common approach that brings HSBC purpose and values to life in the decision-making process.

The internal committees, forums and working groups
Risks and internal control oversight are driven by a number of dedicated committees, forums and working groups.

Senior Management is kept regularly informed of the organisation and findings of permanent and periodic controls, in particular through various dedicated committees and working groups.

Among these authorities, the Risk Management Meeting (RMM), the Operational Risk Meeting (authority related to Operational Risk), and the Compliance Committee play a key role in control framework coordination.

The RMM, which is chaired by the Chief Risk Officer and includes the members of the Executive Committee, is an overarching 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 through the communication of minutes.

Locally, all risk reports presented to the RMM informed the HSBC France's Executive Committee, the Audit Committee, the Risk Committee and the Board of Directors. The RMM covers all entities operating in France.

The RMM makes use of the work of all dedicated committees within each business that cover all risks monthly (see the organisation chart for "Committees Governance and structure" on page 39).

This framework is completed by dedicated risk forums and working groups in businesses and functions combining the various levels of internal control, in order to manage, monitor and control all HSBC activities specific risks in France. Main functions acting as second line of defence hold a monthly or quarterly meeting, chaired by the function head and attended by function's members and experts, businesses representatives, Operational Risk representatives and for some of them the Chief Risk Officer.

The Operational Risk Management Framework

Operational Risk function
Within the second line of defence, the Operational Risk function is specifically responsible for the operational risk management framework (ORMF) through notably defining the operational risks management framework and policies, overseeing their implementation and ensuring an independent monitoring of the ORMF.

The Operational Risk function, supervised directly by the CRO should have a holistic and transverse vision of risks. It has a consolidation and harmonization role and provides an overview of the main operational risks and permanent control to the executive management, the Risk Committee and HSBC Group, collaborating with regional Operational Risk team to which it reports functionally.

The Operational Risk function works closely with the businesses and functions BRCM teams and the Risk Stewards on major themes such as reviews of risk and control maps, design and monitoring of action plans, incident reporting, risk indicators and control plans.

The Operational Risk function also acts as secretary for the HSBC France RMM (Risk Management Meeting) chaired by the Chief Risk Officer which is the main committee of risk management and permanent control. One of the missions of the Operational Risk function is to help the HSBC France executive management, starting by the CRO, achieve a transverse vision of risks, both complete and prioritised and if possible, prospective of the main operational risk issues of all HSBC France entities.

Finally, the Operational Risk team acts as an interface with the Global Operational Risk team and with the European regional team. Particularly, it broadcasts in France instructions and best practices communicated by the Group.

Like the Operational Risk regional team, Operational Risk function is organized by function, business and HOST to facilitate communication with the First Line of Defense. It ensures that the operational risk and control framework complies with French and European Union regulatory requirements.

The framework of risk identification and incident escalation is described in the operational risks section of the Risk management and control within the HSBC France group chapter of the Annual Report page 161.

The authorities related to operational risk and internal control

The ORM (Operational Risk Meeting) meets on a quarterly basis under the chairmanship of the Chief Risk Officer. The purpose is to ensure a transverse organisation and coordination of operational risks management and control framework.

Within this framework, the role of the ORM is to:

- communicate about the latest developments in terms of risk management framework;
- analyse the operational risks related to transverse issues or methodological questions (such as risk assessment, monitoring tool), define and periodically review the operational risks monitoring indicators;
- promote risk culture and knowledge of operational risks by facilitating communication between the first line and the second line;
- review the results of analysis performed by Operational Risk function such as the transverse risks monitoring, RCA analysis, internal events or BRCM control results.

The HBFR ORM attendees are:

- Heads of HSBC France businesses, CRAO HOST and CRAO GBM;
- Heads of main functions, Risk Stewards;
- Head of Global Internal Audit France (INA FRA);
- HSBC France Company Secretary;
- Operational Risk function in charge of preparing, presenting the meeting and minutes.

The summary of the work and findings of the ORM is regularly communicated to the Risk Management Meeting, the Risk Committee and the Board of Directors of HSBC France.

The work of the ORM is based primarily on the summary of the work of the HSBC France Operational Risk Forum, which combines the Operational Risk function and all BRCM – Business Risk and Control Managers, in the presence of a representative of the main second line of defence functions and a delegate from the Internal Audit.

The HSBC France Operational Risk Forum meets quarterly as per agenda defined by the Operational Risk function, a few days before the Operational Risk Meeting. The supporting material prepared by the Operational Risk function and based on the discussions and issues raised during the Forum allows the Operational Risk function to achieve a summary of the highlights.

The organisational structure of the Compliance function and the dedicated control bodies

Organisational structure of the Compliance function

The HSBC France permanent control framework of non-compliance risks is held by the Compliance Function, whose organisation evolved in 2014, with the "Global Standards Programme" deployed across the world. The Compliance function is divided into 2 teams of experts, which respectively report to Heads of Financial Crime Compliance or Head of Regulatory Compliance.

The main objectives of this new organisation are as follows:

- the creation of a consistent organisation of the Compliance function within the HSBC Group, at the local, regional and global levels;
- a better alignment of the Compliance function with the Lines of Business and functions;
- the distinction between advisory and support of the Compliance function to the Business Lines and functions.

In 2016 HSBC France continued to improve the frameworks for the Financial Crime Compliance (FCC) and Regulatory Compliance (RC) functions through the implementation of global transformation programmes and by aligning its own organisation with the Group's. Such improvements include splitting the Compliance teams for each business line into a RC team and a FCC team per business line, as well as splitting the shared teams (Compliance Business Management, Regulatory Affairs & Policies RAP and Compliance Monitoring and Testing – CMAT) into separate dedicated teams for the RC and the FCC departments.

The Financial Crime Compliance (FCC) Team includes the Anti Money Laundering, Anti Terrorism, Sanctions and Anti Bribery and Corruption teams. FCC is organised around these central expert teams and other dedicated teams within each Lines of Business (Retail Banking and Wealth Management, Corporate Banking, Banking and Markets, Asset Management, Insurance and Private Banking).

The Regulatory Compliance Department is in charge of the regulatory compliance risk control framework of the HSBC France group.

This department is divided into the following teams:

- RC teams for each global business line or function (Retail Banking & Wealth Management, Business Banking, Private Banking, Global Banking and Markets, Asset Management, Insurance, HSBC Operations, Services, Technology and Global Functions) which are in charge of advising and supporting their respective business/function line to achieve regulatory compliance;

– one RC Conduct Head who ensures support of the RC business teams in implementing the HSBC Group's Conduct programme;

– one CMAT team dedicated to RC risk controls to ensure the appropriate management of the RC risks by the global business lines/functions;

– the Business Management team which is responsible for the organization of the RC function, for the coordination of the RC framework and for the implementation of projects;

– The regulatory Affairs & Policies team which is in charge of the monitoring of regulatory developments, of the interactions with regulatory and supervising authorities regarding RC risks and of the drafting of policies to manage RC risks.

As at 31 December 2016, the Compliance function had 160 full-time equivalent employees, out of which 64 for RC function and 96 for Financial Crime Compliance Function (FCC).

The compliance teams of these two Departments report respectively to the FCC and RC Heads and cover the subsidiaries in their scope.

The FCC and RC Heads report hierarchically to the Chief Executive Officer and functionally to the Chief Risk Officer (Head of Permanent Control within the meaning of the order of 3 November 2014) and the Heads of FCC and RC for the region.

The FCC and RC Heads report on the exercise of their role directly to the Executive Directors as well as the supervisory body via the Risk Committee and the Board of Directors in accordance with Articles 30 and 31 of the order of 3 November 2014.

They are responsible for HSBC France's compliance control, within the meaning of Article 28 of the above-mentioned order, and for co-ordinating the HSBC France group's compliance control system for their respective areas of responsibility. The Regulatory Compliance Head also carries out the roles of Head of Compliance for Investment Services (RCSI) for HSBC France in respect of Articles 313-3 and 313-4 of the general regulation of the AMF (French Financial Markets Authority).

The different Heads of Compliance for Investment Services (RCSI), Heads of Compliance and Internal Control (RCCI) as well as the majority of TRACFIN (French financial intelligence unit) "declarants" and representatives of all the legal entities of the HSBC France group, come under the responsibility of the FCC and RC Heads or their direct staff.

The compliance risk control framework

The Compliance function is responsible for ensuring the control, for all entities of the HSBC France group, of the non-compliance risk as defined by Article 10 p) of the order of 3 November 2014 relating to banks' internal control systems.

- Identification of non-compliance risks

The Compliance function (RC and FCC) relies, in particular, on the legal monitoring of the Legal function in order to identify the modifications of legislative and regulatory texts as well as legal developments having an impact on the activities of the HSBC France group. Legal and Compliance functions have formalized their articulation and roles and responsibilities regarding regulatory change in 2016 in order to define responsibilities of identifying, analysing new regulation and conduct gap analysis and impact assessments.

The analysis of non-compliance risks is documented in maps recording the legislative, regulatory, professional provisions, as well as the provisions specific to the HSBC Group, applicable to each business or function, and the procedures and controls implemented to ensure compliance with the said provisions. The non-compliance risk maps are updated every six months.

The non-compliance risks relating to the activities of HSBC France stem primarily from the following areas: anti money laundering, terrorist financing, international financial sanctions, anti bribery and corruption, client protection, compliance with conduct rules relating to client interests, complaint processing, the protection of the integrity and transparency of financial markets, the preservation of the confidentiality of information and the protection of personal data, employees code of ethics, risks related to the remuneration policy, the prevention of conflicts of interest and compliance with the applicable rules in terms of cross-border marketing.

Following the proposed evolution of the RC function within the HSBC Group, several projects have been initiated or implemented in 2016 to improve the identification and the management of RC risks.

As such, the RAPid project aims at centralising all legal and regulatory developments in one tool and will ultimately enable the recording of impact assessment and associated action plans to monitor the evolutions of such developments.

The Regulatory Mapping project also aims at identifying RC-specific regulatory provisions and at associating one or several risks of the RC Risk Taxonomy. The go-live for this tool is scheduled in 2017 and will help RC teams contribute to risk mapping through the compilation of the regulatory provisions necessary to advise the business.

The identification and monitoring of compliance with the regulations relating to certain specific areas are the responsibility, within the HSBC France group, of the second line of defence functions with appropriate expertise and resources (accounting standards, prudential ratios, control of major counterparty risks, recommendations relating to the security of information systems, etc.). The Compliance function's remit does not extend to the control of compliance with rules not belonging to the banking and financial sector (labour and social security law, regulations relating to the security of people and property, etc.), the monitoring of which comes under the responsibility of other second line of defence functions of HSBC France (e.g. Human Resources). However, the Compliance function has to be informed, under the existing reporting or escalation procedures, by the departments concerned, of any problems identified and corrective measures implemented likely to have an impact on the non-compliance risk.

- Staff training and awareness

Each year, the Compliance function, in conjunction with the Training Department, draws up a staff training programme covering non-compliance risks. Training sessions, classroom-based or in the form of e-learning, are organised in the different businesses and functions.

In 2016, training programmes were provided on the following themes either in the form of e-learning or classroom-based:

– training of all the bank's employees on the following themes: anti money laundering, international financial sanctions, combating corruption, reputation risk, Conduct.

– classroom-based training depending on the business line, on the following themes: training as part of the rollout of the Global Standards, notably of employees most exposed to the management of these risks, training regarding the implementation of the Group's Conduct programme on customer protection, market integrity risks (market abuse), duty to provide advice, conflict of interests, inducements and remuneration, protection of clients' assets, etc.

Throughout 2016, HSBC France rolled out nine mandatory e-learning training programmes among all its employees – including five connected to Compliance risks. Each of these e-learning training programmes had to be completed within a prescribed time. The company's Management monitored the completion rate for these training programmes each month and took corrective measures, where applicable, enabling all employees to complete the programmes within short timeframes.

- Compliance examination procedures and detection and prevention tools

The HSBC France group has specific compliance examination procedures, in accordance with the provisions of Articles 35 to 38 of the order of 3 November 2014 relating to banks' internal control systems, as well as tools for detecting and preventing RC risks. These procedures and tools are the subject of regular updates and upgrades.

Following the proposed evolution of the RC function within the HSBC Group, the new Consilium project has been implemented in 2016 to improve the formalisation and the traceability of the advice deemed significant that RC teams provide to their respective business line.

- Control System

The Compliance function is considered to be first and foremost a second line of defence player in the HSBC Group. This role is ensured:

– firstly, by implementing the policies or circulars, by advising and training the operating staff in the businesses or functions;

– secondly, by conducting cross-functional theme-based reviews carried out by the RC or FCC Compliance Monitoring and Testing (CMAT) team.

- The reporting of issues

Problems identified in the implementation of the compliance obligations are the subject of an incident report that is drawn up and must be transmitted to the appropriate level within the Compliance line, followed by regular monitoring of the actions implemented to rectify the situation, using a dedicated tool called IRIS (Integrated Regulatory Information System).

Under the consolidated approach to non-compliance risks, the Compliance function also ensures centralised monitoring of the regulatory authorities' interventions in the entities of the HSBC France group.

- The Compliance Committee

The functioning of the framework and the main non-compliance risks identified are reviewed through dedicated control forums, consisting of both Compliance function representatives and operating managers. These forums either have a decision-making role, in terms of managing the compliance control system, or the role of providing information to Senior Management on the functioning of the system, identified issues, and the corrective measures undertaken.

- *RC Risk Control Forums*

RC risks are reviewed by the Risk Management Meeting (RMM), which is the governance forum within HSBC France for risk management and permanent control. It has a decision-making power regarding the organisation of the risk control and management frameworks.

The Conduct & Regulatory Compliance Forum meets on a quarterly basis, under the chairmanship of the Chief Executive Officer, and includes Executive Committee members who are Business Heads. The objective of this Forum is to provide information to Senior Management on the functioning of the risk control framework, on identified issues and the corresponding corrective measures undertaken.

Main topics raised during the Forum include:

– the implementation by the business lines of the Conduct programme on customer protection and market integrity;

– the interactions with regulatory and supervising authorities;

– cross-business items for attention (such as regulatory developments);

– items for attention which are specific to each business line, each global function and the findings of the controls carried out;

– RC Risk metrics.

RC risks are also reviewed by governance risk management forums within business lines or functions.

In the case of risks related to new products and services as well as significant modifications made to existing products, the majority of the businesses have specific bodies for the examination of products and services. In HSBC France, new products and services meeting certain criteria are, in addition, subject to the prior approval of the New Products Committee, chaired by the Chief Executive Officer of HSBC France, and whose secretariat is managed by the Regulatory Compliance.

– *Non Financial Crime Compliance Risk Governance Committees.*

The HSBC France Executive FCC Committee, chaired by the Head of FCC HSBC France, with a monthly frequency. It covers a scope including HSBC France and its subsidiaries INFR and AMG. The objectives are the supervision, management and communication of FCC risks, issues and developments impacting France Lines of Business. This encompasses Anti Money Laundering, Sanctions and Anti-Bribery and Corruption (ABC).

The HSBC France Anti-Money Landering Executive Committee, which includes the HSBC France FCC Head, the Anti-Money Landering Head, as well as the Lines of Business FCC Heads, has the following main objectives:

– monitor and manage the risks in terms of anti-money laundering likely to have an impact on the system;

– identify and oversee the new risks' typologies.

The Sanctions Executive Committee, which includes the FCC, Sanctions and Line of Business FCC Heads, has the following main objectives:

– communicate on regulatory developments and HSBC Group policies and assess their operational impact;

– monitor and manage risks related to sanctions that are likely to have an impact on the framework.

On the other hand, under the "Global Standards" programme implemented by the HSBC Group, a dedicated Committee to the Financial Crime Compliance (FCC Steering Committee) has been set up in order to monitor the implementation of the action plan to combat financial crime and to follow the "Global Standards" programme in France. This committee has also been implemented in each business line.

Moreover, quarterly AML FCC Committees, implemented within each Line of Business, and whose secretary and organisation are under the FCC responsibility have been removed and replaced by a monthly FCC contribution to the appropriate Line of Business Risk Committee. This initiative is included in the general objective of simplification and rationalisation of the FCC Governance. This allows discussion between Lines of Business Heads of and FCC Representatives, a FCC monthly update to the business and to take decisions related to FCC in the Business, in a LoB Committee, the Line of Business owing the risk, and an alignment with the other countries.

Organisation of accounting

Accounting procedures

The Finance Department is responsible for the effective enforcement of accounting policies and accounting control processes in compliance with the framework of HSBC France group. It defines, for all the entities of HSBC France group, the procedures and controls to be applied. This particularly concerns the procedures and accounting policies, the procedures of certification and justification of Balance Sheet and Off Balance Sheet and the Analytical Review of accounts that support the preparation of the financial statements.

The accounting and regulatory audit trail is documented as per the procedures and documentations established under the responsibility of the departments of Financial Control (FC) and Finance Chief Operating Officer Finance (COO). It is specifically about the documents related to the tools and accounting systems and interface, accounting schemes, certification of accounts and operational terms of audit trail use.

The Finance Department updates and circulates the procedures and accounting guidance which complies with the French GAAP and International Financial Reporting Standards (IFRS). These principles are outcome of, essentially, the French Commercial Law, French accounting standards and IFRS.

The enforcement of IFRS by all the entities of HSBC France group is also in compliance with the accounting principles of HSBC Group.

Organisation of accounting production

The vast majority of reporting documents are produced monthly and on both a non-consolidated and consolidated basis. These reportings present the financial data in comparison with those of the previous year.

Two sets of accounts are prepared, one under French GAAP and one under IFRS. The HSBC Group's integrated "SARACEN" consolidation software produces IFRS-compliant consolidated financial reporting statements that also meet all the requirements of the local regulator and the parent company.

A financial and balance sheet datawarehouse enables reconciliation and ensures that accounting, financial, regulatory and management reports are consistent with financial accounting. The datawarehouse stores data from both HSBC France and most of 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 disclosures. Consistency controls have been established within the datawarehouse, which feeds the consolidation software and is used to produce the various French regulatory reports *via* the Report Authority software.

Accounting production controls

The financial control of the Bank is organized around three main axes:

– the monthly accounting certification;

– the reporting and analysis of the P&L and Balance sheet;

– the financial Internal Control Sarbanes-Oxley (SOX).

According to the HSBC Group rules, HSBC France prepares, on a monthly basis, a certificate of accounting reconciliations which is addressed to the HSBC Group Europe Finance Department. This certificate, that attests the justification of Balance Sheet and Off Balance Sheet, represents the synthesis of certificates of accounting reconciliations transmitted by the heads of accounting and financial reporting of HSBC France and its entities. These certifications are formalised using the Group managed accounting certification tool AssureNET.

The monthly accounting certification reporting is based on the principle according to which each account of a general balance is assigned to an owner, which is responsible for its reconciliation. The anomalies detected lead to the determination of corrective actions for the teams and business concerned. The BRCM (Business Risk & Control Managers) of the entities of HSBC France group, internal controllers of the first line of defense, ensure these controls during their work programme on a risk based approach. The Quality Assurance team of Finance Department, that constitutes the second line of defense, manages the reviews as per the business and functions of HSBC France and its entities, in order to verify the quality of the supporting documents used to perform the reconciliation.

Balance sheet and profit and loss analytical reviews are performed by accounting and business finance teams. The Management Information and Planning department prepares on a monthly basis the management reportings; variance analyses are performed against business plans, budgets, trends comparisons vs prior month or year-on-year and all major variations according to thresholds are investigated and explained. These reportings are sent to the Regional Office of HSBC Group, the General Management, the Heads of businesses and functions, as well as the CFO.

The financial reportings are presented monthly by the CFO to the Executive Committee of HSBC France group and quarterly to the Audit Committee, the Risk Committee and the Board of HSBC France. The Audit Committee and the Risk Committee examine quarterly, bi-annually and annually the accounts submitted to the Board.

In order to comply with the requirements of American Law of Sarbanes-Oxley (SOX), enforced by HSBC Group, HSBC France thoroughly evaluates the controls in place while establishing the financial statements. The main processes supporting the establishment of these statements are part of a detailed documentation and proper controls, and regularly supervised within periodic review framework. These detailed analyses of operations flows until the accounts contribute to the improvement of control of the audit trail. Defects identified during this process must be corrected in the given period of time defined by the owners of remediation action plans and should be quarterly reviewed by the Finance SOX internal controller.

The Internal Audit team actively takes part in the supervision of the correct implementation of SOX process, while performing their periodic controls. The Finance SOX internal controller has access, via the Audit database of HSBC Group (Audit Issues Database – AID), to the audit points raised by the different teams of audit, which permits to follow-up the implementation of SOX Management Action Plans. In addition, the external statutory auditors perform every year the review of the control organisation on behalf of HSBC Group and give their opinion on the SOX 404 report prepared by the management of HSBC Holdings PLC.

Every quarter, the Audit Committee and Risk Committee of HSBC France are informed of the results of these controls and the progress of main action plans in case of deficiencies. A certificate is half-yearly sent by HSBC France to HSBC Holding, duly signed by the CEO, the CFO and the Head of Internal Audit, attesting the effectiveness of internal financial controls.

Periodic control

In accordance with French ministerial order of 3 November 2014 concerning internal control within financial institutions, and payment and investment service providers, the role of Internal Audit is to provide Senior Management and HSBC France's Audit and Risk Committees objective assurance on risk management and the internal control system implemented by the bank. Periodic controls of HSBC France aim to ascertain the compliance of operations, the levels of risk actually incurred by the institution, due observance of the procedures and the effectiveness and appropriateness of the control frameworks, by means of independent investigations conducted centrally by staff qualified for this purpose.

As part of HSBC Group's risk management framework, Internal Audit (INA) comprises the third line of defence, coming successively behind the businesses and functions' own first line of defence (Risk Owners, Control Owners, and Business Risk and Control Managers) and the second line of defence teams (Operational Risk and Risk Stewards: Compliance, Legal, Security, HR etc.). Whilst the first and second lines of defence are taken into account, INA has unlimited scope to define its own programme of work. This freedom is based on the fact that Internal Audit is responsible for providing Senior Management and the Audit Committee and Risk Committee of the bank, independent assurance on the risk exposure and level of control by management. As such, Internal Audit pays attention, in the first instance, to the evaluation of the respect of national legislation applicable to the audited area and, secondly, to the correct application of rules and procedures in force within HSBC Group and, finally, that audited activities remain within the defined appetite for exposure to the associated risks.

In accordance with article 27 of the French order of 3 November 2014, the periodic control framework applies to the entire company, as well as to companies under exclusive or joint control.

Global Internal Audit (GBL INA) is comprised of approximately 15 global audit teams whose role is to provide expert coverage of HSBC Group's businesses and functions.

These specialist audit teams are consolidated and comprise amongst others, four regional audit teams (Europe and Middle-East; North America; Asia-Pacific; and Latin America and Canada) along with country audit teams, including Global Internal Audit France (INA FRA) whose responsibility is to cover HSBC's risks in France.

HSBC France's periodic control is therefore covered conjointly by two GBL INA entities, functionally linked and coordinated:

– INA FRA, a general audit team based in France, in the main historically auditing central functions, Retail Banking and Wealth Management, Commercial Banking, banking operations, IT and strategically important projects. INA FRA budgeted headcount was 33 members in 2016, mainly split between business auditors and IT auditors;
– the global teams, specialised by business and/or function, based principally in London and Hong Kong, whose areas of involvement depend on the following functional structure:

- Europe, Middle-East and GBM Audit, responsible for auditing Global Banking and Markets and the European and Middle-Eastern regions;
- RBWM and GPB Audit, responsible for auditing Private Banking, Retail Banking and Wealth Management, Insurance and Pension risks, Asset Management and the system for protecting natural person clients;
- Risk and Finance Audit, responsible for auditing Wholesale and Retail credit risk, model and market risks, legal and compliance risks, management of operational risk, physical and information security, fraud risk capital adequacy and liquidity requirements, asset and liability management, accounting, management control and tax;
- CMB and Technology Services and Functions Audit, responsible for commercial banking risks and the main central functions and banking production, third party risks, IT and communication infrastructures and systems and their security, IT data application developments, IT projects and organisational changes, in support of the business audit teams.

Beyond the functional and regional organisation described above, Global Audit relies on local resources in numerous countries.

Country audit teams form one of the pillars of GBL INA's strategy. Country teams have the detailed knowledge of local regulations and environment enabling coverage to be adapted as appropriate, and functionally reporting to the global audit function strengthens their independence and ensures consistency between teams, all of whom are held to the high standards defined and regularly updated in the Global Audit Standards Manual (GASM). That all teams share a reporting line into a global function helps collaboration and the sharing of best practice.

Periodic controls on HSBC in France in 2016 have thus been assured sometimes directly by GBL INA, sometimes by INA FRA and also sometimes by both these actors in conjunction, with the agreement signed on 25 March 2011 and updated on 31 August 2016 which structures the roles, responsibilities and coverage model.

There are three (this number will soon be brought up to five) francophone members of the global audit teams based in Paris, primarily assigned to audits in France within Global Banking and Markets.

The scopes of local Audit and Global Audit converge and are consolidated in the HSBC France audit plan. In all cases, as defined in the aforementioned French ministerial order of 3 November 2014, all audits in France are managed in coordination with the Head of HSBC France Internal Audit (Inspector General), who oversees their consistency and efficiency.

HSBC France's Inspector General, Head of INA FRA reports to the Head of "Europe, Middle-East and GBM Audit" and HSBC France's Audit Committee, and administratively to the HSBC France Chief Executive Officer.

All audit work is performed in accordance with HSBC Group's audit standards, as set out in the Global Internal Audit Standards Manual (GASM). The GASM is updated on a regular basis, and is re-read by auditors at least once a year and its policies applied during each audit.

After significant investment in enhancing the global audit methodology during 2014 and 2015, Global Audit has continued to strive to improve the quality of audit work. In this regard:

– progress, closure and downgrading where appropriate, of high risk Management Self-Identified Issues (MS-IIs) are independently tracked and validated by Audit in the same way as are Audit-identified issues;

– as part of every audit since 1 January 2016, Audit assesses through dedicated reviews and a questionnaire completed for each audit the alignment of the culture, values and behaviour of auditees with respect to the Group's values designed to achieve HSBC's strategic objectives. The results inform the Management Action Grade (MAG), can inform root causes and affect the cooperation statement;

- GBL INA has introduced in the second quarter of 2016 a new process for the validation of issue closure, whereby a central "audit validation and assurance" team verifies the correct implementation of Management Action Plans. As of now, only Financial Crime Compliance issues (irrespective of their risk ratings) are concerned. The creation of this team will drive consistency and provide an expert advice on the correct implementation of remediation actions, while at the same time leaving the final decision and accountability on audit issue closures with the local team.

In addition, HSBC Group's auditing standards are stated in INA FRA's own internal procedures. The reference framework formed by these documents along with GASM, is used by the audit teams to conduct their audits. This corpus is revised and updated annually.

In addition to regular discussions held with Global Audit, a number of other elements contribute to maintaining an independent and up to date view of key risks in France, in particular:

- the Inspector General participates in the HSBC France Executive, Risk Management, Operational Risk meeting, Financial Crime Compliance Committee and Regulatory Compliance Committee, the HSBC France Audit Committee and those of its subsidiaries;
- the senior audit managers participate in the risk committees of the different businesses and functions;
- regular bilateral meetings, usually quarterly, between the Inspector General, INA FRA senior management and the different heads of businesses and functions;
- regular meetings, usually quarterly, between the Inspector General, INA FRA senior management and the statutory auditors.

In terms of management information, audit reports are sent to the management or person in charge of the audited entity or process, who is ultimately responsible for ensuring that Internal Audit's findings are remediated as well as any findings from the supervisory authorities or statutory auditors. The CEO, the Chief Risk Officer, the Head of Regulatory Compliance, the Head of Financial Crime Compliance and the Head of Operational Risk always receive a copy of all audit reports.

Audit reports relating to HSBC France subject to an adverse rating are routinely presented and commented on to HSBC France's Audit Committee by the Inspector General. This committee also monitors action plans resulting from high risk audit issues which have been outstanding for more than six months.

Finally, the HSBC France Internal Audit function is a member of the Inter Audit Committee (*Comité Inter-Inspections Générales* – CIIG), which assembles eight French banks together to undertake concerted audits of vendors providing services to at least four members as required by title V, chapter II of the French ministerial order of 3 November 2014. The ACPR's Secretary General stated their support of the committee's approach in a letter to the CI-IG's president dated 7 April 2015.

Financial risks related to the effects of climate change and measures taken by HSBC France to reduce them by implementing a low-carbon strategy in all areas of its business

Global warming is a proven fact. Energy transition is a necessary response to limit its negative effects. The finance industry has a key role to play in steering money away from a high-carbon economy to a low-carbon one. HSBC France fully subscribes to the HSBC Group's long-standing commitment regarding climate change, about which it published a statement in November 2016[1].

As a result, HSBC France identified that its main sources of emissions were indirect, through the companies that it supports as part of its banking activities that involve financing the economy.

Since 2004, HSBC France's risk management procedures have factored in the Group's pro-active policies governing its activities in various sectors regarded by its stakeholders as the ones most damaging to the environment. Those policies and their application are presented on page 89 of this document in the section entitled

1 *To view the statement, visit: http://www.hsbc.com/our-approach/sustainability.*

"policy and procedure for managing environmental and workforce-related risks". That chapter also sets out the results of HSBC France's first assessment, carried out in 2016, of its exposure to physical and transition risks relating to climate change, as required by Banque de France's prudential control and resolution authority ACPR in accordance with article 173 of France's new energy transition law.

In addition to managing those risks, HSBC France has carried out in 2016 an initial assessment of the energy mix, production mix and transport mix that it finances, compared with the International Energy Agency's 2°C scenarios. The analysis of this assessment, along with the carbon reporting of funds managed by its Asset management team, will feed into the low-carbon strategy to be enriched by the Group in France in 2017. Climate Finance correspondents in Commercial Banking and Investment Banking are already working to develop activities to support a low-carbon economy, as presented in the Climate Finance sub-chapter of this report on page 90.

HSBC France has also been committed since 2005 to reducing its direct environmental footprint, which mainly results from travel by its staff, but also from the electricity it consumes and the waste it produces, including paper waste.

As part of its community investment activities, it is supporting projects to restore damaged natural habitats in France in conjunction with the Office National des Forêts, Voies Navigables de France, Surfrider and Noé Conservation, contributing EUR 1.8 million in 2016.

The year's highlights

Reliability, strengthening and enhancement of internal control and operational risk framework continued in 2016 with notably:

- "Operational risk transformation program" (ORTP), and the roll out of phase 1 at the end of 2016, which main objectives are to better priorise risks and controls, strengthen the Operational Risk Management Framework, risk management through the "Risk Appetite" definition and a simplification of operational risk processes, procedures and tools;
- the clarification of roles and responsibilities within the three lines of defence framework;
- the implementation of a new risk assessment methodology and grid;
- the annual Risk and Control maps review owned by Businesses and functions relevant Heads by experts of the second line of defence. They are regularly updated according to material events occurred during the year and changes in the risk profile and regularly submitted to Operational Risk and BRCM forums or working Groups. BRCM teams annual control programmes are based on the Risk Map;
- the enrichment and reliability of some operational risk indicators, for a better risk monitoring;
- strengthen coordination of Internal Control plan between Businesses and support functions;
- the improvement in the supervision and control of third party services;
- ongoing improvement of the Regulatory Compliance function in terms of framework and dedicated tools by aligning the organisation with the Group's;
- the further enhancement of controls in areas such as Regulatory Compliance and Financial Crime Compliance, Information Security and Business Continuity;
- the strengthen of mandatory trainings related to Operational risk.

In 2016, follow-up of the "Global Standards" programme results in the implementation of the Group's policies and procedures in terms of Customer Due diligence process and procedures particularly within RWM and CMB and the implementation of TMi framework (Transaction Monitoring Investigation). This last framework aims to strengthen the framework related to operations' detection, investigation and suspicious activity report (SAR), with the centralisation of the SARs at the FCC AML Investigation for all lines of Business and subsidiaries of the HSBC France group.

Regarding the Regulatory Compliance function, the HSBC Group continued to implement the Conduct programme which sets forth the commitments made by HSBC with respect to the fair and just treatment of customers and the financial market integrity, including:

– providing clear, accurate, precise, and not misleading information to customers regarding the pricing, the characteristics of our products and services, as well as the associated risks;

– designing and offering competitive and accessible products which generate value for customers, match both their needs and risk profile, and avoid mis-selling;

– ensuring the management of such products and services in compliance with the highest regulatory standards in terms of fair and appropriate pricing, and of effective transparent and customer-oriented systems;

– ensuring compliance with the market integrity rules when performing the corresponding activities;

– maintaining a governance framework to effectively monitor the systems used to ensure the fair and just treatment of customers and the financial market integrity.

In 2016, further steps of the Conduct programme have been implemented following the Group policies. Such steps include the strengthening of the local dedicated governance, the improvement of the follow-up indicators, staff training and the Conduct maturity level assessment of all businesses. Action plans have been launched throughout 2016, some of which will continue through 2017.

Awareness of all employees on risk management was continued in 2016 notably through mandatory staff e-learning trainings.

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.

Samir Assaf
Président

Paris, le 8 février 2017

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 of Directors of HSBC France

(For the year ended 31 December 2016)

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

HSBC FRANCE
103, avenue des Champs-Elysées
75419 Paris Cedex 08
To the Shareholders,

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 to you on the report prepared by the Chairman of your company in accordance with article L.225-37 of the French Commercial Code for the year ended 31 December 2016.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L.225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

– to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and

– to attest that the report sets out the other information required by article L.225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

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

Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information
The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

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

– obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;

– determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L.225-37 of the French Commercial Code.

Other information
We attest that the Chairman's report sets out the other information required by article L.225-37 of the French Commercial Code.

Neuilly sur Seine and Paris, on the 27 February 2017

The statutory auditors

PricewaterhouseCoopers Audit	BDO France – Léger & Associés
Nicolas Montillot Partner	Fabrice Chaffois Partner

Corporate, social and environmental responsibility

Sustainability

CSR commitments and strategies

The Group's approach
Sustainability underpins our strategic priorities and enables us to fulfil our purpose as an international bank.

At HSBC, how we do business is as important as what we do. For us, sustainability means building our business for the long term by balancing social, environmental and economic considerations in the decisions we make. This enables us to help businesses thrive and contribute to the health and development of communities.

Governance
Corporate Sustainability supports the Group Chairman, Group CEO and Group Management Board in outlining the strategic objectives for all matters relating to HSBC's position on sustainable development. Non-executive oversight of Community Investment is provided by the Philanthropic and Community Investment Oversight Committee (PCIOC) of the HSBC Holdings Board. The remainder of the work of the function is overseen by the Conduct & Values Committee (CVC) of the HSBC Holdings Board. Sustainability priorities are set and programmes are co-ordinated by the Global Corporate Sustainability function. HSBC's country operations, global functions and global businesses work together to ensure sustainability is embedded into the Group's business and operations and effectively implemented. Executives within the Risk and Operational functions hold a specific remit to deliver aspects of the sustainability programme for the Group.

Sustainability focuses on three areas: sustainable finance; sustainable operations; and sustainable communities.

Commitment and recognition
HSBC recognises that reducing global carbon dioxide emissions is a critical challenge for society and that there is the potential for financial services to facilitate investment that can help the world transition to a low-carbon economy.

HSBC is committed to accelerating that shift by supporting customers involved in "climate business" through ongoing efforts to analyse the risks related to climate change and by seeking long-term low-carbon commercial business opportunities.

In 2015, HSBC issued a green bond, a further milestone in its contribution to a low-carbon economy. In that issue, HSBC France raised EUR 500 million to finance projects related to energy transition, in line with the Green Bond Principles. The first report on the allocation of those funds was published in September 2016 (available at http://www.hsbc.com/investor-relations/fixed-income-securities/green-bond-reports).

In March 2016, HSBC was accredited by the United Nations' Green Climate Fund, which invests in projects aiming to reduce carbon emissions and helping developing countries adapt to the consequences of climate change.

Furthermore, the Asset Management business joined the Montreal Carbon Pledge to disclose the carbon intensity of its portfolio in 2015. The first report is available at http://www.global.assetmanagement.hsbc.com/about-us/governance-structure/responsible-investment. The one relating to 2016 will be published in April 2017.

HSBC has joined the Catalytic Finance Initiative, aiming to accelerate investment in sustainable infrastructure. Through its involvement, it is contributing its expertise in infrastructure financing, project financing, green bonds and public-private partnerships.

Finally, HSBC's Climate Change Centre of Excellence, created in 2007, provides investors with research into the consequences, risks and opportunities associated with climate change. In 2016, it published around 60 reports on a range of topics, extensively covering the ratification and implications of the Paris Agreement. Reports have covered issues including climate risk assessment, green bonds, China's 13th 5-year plan, adaptation issues, water scarcity around cotton production and G20 climate vulnerability.

HSBC's commitment to sustainability has been recognised for many years, and has once again been confirmed by the Group's presence in the latest rankings:

- CDP - Edition 2016;
- FTSE4Good sustainability index;
- Hang Seng sustainability index;
- Leading company in the Forest 500's Investor category in 2015 and 2016;
- Leading company in the Thomson Reuters Extel ranking, for the third consecutive year, for analysis work carried out by its Climate Change Centre of Excellence.

Corporate, social and environmental responsibility (continued)

Respecting human rights

HSBC published its Statement of Human Rights in 2015. The document can be accessed via this link: www.hsbc.com/~/media/hsbc-com/citizenship/our-values/pdfs/150930-hsbc-statement-on-human-rights

The Group has also published its first statement regarding the provisions of the UK Modern Slavery Act. The report is available on the Group website.

Implementing the strategy in France

HSBC France is fully committed to the action plan adopted by the HSBC Group.

Integrating corporate sustainability issues within the bank's business areas consists of:

– anticipating the impact of climate change from the risk point of view and also in terms of financing a low-carbon economy;

– taking into account the social, environmental and governance issues of companies in our products and services.

HSBC France is also involved in meeting the Group's target of being a leading energy-efficiency bank, which consists primarily in reducing annual CO_2 emissions per employee by one tonne between 2012 and 2020.

Finally, HSBC France supports the communities in which it operates, particularly by supporting social-impact funds as well as corporate sponsorship and volunteering programmes in the fields of education, the environment and health.

Governance

In 2008, in order to deploy and effectively implement this strategy in France, HSBC France created a Sustainability Department, reporting to the Chief Executive Officer and to Global Corporate Sustainability. The department has a seat on the bank's executive committee. Consisting of a team of five, it co-ordinates the definition and implementation of action plans developed in collaboration with representatives of each of the relevant business lines.

A Sustainability Committee meets quarterly, with the main objective of reporting on progress or problems with the deployment of this strategy. It alternately brings together heads of business lines in order to validate the strategic direction, and operational managers in charge of implementing action plans.

Stakeholder consultation and materiality analysis

To help it adapt to current developments and better identify the key issues facing the banking sector, HSBC France decided to reinforce its analysis and assessment process through a consultation with its main stakeholders. The key steps in the consultation process held in 2014 were:

– a survey carried out among a panel of internal and external stakeholders to perform a materiality analysis of its main sustainability issues;

– a meeting organised between a small expert panel of stakeholders and HSBC France Senior Management to discuss in depth two key issues identified in the first stage of the process.

Like other banks and financial institutions, HSBC France's main responsibility involves governance and risk management issues (see section on "Risk management", page 68). HR/staff themes were considered significantly more important by the internal panel than the external panel (see section "Employee support", page 96).

Aspects related to the bank's role in economic, social and environmental development were clearly identified, especially by the external panel stakeholders, and were the subject of a meeting with the expert panel.

The expert panel explicitly urged HSBC to:

– better promote its research to show that the bank understands and is attentive to the changing world. Year after year, documents such as "Future of Retirement", "Value of Education", "Trade Forecast", "Power of Protection" regarding protection insurance, "Expat Explorer", "Essence of Enterprises" on the structure of entrepreneurship around the world, and those published by the Climate Change Centre of Excellence increasingly help to meet those expectations;

– educate its customers on the role and business model of financial institutions to increase their trust and confidence in the sector;

– be a facilitator in the energy transition. HSBC's environmental risk management policy and its role in developing green bonds contribute to this expectation. Our progress to date is presented in the Sustainable Finance section (page 88).

To raise awareness about its commitments in 2016, HSBC France also participates in targeted events in order to convey to a diverse audience, both internal and external, its vision of corporate sustainability, as well as information and data relating to its policy in this area. This approach promotes a rich dialogue with all stakeholders.

In 2016, HSBC France, amongst others, co-sponsored with the *Les Echos* newspaper two conferences on energy transition and sustainable cities, hosted the conference launching *Vivapolis/Institut de la Ville Durable*, and organised a conference presenting the annual report commissioned by HSBC from the Climate Bonds Initiative on green bonds and another focusing on the impact of article 173 of France's energy transition act for investors.

In support of its activities and to help develop climate finance, HSBC France takes part in several initiatives adopted by France's finance industry, examples in 2016 being the Business Dialogue on carbon pricing organised as part of France's presidency of COP 21, and work led by Paris Europlace on climate finance. The bank remains a member of the "finance club" run by ORSE (Observatoire de la Responsabilité Sociale de l'Entreprise). ORSE is an independent organisation that works with member financial institutions in order to fully define the issues and identify best practice in the field of sustainability. Similarly, it takes part in the French Banking Federation's CSR club, whose work in 2016 focused on the banking sector proposal to create a prudential framework favourable to green activities, known as the "green supporting factor". HSBC France also serves on the Collège des Directeurs du Développement Durable (C3D), an independent organisation set up to publicise the opinions of heads of Corporate Sustainability from medium and large sized companies and organisations. Finally, it takes part in the work done by the CSR committee of France's institute of directors (Institut Français des Administrateurs) in order to propose a framework to be used by directors to address sustainability challenges.

HSBC France's role in the economy

HSBC France's presentation

HSBC France is a subsidiary of HSBC, which is one of the world's largest banking groups as confirmed for many years by the league table compiled by The Banker (published by the Financial Times). In 2016, HSBC ranked ninth in this table. Each year, when presenting its strategy and giving annual updates to the public and investors, HSBC confirms that France is one of its 18 priority markets, among four in Europe.

As of end December 2016, the Liquidity Coverage Ratio is at 122 per cent. The Net Stable Funding Ration (NSFR) is at 120 per cent and the CET1 "transitional" ratio is at 13.2 per cent.

Finally, HSBC France has strong financial ratings from the largest global credit-rating agencies: Standard and Poor's: AA- ; negative outlook, Moody's: A2 ; negative outlook and Fitch: AA- ; stable outlook.

HSBC France's territorial, economic and social impact

Through its activity, HSBC France makes its own contribution to the financing of the economy and the smooth running of society. By ensuring a sound business base and sustainable income, the bank is able to distribute dividends to its shareholders, remunerate its employees, pay its suppliers and cover its tax liabilities. The bank supports the development - in France and internationally - of its retail, corporate, institutional and French regional and local authority customers by granting loans, by providing for their future through investments, and via secure domestic and international transactions.

HSBC France - Breakdown of main operating income items

(in millions of euros)	**2016**	2015	2014
Levies and taxes	**526**	554	426
Dividend payment	**270**	280	150
Salaries and employee benefits (net of payroll tax)	**790**	742	764

The French mortgage market reached a record high (EUR 253 billion), supported by high levels of renegociations/acquisitions similar to 2015. Against that background, HSBC France's Retail Banking and Wealth Management business continued to expand its loan book with growth of circa 2 per cent.

Commercial Banking continued to focus on the development of small, medium-sized and large businesses, supporting and financing their projects both in France and abroad. In 2016, Commercial Banking client loans outstanding rose +6 per cent to EUR 10.4 billion.

HSBC Assurances played an active role in rolling out the NOVI investment funds, which aim to foster growth and innovation in small and medium-sized businesses. The funds have a term of 21 years and the initial investment totalled EUR 580 million. HSBC Assurances chairs the Board of Directors of the NOVI 1 fund and also sits on the Board of Directors of the NOVI 2 fund. The NOVI funds exclusively finance investments in growth and innovation by companies with revenue of between EUR 30 million and EUR 200 million and operating in manufacturing and services, including the nine "French industrial

Corporate, social and environmental responsibility (continued)

solutions" sectors. Selected companies receive financing of EUR 3 million to EUR 20 million. The aim is to finance over 50 companies per year.

Support for local authorities and businesses

Since 2011, French local authorities have used the capital markets to diversify and optimise the cost of funding their investments (schools, transport, etc.), thus contributing to the appeal and dynamism of the areas under their responsibility.

In 2016, their use of the bond markets remained at historically high levels with issuance of EUR 2.1 billion, still representing 11-12 per cent of total annual local authority funding. In this market segment, HSBC France is strengthening its leading position, ranking number one among lead managers for French local authority issuances, well ahead of its rivals due to its experience with these clients. It handled ten transactions out of a total 60 in 2016 and has handled 118 out of a total 394 since 2000.

Among these, hospitals and public-sector healthcare establishments are increasingly seeking to diversify and optimise their financing arrangements. HSBC France is working to support the development of this market segment. After acting as joint lead arranger of the "CHU 2015" bond issue (EUR 100 million, 10-year maturity) by healthcare co-operation consortium CHU de France Finance, in 2016 HSBC France innovated by bringing Hôpitaux Universitaires de Strasbourg to the bond market with the first issue of listed, rated bonds by a university hospital in its own name (EUR 27 million, 18-year maturity).

In 2016, HSBC was also the top-ranked arranger of EMTN (Euro Medium Term Note) programmes for French local authorities and has handled 18 out of a total 23 in the market.

Lastly, HSBC France is also directly involved in diversifying the financing of French local authorities in its roles as co-arranger of the EMTN programme and joint-lead manager of the EUR 500 million, 7-year bond issue carried out by its client Agence France Locale (AFL) in 2016. AFL is an online bank owned by French local authorities wanting to combine their financing requirements in order to borrow money directly from the bond market.

Subcontractor and supplier policy

HSBC has updated the Ethical and Environmental Code of Conduct for Suppliers, to take account of revised legislation on Modern Slavery and Human Rights. More than 240 of HSBC's largest suppliers have already accepted the revised code retrospectively, which can be accessed at the following address: http://www.hsbc.com/our-approach/supplier-code-of-conduct.

In addition, in 2016, HSBC France's main businesses (Commercial Banking, Retail Banking and Wealth Management, Global Banking and Markets) and some global functions (Compliance, Human Resources, Finance, IT and the Operations Department) continued to use HSBC Group Service Centres (GSCs) for their back-office operations. The Krakow, Bangalore, Hyderabad and Cairo centres remain HSBC France's principal partners. The main tasks allocated to GSCs are payment services and account management operations, along with customer due diligence.

At the end of 2016, the total workforce of HSBC's GSCs working for France was around 860 on a full-time equivalent basis.

Fair business practices and protecting the client's interests

Governance

Corporate governance is one of the cornerstones of HSBC France's strategy. HSBC France refers mainly to the Code of Corporate Governance for HSBC Group companies.

At 31 December 2016, HSBC France's Board of Directors consisted of 19 Directors: three people who hold positions within HSBC, three members of HSBC France's Executive Committee, nine independent Directors and four Directors elected by the employees. Excluding the employee elected Directors, the Board consists of five women and ten men. In addition, the Board of Directors is assisted by four committees: a Risk Committee and an Audit Committee, both composed of independent Directors, and a Nomination Committee and a Remuneration Committee, both chaired by an independent Director. The Board of Directors has not set up a dedicated CSR committee and receives regular updates on action taken by HSBC France regarding corporate sustainability, including the way the bank's business lines manage the social and environmental impact of their activities.

Compliance

The Compliance function, established at HSBC France in 2001, is responsible for ensuring that the company's activities are carried out with integrity and professionalism, complying with laws, regulations and best practices applicable in France.

In Regulatory Compliance, HSBC has continued to roll out its Conduct framework, which formally sets out HSBC's commitments to ensuring the fair and equal treatment of clients and the integrity of the financial markets, including commitments to:

– provide customers with clear, accurate, precise and non-misleading information on pricing, the nature of products and services, and the associated risks;
– design and offer products that are competitive and easily understood, add value for clients, meet their needs and are suited to their risk profiles, in order to avoid mis-selling;
– ensure that products and services are managed in accordance with the most demanding standards, with fair and equal pricing and effective, transparent and client-oriented systems;
– ensure that market integrity rules are observed in the relevant business activities;
– maintain a governance system that allows effective supervision of systems to ensure the fair and equal treatment of clients and market integrity.

In 2016, the programme resulted in new milestones in the Group's policy, including efforts to strengthen dedicated local governance, improvements in monitoring indicators, staff training and assessments of business lines' level of maturity in terms of conduct. Action plans were implemented in 2016, and some of them will continue in 2017.

In Financial Crime Compliance (anti-money laundering efforts and international financial sanctions), the Global Standards programme aims to ensure that each HSBC Group entity around the world adopts these rules in order to prevent the risk of financial crime.

The programme is based on the following principles:

– Work only with well-known and trusted customers;
– Maintain consistently high levels of control in terms of financial crime everywhere HSBC operate;
– Managing financial crime risk must be second nature, in the same way as managing credit risk;
– Each and every employee of HSBC must exercise their judgement. Rules and manuals alone are not enough;
– Teamwork is the way to protect HSBC from financial crime.

After new Group policies and procedures to combat money laundering and regarding international financial sanctions were rolled out in 2015, including classroom-based training for the employees most involved in managing those risks, the programme continued in 2016.

This entailed the operational implementation of new processes and/or tools related to due diligence to be performed on clients, monitoring work on transactions client databases across all HSBC Group entities, and efforts to make governance more robust by collecting and exploiting reported data.

Customer experience and satisfaction/customer relations

Customer experience and satisfaction

HSBC aims to be the first-choice wealth manager for its clients, and strives for excellence in the service it provides. Measuring and constantly improving the customer experience is an ongoing challenge that is becoming greater, particularly as banking relationships become more digital.

Dedicated teams are responsible for monitoring and improving the customer experience.

For Retail Banking and Wealth Management customers, the "customer's voice" system is central to the organisation. For example, a satisfaction survey measures the performance of the bank in terms of customer satisfaction across all points of contact twice a year, and enables a comparison with competitors to be made. Email surveys are also conducted regularly to measure customer satisfaction with branches and the Customer Relations Centre, or after a customer has visited the secure area of the online banking site. All scores and customer comments are reported internally to front and back office teams, in order to motivate them to improve the quality of our service. They are also used to create action plans to improve customers' perceptions and make them ambassadors for HSBC.

In late 2016, 36 per cent of customers said they had recommended HSBC in the two previous years, making the bank number one in its benchmark (average was 20 per cent) (source: HSBC survey carried out by CSA in December 2016). Actual recommendations are a solid indication of trust.

Corporate, social and environmental responsibility (continued)

The Client First programme of measuring satisfaction among corporate clients was initiated in late 2015 and continued throughout 2016. The programme focuses on key moments in a banking relationship such as account opening, requests for assistance and a change in relationship manager, and has given the bank a better understanding of the client experience and the factors that drive satisfaction. The programme has given rise to a quality improvement plan, including an end-to-end review of the process for changing relationship managers and initiatives to make the branches easier to contact, which is currently being implemented.

In the Global Trade and Receivable Finance department, after HSBC Factoring France obtained ISO 9001 certification four years ago, the international trade business also obtained it in July 2016. A survey of HSBC Factoring France clients carried every other year showed an improvement in overall satisfaction from 7.4 in 2013 to 7.7 in 2015.

Customer relations

The overall number of complaints recorded in 2016 by the Retail Banking and Wealth Management network fell by 16 per cent relative to 2015.

The improvement arose mainly from a return to normal in complaints caused in 2015 by exceptional levels of requests to renegotiate mortgages or repay them early, and from the implementation of an action plan to reduce customer dissatisfaction with the pricing of our services and the way we follow up requests.

In 2016, the main area of complaint concerned account operation and pricing, representing 32 per cent of complaints: requests for refunds of various charges or commissions, delays with closing accounts and requests for explanations regarding account statements. Payment methods were the second-largest area of complaint, accounting for 29 per cent of the total: complaints concerning cheques, international and SEPA transfers and delays and errors related to bank cards. Finally, customer service and support complaints accounted for 10 per cent of the total, mainly due to difficulties experienced by customers in contacting their advisors. Complaints regarding mortgages accounted for 6 per cent of the total in 2016, down from 11 per cent in 2015.

The number of complaints sent to HSBC France's ombudsman fell slightly by 3 per cent compared with 2015, and the number of complaints handled directly by the ombudsman through the referral process was stable.

Commercial Banking recorded a 36 per cent decrease in the number of complaints logged in the RSC (Reclamation Service Client) application (*5,731 complaints as of 31 December 2016* vs. *8,951 as of 31 December 2015*).

12 reasons for complaints account for 72 per cent of the total. Out of this, 47 per cent were about payments, 35 per cent about account management issues and 12 per cent about remote banking services.

After analysing these complaints, the bank has prepared and is implementing action plans to improve procedures and to improve both service quality and customer satisfaction.

Accessibility

The www.hsbc.fr website, like all of HSBC's public websites, complies with the "Web Content Accessibility Guidelines 2.0" (WCAG 2.0) defined by the World Wide Web Consortium (W3C). In addition to these rules, HSBC websites are regularly reviewed by an independent firm. These reviews are defined and conducted directly by the Marketing Department at Group level for public websites.

The inspection company Qualiconsult has been appointed to draw up the "scheduled accessibility timetable" required by new French legislation.

The sites concerned are those classified as being open to the public: 248 sites in the Retail Banking and Wealth Management network and in the Commercial Banking network. Of those 248 sites, three have exemptions, 35 are compliant and the remaining 210 need to be brought up to standard.

As part of the "scheduled accessibility timetable" presented to the government, those 210 sites will be made compliant over a nine-year period, of which 23 were brought up to standard in 2016.

Sustainable Finance

The 2015 Paris agreement emphasised the financial sector's role in combating climate change.

HSBC has undertaken to support the transition to a low-carbon economy and in October published a statement summarising the way in which it is addressing climate change and its main initiatives in that area. The statement can be viewed on the website: //www.hsbc.com/~/media/hsbc-com/our-approach/sustainability/pdf/hsbc-statement-on-climate-change-oct16.pdf

HSBC scored the highest mark (A) for its climate strategy and disclosure in the global assessment completed by the Carbon Disclosure Project. The CDP encourages – on behalf of 800 institutional investors – the reduction in greenhouse gases by monitoring and publishing GHG emissions results from 2,000 large companies.

Policy and procedure for managing environmental and social-related risks

HSBC anticipates and manages risks and opportunities associated with a changing climate, environment and economy. In a rapidly changing world, business must anticipate and prepare for shifts in environmental priorities and societal expectations.

Sustainability risk framework
HSBC manages the risk that the financial services which it provides to customers may have unacceptable impacts on people or the environment. Sustainability risk can also lead to commercial risk for customers, credit risk for the bank and significant reputational risk.

For over 12 years, HSBC has been developing and implementing its own approach to working with business customers to understand and manage environmental and social issues in relation to sensitive sectors and themes.

HSBC's sustainability risk framework is based on robust policies, formal processes and well-trained, empowered people.

Sector policies
HSBC's policies cover agricultural commodities, chemicals, defence, energy, forestry, freshwater infrastructure, mining and metals, World Heritage Sites and Ramsar wetlands. It has applied the Equator Principles since they were first developed in 2003, including the latest version (EP3) since 2014.

Customers are assessed and supported using HSBC's own policies which are regularly reviewed and refined, including through constructive dialogue with NGOs and action groups. Matters of shared interest are regularly discussed with them. After HSBC updated its Forestry policy and introduced new policies (agricultural commodities, World Heritage Sites and Ramsar wetlands) in 2014, the bank reviewed its Mining and Metals policy in 2016. In line with the Paris Agreement of December 2015, it has included standards on lending to new coal mines, in addition to the existing policies on coal-fired power plants and deforestation. HSBC has also added more specific guidance on adverse human rights which could arise in the mining sector. These policies are available at: http://www.hsbc.com/our-approach/sustainability/finance

Highly trained staff
HSBC's designated Sustainability Risk Managers regularly provide training to executives from Risk, Global Banking and Markets and Commercial Banking in every geographical region.

Assessment of HSBC France's exposure to physical and transition risks related to climate change
Under article 173 of French act no. 2015-992 of 17 August 2015 on energy transition, HSBC France sent the ACPR (the Banque de France's prudential control and resolution authority) information on how it assesses climate-change risks as set out above, along with data on its exposure to physical risks and transition risks. The exercise showed that, like the French banking sector as a whole, HSBC France is more exposed to transition risks than to physical risks. Its exposure to sectors that are most vulnerable to transition risks represents on average 10.1 per cent of loans outstanding (7.1 per cent of that exposure is located in France). The most exposed sectors are the production of electricity, gas, steam and air conditioning; construction; land-based transport; and oil pipelines.

To supplement that analysis, HSBC France has carried out an initial assessment of how aligned its financing portfolio is with the International Energy Agency's 2°C scenario, initially in the two sectors of energy and transport, which are both key for HSBC France and critical to a less carbon-intensive economy. Those sectors account for 10% of HSBC France's on-balance-sheet assets, and the sample covered 86% of those assets, based on a materiality threshold of EUR 2 million.

The energy mix financed by HSBC France is as follows: 0% coal, 71% oil and gas, 27% electricity and 2% biomass. That is in line with the IEA's 2°C scenario for coal, but not for the other fossil fuels, for which the recommended percentage is 23% in Europe over the 2014-2035 period. The electricity mix financed by HSBC France, with a CO_2 emissions factor of 97g CO_2/kwh, is in line with the IAE's 2°C trajectory, and already below expected levels for 2030-2035.

In the transport sector, the mix financed by HSBC France is as follows: 61% air, 26% marine and rail and 9% road. That gives an emissions factor of 132g CO_2 per passenger-kilometre, bringing the mix into line with the IEA's 2°C trajectory by 2020.

These results give an initial view of how aligned HSBC France's loan book is with a 2°C trajectory, and they will play a valuable part in the Group's low-carbon strategy in France.

Corporate, social and environmental responsibility (continued)

Climate finance

Green bonds

HSBC France is heavily involved in the development of the green bond market, notably by promoting efforts such as the conference organised in partnership with the Climate Bonds Initiative on the state of the market in 2016.

HSBC France was joint lead manager of SNCF Réseau's inaugural green bond issue, which was for EUR 900 million and had a 15-year maturity. The funds raised through that issue will enable SNCF Réseau to finance the upgrade of its rail infrastructure, but also to develop new projects that include a specific method of measuring their impact in terms of greenhouse gas emissions and preservation of resources.

In May 2016, HSBC France was also appointed Active Bookrunner for the inaugural EUR 500 million green bond issue by Foncière des Régions. The proceeds from the issue were used to finance green property development projects, including projects with BREEAM very good and/or LEED gold certification. More than three quarters of the investors had signed the United Nations' Principles for Responsible Investment.

In December 2016, HSBC France conducted the private placement of a EUR 40 million green and social bond structured to finance the creation of a 1,000 bed public hospital in the city of Elazig, in eastern Turkey.

Energy efficiency

In 2016, HSBC Assurances maintained its strong focus on environmental quality in its real-estate policy. That involves acquiring properties that meet the highest environmental standards, retrofitting vacant buildings in order to enhance their quality (particularly by seeking accreditation such as BBC for low energy consumption), and encouraging tenants to use its buildings responsibly by having them sign a "green rider" to the lease including certain undertakings consistent with the policy adopted by HSBC Assurances.

The real-estate department also supports HSBC France's involvement in developing a low-carbon economy. In particular, it helps its largest clients (developers, investment companies, investment funds etc.) with their plans to develop properties that meet the highest energy and environmental standards.

One of the highest-profile projects that HSBC France has helped finance is Quadrans, close to France's new Defence Ministry in the 15th arrondissement of Paris. The development comprises 92,000 m² of commercial floorspace and will have HQE®, RT 2012, BBC Effinergie and BREEAM Very Good energy certifications.

Since the end of 2015, HSBC France has been offering small and medium-sized businesses "green loan" environmental financing in partnership with Bpifrance. These loans, jointly financed by HSBC, are designed for investments geared towards environmental protection. The green loans are only for small and medium-sized businesses that have been operating for more than three years, and carry a reduced interest rate.

Retail Banking and Wealth Management also offer environmental works loans at attractive interest rates. These loans finance equipment to reduce energy consumption or to make use of renewable energies in renovation projects.

Sustainable cities and infrastructure

In 2016, Global Banking and Markets continued its work aimed at identifying business models, legal frameworks and financing methods that allow technological innovations to be used, particularly in the smart cities field. As part of its collaboration with the *Institut de la Gestion Déléguée* (IGD), the bank has joined the newly created "Financing" committee, whose role is to consider these themes regarding the financing of energy transition.

Also as part of its work with the IGD, HSBC France is continuing to develop concession and public-private partnership arrangements, with the aim of enhancing the viability and financial structuring of various types of project that will be identified in France or abroad, either in Europe under the Juncker plan or in emerging markets.

HSBC France has also joined the Buildinterest initiative, a European project that intends to produce an analysis of the drivers of and obstacles to the development of sustainable construction and energy efficiency, and to devise operational solutions to enhance the appeal of these activities.

In 2016, HSBC France joined the sustainable cities task force set up by Medef International, the aim of which is to put together an integrated pool of French sustainable cities expertise in order to address international development opportunities. HSBC France also continued its partnership with the *Institut de la Ville Durable*/Vivapolis and with the Michelin Challenge Bibendum Community working group, which has published a position paper on the financing of recharging infrastructure.

HSBC France, in partnership with Bpifrance and with the support of Business France, has provided practical, operational support to seven innovative French companies seeking business in the Hong Kong smart cities market. This eight-month programme is intended to help them break into the local market, and then the Chinese market, for which Hong Kong acts as a shop window.

In accordance with its investment policy, HSBC Assurances has sought to increase its infrastructure investments, and in particular has helped finance energy transition by making a long-term commitment to a fund whose investment strategy focuses exclusively on renewable energies.

Growing importance of environmental, social and governance issues when assessing company performance

Article 225 of French law 2010-788 of 12 July 2010 on the national commitment to the environment, known as the "Grenelle 2" act, made social and environmental transparency compulsory for companies with respect to both issuers and asset managers. However, investor involvement was not covered.

Article 173 of the recent French act no. 2015-992 of 17 August 2015 on energy transition in support of green growth fills that gap. It states that investors, insurance companies, mutual insurers, provident institutions, pension funds etc. must mention in their annual report and provide their policyholders with information about the ways in which their investment policies take into account criteria relating to compliance with environmental, social and governance targets and on the resources used in support of energy and environmental transition. This French act forms part of a broader movement requiring ESG criteria, along with the carbon impact of investments, to be taken into account.

HSBC Global Asset Management (France) wants to support these new expectations through its commitments – such as the signature of the Montreal Carbon Pledge on 23 September 2015 – as well as in its products and services.

In 2017, HSBC Global Asset Management (France) will work on gradually adopting enhanced environmental, social and governance reporting for its institutional clients, along with reporting on the carbon footprint of their portfolios, in application of article 173.

Application of ESG criteria in portfolio management

In 2012, to meet obligations as a signatory to the United Nations' Principles for Responsible Investment (PRI), company/issuer analysis became the responsibility of all equity and credit analysts, instead of a specialist ESG analysis team. HSBC Global Asset Management's efforts in terms of factoring in ESG criteria are thus assessed every year by the PRI Secretariat which, in 2016, singled out its improved bond investment processes for praise.

Accordingly, ESG criteria are an integral part of the process of analysing and selecting stocks in all actively managed portfolios, not just in SRI funds. Around 6,000 issuers worldwide are covered by ESG analysis, the results of which can be accessed by all Group analysts and asset managers.

Companies and issuers are ranked as low, medium or high risk. High-risk securities undergo in-depth examination. The companies/issuers in that category have breached one or more of the ten United Nations Global Compact principles or, at the end of our proprietary ESG analysis, are ranked in the bottom five per cent in their geographic category (either emerging markets or developed countries). Each security is assigned to one of 30 ESG segments, which have been determined on the basis of the MSCI segmentation to make it easier to integrate them with existing segmentations. Each of these 30 ESG segments represents a homogeneous group of issuers. E, S and G weightings have been determined for each of them based on the in-depth research carried out by Equity/ESG and Credit/ESG analysts, co-ordinated by the global head of ESG research. The issue of whether or not to hold high-risk stocks in portfolios is raised and decisions are made by a special committee. The decisions are recorded and subsequently checked by a Global Committee chaired by the Global Chief Investment Officer. If a security is excluded, it cannot be held in any actively managed portfolio, whether SRI or non-SRI. After that analysis, if the relevant companies/ issuers are allowed to remain in portfolios, they are subject to special monitoring. The Group initiates a dialogue with the companies concerned, which may take various forms such as telephone or face-to-face discussions and letters. Special monitoring stops when a company is classified as low-risk based on all our indicators.

Corporate, social and environmental responsibility (continued)

At the global level, HSBC Global Asset Management continued its activities in the following areas in 2016:

ESG (Environment, Social, Governance) integration
Following on from its efforts in 2015, HSBC Global Asset Management actively continued to work on changing the way that ESG issues are factored into the decision-making processes used in our active bond, equity and, by extension, multi-asset investment strategies. ESG integration is now one of the key pillars of our equity investment philosophy, and is also a crucial component of our credit research process.

Development of ESG asset management strategies
To meet increasing demand from institutional investors for asset management strategies that include a specific carbon and/or ESG weighting, our quantitative research team has built a model that factors in these criteria both as a way of measuring and controlling risk, but also of optimising returns and generating outperformance. These strategies are put together using a proprietary model that uses ESG/carbon footprint data from external providers.

Fiduciary responsibility / Shareholder engagement
In 2016, HSBC Global Asset Management strengthened its shareholder engagement team and adopted a strategic action plan. These transformative advances have helped it to strengthen its collaboration with industry initiatives such as the Institutional Investor Group on Climate Change (IIGCC). For the first time, it has publicly pre-announced its support for shareholder resolutions encouraging resilience to climate change, and it intends to be more active in this area in future.

Climate change policy
Asset management teams have supported HSBC's contribution to the Task Force on Climate-related Financial Disclosures (TFCD) initiated by the FSB (Financial Stability Board). HSBC Global Asset Management has also published a Climate Change Policy that sets out its approach regarding climate change, which can be viewed here: http://www.frinfo.assetmanagement.hsbc.com/25189/PDF/Climate_change_policy-2.pdf

Transparency
We have also expanded our list of carbon data and ESG research providers to meet as effectively as possible our reporting commitments under the Montreal Carbon Pledge and, in France, under Article 173-VI of the energy transition act. This will enable us to adopt our new carbon reporting process for our institutional clients.

Update on Socially Responsible Investment Funds (SRI)
The HSBC SRI range has been designed to meet the needs of all HSBC Global Asset Management (France)'s client segments: institutions, asset managers, multi-manager funds, corporates, associations and retail investors.

Assets under management
On 31 december 2016, the HSBC Sustainable Euroland Equity had assets under management of EUR 219.68 million and the HSBC Sustainable Euro Bond fund had assets under management of EUR 103.79 million. Compared with 31 december 2015, HSBC Sustainable Euroland Equity's assets under management rose around 5.02 per cent while HSBC Sustainable Euro Bond's assets under management grew 5.12 per cent. HSBC continued to develop its SRI range by transforming its international equity fund "HSBC Actions Internationales" into "HSBC Sustainable Global Equity" on 16 December 2016. The fund had EUR 163.9 million of assets under management at 31 December 2016. It also has feeder employee savings fund called "HSBC EE Actions Monde Responsables", which has similarly contributed to broadening the SRI offering for employee savings plans.

In the year to end-December 2016, the number of employees investing in SRI funds through employee savings plans rose by 12.27 per cent. The corresponding assets under management rose to EUR 310 million, a 22.71 per cent increase.

Performance
Year-on-year returns at end-December 2016 were satisfactory, and in line with those achieved in traditional asset management. In Morningstar's "Eurozone Large-cap Equity" category, HSBC Sustainable Euroland Equity ranked in the first quartile over one year, in the second quartile over three years and in the second quartile over five years. In Morningstar's "EUR Diversified Bond" category, HSBC Sustainable Euro Bond ranked in the second quartile over one year, in the second quartile over three years and in the first quartile over five years.

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Employee savings

HSBC Global Asset Management (France)'s SRI range, under the HSBC EE Socialement Responsable umbrella employee savings mutual fund, currently comprises four multi-company funds: HSBC EE Actions Responsables, HSBC EE Diversifié Responsable et Solidaire, HSBC EE Oblig Euro Responsables et Solidaire and HSBC EE Monétaire Etat.

In 2017, this SRI employee savings range will be supplemented with the creation of a diversified balanced SRI fund.

Employee Support

The data below is supplied in accordance with article R. 225-105-1 of the French Commercial Code in application of article L. 225-102-1 paragraph 5 of the same Code.

Workforce at 30 December

Employees - total

	2016	2015	2014	2013 [1]	2012
Total HSBC France group	**8,956**	9,593	9,793	9,891	9,851
of which HSBC France	**8,382**	8,979	9,144	9,198	9,424
of which subsidiaries and branches	**574**	614	649	693	427

Employees - full-time equivalent

	2016	2015	2014	2013 [1]	2012
Total HSBC France group	**8,647**	9,217	9,402	9,533	9,570
of which HSBC France	**8,093**	8,621	8,771	8,857	9,152
of which subsidiaries and branches	**554**	596	631	676	418

* *Employees mainly working in France, except for expatriates (47 at end 2016).*
1 *HSBC Assurances Vie (France) became a subsidiary of HSBC France in 2013.*

HSBC France's workforce contracted by 6.6 per cent (596 employees) in 2016.

The reduction was mainly due to the following arrivals and departures:

- 517 new employees were hired in 2016, comprising 332 on permanent contracts and 157 on fixed-term contracts, including 133 youth apprenticeship and work-study contracts.
- 1,113 employees left the company, with retirements making up 19.3 per cent of the total, the end of fixed-term contracts 28.3 per cent and resignations 30 per cent.

Redundancies represent 13 per cent of the permanent contract departures.

The retention rate among the best-performing staff was 95.8 per cent.

The structure of the workforce remained stable, with 70.3 per cent of staff having managerial status, and 50.7 per cent of managers being women.

At end of December 2016, 1,084 employees worked under the voluntary part-time work agreement, equal to 13 per cent of registered employees.

According to DOETH (déclaration obligatoire d'emploi de travailleurs handicapés - mandatory disability employment declaration) 2015 definitions, disabled people made up 3.5 per cent of the workforce, as opposed to the target of 6 per cent. As a result, HSBC France paid EUR 1.12 million to Agefiph in 2016.

At end of December 2016, HSBC France employed 382 disabled people (including 151 who are no longer working).

Remuneration and incentive plans

Salaries and salary developments

In 2015, in the absence of a collective agreement following the annual pay round, management unilaterally decided to implement a single measure for 2016. This measure involved setting aside a financial package to allow individual pay rises in the following situations:

- to promote professional equality between men and women (pay and career equality), as well as fairness between full-time and part-time employees;
- for employees having taken long-term maternity leave, adoption leave or parental education leave;
- for the assessment and possible revision of remuneration for employees with disabilities;
- for the assessment and possible revision of remuneration for employees over 50 years old who have not received a selective pay rise in the last five years (from 2011 to 2015);

Corporate, social and environmental responsibility (continued)

– for the review and possible revision of the remuneration of staff representatives, in application of the agreement of 30 October 2007 on the exercise of the right to organise within HSBC France.

In addition, in accordance with the remuneration policy, a selective salary revision package and a variable remuneration budget are made available to managers, in order to review individual employee situations and to grant bonuses based on individual performance.

Collective incentive plans

A new group employee profit-sharing and incentive system was renegotiated in 2016. It covers the same scope as previous agreements, i.e. all employees of HSBC France, HSBC Global Asset Management (France) and HSBC Assurances Vie (France), and applies for three years (2016, 2017 and 2018).

The incentive agreement contains the profit-sharing agreement, and the overall distribution limit was again set at 8.75 per cent of the group payroll (excluding bonuses).

Profit-sharing is based on statutory arrangements, while the incentive plan is based on a percentage of restated profit before tax.

The individual distribution method, which is 50 per cent based on hours worked and 50 per cent based on a capped salary, has been maintained and aims to favour those on the lowest salaries.

HSBC France company savings plan

HSBC France has a company savings plan (including an 8-year long-term segment called PERF-Plan d'Epargne Retraite Future) in which staff can invest their profit-sharing or incentive payments or make a voluntary payment, and receive an employer top-up payment capped at EUR 2,424 per year.

The plan includes a range of 12 funds, three of which take into account corporate sustainability criteria in addition to the usual financial criteria.

Collective Retirement Savings Plan (PERCO)

HSBC France has a PERCO to which employees can make voluntary contributions or transfer days saved in their long-term time savings accounts.

No employer contributions are made to the PERCO. It offers a range of 14 "unrestricted management" funds (including three funds that take into account corporate sustainability criteria) along with the "guided management" formula, which aims gradually to reduce risk exposure as the beneficiary approaches his/her investment horizon.

HSBC Holdings plc options and bonus shares

With effect from 2001 and following the integration of CCF (Crédit Commercial de France) within HSBC, CCF decided that it would no longer grant CCF options to its employees, since they could participate in the stock-option plan of HSBC Holdings Group (B shares) through a French sub-plan compliant with French legislation and tax rules.

Accordingly, a number of HSBC France group employees were granted HSBC Holdings plc stock options from 2001 to 2005.

In 2005, HSBC fundamentally revised its employee option and bonus share policy and implemented the HSBC Share Plan, approved by the General Meeting of May 2005. The regulations provide for the establishment of a French sub-plan (Schedule 5 of the general regulations), which complies with French legislation and tax rules.

The regulations were revised in 2011 to take account of amendments to regulations governing the plan and to formalise the rules of the "Group Performance Share Plan" intended for HSBC's executives. The French sub-plan (Schedule 5 of the new regulations) also underwent a review to ensure its compliance with local social-security and tax rules.

The objective of the HSBC Share Plan is to motivate executives to create shareholder value and to recognise individual performance. Awards may also be made under this plan to attract or retain talented staff. Since 2006, HSBC's general policy is to no longer grant stock options (except when required by a country's laws and tax rules) but to give priority to the award of bonus shares.

HSBC now recognises two categories of bonus shares.

– "Group Performance Shares", which have the following specific conditions:
  - a five year vesting period,
  - a restricted period beyond the vesting period, which runs until retirement,
  - a performance condition measured using eight indicators (four financial and four non-financial) from the performance scorecard of the manager concerned;
  - Group Performance Shares have not been awarded since 2016 performance year.

– “Restricted Shares”, which are not subject to specific performance conditions, but which only vest if the relevant employee is still with HSBC either immediately or at the end of a period of one, two or three years

Capital increase reserved for employees (and retired employees) of HSBC in France

HSBC France’s employees (current and retired) were not offered the opportunity to buy shares as part of a capital increase in 2016.

Staff welfare

The consolidated amount of payments to the Works Committees and the Central Works Council, based on a percentage of the payroll, was EUR 3.2 million in 2016.

HSBC France has also set up an employee healthcare fund, into which it pays an amount equal to 0.02 per cent of its basic payroll. This HSBC employee healthcare fund supplements benefits granted by *Harmonie Santé Service* – the welfare body for *Harmonie Mutuelle* members – to HSBC employees. The HSBC employee healthcare fund aims to provide financial support to employees in difficult personal circumstances. An HSBC Joint Committee in charge of monitoring the fund defines its action policy.

In 2016, HSBC France also made EUR 8.8 million of socially-oriented payments (housing, back-to-school payments, transportation, childcare, parental allowances and HSBC France loyalty and long-service awards).

Work organisation

Organisation of working hours

Pursuant to the agreement on working hours signed in October 2008, the working year totals 1,592 hours, excluding the paid “solidarity day”.

For employees whose working hours are recorded, working time is organised in one of two ways:

– on the basis of 38 hours per week, or 7 hours 36 minutes per day based on a 5-day working week. The number of RTT (reduction in working hours) days in 2016 was 17.5 days for a Monday-to-Friday working week, and 22.5 days for a Tuesday-to-Saturday working week;

– on the basis of 37 hours per week, or 7 hours 24 minutes per day based on a 4.5-day working week. The number of RTT (reduction in working hours) days in 2016 was 12 days for a Monday-to-Friday working week, and 16 days for a Tuesday-to-Saturday working week.

Executives working on the basis of a fixed number of days per year are those who hold a position involving a significant amount of autonomy in their time management, and whose main task is to co-ordinate and lead a team and/or whose duties require a high level of expertise in their profession.

Rights to RTT days for employees working on the basis of a fixed number of days per year, as for executives, vary according to their weekly working pattern.

Overtime

In 2016 HSBC France employees worked 75,159 hours of overtime, down 3 per cent compared with 2015.

Work performed in excess of regulated hours mainly takes place under the exceptional work agreement, which represents 68 per cent of overtime hours worked.

Absenteeism

In 2016, the level of absenteeism due to maternity leave was slightly higher than in the same period of 2015, and total days of absence due to maternity leave rose by 8.2 per cent.

In 2016, absenteeism due to illness was higher than in 2015. Absenteeism due to illness was higher than the previous year, with a rate of 4 per cent compared with 3.65 per cent in 2015.

Staff wellbeing and safety

Health and safety

HSBC France has Health, Safety and Working Conditions Committees (CHSCTs) for all its activities in France.

These CHSCT committees have greater resources than those provided for by law, particularly in relation to site visits and the number of representatives.

Agreements relating to the Works Committee and Employee Representative elections in 2013 have strengthened the resources of the CHSCTs, especially in terms of the number of representatives.

In 2016, the CHSCTs continued their involvement in consultations relating to ongoing renovations and improvements of branches and central buildings – particularly in Cœur Défense building where 4,150 workstations are located – as well as supporting reorganisations relating to employee working conditions.

Corporate, social and environmental responsibility (continued)

In 2016, no specific agreements regarding health and safety at work were signed, although initiatives already underway continued, including:

a) Monitoring stress

Since 2004 for employees in the Paris region and since 2010 for employees outside Paris, HSBC France has provided them with the opportunity to complete the Stress Medical Observatory's questionnaire during their periodic medical examination. An independent firm with IPRP (expert in occupational risk prevention) accreditation is in charge of processing the collected data using a scientific methodology. In 2015, 1,230 employees took part in the Stress Medical Observatory's research.

The results revealed higher levels of stress, anxiety and depression compared with previous years. They also revealed that the average stress level was higher than that of the IPRP firm's own panel.

Groups expressing less favourable psychological experiences were found among business-line technicians processing banking transactions, employees aged 59 years and over and those aged under 30.

These surveys have helped HSBC France to identify factual elements and then implement action plans to heighten awareness about stress factors and to reduce them through targeted action, particularly in terms of workload, work organisation, ergonomics, special support during organisational changes and suitable training that takes into account developments in the business and support for young people when joining the company.

b) Framework for preventing work-related stress

A joint Steering Committee involving management, unions, CHSCT representatives, the Occupational Health Department and the Stress Medical Observatory, supported by the external consulting firm Technologia, continued its work on the working conditions of HSBC France employees in 2016.

Based on the results of the first Quality of Life in the Workplace survey, the Steering Committee continued its work to analyse risk situations, using the results of the fourth survey carried out in November 2015.

Those results showed positive changes for 21 per cent of employees taking part in the survey in Retail Banking and Wealth Management, Commercial Banking and the Operations Department following changes in processes. The indicators remain relatively stable compared with the previous iteration.

The work-related stress mapping initiative carried out in 2012 will be updated following the fifth survey that started in November 2016, involving a sample of 3,500 employees.

These efforts are intended to monitor the effectiveness of initiatives to enhance the wellbeing of HSBC France staff.

Employee consultation

In addition to the stress monitoring process and the system for detecting work-related stress mentioned above, HSBC has an additional employee consultation system.

Every month, HSBC consults its staff all over the world via a brief "Snapshot" survey. Snapshot aims to evaluate understanding of the bank's strategic priorities and measure perception of current changes through various themes: strategy, Global Standards, communication, customer experience, culture and working methods. This global survey is carried out every month among a representative sample of employees. The results are consolidated every quarter by business line, country and region, and then reported. Once a year, the survey is carried out across all employees and covers all key aspects of the business, particularly ownership of Group strategy, understanding of regulations designed to combat financial crime, collaboration and inclusion, commitment and facilitation, behaviour of direct managers, staff development and ethics, performance management, respect and recognition. The large number of responses provides a more detailed analysis by country. In the survey from 23 June to 11 July 2016, 4,400 employees of HSBC France took part. The "positivity" score increased by two points compared with 2015. The regular nature of the survey allows the impact of initiatives to be measured and monitored. Results for the third quarter of 2016 show ongoing improvement in almost all areas, although overall results in France remain well below Group levels.

The survey provides another means for employees to make their voice heard in addition to the "Exchange" system initiated in December 2012, under which managers set up discussion and information meetings with their team members. The team is free to set the agenda for the meetings and the resulting feedback is sent to HSBC. Since the programme was first introduced, it has been clear that employees taking part in an Exchange meeting had a more positive approach to their work and the bank's strategy and a better understanding of the changes that HSBC is going through.

Accidents at work and occupational illnesses
Very few employees are affected by occupational illnesses. They account for an insignificant proportion of total illnesses.

In 2016, the work accident frequency rate (number of lost-time accidents / millions of hours worked) was 9.9 and the injury severity rate for work and travel-related accidents (number of days lost / thousands of hours worked) was 0.3.

Work/life balance
In late 2010, HSBC France introduced a remote working system which enables employees, if their work allows it, to perform part of their activity from home. This is a voluntary arrangement based on the principle of alternating one to three days of remote working with a minimum of two consecutive days of work on company premises in the same week.

By the end of 2016, 840 employees (10 per cent of the total workforce), primarily in support functions, have opted for this solution, which has been widely implemented within HSBC France, and their average level of satisfaction is high.

Remote working significantly reduces weekly travel time, which allows employees to have a better work/life balance and also helps to reduce the company's carbon footprint.

Social relations: social dialogue and summary of collective agreements
Throughout 2016, management presented plans on matters such as reorganisations and process optimisation to HSBC France's various employee representation bodies (Central Works Council, Works Committees and Health, Safety and Working Conditions Committees). These plans mainly related to Retail Banking and Wealth Management, Commercial Banking and the completion of the project to combine teams at the Cœur Défense site.

HSBC France also consulted its Central Works Council on its strategic orientations and consequences on its business. More than 450 meetings were held and more than 3,000 questions were dealt with during 2016 in relation to these plans and other work done in conjunction with these bodies and the Employee Representatives.

Within HSBC France, negotiations with unions resulted in the signing of two agreements and three amendments to existing agreements including:

– Group agreement on incentive plans;

– Agreement on the introduction of CFCS (*Congé de Fin de Carrière et de Solidarité*) early retirement plans.

Within HSBC Global Asset Management (France), negotiations with unions resulted in the signing of two agreements and three amendments to existing agreements:

– Amendments to the collective agreement relating to the Company Savings Plan;

– Amendments 3 and 4 to the Collective Retirement Savings Plan (PERCO);

– Agreement on back-to-school bonuses;

– Agreement relating to mandatory annual wage negotiations for HSBC Global Asset Management (France) employees for 2016.

Training
In 2016, training initiatives focused on supporting and developing employee skills to help HSBC continue implementing its strategy, based on:

– stimulating growth while increasing effectiveness,

– introducing the most demanding standards regarding compliance, particularly as regards efforts to combat money laundering, terrorist financing and corruption, as part of the Global Standards programme.

HSBC France's professional training initiatives are a logical part of that effort.

They are based on managing banking risks, implementing the Global Standards programme (consisting of three parts, i.e. know your customer, improvements to the compliance system regarding financial crime, and the monitoring and identification of new financial crime techniques), increasing managerial expertise, boosting language skills and developing technical expertise.

As part of the Global Standards programme, all employees in Retail Banking and Wealth Management who are particularly exposed to money-laundering risk attended a classroom-based one-day training day on the theme of efforts to combat money laundering and ensure compliance with sanctions, adjusted according to the various business lines.

Corporate, social and environmental responsibility (continued)

Training was also organised for staff on the theme of how to talk to customers about matters regarding compliance and efforts to combat financial crime, in order to engage with them against a background of risk.

Private Banking continued to adapt its systems and processes in line with various regulatory requirements and the Global Standards (KYC/TOMIC). Staff received training appropriate to their duties to help them adopt these new systems and processes.

Commercial Banking continued to roll out training in strategic subjects (development of international connectivity, risk management and client relationship management), by focusing on increasing skills levels in relation to international activities, risk management and client relationships.

In Global Banking and Markets, major initiatives continued, focusing on technical themes relating to products and client relationships.

In 2016, HSBC Operations, Services and Technology (HOST) continued its efforts to develop staff skills in areas including IT and project management. Some staff received training leading to recognised qualifications in project management.

Training for support functions focused on the specific technical requirements of their teams, as well as on improving their English-language skills.

HSBC France also continued to focus on developing the language skills, mainly in English, of staff working regularly with international contacts. As part of that initiative, the Training Department offered a varied set of training sessions responding to different needs (intensive courses, immersive learning, individual telephone-based sessions and individual classroom-based sessions). To complement these efforts, inter-cultural training was arranged to facilitate collaborative work within our international organisation.

Efforts to enhance the business culture intended to provide staff and managers with common, shared tools based on HSBC's values were supported by the introduction of two modules:

– "At our best", taken by almost 8,000 employees. These sessions are open to all business lines and functions, and aim to enhance interaction and ensure that all staff take ownership of these tools in order to support a change in the Group's culture.

– "Managing at our best", taken by 1,200 managers in 2015/2016 across all business lines and functions. The aim is to make it easier for managers to take ownership of new management tools and to adopt new practices in their teams.

Mandatory training for all staff was introduced at a rapid pace, including nine e-learning modules in 2016.

HSBC France also continued to support staff choosing to take CPD (Continuing Professional Development) courses leading to banking diplomas. The diplomas available include the "*Brevet Professionnel de Banque*", a BTS certificate in Retail Banking, a Bachelor's degree in advising small-business clients, the ITB diploma, the CESB Master's degree in Senior Management and the CESB diploma in Wealth Management.

At HSBC Global Asset Management (France) and HSBC Assurance Vie (France), training focused on the following areas:

– Global Standards for Risk and Compliance teams who took part in AML & Sanctions Compliance sessions,

– technical training relating to portfolio management as well as product knowledge and expertise (mutual funds, pension funds),

– professional knowledge of regulations applicable to market participants (AMF certification),

– regulatory news affecting these business lines.

Diversity and equality of treatment

The global corporate agreement on Diversity and Equality signed by unions and management in November 2014 has four themes:

– promotion of a culture of inclusion in the working environment,

– diversity of ethnic and social background,

– gender equality,

– inclusion of disabled people.

In terms of gender equality, the aim is to encourage equal career opportunity, pay, training and work/family life balance for men and women. HSBC therefore continues to improve paternity leave rights and has made quantified undertakings to increase the proportion of women with managerial grade, in areas where they are under-represented.

To better identify and combat gender discrimination in career and pay development, two methods of analysis supported by both unions and management have been renewed.

One concerns careers and monitors promotion indicators for men and women over several years.

The other deals with pay, with a specific focus on wage equality. Since 2004, the bank has spent EUR 8 million in this area. The same wage equality analysis is carried out for staff representative bodies, people with disabilities and employees over 50 years of age.

In 2016, HSBC France also continued to implement its action plan focusing on women's careers, which aims to help women gain access to top-level positions in the company:

- continuing to raise managers' awareness about diversity and gender equality issues and about unconscious bias, via dedicated workshops,
- supporting women with their development using methods such as mentoring and individual and collective coaching. Their aim is to overcome stereotyping and help women colleagues progress to the highest level.

This priority is shared by HSBC, which has deployed it worldwide, particularly through targets relating to gender equality contained in balance scorecards used by the CEO and business-line heads.

In addition, HSBC France has continued to emphasise better detection of women during talent reviews and in succession planning.

At year-end 2016, six women sat on the HSBC France Executive Committee, while women accounted for 50.8 per cent of executives and 42.2 per cent of branch, business banking centre and corporate business centre managers, as opposed to 38 per cent in 2015.

Integrating young people and passing on knowledge

A "*Contrat de Génération*" (generation contract) action plan was adopted by HSBC France, HSBC Global Asset Management (France) and HSBC Assurances Vie (France) in May 2016. It covers the period from 1 January 2016 to 31 December 2018.

It is intended to support the sustainable integration of young people into the workforce and maintain employment among older people, thus making it easier to pass on skills and expertise within the bank. Between 1 January 2013 and 31 May 2015, 373 young people aged 26 or under were hired on permanent contracts at HSBC France and HSBC Asset Management (France).

The "senior career review" for staff aged 55 has been maintained. In December 2016, it was proposed to 227 employees.

Efforts to combat discrimination

HSBC values meritocracy. Given the same level of skills and performance, everyone has the same chances of being hired and of progressing throughout the company, regardless of their ethnic or social origins.

E-learning training for managers on this thematic continued in 2016.

Awareness training for all employees was also maintained. It aims to make them aware of the seriousness of stereotypes and prejudice with which we view others as well as within the context of individual actions and decisions. It focuses on various possible causes of discrimination: ethnic origin, gender, family status, sexual orientation, age, disability and working arrangements (remote working or not).

The career opportunities and development of people with disabilities are monitored separately.

HSBC France also recruited ten people on "summer jobs" campaign, in conjunction with its partner associations that work to promote equal opportunity: *Sciences Po, Fondation Egalité des Chances* and *Tremplin*. This initiative is intended to enhance diversity of origin among candidates for summer assistant jobs.

Disabilities

At 31 December 2016, HSBC France had 382 disabled employees, including 151 who are no longer working (second degree disability). In 2016, 32 new employees declared a disability.

As regards keeping disabled people in work, each case is treated separately, in conjunction with the special disability advisor. If a workstation needs to be adjusted, the Disability Advisory Department takes care of it and pays for it. In 2016, 35 workstation adjustments were carried out, including ergonomic chairs, armrests, special mice, keyboards for partially sighted people, ZoomText magnification software, 27-inch screens, headsets and the provision of parking spaces.

In terms of recruitment, HSBC took part in two virtual forums organised by Job In Live and *Talents Handicap*, along with a "*Les Mardis du Handicap*" recruitment day. Those efforts resulted in the hiring of four disabled people.

Corporate, social and environmental responsibility (continued)

To improve day-to-day living standards, 455 disabled employees or employees with a disabled close relative received "CESU" cheques (enabling them to pay for domestic help) financed entirely by HSBC, while eight employees received support for buying individual equipment to alleviate their disability, such as hearing aids and other devices.

Sustainable operations

As part of the REDUCE strategy to reduce annual CO_2 emissions per employee by one tonne between 2012 and 2020, HSBC is reducing its energy consumption and increasing the proportion of energy coming from renewable sources. In 2016, the Group has signed agreements that increase the proportion of energy coming from new wind and solar power sources. In total, the Group has agreements in place to meet 23 per cent of its total energy needs from renewable sources by 2018. HSBC publishes its annual carbon emission results in its annual report available on its website.

To help fulfil HSBC's strategy, HSBC France focuses its attention on four objectives:

- improving energy efficiency;
- reducing CO_2 emissions, notably those related to business travel;
- reducing paper consumption;
- reducing production of non-recycled waste.

Improving energy efficiency – sustainable use of resources

In 2016, the main areas of action involved renovating buildings, actively seeking to reduce energy consumed in the management of HSBC sites and promoting remote working.

HSBC completed a major real-estate transaction, bringing around 4,300 of its employees together in the *Cœur Défense* building in the heart of *La Défense*, thereby freeing up two other buildings (Crystal in 2015 and Ile de France in 2016) and reducing its real-estate footprint by 11,400 m². Carrying on from the HQE certification it obtained for Cœur Défense in 2011, HSBC France in 2016 obtained a new "*NF HQE™ Bâtiments Tertiaires en Exploitation*" energy efficiency certification, achieving an "excellent" rating for 14 new criteria.

Water consumption

In 2016, HSBC France's water consumption figures continued to decrease, primarily due to better data collection, which has led to more reliable results that are more in line with the water consumption reduction targets.

Reducing CO_2 emissions

Greenhouse gases and carbon footprint

In accordance with French decree no. 2011-829 of 11 July 2011 on greenhouse gas emission footprints and the local climate energy plan, HSBC France has compiled and published reporting documents, showing a reduction in tonnes of CO_2 equivalent produced for the fifth consecutive year.

HSBC France's main sources of CO_2 emissions stem from energy consumption and transportation.

The company's 2016 greenhouse gas emission footprint is available on http://www.about.hsbc.fr/fr-fr/hsbc-in-france/community.

Reducing CO_2 emissions related to business travel

Since 2014, HSBC France's CO_2 emissions from business travel have fallen due to the strict application of the travel policy and a fall in kilometres travelled by air, partly due to a shift from air to train travel. Employees are making greater use of alternatives to travel, in line with recommended practice, with the aim of significantly reducing travel and travel-related expenses. For example, use of telephone conference calls, WebEx and above all videoconferencing has become increasingly widespread.

HSBC France is currently reorganising the way it manages its vehicle fleet. An action plan to reduce GHG emissions in the next few years should accompany it.

Circular economy

Reducing paper consumption and improving paper recycling

Paperless projects continued in 2016. Special efforts have been made to rationalise correspondence and documents sent to our customers. Among retail customers, 64 per cent now receive e-statements for their current and savings accounts, as opposed to 55 per cent in 2015.

In the corporate segment, the use of e-signatures for BBC Live clients means that documents do not have to be sent by mail, with transactions being carried out using an electronic signature platform instead. The system saved 3,400 sheets of paper in 2016, and the target is to increase that to 200,000 sheets in 2018.

The Direct to GEODE project adopted in 2016 across the commercial network is intended to help branches become all-digital, allowing all documents received in digital format from our clients to be stored in our archiving system, whereas previously they had to be printed and accompanied by another printed sheet containing the contact details of the client concerned. Naturally, these documents are non-contractual and exclude instructions. There has also been an initiative in our digital archiving system to scan rather than photocopy original documents submitted by clients in branches, such as proofs of identity, tax statements and proofs of address, and to end the current system of storing these documents physically. The initiative was completed in early December, and will avoid the printing and physical storage of almost 1 million pages per year in branches and Business Banking Centres.

In March 2016, HSBC France's HR department set up a digital HR project comprising a new workflow called *e-Demandes RH* involving the electronic signature of documents, an electronic archiving database for staff files and an electronic safe for all employees. This system allows the HR department to adopt paperless documents and to comply fully with HSBC's corporate sustainability policy by reducing paper consumption, while being able to consult and archive documents at any time with no time limit.

Since March 2016, paperless documents comprising 45,425 payslips, 10,352 back-to-school letters, 1,093 letters regarding the investment of 13th month bonuses in time savings accounts, almost 3,000 contracts and amendments, and 1,000 declarations have been sent to employees' individual electronic safes. This has reduced paper use by approximately 61,000 sheets (121 reams of 500 sheets) and the same number of envelopes.

Reducing production of non-recycled waste

All central sites have waste collection points that use a selective sorting system, which was upgraded in 2016. Computing waste is recovered or recycled by a company specialising in computer hardware reconditioning, which employs people with psychological disabilities or on inclusion programmes.

The proportion of recycled waste was 83 per cent in 2016, a 3 points decrease compared with 2015. However, this evolution is related to a change in provider which has involved a change of rules for calculating the recycling rate.

Reducing food waste

At the Cœur Défense site where most of our employees work, our partner Sodexo has adopted a number of initiatives:

– Predicted footfall is managed on a weekly basis, factoring in variables such as the weather forecast, the previous week's figures and other information (conferences, non-business days, mandatory reductions in working time etc.);
– Inventories are checked weekly to identify all items approaching their use-by or best-before dates;
– All production is governed by qualitative and quantitative specification sheets so as to avoid spoilage, incorrect cooking or production errors;
– In terms of service, teams undergo awareness-raising in order to avoid serving excessive portions resulting in uneaten food.

The HSBC France Works Committee canteen has adopted the same initiatives. It also has a desiccation machine to turn organic waste into compost. The compost is removed by a partner and used in agriculture. The canteen managed by the bank itself also favours regional and fresh produce, and is using more organic ingredients to ensure food safety for employees but also environmental responsibility. Fresh ingredients require greater commitment from staff in terms of preparing and researching dishes, but are also more rewarding to work with and serve.

Measures to prevent, reduce or repair emissions into the atmosphere, soil and water that may severely affect the environment – Consideration of noise and any other form of pollution specific to a business – Land use

HSBC France's main environmental and pollution risks stem from the businesses it finances, which are committed to managing environmental impacts as stated in the section on "Sustainability risk management", page 79.

Emissions into the atmosphere, soil and water

The banking activity does not require any industrial process that may affect the atmosphere, water or soil. The only impacts of HSBC France which could affect the environment are related to its waste management, mostly computing and paper waste.

Corporate, social and environmental responsibility (continued)

Valeurs Mobilières Elysées (formerly known as Nobel), a wholly-owned subsidiary of HSBC France acquired in 1986, was initially a manufacturing company that ended its manufacturing activities in 1965. Pursuant to its obligations, Valeurs Mobilières Elysées has, for several years, measured the quality of groundwater in the area in which it conducted its manufacturing activities. The measurements for 2016 show a satisfactory quality of groundwater, with concentrations below maximal guide values for most of the relevant parameters. However, the measurements obtained by two of the piezometers show certain concentration anomalies, although readings were stable compared with previous measurements.

Consideration of noise

Banking is a service activity that does not involve any industrial processes and therefore does not cause any particular noise pollution.

Land use

HSBC France conducts its activity in existing buildings and does not plan any new construction projects that could result in new land uses or require an extension of its existing land use.

HSBC, including HSBC France, contributes to protecting biodiversity through its environmental community investment programmes (see section on "Sustainable Communities"), its compliance with the Equator Principles and the application of environmental and social risk management procedures in its lending and project finance activities (see section on "Sustainable Finance", page 88).

Financial risk

Given its business sector, HSBC France has no provision or guarantee for environmental risks.

Sustainable communities

Support for social entrepreneurship and a social and solidarity-based economy

A socially responsible company puts people and its social impact at the heart of its business plan. It is therefore at the crossroads of three main movements: the social and solidarity-based economy, the social business concept (understood to be a business that is self-sufficient financially, and indeed profitable, and that aims to address a given social objective) and the adoption of a market-based approach to social action, including the transition from a model based on grants to a model based on requests for proposals. HSBC has a role to play in the development of socially responsible companies, with the objective of creating a fairer society.

As regards microfinance, HSBC France's partnership with the ADIE (Association pour le droit à l'initiative économique) began in 2007 and continued in 2016 with an annual credit facility of EUR 2.4 million, the same as in 2015. Support was provided to 527 people, including 274 *microentrepreneurs*, to launch businesses and 253 disadvantaged people to return to employment through personal microloans. Among these 527 people supported, 525 have been able to maintain or find job.

HSBC France also owns interests in social-impact venture capital funds: EUR 0.5 million in Business Angels des Cités since 2010 and EUR 1 million in Citizen Capital since 2011.

The solidarity-based investments of the *HSBC EE Diversifié Responsable et Solidaire* fund were allocated as follows in 2016: EUR 0.3 million to SIFA, EUR 3 million to ADIE and EUR 2.15 million to *Habitat et Humanisme*, stable compared to 2015.

In 2016, Private Banking continued its approach – initiated in 2011 – of developing its range of philanthropic services. HSBC provides its Private Banking clients with access to its partners and contacts, its banking network, expertise and the experience and knowledge of its bankers to support them in their philanthropic initiatives and to help them to build or develop their projects. As part of this approach, the bank offers its clients the opportunity to take part in *Rencontres des Philanthropes*, an exclusive and discreet circle that meets quarterly to discuss various issues with a philanthropist and an expert.

Support for education, the environment and healthcare

In 2016, HSBC contributed a total of USD 137 million to charitable programmes and employees volunteered 255,000 hours in community activities during the working day.

The current five-year flagship environmental programme, the HSBC Water Programme closed end of 2016, having exceeded its targets. The next five-year environmental programme will be announced in early 2017.

In 2016, HSBC renewed its commitment to two flagship global education programmes – the "HSBC Youth Opportunities Programme" and "Junior Achievement More than Money" – for a further three years. These programmes help young people to access education and realise their potential.

In 2016, HSBC France donated more than EUR 2.8 million to community investment programmes. 1,375 employees completed over 1,700 voluntary assignments, representing almost 10,600 hours, including 76 per cent during work time. In line with HSBC's policy, donations were allocated to projects related to education (23 per cent), the environment (55 per cent) and healthcare (22 per cent).

Education

As regards education, the main initiatives in 2016 were as follows:

– Support provided by the Fondation HSBC pour l'Education for 43 educational institutions and charities, benefiting almost 10,000 children in deprived areas of mainland France according to the four priorities defined by the Fondation's Executive Committee:
  - preventing children from disengaging at school, working with the Agir pour l'école charity and its reading programme in order to bring the dropout rate down to 7 per cent in the relevant classes, as opposed to 15-20 per cent today,
  - facilitating educational success through access to culture, by supporting 13 different initiatives selected following requests for proposals across France,
  - promoting efforts to help children re-engage at school, working particularly with Réseau des Ecoles de la Deuxième Chance (RE2C), by getting employers and/or training organisations to give greater recognition and value to ACA (Attestation de Compétences Acquises) statements of acquired skills,
  - supporting equal access to excellence programmes by helping to develop priority education agreements and to give disabled students access to Sciences Po;

– support, via the *Fondation HSBC pour l'Education*, for 19 projects put forward by the employees in requests for proposals, and selection of the "employees' favourite", helping to raise awareness among all bank staff about the foundation's work,

– the involvement of more than 300 HSBC staff in the Fondation HSBC pour l'Education's initiatives, including 140 people who volunteered to tutor young people from disadvantaged backgrounds,

– the continuation of financial education programmes with:
  - *Entreprendre pour Apprendre* to encourage business start-ups in secondary schools,
  - CRESUS to help people who are in financial difficulties, have excessive debts or are excluded from mainstream banking.

Environmental

As regards the environment, 2016 was the final year of the HSBC Water Programme in France:

– a further 36 employees attended training days focusing on water-related issues in 2016, taking the total number in France to 305, and they subsequently helped to collect data on the quality of water in their environment to support Earthwatch's worldwide research;

– the partnership with the ONF (French national forestry office), which contributes to preserving and restoring 50 natural wetland sites, involves HSBC France employees in nature projects across France. In 2016, 34 nature projects were organised with the ONF, enabling almost 646 employees to take part in restoring natural sites in French forests;

– support for the Surfrider charity, for a third year of the "Riverine Input" pilot project, which aims to identify the origin and volume of aquatic waste in the Adour river basin; the results of that research will be used to raise awareness among local people and the government in order to limit waste volumes in future;

– support for the restoration of canal banks and for the removal and replanting of trees along the *Canal du Midi* in conjunction with *Voies Navigables de France*;

– helping to increasing biodiversity in urban areas with *Noé Conservation*.

Healthcare

In the field of healthcare, HSBC France is supporting two foundations between 2015 and 2018:

– *Fondation pour la Recherche Médicale* (medical research foundation), including support for research relating to old age and associated illnesses;

– *Institut du Cerveau et de la Moelle Epinière* (brain and spine institute, ICM) to help investigate the molecular basis of neurodegenerative diseases, identify progression biomarkers, carry out research into the physiopathological role played by genes and test new therapeutic approaches in pre-clinical and clinical trials, as well as enhancing the hardware within technology platforms.

HSBC in France also maintained its cultural policy in favour of talented young photographers through the 22nd edition of the *Prix HSBC pour la Photographie* and its 11th year of support for young musicians from the Aix academy. Around 100 people who have benefited from *Fondation HSBC pour l'Education programmes* took part in concerts and exhibitions through these initiatives.

Corporate, social and environmental responsibility (continued)

Methodological details on corporate, social and environmental information

Scope of reporting

The scope of each indicator is shown in the table of sustainability performance indicators of the HSBC Group in France. The scope may vary depending on the availability of data or type of indicator.

Thus, corporate indicators concern the HSBC France group or HSBC France legal entity, whereas environmental indicators concern the HSBC Group in France or HSBC France excluding the Reims and Ile de France offices, which accounts for less than 1 per cent of our total floorspace.

The social indicator relating to "Investment of the *HSBC EE Diversifié Responsable et Solidaire* company savings fund for the benefit of solidarity-based companies" is communicated within the scope of HSBC Global Asset Management (France), a subsidiary which is in charge of these indicators for HSBC in France.

Change in scope

For environmental indicators, entities consolidated or deconsolidated during the year are accounted for in the data reported on the date they enter the Group and until the date they exit.

Reporting period

The annual reporting period is the calendar year (from 1 January to 31 December). In 2016, for environmental indicators, the reporting period is from 1 October 2015 to 30 September 2016.

Reporting tools and processes

For environmental indicators

The reporting tool is Metrix, developed by Enablon, which is used by the HSBC Group. Its main functions include the collection of data on energy (kWh), CO_2 emissions, water (m^3), paper (tonnes), waste (tonnes), km travelled and other data: comments, operational surface areas (m^2), number of sites, workforce (FTE), initiatives, dual validation at country level, then at regional and global levels and, finally, dashboards.

For social indicators

The HSBC Group uses the Peoplesoft HR database. Information that appears in reporting documents is the result of querying this database.

The actual number of training hours was not available on the date this document was published. The provisional number of training hours for 2016 is based on actual figures for the period ended 31 October 2016, remaining figures for the last 2 months were estimated from the information system, which are currently being validated.

Details on the definition of certain indicators

Environmental indicators

CO_2 emissions result from the consumption of electricity, gas, fuel oil, urban heating and air conditioning. Transport-related CO_2 emissions correspond to journeys made by train and plane (which are purchased through travel agencies), by taxi, and by hired cars or the group car fleet. Energy consumption is partly estimated as invoicing and reporting periods do not overlap precisely.

Social indicators

The total workforce comprises employees under permanent and fixed-term employment contracts. Internship, temporary and suspended contracts, employees taking early retirement, employees on long-term sick leave, permanently disabled employees and expatriates are included. Holiday auxiliary staff are excluded. Recruitment and redundancy figures include employees under permanent and fixed-term employment contracts. More than one hire will be recorded for a person hired more than once under a fixed-term contract during the reporting period. Likewise, an employee whose contract changes from a fixed-term contract to a permanent contract will be recorded as a hire. Only the reasons for departures representing 20 per cent of departures are detailed. The number of employees who work from home include those having signed an endorsement to their contract enabling them to work from home.

Societal indicators

Concerning the "Investment of the HSBC EE Diversifié Responsable et Solidaire company savings fund for the benefit of solidarity-based companies" indicator, the companies considered as solidarity-based are those having received "solidarity-based" approval from the prefecture or those with related solidarity-based status, i.e. those where at least 35 per cent of assets are made up of securities issued by solidarity-based companies.

Table of sustainability performance indicators of the HSBC Group in France

Indicator	Change 2016	Change 2015	Change 2014	Reference document GRI 3[a]	Reference document ISO 26000[b]	Reference document Principe Pacte Mondial[c]
Financial Indicators (Scope HSBC France group*)						
1 Pre-tax earnings (EURm)	**432**	618	232			
Total shareholders' equity (EURm)	**5,842**	5,838	5,732			
Cost Efficiency Ratio (%)	**78**	69	82			
Liquidity Coverage Ratio (%)	**122**	120	NA			
Net Stable Funding Ration (%)	**120**	NA	NA			
Advances to Core Funding (ACF) ratio (%)	**NA**	98.1	101.0			
Common Equity Tier 1 (CET1) Ratio (%)	**13.2**	14.9	14.1			
Sustainable Economy (Social indicators) (Scope HSBC in France*)						
2 Number of financing for regional authorities made on the bond market	**9**	10	30			
Number of financing for AFL	**1**	1	–			
Number of financing for Public-sector Healthcare Establishments	**1**	8	1			
3 Equator principles – Category A. - number of projects financed and their value (EURm)	**ND**[1]	0 et 0	0 et 0	FS 3	6.3.5, 6.6.3	2
Equator principles – Category B. - number of projects financed and their value (EURm)	**ND**[1]	0 et 0	1 et 65			
Equator principles – Category C. - number of projects financed and their value (EURm)	**ND**[1]	0 et 0	0 et 0			
Consultancy (Number)	**ND**[1]	0	0			
4 Lines of credit allocated to Adie (EURm)	**2.4**	2.4	2			
Amount of microfinance loans made *via* ADIE partnership (EURm)	**2,105**	1,830	1,818	FS 7		
Number of microcredits disbursed (Adie)	**571**	554	723			
5 Company saving plans: total assets of the SRI range (EURm)	**310**	222	197	FS 10, 11, 12		
6 Investment of the HSBC EE *Diversifié Responsable et Solidaire* company savings fund for the benefit of solidarity-based companies (EURK)	**5,462 3,001 Adie, 311 SIFA, 2,150 Habitat et Humanisme**	5,462 3,001 Adie, 311 SIFA, 2,150 Habitat et Humanisme	3,960 1,500 Adie, 310 SIFA, 2,150 Habitat et Humanisme	FS 10, 11, 12		
7 Number of customer complaints submitted to the Ombudsman	**723**	744	734	PR 8	6.7	
Number of complaints processed and signed by the Ombudsman	**190**	190	164		6.7	
8 Level of satisfaction of our retail customers: customers claiming to be "very satisfied" (%)	**48**	47	44			
Customer recommendations during the past two years (%)	**36**	36	36			
Environmental Footprint[2] (Scope HSBC in France*)						
9 Energy consumption (GWh)	**59**	58	59	EN 3, EN 4	6.5.5	
Energy consumption in MWh/FTE[3]	**6.8**	6.32	6.25			
10 Transportation (millions of km)	**28.81**	34.85	39.33	EN 16	6.5.5	7 & 8
11 Direct CO_2 emissions (thousands of tonnes equiv. CO_2)	**6.09**	6.64	7.50			
- direct CO_2 emissions (energy)	**2.91**	2.98	3.24	EN 16	6.5.5	7 & 8
- direct CO_2 emissions (transportation)	**3.18**	3.66	4.26			
12 Water consumption (thousands of m^3)[4]	**109**	134	152	EN 8	6.5.4	7 & 8
Water consumption per FTE[3] (m^3)	**12.55**	14.55	16.14			
13 Paper consumption (tonnes)	**892**	1,146	1,336	EN 1, EN 2, EN 22	6.5.4	
% of FSC paper	**96**	94	93[10]			

* *HSBC France is a 99.9 per cent-owned subsidiary of HSBC Bank plc. 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, which includes the HSBC France group and the Paris branch of HSBC Bank plc (excluding intra-group funding costs).

Corporate, social and environmental responsibility (continued)

Indicator	2016	2015	2014	GRI 3 [a]	ISO 26000 [b]	Principe Pacte Mondial [c]
	Change			Reference document		
14 Waste production (tonnes)	**1,484**	1,489	1,512		6.5.4	7 & 8
Waste production per FTE[3] (kg)	**172**	162	161	EN 1, EN 2, EN 22		
% of recycled waste/total waste	**83**	80	86			
Human resources and security (Scope HSBC France*)						
15 Total workforce[5] (number): Women (W) / Men (M)	**4,845 W/ 3,537 M**	5,169 W / 3,810 M	5,250 W / 3,894 M	LA 14	6.3.7	6 7 & 8
Recruitments	**517**	953	910			
Dismissals	**103**	85	73			
16 Organisation of working hours Absenteeism[6] (%)	**4**	3.6	3.5			
17 Equal treatment:						
- number of persons with disabilities	**382**	362	343		6.3.7	6
- number of recruitments via the IMS and Mozaik HR	**–**	82	101		6.3.7	
- % of employees less than 30 years old	**10.62**	13.1	13.0			
- % of employees over 50 years old	**30.8**	29.3	29.0			
- % of women in management	**18.8**	18.2	18.0			
18 % of non-executive directors at 31/12 (without function in the HSBC Group)	**47**	37	44		6.2	
19 Number of employees teleworking	**840**	721	655	LA 7	6.4.6	
20 Health and safety:						
- number of fatal accidents at work	**0**	0	0	LA 7	6.4.6	
- number of accidents resulting in more than 3 days of work incapacity	**123**	116	137	LA 7	6.4.6	
- rate of work- and travel-related accidents[7]	**9.9**	10.7	10.5			
- severity rate of work-and travel-related accidents[8]	**0.3**	0.3	0.3			
21 Workforce split by status, gender and contract of employment (number):						
Total workforce	**8,382**	8,979	9,144			
- of which unlimited term contracts	**8,151**	8,586	8,686			
- of which women managers	**2,982**	3,072	3,061			
- of which men managers	**2,899**	3,038	3,084			
- of which women clerical staff	**1,743**	1,893	1,924			
- of which men clerical staff	**527**	583	617			
- of which fixed term contracts	**231**	393	458			
- of which women managers	**9**	9	20			
- of which men managers	**4**	12	15			
- of which women clerical staff	**7**	26	54			
- of which men clerical staff	**5**	9	10			
- of which women in apprenticeship	**104**	169	191			
- of which men in apprenticeship	**102**	168	168			
22 Training (total number of hours)	**367,000[9]**	358,095	289,102			6
Sustainable communities (Scope HSBC in France*)						
23 Sponsorship budget (EURm)	**2.8**	3.2	2.5		6.8	
% of the Community Investment donations / pre-tax earnings	**0.65**	0.52	1.08		6.8	
% approx. employees involved in volunteer SD activities	**15**	16	15		6.8	
Number of hours of volunteer work during work hours	**8,118**	9,577	8,725		6.8	

1 *Details on 2016 figures will be published on the HSBC Group's internet site "Citizenship" Section in April 2017.*
2 *Figures calculated over the period from 1 October 2015 to 30 September 2016.*
3 *Full-Time Equivalent.*
4 *100% of water consumption supplied by public network.*
5 *See also page 82.*
6 *Number of working days of absences due to sickness / number of total theoretical working days.*
7 *Rate of work- and travel-related accidents calculated using the following ratio: (number of accidents resulting in lost time/millions of hours worked).*
8 *Severity rate of work- and travel-related accidents calculated using following ratio: (number of working days lost due to work-and travel-related accidents/ thousands of hours worked).*
9 *Estimated figure.*
a *https://www.globalreporting.org/resourcelibrary/G3-Guidelines-Incl-Technical-Protocol.pdf*
b *http://www.iso.org/iso/home/standards/iso26000.htm*
c *http://www.un.org/fr/globalcompact/principles.shtml*

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HSBC in France's scope of operations comprises the operations of the HSBC Group in France, which includes the HSBC France group and the Paris branch of HSBC Bank plc (excluding intra-group funding costs).

Report by one of the Statutory Auditors, appointed as independent third party, on the consolidated human resources, environmental and social information included in the management report

For the year ended December 31, 2016

To the Shareholders,

In our capacity as Statutory Auditor of HSBC France (the "Company"), appointed as independent third party and certified by COFRAC under number 3-1060[1], we hereby report to you our report on the consolidated human resources, environmental and social information for the year ended December 31, 2016, included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Company's responsibility

The Board of Directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the "Methodological information, Methodological details on CSR information" procedures used by the Company (hereinafter the "Guidelines"), summarised in the management report and available on request from the company's head office.

Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics (*Code de déontologie*) of our profession and the requirements of article L.822-11-3 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements and applicable legal and regulatory requirements.

Statutory Auditor's responsibility

On the basis of our work, our responsibility is to:

– attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);

– express a limited assurance conclusion that the CSR Information taken as a whole, is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

Our work involved five people and was conducted between October 2016 and February 2017 during a 5 week period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and with the professional guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement and with ISAE 3000[2] concerning our conclusion on the fairness of CSR Information.

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French Commercial Code.

1 *Whose scope is available at www.cofrac.fr*
2 *ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.*

Corporate, social and environmental responsibility (continued)

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L.233-1 and the controlled entities as defined by article L.233-3 of the French Commercial Code within the limitations set out in the "Methodological information, Methodological details on CSR information" section of the management report.

Conclusion

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted around 20 interviews with about 30 people responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

– assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;

– verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important [3]:

– at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;

– at the level of a representative sample of entities selected by us [4] on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents on average 94% of headcount and 99% of quantitative environmental data disclosed.

3 *Detailed in appendix.*

4 *Corporate entities located in La Défense and in Paris (Champs-Elysées), concerning HSBC Group in France, HSBC France, HSBC France & Assurances subsidiaries, HSBC Global Asset Management (France).*

For the remaining consolidated CSR information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, February 27, 2017

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Nicolas Montillot	Sylvain Lambert
Partner	Partner of “Sustainable Development” Department

Corporate, social and environmental responsibility (continued)

Annexe

CSR Information that we considered to be the most important

Human resources

- Total workforce and split by gender, age and geographical area;
- Hires and dismissals;
- Compensation and variation;
- Worktime organization;
- Absenteeism;
- Organization of social dialogue;
- Training policy;
- Training hours;
- Implemented policy and measures taken in favor of the equality between the women and the men;
- Implemented policy and measures taken in favor of the employment and of the insertion of the disabled people;
- Policy against discrimination.

Environmental information

- Organization of the company to take into account the questions of environment;
- Measure of prevention, recycling and elimination of waste;
- Water consumption and water supply according to the local constraints;
- Consumption of raw materials and measures taken to improve the efficiency of their use;
- Energy consumption, measures taken to improve the energy efficiency and resort to the renewable energies;
- Significant greenhouse gases emissions contribution generated due to the company activity, including the use of goods and services it products.

Social information

- Territorial, economic and social impact in respect of employment and regional development;
- Territorial, economic and social impact on the waterside and nearby populations;
- Conditions of the dialogue with the stakeholders;
- Actions of partnerships or sponsorship;
- Taken into account the social and environmental issues in the policy purchase;
- Importance of the subcontracting and taken into account in the relations with the suppliers and the subcontractors of their corporate social responsibility;
- Actions committed to prevent the corruption;
- Measures taken in favor of the health and of the security of the consumers.

Risk management and control within the HSBC France group

Summary

Risk management and control within the HSBC France group (continued)

Risk Summary

Key Highlights

1 – Principal Regulatory Ratios

(en %)	As at 31 December 2016	2015
Capital Ratios (phased-in)		
Common Equity Tier 1 Capital	**13.2%**	14.9%
Tier 1 Capital	**13.2%**	14.9%
Total Capital	**13.2%**	14.9%
Leverage Ratio (phased-in)	**4.0%**	4.1%
Liquidity Ratios		
Liquidity Coverage Ratio	**127%**	122%
Net Stable Funding Ratio	**120%**	N/A

2 – Risk Weighted Assets - by Risk Type

(in millions of euros)	As at 31 December 2016	2015
Risk Weighted Assets		
Counterparty Credit Risk	**2,452**	2,534
Credit Valuation, Adjustment	**1,192**	1,275
Credit Risk	**20,865**	20,845
– IRB	**15,894**	15,748
– Standardised	**4,971**	5,097
Default Funds Risk	**64**	155
Market Risk	**7,907**	2,594
Operational Risk	**3,537**	3,618
Transitory requirement	**–**	1,470
Total Risk Weighted Assets	**36,016**	32,491

3 – Exposure at Default (EAD) / Risk Weighted Assets - by approach

(in millions of euros)	Total		France		Europe (excl France)		Other	
	Exposure value	Risk weighted exposure amount after SME-supporting factor	Exposure value	Risk weighted exposure amount after SME-supporting factor	Exposure value	Risk weighted exposure amount after SME-supporting factor	Exposure value	Risk weighted exposure amount after SME-supporting factor
Standardised Approach								
Central governments or central banks	**18,009**	**–**	**11,868**	**–**	**6,141**	**–**	**–**	**–**
Public sector entities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
International Organisations	**2,607**	**–**	**–**	**–**	**2,607**	**–**	**–**	**–**
Institutions	**5,733**	**582**	**852**	**51**	**4,539**	**436**	**342**	**94**
Corporates	**1,437**	**1,076**	**917**	**730**	**166**	**56**	**354**	**291**
Retail	**771**	**504**	**756**	**495**	**15**	**9**	**–**	**–**
Secured by real estate property	**312**	**109**	**312**	**109**	**–**	**–**	**–**	**–**
Exposures in default	**50**	**65**	**50**	**65**	**–**	**–**	**–**	**–**
Items associated with particularly high risk	**322**	**482**	**320**	**481**	**–**	**–**	**1**	**2**
Equity	**141**	**141**	**129**	**129**	**4**	**4**	**8**	**8**
Other exposures	**1,861**	**2,529**	**1,861**	**2,529**	**–**	**–**	**–**	**–**
Total standardised approach	**31 243**	**5,488**	**17,065**	**4,589**	**13,472**	**505**	**705**	**395**
IRB Approach								
Central governments or central banks	**1,701**	**234**	**–**	**–**	**1,691**	**228**	**10**	**7**
Institutions	**3,342**	**1,386**	**2,022**	**665**	**1,015**	**613**	**305**	**108**
Corporates	**29,171**	**13,317**	**22,870**	**11,338**	**2,795**	**988**	**3,506**	**991**
Retail	**21,566**	**2,663**	**21,510**	**2,642**	**12**	**4**	**43**	**17**
Secured by real estate property	**3,895**	**762**	**3,892**	**761**	**–**	**–**	**3**	**1**
– SME	**582**	**171**	**581**	**171**	**–**	**–**	**1**	**–**
– Non-SME	**3,313**	**591**	**3,311**	**590**	**–**	**–**	**2**	**1**
Qualifying Revolving	**1**	**–**	**1**	**–**	**–**	**–**	**–**	**–**
Other Retail	**17,670**	**1,901**	**17,618**	**1,881**	**12**	**4**	**40**	**16**
– SME	**2,150**	**631**	**2,098**	**611**	**12**	**4**	**40**	**16**
– Non-SME	**15 520**	**1,270**	**15 520**	**1,270**	**–**	**–**	**–**	**–**
Total IRB approach	**55,779**	**17,601**	**46,402**	**14,645**	**5,513**	**1,833**	**3,864**	**1,123**
Total securitisation	**2,724**	**227**	**2,469**	**201**	**255**	**25**	**–**	**–**
Total exposures	**89,745**	**23,316**	**65,936**	**19,435**	**19,240**	**2,363**	**4,569**	**1,518**

4 – Loan Impairment Charges / Impaired Loans

(in millions of euros / %)	As at 31 December 2016	2015
Total Gross loans	**45,330**	43,870
Total Impaired loans (B)	**1,200**	1,343
Impaired loans %	**2.65%**	3.06%
Total loan impairment charge at 31 December	**(73)**	(121)
Impairment allowances (A)	**(624)**	(685)
Impairment ratio: A / B	**52.00%**	51.01%

Risk management and control within the HSBC France group (continued)

Top and Emerging Risks

(The principal risks and uncertainities are described on pages 18 et seq in the Report of the Board of Directors).

Macro-economic risks

Economic growth in the Eurozone remained very low during 2016 and in particular in France. The quantitative easing policies, established by the ECB to restore economic growth by encouraging investment and savings outside of the purely financial sphere, have contributed to the ECB interest rates remaining at zero or being negative despite of a mild rebound in the fourth quarter.

This economic context is likely to weigh at the same time on the financing requirements of companies and on the interest revenues on deposits and represents an unfavourable environment for the banking sector as a whole and which may affect the profitability of HSBC France. The decline in returns on financial assets could also affect the profitability of life insurance activities in the longer term and in which HSBC France is present via its subsidiary HSBC Assurances Vie.

Moreover, the relative illiquidity of the secondary debt market for sovereigns and corporates caused by the extremely sizeable purchases by the ECB and more generally the impact of recent regulatory measures vis a vis the volumes of financial assets exchanged ("Leverage Ratio" – limiting the size of bank's balance sheets in comparison with their capital and the ban on proprietary trading except in an extremely strict framework) reduces the revenue base of investment banking activities.

This decline in revenues be it from interest on assets (loans) or liabilities (deposits) or also from fee income in a quasi zero growth context increases the tendency for increased competition between banks notably on the interest rates proposed to customers, which further increases the challenges on the banking model for the French banking sector.

Besides and in addition to the persistent difficulties for those sectors directly impacted by the low level of oil prices and other commodities and, in France, by the threat of terrorist attacks, the economic environment could drive certain investors into seeking higher yields by investing into higher risk assets. This could generate financial bubbles in certain sectors and ultimately expose HSBC France to higher levels of credit risk.

Finally, it is worth highlighting that the systemic risks in the Eurozone remain: a number of countries with excessive debt levels; Greece dragging its heels on the introduction of certain reforms which are preconditions for the continued support of the EU; the Italian banking sector which is highly exposed to non performing loans and appears to be more than ever vulnerable. The conditions under which the UK will exit the EU, which remain to be negotiated, add to the general uncertainty.

Faced with these challenges, HSBC France has continued during 2016 to implement a series of measures designed to improve its profitability and reinforce the sustainability of its economic model.

In this manner, HSBC France is seeking substantial costs savings as from 2017 via the continuation of an extremely strict cost control program and the important efficiency gains from the IT modernisation programme launched in the beginning of 2016 and which should finish in 2018.

In parallel, the bank is seeking to increase its market share in the different client segments notably with the multinationals / large corporates and small to medium sized companies with an international dimension without any modification to the selection criteria as applied previously. For the Retail banking segment, the increase in market share will be driven by the increased digitalisation of it services. HSBC France is expecting to reinforce its position as first international bank in France in terms of market activities where the international competition has largely withdrawn.

HSBC France has started to review and, in so far as possible and in compliance with the principles of fair treatment of its clients, adjust the pricing of certain of its services. Furthermore and in accordance with market practices now established in France, the bank fixes negative interest rates on overnight deposits for customers which have a bank status or financial institutions given the cost for the bank of placing excess liquidity on a daily basis with the ECB.

In terms of life insurance activities, HSBC France continues to apply a long term management strategy of its assets and hedging which have for effect to mitigate and differ the impact of the decline in yields. It is worth noting in this respect that HSBC Assurance Vie is the only insurance company in France to integrate in its accounts the impact of changes in interest rates on its future profits on its current portfolio.

In addition to the close monitoring of the economic outlook and trends, HSBC France has long established procedures and a control framework which includes the review, in detail, of all significant exposures to customers operating in a higher risk sector, the establishment of sector "Caps" and a program of stress tests designed to regularly evaluate the effect of an exceptional deterioration occurring in certain sectors which the bank is particularly exposed to.

The lending guidelines are updated as necessary in the event of any material change observed in a particular sector or sectors as well as in consideration of any conclusions that could be drawn from these "stress tests". Bank wide stress tests are undertaken annually to measure the impact of a major economic downturn on the bank's results and its balance sheet.

Lastly, faced with the persistent and fragile nature of the economic situation of the Euro zone, HSBC France continues to maintain extremely limited market risk positions in its trading book portfolio. These are subject to numerous and frequent stress tests based on various different scenarios which the bank modifies according to the probability of such evolutions or events happening. Risk calculations and the limits fixed to the "front office" teams take into account the relative illiquidity of certain markets.

Geo-Political risks

The choice by the United Kingdom to exit the European Union may reinforce the political parties that, across Europe, are expressing mistrust, to varying degrees, in the European Institutions. Elections will be held in 2017 in several countries, of which Germany, the Netherlands and, of course, France, which could result, there too, in a re-evaluation of the European project, at least in some of its economic or social dimensions. With the resignation of its Prime Minister, Matteo Renzi, Italy has entered into a new phase of political instability. Lastly, the new American government could introduce changes in international relations. The possible consequences of these evolutions are difficult to evaluate but this situation increases the uncertainty for all economic actors and impacts on the investment decisions. The possible consequences of these evolutions are difficult to evaluate but this situation increases the uncertainty for all the economic actors and impacts, at the very least, on the investment decisions.

Lastly, with the military setbacks and the territorial losses suffered by Daesh, an increase of terrorist activities in Europe or the Middle East could be expected. In addition to its economic consequences, this threat remains principally on assets and people, which HSBC France and its staff are exposed to, similarly to the rest of the population.

HSBC France follows these geopolitical evolutions very closely. Their possible effects on the economy and the markets are taken into account in the evaluation of the risks that the bank has relating to its customers and certain industrial sectors and in its stress test scenarios. Concerning "Brexit" more specifically, and although HSBC France has only a relatively small exposure to the United Kingdom economy or the exchange rate risk on the pound sterling, HSBC France keeps itself closely informed, in particular by its parent, HSBC Bank plc, of the various scenarios being considered and their possible consequences for the group and its relations with its subsidiaries located in Eurozone, of which HSBC France is the principal one.

As required, any decisions on measures which could appear necessary to ensure that the group and HSBC France continue to operate under the best conditions will be taken in close consultation with the bank's parent company. In any event, one of the objectives of HSBC France remains to support the French customers trading with the United Kingdom or those that are based there, just like British businesses or retail customers operating or investing in France or trading with French entities.

With regard to the potential terrorist threat, HSBC France monitors the evolution of this risk, in connection with the French authorities and the other specialised teams of the HSBC Group. The bank continues to reinforce its physical security plan, and makes sure that its staff and its senior management team are regularly trained and remain prepared in case of an attack.

Technology risks

The banking industry is beginning to find itself confronted in some of its traditional banking products and services by the arrival of new non banking entrants ("Fintechs", "Insurtech"…) which have superior and innovative technologies.

These potential competitors are capable of capturing a part of the "value chain" of the services and products offered by the banking sector by offering to their customers potentially more flexible services, greater reactivity, inferior pricing, or services better adapted to an online banking world via smartphones or tablets.

The transposition into national laws and regulations of the European payment services "PSD2" regulation scheduled for January 2018, will open up access to the bank's electronic payment platforms to two new types of entrants such as AISP's (Account Information Service Provider) and PISP's (Payment Initiation Service Provider). The AISP's act as "aggregators" of data relating to a user's accounts held across different banks whilst PISP's are able to receive and handle payment requests of clients once authorised by the clients to do so.

Venture Capital companies have high appetite to invest in these types of innovative companies which could become a significant competitor to the traditional banks in certain of their activities.

Risk management and control within the HSBC France group (continued)

HSBC Group is fully aware of these technology innovations and maintains high level contacts with the "Fintech" "ecosystem". The bank's innovation team makes direct investments in these types of companies on behalf of the group and collaborates with certain companies to integrate their best practice into its customer propositions.

As an example, the bank already offers its clients the ability to consult their accounts at other banks via a contract entered by HSBC France with an AISP. HSBC France also has an ambitious programme to progressively "digitalise" its products.

Regulatory risks

Increasingly stringent regulatory requirements and structural reforms imposed by bank regulators for many years have resulted in higher regulatory capital and liquidity requirements, while taxes and other fiscal contributions have also risen considerably, notably the contribution to the Single Resolution Fund. Existing regulations also imply significant investment in IT systems and human resources, adversely affecting profitability. Finally, should the bank breach any regulatory requirements, it would face sanctions, including criminal proceedings, fines and penalties, while endangering its reputation. Such a risk has particularly risen in recent years, with respect to commercial practices and client protection, which attracts media interest, while regulators have become particularly demanding and unforgiving in this area. The HSBC Group and HSBC France monitor and anticipate regulatory change wherever possible. The impact of regulatory evolution on capital requirements and more generally on their financial results are regularly assessed, presented and discussed by management. HSBC France's management clearly takes such assessments into account in the capital policy and, whenever relevant, in the commercial policy, when they are reasonably certain.

To this end, HSBC France is carefully watching the evolving regulatory environment, while maintaining an open and regular dialogue with its various regulators. In addition, the bank responds to regulatory consultations with the other French banks and participates in the ongoing industry working groups on key regulatory changes.

Especially with respect to its commercial policy, HSBC France continues to strengthen its procedures and its monitoring of fragile clients. In conjunction with the Group, HSBC France finalises the introduction of the Conduct programme in all its business lines so that customers benefit from a fair treatment in all circumstances. The programme raises employee and management awareness on this issue through regular communication to the bank's top management and through appropriate indicators, specific to each business line and designed to assess how compliant the bank is vis-a-vis existing regulatory requirements.

Model risks

Within regulatory risks, model risk, a risk linked to the model calculation of risk weighted assets (RWA), constitutes a specific issue. First and foremost, regulatory requirements linked to developing, validating and monitoring RWA models including compliance issues, have substantially increased and require a significant amount of upgrading with respect to data quality and statistical work. Secondly, in the Euro zone, the ECB launched in 2016 a comprehensive programme to review, assess and, as far as possible, harmonise both RWA models and theoretical approaches and practical implantation for all banks under its direct supervision. This programme, called Targeted Review of Internal Models (TRIM), may not conclude before mid-2017. Until then, it is possible that many uncertainties will remain with respect to HSBC France's capacity to keep some of its internal models over the long run or to have required or even necessary model upgrades validated by the regulator. HSBC France is also subject to the supervision of the UK regulator, the Prudential Regulation Authority (PRA) and the validation of its models requires coordination, untested as yet, between the PRA, the ACPR and the ECB, which certainly contributes to further uncertainty.

Secondly, during the second quarter 2016, the Basel Committee presented its preliminary conclusions on the work conducted with a view to modifying some of the parameters for calculating RWA, which in turn are used to determine the amount of regulatory capital requirements for banks. Although the purpose of such alterations is not officially to increase capital requirements for banks, simulations carried out during the first consultation have shown a potential significant increase in regulatory capital requirement for HSBC France should such measures be implemented. To date, negotiations within the Basel Committee have continued in order to obtain an acceptable proposal.

Taken together, all these developments present for the bank a serious risk of an increase in capital requirements, either because its advanced internal models may be invalidated in the end and the bank may be forced to return to "foundation" models or even to the "standard" method, or because the bank may have to include a vast array of additional prudence adjustments, or adopt capital floors in its existing models. Alternatively, capital requirements may also increase for the bank following a change in regulatory RWA calculation incumbent on all EU regulated banks.

To cope with these new constraints and to comply with the new regulatory requirements, HSBC France is improving its internal models and adjusting its corporate governance. To do so, the bank is calling on specialist teams within HSBC Bank plc whenever necessary. The internal validation of models, contingent upon submission to the regulators, is carried out by an independent and dedicated team from HSBC Group and meets extremely strict standards, which are common to the rest of the Group.

Financial crime risks

The independent corporate compliance monitor, the "Monitor", was appointed in 2013 as part of the agreements signed between the HSBC Group, the US Department of Justice and the UK Financial Compliance Authority to assess on a yearly basis the efficiency of the group's programme to fight financial crime and comply with international sanctions. The Monitor also plays a role as an independent consultant for HSBC with respect to the order placed by the Federal Reserve Board.

Like all HSBC Group member companies, HSBC France follows a complex remediation programme, from conception to implementation, to address the failures identified by the Monitor in its programme to fight financial crime and comply with international sanctions in force within the Group.

This programme requires significant investment in IT systems and personnel. Its complexity generates significant execution risk, which could affect HSBC France's or HSBC Group's ability to efficiently address unveiled shortcomings within the expected timeframe. Hence, the Monitor's expectations may not be satisfied and so could be the commitments made by HSBC under the agreement signed with the Department of Justice (the Deferred Prosecution Agreement or DPA). It should be highlighted that the Department of Justice has ample scope to determine whether HSBC is in breach of the agreement. Any violation to the agreement may result in HSBC receiving additional requirements, or in the lengthening of the DPA, or in the reopening of criminal proceedings against the Group, which could, in turn, lead to additional financial penalties. Thus, any violation of the DPA could significantly affect both the operations and the financial performance of the Group, including HSBC France, including the ability to perform operations in US dollars. Even without any tangible violation, a tightening or lengthening of the DPA would affect both the Group's operations and reputation.

In response to this scenario, the HSBC group and HSBC France, to the extent that it is concerned, are firmly implementing ongoing remediation actions. HSBC France introduced a very precise monitoring process for the implementation of the Global Standards programme to enhance financial crime compliance controls and capabilities and to meet international commitments. HSBC France also ensures that the deficiencies reported by the Monitor during his visit to France in 2015 are being addressed in full. HSBC France is also working on awareness campaigns and training to put safeguarding against financial crime at the forefront of the overall bank's personnel priorities.

Tax Risks

In common with all companies, HSBC France is potentially exposed to the risk that tax rules could be misinterpreted or incorrect application of the increasingly complex tax rules that apply. In particular, the tax authorities are increasingly attentive to the transfer pricing that apply between member companies of large international groups such as HSBC. HSBC France runs the risk of a tax adjustment or penalties in the event that the bank does not respect these rules and in particular the requirement to transact with its parent company at normal commercial conditions.

Moreover, certain clients of HSBC France could use some of its services with the objective of tax evasion which could expose the bank to charges of collusion and which, if confirmed, could also lead to severe financial, legal and reputational risks.

HSBC France Tax department works closely with other central Functions and the various Global Businesses as well as with other Group entities to verify that the transactions undertaken for the bank's own account or on behalf of its clients are consistent with the spirit and letter of the tax laws. Furthermore, it also monitors that the transfer pricing conditions applied by other Group entities is properly justified and documented.

People risks

The various transformation programs in progress at HSBC France impact a significant proportion of the bank's staff, which, together with the voluntary redundancy program announced in September 2016, could create an environment that certain staff may feel as complex and uncertain. This situation could potentially lead to a decrease in staff engagement, increased sick leave and unwanted staff turnover.

Risk management and control within the HSBC France group (continued)

In order to mitigate the above risks, HSBC France is making regular and clear communications to all staff concerning the re-organisations and projects in progress and concerning the limited nature of the scope of the voluntary redundancy plan. The bank also monitors with attention the workload and stress levels of its employees via bi-annual surveys and adapted questionnaires for its executives ("*Cadres à forfait jours*"). Line managers are equally made aware of this risk regularly and are encouraged to take appropriate action when the satisfaction index demonstrates a deterioration in the working conditions or a perception of this by employees.

As part of the voluntary redundancy program, the Human Resources department of HSBC France has implemented a regular communication and support program adapted to the staff being impacted.

Execution and Operational risks

The different projects and transformation programs in progress at HSBC France could generate conflicting priorities and conflicts vis a vis the allocation of resources. This could impact on the management of each project, its correct and timely completion and on the running of the bank with possible consequences such as financial losses, reputational damage or also regulatory sanctions.

HSBC France provides the necessary means to manage its various projects be they technical, financial or human. These are subject to regular monitoring as part of the governance framework adapted to the nature and complexity of the projects. The planning takes into account the possible interactions with the other change programs. Finally, the most important projects are followed at the highest possible governance forums.

Fraud and Cyber attack risks

HSBC France, like other institutions, is the target of cyber attacks, which, in some cases, may affect its operations, including the availability of customer web sites, may affect the data used by the bank or its clients, or uncover weaknesses in relation to IT security. A massive cyber attack resulting from hacking into the Group's computer systems could result in financial and reputational losses such that it could affect HSBC France's client, shareholder and stakeholder confidence. In addition, the loss or theft of client data may constitute a regulatory violation which could result in fines and penalties.

The bank's IT system's security is crucial to the effective operation of its banking services, to customer protection and brand value. In order to maintain IT security to the highest level, HSBC France continues to build its IT infrastructure, its IT control framework and its corporate governance in order to resist the ever-increasing threat of cyber-attacks. In addition to improving IT security systems over the long term, this means, *inter alia*, outsourcing penetration tests to specialised companies in order to identify priorities for improvement.

Data management risks

HSBC France must ensure that it collects, manages and stores data in a consistent and reliable way, for its own use and for the use of regulators, who require increasingly frequent and detailed financial disclosures. In the absence of reliable data management, the data on which it bases its management decisions and responses to its customers' needs may be inaccurate, its financial disclosures may be doubted and its capacity to fulfil its regulatory reporting obligations may make it liable to fines or penalties.

Data maintenance, either in physical or electronic format, and the bank's capacity to index and retrieve it, are equally important in some instances, such as in the case of litigation, enquiry or control. Should the bank's data maintenance systems fail, the bank would be liable to penalties and other financial losses.

HSBC France constantly promotes the development of better data management systems, which forms part of HSBC Group's global data quality improvement programme. HSBC France is looking to streamline data collection, to organise data storage and to rationalise and optimise data flows and data retrieval in IT systems. That will help reduce errors and the need to carry out consistency controls and other manual adjustments.

In addition, the bank has put in place a management improvement programme for physical as well as for electronic archives. It is being monitored by the bank's Chief Operating Officer through quarterly monitoring committees.

IT systems risks

Apart from malicious activities, the bank's IT systems are also exposed to malfunction or breakdown risk, which would affect HSBC France's clients, operations or its ability to comply with regulatory obligations. Such risks could seriously affect the image and the reputation of the bank and lead to significant operational losses due to the costs of returning the systems to normal conditions, to potential remuneration for the prejudice caused and to possible penalties and fines.

To guard against such risks, HSBC France is constantly conducting comprehensive maintenance work on its IT systems and software updates. In this context, the Bank is implementing a regular data and software migration programme onto new servers. In some instances, the Bank decided to outsource some IT services to third party companies whenever it is safer and more efficient. Finally, it must be stressed that HSBC France is implementing a major programme of IT systems upgrade, which is leading to the complete overhaul and replacement of its current banking IT infrastructure, a legacy from HSBC Group which has become too complex following numerous updates. The new system is being developed by a third party undertaking and is already in operations in other French banks.

Legal risks
Besides compliance risk with existing regulation and laws, HSBC France is exposed, like any institution, to third party litigation risks, whatever they may be. Such risks may have financial implications, in the form of fines and penalties, as well as reputational risk. French and EU legislations have recently evolved in many critical areas, such as:

– Pursuant to the "Sapin II" legislation, administrative penalties and fines that can be levied for violation of the new conditions against late payment, have been significantly increased.

– New EU regulation governing data protection published 4 May 2016 introduced significant changes with respect to the previous piece of regulation, including, the so called "right to be forgotten", encouraging data portability and restricting profiling.

– A draft bill was voted by the French National Assembly to oblige corporations and their subsidiaries to take all reasonable measures to identify and prevent any violation to human rights, to human health and safety and the environment. This draft bill provides for fines reaching as much as EUR 10 million in case of violation and for affected third parties to seek legal redress against the offending company, which could incur fines reaching as much as EUR 30 million.

A legal and information monitoring system is available to HSBC France's top management to prevent risks arising from legislative and regulatory reforms. In addition to the monitoring system, bills are analysed, with the assistance of external counsel if necessary, and examined by or with the divisions affected, to determine the practical consequences and appropriate adaptations for full compliance.

Such principles have been implemented for the bills mentioned above as well as for other legislative reforms that were expected or that have occurred during 2016.

Risk Management

As a provider of banking and financial services, the HSBC Group considers the management of risk a top priority. Risks are to be assumed in a measured manner in line with the risk appetite defined locally. HSBC France continues to maintain a very strong liquidity position and is well positioned for the changing regulatory landscape.

HSBC France also maintained its conservative risk profile by reducing exposure to the most likely areas of stress by:

– Regularly assessing its exposure to sovereign debt and bank counterparties to ensure that the overall quality of the portfolio remained strong;

– Regularly assessing higher risk countries and by adjusting its risk appetite and exposures accordingly;

– Reinforcing its client selection filters further in managing the risk of financial crime.

Managing Risk
All HSBC France's activities involve, to varying degrees, the analysis, evaluation, acceptance and management of risks or combinations of risks.

Risk management framework
A strong governance framework with clearly defined ownership and responsibilities ensures an effective management of risk. The HSBC France risk management framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. Integral to the risk management framework are risk appetite, stress testing and the identification of emerging risks.

Risk management and control within the HSBC France group (continued)

The HSBC France risk management framework is designed to provide appropriate risk monitoring and assessment. The Risk Committee is composed of independent members of the Board and has responsibility for oversight and advice to the Board on, inter alia, the bank's risk appetite, tolerance and strategy, systems of risk management, internal control and compliance. The Risk Committee maintains and develops a supportive culture in relation to the management of risk, appropriately embedded by executive management through procedures, training and leadership actions.

In compliance with the requirements of the French order of 3 November 2014 and the demands of the HSBC Group, the HSBC France group has established a permanent control and risk management system as set out in the Chairman's report on the internal control procedures and risk management procedure.

In carrying out its responsibilities, the Risk Committee is closely supported by the Chief Risk Officer, the Chief Financial Officer, the Head of Internal Audit and the Head of FCC & RC Compliance, together with other business functions on risks within their respective areas of responsibility.

Risk culture

All employees are required to identify, assess and manage risk within the scope of their assigned responsibilities. Global Standards set the tone from the top and are central to the group's approach to balancing risk and reward. The aim is to implement common Financial Crime Compliance standards within HSBC, based on the strictest worldwide standards, and to follow the consistent implementation across the Group. HSBC France continued to implement the "Conduct" programme which sets forth the commitments made by HSBC with respect to the fair and just treatment of customers and the financial market integrity. Personal accountability is reinforced by the HSBC Values, with employees expected to act with courageous integrity in conducting their duties.

Employees are supported by a disclosure line (HSBC Confidential) which enables them to raise concerns in a confidential manner (which is outside of the normal management reporting lines). HSBC France also has in place a suite of mandatory training to promote these values.

In 2016, HSBC implemented its "charter" to complement the local Codes of Conduct to offer a common approach that brings HSBC purpose and values to life in the decision-making process.

Performance management is measured against objectives which are fixed at the start of the year by the manager for each employee. These objectives integrate qualitative targets (respect of compliance and internal control procedures, adherence to Global Standards, quality of sales or service, management of risk notably in terms of operational risk, closure of audit points, client recommendations, intra Global Business synergies, client acquisition etc.) and either collective or individual financial criteria (increase in revenues, control of costs, increase in profit before tax etc.).

The performance indicators, which underpin these objectives, are a function of the job held, the level of responsibility and are analysed in comparison with the previous year or versus the current annual plan.

The objectives, as a whole, are established at the start of the year in the annual scorecards of the employees.

It should be noted that Senior Management (Grades 0 &1) are also reviewed versus their adherence to the Group values (Dependable and do the right thing, Open to different ideas and cultures and Connected with our customers, communities, regulators and each other).

Risk profile

Risks assumed by HSBC France are monitored in compliance with the local risk appetite. Risks are identified through the risk map process which sets out the HSBC France's risk profile in relation to key risk categories. Risks are regularly assessed through the risk appetite framework and the regular review of top and emerging risks by senior management.

Credit, market and operational risk are measured using the Basel 2 Pillar 1 framework for regulatory capital through the allocation of risk-weighted assets.

Other risks are also measured through the group's economic capital model under Pillar 2.

Risk appetite

HSBC France's risk appetite is set out in the Risk Appetite Statement, which describes the types and levels of risk that HSBC France is prepared to accept in executing its strategy. The HSBC France's Risk Appetite Statement covers the following 16 key areas of risk, with detailed measures for each category: Financial Crime Compliance, Regulatory Compliance, Operational Risk, Reputational Risk, System Infrastructure, Asset Management, Insurance, Cost of Risk, Risk Diversification, Market Risk, RWAs by Risk Category and by Global Business, Capital, Liquidity & Funding, Interest Rate Risk on the banking book portfolio, Earnings, Cost Efficiency.

Quantitative statements and qualitative metrics are assigned to the above risk categories. Measurement against the metrics:

- guides underlying business activity, ensuring it is aligned to risk appetite statements;
- informs risk-adjusted return;
- enables the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and
- promptly identifies business decisions needed to mitigate risk.

The risk appetite statement is approved by the HSBC France Board following advice from the Risk Committee, and is a key component of the risk management framework. It is central to the annual planning process and seeks to be aligned with the strategy.

The business performance against these risk appetite metrics is reviewed on a monthly basis in the Risk Management Meeting and quarterly in the Risk Committee and Board. Details of metrics that have fallen outside of the appetite/tolerance are provided, along with remediating actions.

Stress testing

HSBC France's stress testing programme is central to the monitoring of top and emerging risks, and to the assessment of capital adequacy through the estimation of the capital requirement to absorb resulting shocks. This is achieved by the undertaking of internal as well as regulatory driven stress test exercises during the year.

The stress testing programme includes macro-economic stress tests, which seek to assess HSBC France's resilience to exceptional but plausible severe scenarios, as well as concentration risk stress-tests on specific portfolios, market risk stress-tests and capital sensitivity analysis from several risk factors. Stress test impacts are measured on the profit and loss account, the risk weighted assets and capital. The stress-test outcomes are submitted to the HSBC France Risk Committee and Board.

In 2016, HSBC France completed a stress test programme, including the completion of the 2016 PRA concurrent stress test. These included scenarios specific to France with macroeconomic shocks including a significant deterioration in certain sectors or activities or scenarios which also sought to identify the risk of concentration in the credit portfolios. These were reported to the senior management and to the other governance committees of the bank.

HSBC France also contributed to the HSBC Group stress testing programme, including Reverse Stress Testing. Reverse stress tests require a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities.

In stress testing exercises, the scenarios usually rely upon a set of macro-economic and financial variables (e.g. GDP, consumer price index, interest and exchange rates, unemployment, stock index) projected upon a predetermined period. Two scenarios are usually defined:

- a base scenario considered as the most likely scenario over the projected period, taking into consideration the economic and financial environments and their forward looking evolution,
- an adverse scenario describing one or several potential shocks affecting the economic and financial environments, like the materialisation of one or several risks weighting on the base scenario.

For macro-economic stress tests, the base and adverse scenarios are usually centrally coordinated by HSBC Risk and Finance teams, and broken down into regional and country scenarios to ensure global consistency.

Scenarios specific to France may also be developed by HSBC France's risk and finance teams, with the support of expert panels.

Regulatory stress tests

Stress testing is an important tool for regulators to assess the resilience of the banking sector and of individual banks to adverse economic or financial developments.

The results inform the regulators and the bank senior management of the capital adequacy of individual institutions and could have a significant effect on minimum capital requirements and planned capital actions, including the payment of dividends, going forward.

HSBC France, HSBC Bank plc and HSBC Group took part in the 2016 PRA concurrent stress test programme, involving all major UK banks. The scenarios for the 2016 stress test incorporate a synchronised global downturn, a reduction in global risk appetite, with a substantial increase in risk premia, including term premia, corporate spreads and lending rates, a general

Risk management and control within the HSBC France group (continued)

fall in property prices and a severe contraction in the UK and HK, while China growth turns briefly negative. 2016 PRA Stress Test results for the Group were published by the Bank of England in the fourth quarter of 2016, confirming the absence of capital inadequacy.

Financial Crime Compliance & Regulatory Compliance

The level of inherent compliance risk remained high in 2016 as the industry continued to experience greater regulatory scrutiny and heightened levels of regulatory oversight and supervision from both the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR) and the *Autorité des Marchés Financiers* (AMF).

In recent years, we have experienced a substantial rise in the volume of new regulation impacting our operational processes, along with increasing levels of compliance risk as regulators and other authorities pursued reviews and investigations into the bank's activities.

Within the new Single Supervisory Mechanism, HSBC France is now under the supervision of the European Central Bank (ECB), for prudential matters. Within this context, the ECB expressed interests toward the bank compliance procedures and controls frameworks.

In this context, HSBC France in line with the Group heightened standards and Group organisation has continued to improve Financial Crime Compliance and Regulatory Compliance framework. Such improvements include splitting the shared teams (Business Management, Regulatory Affairs and Policies (RAP) and Compliance Monitoring and Testing CMAT). Further details may be found in the chairman's report on pages 72 et seq.

European Banking Structural Reform

It should be noted that in June 2015, the European Finance Ministers reached an agreement on the European Commission legislative proposal on the structural reform of the European banking sector. According to the compromise, proprietary trading in financial instruments and commodities should have to be separated in a stand-alone separate subsidiary from deposit taking activities, trading activities should be monitored in order to identify any prohibited proprietary trading or excessive risks and supervisors would be enabled to require certain measures such as the reduction or separation of certain activities.

To date, the European Parliament has not found an agreement concerning these proposals for which the European Commission remains committed.

While, the European Commission has re-confirmed its support for the structural reform of the European banking sector, the negotiations have made limited progress to date.

Law no 2013-672 - 26 July 2013 – Separation and Regulation of banking activities

The Separation and Regulation of banking activities law requires that banks separate their proprietary trading activities into a separate dedicated subsidiary. A control framework within each bank will ensure that this obligation is followed. The ACPR conducted several inspections during 2015 to verify that the new regulatory framework has been implemented correctly.

HSBC France does not undertake any proprietary trading operations. The control framework established in 2015 will need to change marginally in order to take into account the 2016 ACPR recommendations resulting from the onsite inspection conducted in 2015 within at HSBC France as well other French banks.

FINANCIAL RISKS

HSBC Group has established standards, policies and control procedures dedicated to monitoring and management of risk linked to its activities.

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 the French order of 3 November 2014 and the demands of the HSBC Group, the HSBC France group has established a permanent control and risk management system as set out in the Chairman's report.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees and credit derivatives, and from the holding of debt securities.

Credit Risk Management

Of the risks in which we engage, credit risk generates the largest regulatory capital requirements.

The principal objectives of our credit risk management are:

- to maintain across the group a strong culture of responsible lending and a robust risk policy and control framework;
- to both partner and challenge Global Businesses in defining, implementing, and continually re-evaluating our risk appetite depending on actual and scenario conditions; and
- to ensure there is independent expert scrutiny of credit risks, their costs and mitigation.

Within the bank, the Credit Risk function is headed by the Chief Risk Officer and reports to the Chief Executive Officer, with a functional reporting line to the Regional Chief Risk Officer. Its responsibilities include:

- formulating the local credit policy aligned where possible with group policies;
- validating HSBC France's appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;
- undertaking an independent review and objective assessment of risk. Credit risk assesses each request except for the certain modest level proposals (for the Retail and Commercial bank) where detailed credit approval delegations have been established;
- monitoring the performance and management of portfolios across HSBC France;
- vetting and controlling exposure to sovereign entities, banks and other financial institutions, as well as debt securities which are not held solely for the purpose of trading;
- setting HSBC France's policy on large credit exposures, ensuring that concentrations of exposure by coun-terparty, sector or geography do not become excessive in relation to the HSBC France's capital base, and remain within internal and regulatory limits;
- maintaining and developing HSBC France's risk rating framework and systems via the local Model Oversight Committees, which oversees the local risk rating model management for both wholesale and retail businesses;
- reporting on retail and wholesale portfolio performance, high risk portfolios, risk concentrations, large impaired accounts, impairment allowances and stress testing results and recommendations to HSBC France's Risk Committee and the Board; and
- acting on behalf of HSBC France as the primary interface, for credit-related issues, with the ACPR, the ECB and rating agencies.

In the HSBC France group, credit risk management is overseen by four separate functions within Risk func-tions:

- Wholesale Credit Risk department: in addition to the Traded Credit and Market Risk Management teams, this combines the Credit teams (Approval and Early Collection units) allocated to Global Banking and Markets and Commercial Banking, Recovery for Commercial Banking clients and a Risk Identification and Monitoring team;
- Retail Credit Risk Department: in addition to a management and statistical portfolio analysis function, this unit comprises the Credit (approval) teams dedicated to Retail Banking and Wealth Management and Private Banking clients, an enlarged Retail[1] Early Collection unit covering both Early Collection (*Service de Recouvrement Amiable*) and Recovery units from Retail clients, Decision-making Systems and Processes teams and also the team responsible for the credit risk models for Retail;
- Risk Business Management: this unit groups together the support and control functions of the Risk functions, namely Risk administration, Accounting, Credit Risk Reporting, the Credit review team, the Business Risk and Control Management covering the Risk teams and the credit model team for Wholesale;
- Risk Strategy: This entity manages risk appetite, stress scenarios, emerging risks and regulatory oversight for credit-related matters.

Independently of the businesses they relate to, these departments report directly to the CRO, and report functionally to the HSBC Group Risk Department Europe.

Risk Governance

Risk (including Credit risk) management for each of the four businesses (Global Banking and Markets, Commercial Banking, Retail Banking and Wealth Management, Private Banking) is supervised by the HSBC France Risk Management Meeting (RMM). The role and responsibilities of the RMC are detailed on page 71 of the Chairman's report.

1 *This unit has ben transferred to Retail Banking and Wealth Management (RBWM) as of 1 January 2017.*

Risk management and control within the HSBC France group (continued)

The control framework
The Chief Risk Officer is responsible for the permanent control and the risk function as requested by "*arrêté du 3 novembre 2014*".

Primary controls are performed by agents involved in operating activities (credit managers, credit analysts, branch managers and relationship managers and wholesale and retail risk monitoring departments) and monitored by dedicated internal controllers (BRCM – Business Risk Control Managers as well the Credit review team) who carry out second-level independent controls.

Tools
In compliance with the French order of 3 November 2014 regarding internal control in banks regulated by the ACPR, the French regulator, each entity in charge of credit risk has set up a system to cover all risks: risks inherent in lending activities have been listed in the businesses risk maps specific to each business (Commercial Banking, Global Banking and Markets, Retail Banking and Wealth Management) and in the Credit functions risk maps. These maps set 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 credit models, which involves:

– Quality of the data used ("data quality");

– "Use Test" of these models.

The updating of the internal control procedures and in particular the risk maps is undertaken each time a significant change has occurred which requires new controls or the establishment of a new risk. A complete review is undertaken at least annually. These ongoing changes as well as the annual review are validated by the Heads of permanent control of the credit function.

Description of lending procedures

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

In terms of credit, HSBC France's CEO holds credit authorities within the authority limits determined by HSBC Bank plc. He has delegated his entire credit authorities to the CRO, who in turn has sub-delegated them partially to each of the Credit departments (retail or corporate). For amounts in excess of these limits, cases are submitted to the HSBC Bank plc Credit Department or to the HSBC Group (HSBC Holdings plc) Risk Department for a absence-of-objection statement ("*concurrence*").

Working in concert with the CRO, the CEO has also delegated some of his credit authorities in limited amounts to the certain heads of commercial entities with option to delegate to certain team members subject to a pre-defined framework.

A holder of credit authorities is able to grant loans in compliance with the HSBC Group and HSBC France group lending directives. In case the credit authorities are exceeded, the holder escalates the requested credit approval to the upper level.

As is the case for all HSBC Group entities, HSBC France has delegated responsibility to HSBC Holdings plc the quasi totality of its credit approval authorities concerning limits in favour of banks and certain non-bank financial institutions, on the basis of proposals from the relationship manager and on the recommendation by the Head of Wholesale Credit and Market Risk.

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 identify within the branch network the main areas of risks according to the main risk indicators;

– to conduct credit reviews in the branch network as part of the permanent control framework.

The identification, measurement, monitoring and control of credit risk are carried out in compliance with the HSBC Group directives (Global Standards Manual and Functional Instruction Manuals), local credit directives and guidelines and the policy laid down by the risk management committees of each of the Global Businesses (Global Banking and Markets, Commercial Banking, Retail Banking Wealth Management and Private Bank).

Everyone involved in the lending process is part of credit risk control. Everyone involved in the approval process is accountable, although the responsibility for overseeing a loan falls mainly on the entity that has granted the loan. Furthermore, the management structure in that entity must play its part in monitoring and managing credit risk.

Second-level controls are performed by dedicated credit risk monitoring teams.

The credit review team is involved in the second line of defence for credit risk. They perform both field or full scope and remote credit reviews. A risk-based approach has been retained to select the entities to be reviewed and put together samples of credit cases to be reviewed. It also works according to the principles of an audit cycle of a maximum of three years for Global banking, as well as Leveraged Finance, HSBC Factoring (France) and Corporate Banking (CBC) for the Commercial bank which manages corporates of an intermediary size. For Banking Business Centres (BBC) which manage smaller corporates and Retail Banking and Wealth Management entities, the cycle is 2 years through field and remote reviews, with the less risky entities being preferably audited through remote reviews. At the request of the CRO, the team can perform ad hoc audits of various issues relating to credit.

Credit quality

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

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

Renegotiated loans and forbearance

A range of forbearance strategies is employed in order to improve the management of customer relationships by avoiding default, of the customer where possible or the calling of guarantees obtained whilst maximising the recoveries of the amounts due. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures and other forms of loan modifications and re-ageing.

HSBC France's policies and practices are based on criteria which seek to enable wherever possible that the repayment is likely to continue. These typically involve the granting of revised loan terms and conditions. Loan forbearance is only granted in situations where the customer has showed a willingness to repay his loan and is expected to be able to meet the revised obligations.

Impairment assessment

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

Two types of impairment allowance are in place: individually assessed and collectively assessed.

Impaired loans – identification of loss events

The criteria used by HSBC France to determine that a loan is impaired include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days (more than 180 days for property loans and for loans to local government bodies);
- the probability that the borrower will enter bankruptcy or other financial distress procedure;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees; and
- a deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

Write-off of loans and advances

HSBC France's policy on the write-off of loans and advances is detailed in note 1j of the Financial Statements.

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 defined in the accounting

Risk management and control within the HSBC France group (continued)

policies and principles. 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 that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the maximum amount of the committed facilities.

Maximum exposure to Credit Risk

	31.12.2016		
(in millions of euros)	Maximum exposure [2]	Offset [1]	Net exposure to credit risk
Cash and balances at central banks	**4,714**	**–**	**4,714**
Items in the course of collection from other banks	**437**	**–**	**437**
Trading assets	**23,589**	**–**	**23,589**
– treasury and other eligible bills	393	–	393
– debt securities	15,610	–	15,610
– loans and advances	7,586	–	7,586
– to banks	4,658	–	4,658
– to customers	2,928	–	2,928
Financial assets designated at fair value	**1,033**	**–**	**1,033**
– treasury and other eligible bills	–	–	–
– debt securities	1,028	–	1,028
– loans and advances to banks	5	–	5
Derivatives	**47,367**	**(44,014)**	**3,353**
Loans and advances held at amortised cost	**44,706**	**–**	**44,706**
– loans and advances to banks	3,379	–	3,379
– loans and advances to customers	41,327	–	41,327
– personal	15,536	–	15,536
– corporate and commercial	24,247	–	24,247
– financial (non-bank financial institutions)	1,544	–	1,544
Reverse repurchase agreements – non-trading	**11,862**	**(2,341)**	**9,521**
Financial investments [3]	**26,185**	**–**	**26,185**
– treasury and other eligible bills	–	–	–
– debt securities	26,185	–	26,185
Other assets	**985**	**–**	**985**
– endorsements and acceptance	–	–	–
– accrued income and other	985	–	985
Off-balance sheet	**28,459**	**–**	**28,459**
– financial guarantees and other credit-related guarantees	3,040	–	3,040
– loan commitments and other credit-related commitments	25,419	–	25,419
Total	**189,337**	**(46,355)**	**142,982**

1 *The loans and advances offset adjustment primarily relates to customer loans and deposits, and balances arising from repo and reverse repo transactions. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default but where all IAS32 requirements are not met; and as a result there is a net exposure for credit risk management purposes.*
2 *The derivative offset amount in the 'maximum exposure to credit risk table' relates to exposures where the counterparty has an offsetting derivative exposure with the group, a master netting agreement is in place and the credit risk exposure is managed on a net basis, or the position is specifically collateralised, normally in the form of cash.*
3 *Reported amounts exclude equity instruments.*

(in millions of euros)	31.12.2015 Maximum exposure [2]	Offset [1]	Net exposure to credit risk
Cash and balances at central banks	395	–	395
Items in the course of collection from other banks	381	–	381
Trading assets	27,161	–	27,161
– treasury and other eligible bills	791	–	791
– debt securities	17,831	–	17,831
– loans and advances	8,539	–	8,539
– to banks	5,112	–	5,112
– to customers	3,427	–	3,427
Financial assets designated at fair value	1,118	–	1,118
– treasury and other eligible bills	–	–	–
– debt securities	1,107	–	1,107
– loans and advances to banks	11	–	11
Derivatives	49,484	(47,392)	2,092
Loans and advances held at amortised cost	43,185	–	43,185
– loans and advances to banks	4,660	–	4,660
– loans and advances to customers	38,525	–	38,525
– personal	14,363	–	14,363
– corporate and commercial	22,647	–	22,647
– financial (non-bank financial institutions)	1,515	–	1,515
Reverse repurchase agreements – non-trading	10,163	(119)	10,044
Financial investments [3]	27,350	–	27,350
– treasury and other eligible bills	68	–	68
– debt securities	27,282	–	27,282
Other assets	1,090	–	1,090
– endorsements and acceptance	–	–	–
– accrued income and other	1,090	–	1,090
Off-balance sheet	27,347	–	27,347
– financial guarantees and other credit-related guarantees	2,731	–	2,731
– loan commitments and other credit-related commitments	24,616	–	24,616
Total	187,674	(47,511)	140,163

1 *The loans and advances offset adjustment primarily relates to customer loans and deposits, and balances arising from repo and reverse repo transactions. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default but where all IAS32 requirements are not met; and as a result there is a net exposure for credit risk management purposes.*

2 *The derivative offset amount in the 'maximum exposure to credit risk table' relates to exposures where the counterparty has an offsetting derivative exposure with the group, a master netting agreement is in place and the credit risk exposure is managed on a net basis, or the position is specifically collateralised, normally in the form of cash. At 31 December 2015, the total amount of such offsets was EUR 82.3 billion (2014: EUR 175 billion), of which EUR 34 billion (2014: EUR 101 billion) were offsets under a master netting arrangement, EUR 8.7 billion (2014: EUR 8.5 billion) were received in cash and EUR 39 billion (2014: EUR 66 billion) were other collateral. These amounts do not qualify for net presentation for accounting purposes as settlement may not actually be made on a net basis.*

3 *Reported amounts exclude equity instruments.*

Concentration risk

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions.

The group uses a number of controls and measures to minimise undue concentration of exposure in the group's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, specific approval procedures, approval and review controls procedures, and stress testing.

Large Credit Exposure Policy - LCEP

The LCEP sets out the policy of HSBC France 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 ACPR (*Autorité de Contrôle Prudentiel et de Résolution*) and the European Central Bank (ECB). The purpose of the LCEP is to ensure that:

– HSBC France adhere to the French regulatory requirements on large lending commitments;

– there is an appropriate framework procedure to monitor and control large commitments and concentrations of risk;

– the commitments by a bank to one individual borrower, or to a group of connected borrowers, should not become excessive in comparison to its capital base;

– excessive concentration and/or the combining of major exposures are excluded;

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

Concentration risk by counterparty

Risk exposure limits are classified into three categories:

– category A: all financing recognised on the balance sheet and all commitments such as guarantees, documentary credits and standby letters of credit;

– category B: off-balance sheet market risks such as currency and interest rate swaps taken at their maximum expected risk during the life of the exposure;

– category S (settlement risk): principally intraday settlement risk on payment commitments and foreign exchange business with customers or for their account.

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

The approved commitments (total of category A and B limits on one side and category S limits on the other) for any single counterparty or group of connected counterparties, after taking into account any risk mitigation / deduction techniques permitted under the regulations may not exceed 25 per cent of the HSBC France consolidated capital. It should be noted that all commitments, as defined above, which exceed 10 per cent of the HSBC France consolidated capital require the approval by HSBC Bank plc independently of the credit approval authorities in place.

Furthermore, commitments (categories A and B) to financial institutions with:

– exposures with a maturity of more than one year;

– exposures to subsidiaries of financial institutions that are not financial institutions themselves; should not exceed 10 per cent of HSBC France's consolidated capital.

A quarterly report on all single counterparty or groups of connected counterparties for which the HSBC France commitments (the total of categories A and B on one hand, and category S on the other) exceed 10 per cent of its consolidated capital are submitted to the Risk Management Meeting, to the Risk Committee and to the Board of HSBC France and to the various Risk committees in HSBC bank plc.

As at 31 December 2016, for HSBC France, 15 groups individually exceeded 10 per cent of the net capital (31 December 2015: 17 groups).

Sectorial concentration risk

It is an HSBC France principle to avoid excessive concentration in any business sector, and to take corrective measures if necessary. The Wholesale Credit Risk Department is responsible for supervising the compliance with this principle. To do so, the Wholesale portfolio split by industry sector is monitored on a quarterly basis during the Risk Committee, the risk appetite by sector being limited to 10% of HSBC France's total exposure (EAD).

In addition, some business sectors, such as Commercial Real Estate (CRE), are governed by their own specific caps and business sector directives laid down by HSBC France and / or the HSBC Group. The caps are monitored quarterly and notified to the Risk Management Meeting of Global Banking and Markets. Any modifications to these caps must be approved by the same governance forum.

In addition, and depending on the macro-economic environment, *ad-hoc* sector analysis can be undertaken to determine whether mitigating actions are required or not. For example, the exposure of HSBC France to the "Oil & Gas" sector, which totals EUR 1.5 billion of outstandings as at 31 December 2016, is primarily to the production and distribution companies is subject to a specific review.

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.

For these types of counterparties, exposures (defined as the aggregate of Categories A and B limits) are not permitted to exceed 25% of HSBC France's Eligible Capital except in the following circumstances:

– exposures to central governments/central banks located in countries which qualify for a zero % risk weighting under the Standardised Approach;

– exposures to specific multilateral development banks (as quoted in the FCA and PRA Handbook Glossary) and specific international organisations (as quoted in CRR Art. 117 and 118) which qualify for zero % risk weighting;

– exposures to EEA States' central government and central banks denominated and funded in their domestic currency which also attract a zero % risk weighting (CRR Art. 114 (4)).

However, it should be noted that regardless of how the country with zero weighting is qualified, all requests are submitted for risk approval and the corresponding authorisations are recorded in the normal manner.

The exposure risk on countries, central governments and central banks is monitored by the HSBC Group Risk Department, which establishes all overall limits on the basis of the recommendations made by the Head of Wholesale Credit and Market Risk and relationship Managers in charge of central governments and central banks. Overall limits for single countries are revised at least annually or more frequently 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 (total of limits to categories A and B) in excess of 10 per cent of HSBC France's capital is given to Senior Management, the Risk Committee and the Board of Directors of HSBC France.

Concerning 2016 and in accordance with its credit guidelines, HSBC France's exposures to countries other than France was limited. Only 3 countries had commitments (category A & B) in excess of EUR 2 billion: Germany, the United Kingdom and Luxembourg.

The exposures for Germany and Luxembourg were principally comprised of 0% weighted counterparties (articles 115 to 118 of the CRR). Regarding the exposure to the United Kingdom, the essential is due for half by exposure to the central clearing exchanges due to HSBC France being the European platform for HSBC Group for derivatives activities whilst the other half comprises of exposure to other HSBC Group entities.

It could be that the level of exposure of HSBC France to British counterparties evolves, in one direction or the other, in the context of Brexit. At this stage, whereas Article 50 of the treaty of Lisbon has still not formally been launched by the United Kingdom for its exit of the European Union and that the official negotiations have not begun and which could take 2 years from the exercise of its right of retirement by Great Britain – the practical consequences, for HSBC France, of this change, remain to be analysed. The Group, whilst it has publicly announced that HSBC France would almost certainly recover, within this context, a certain number of activities currently being undertaken by HSBC Bank plc from London, continues its reflections on precise parameters of these changes to come.

Risk management and control within the HSBC France group (continued)

These will depend on the outcome of the negotiations between the United Kingdom and the other partners of the European Union but also of the implications on the governance structure of the Group in Europe on the implementation of the "Vickers rule" in Great Britain, which will impose the legal separation of its retail and investment banking activities.

The exposure to other countries, notably China or Turkey are not significant for HSBC France.

Credit Risk Mitigation Techniques

Credit risk mitigants are taken into account in conformity with the regulations derived from the Basel agreements. They fall into two main categories:

- collateral pledged, in favour of the Bank, is used to secure timely performance of a borrowers financial obligations;
- a guarantee (surety) is the commitment by a third party to substitute for the primary obligor in the event of default. By extension, credit insurance and credit derivatives (purchased protection) also fall into this category.

For the perimeter under the Internal Ratings Based (IRB), guarantees and collaterals are taken into account, provided they are eligible, by decreasing the Loss Given Default (LGD) parameter corresponding to an increase in the recovery rate that applies to the transactions in the banking book. The value, taken into consideration, takes into account a haircut depending on the enforceable nature of the commitment and the anticipated fall in the market value of the pledged asset.

For the perimeter under the standardised approach, guarantees are taken into account, provided they are eligible, by applying the more favourable risk weight of the guarantor to a portion of the secured exposure adjusted for currency and maturity mismatches. Collateral is taken into account as a decrease in the exposure, after adjustment for any currency and maturity mismatches.

The assessment of credit risk mitigation effects, follow a methodology for each activity which is common to the entire HSBC Group.

Collateral

Collateral is divided into two categories: financial collateral and other collateral:

- financial collateral consists of cash amounts, life insurance contracts, mutual fund units, equities (listed or unlisted) and bonds;
- other diverse forms of collateral include real estate mortgages or ship mortgages, pledge of equipment or inventories, transfer of commercial receivables or any other rights to an asset of the counterparty.

To be eligible as part of the credit risk analysis, collateral must fulfil the following conditions:

- the pledge must be documented;
- the pledged asset should be able to be sold rapidly on a liquid secondary market;
- the Bank should have a regularly updated value of the pledged asset;
- the Bank should have reasonable comfort in the potential appropriation and realisation of the asset concerned.

Guarantee

Guarantee is the commitment by a third party to substitute for the primary obligor in the event of default. By extension, credit insurance and credit derivatives (purchased protection) also fall into this category. Credit Logement can insure the risk of default of a borrower for property loans.

Guarantors are subject to the same credit risk assessment process as primary obligors

Guarantees could be granted by the borrower's parent company or by other entities such as financial institutions. Hedging via credit derivatives, guarantees from public insurers for export financing or private insurers are other examples of guarantees.

The consideration of a guarantee consists of determining the average amount the Bank can expect to recover if a guarantee is called in following the default of a borrower. It will depend on the amount of the guarantee and on the enforceable nature of the commitment.

Optimising Credit Risk Mitigation via CDS

As part of its mandate of optimising credit risk management for Global Banking and Markets Portfolio Management (PM) sets up hedges using credit derivatives, and primarily credit default swaps (CDS). These CDS are used as part of an active management policy, the main aim being to hedge migration and concentration risks and manage significant exposures. The underlying assets are loans made to large corporates provided by Global Banking and Markets (Banking).

Considered as guarantees and treated under the Internal Ratings Based Approach, CDS hedges totalled EUR 60 million at 31 December 2016 and subject to eligibility, they have for effect of decreasing the risk weighted assets of the bank.

Loans and Advances

The following tables analyses loans and advances by industry sector:

Loans and advances to customers by client segment

	31.12.2016		31.12.2015	
	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	**15,621**	**37.24**	14,459	36.88
– residential mortgages	**2,539**	**6.05**	3,313	8.45
– *Crédit Logement*	**10,108**	**24.10**	9,167	23.38
– other personal	**2,974**	**7.08**	1,979	5.05
Corporate and commercial	**24,767**	**59.04**	23,223	59.23
– commercial, industrial and international trade	**13,334**	**31.78**	12,401	31.63
– commercial real estate (including private real estate companies)	**4,384**	**10.45**	5,332	13.60
– other property-related	**570**	**1.36**	245	0.62
– government	**1,598**	**3.81**	1,162	2.96
– other commercial	**4,881**	**11.63**	4,083	10.41
Financial	**1,563**	**3.73**	1,528	3.90
– non-bank financial institutions	**1,563**	**3.73**	1,528	3.90
– settlement accounts	**–**	**–**	–	–
Total gross loans and advances to customers	**41,951**	**100.00**	39,210	100.00
Impaired loans as a percentage of total	**1,200**	**2.86**	1,343	3.43

Credit quality of financial instruments

The five credit quality classifications defined below encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external rating, attributed by external agencies to debt securities.

There is no direct correlation between the internal and external ratings at granular level. Insofar as both full within one of the five classifications.

Risk management and control within the HSBC France group (continued)

Quality Classification

	Debt securities and other bills	Wholesale lending and derivatives		Retail lending	
	External credit rating	Internal credit rating	Probability of default %	Internal credit rating	Expected loss %
Strong	A- and above	CRR 1 to CRR 2	0 – 0.169	EL 1 to EL 2	0 – 0.999
Good	BBB+ to BBB-	CRR 3	0.170 – 0.740	EL 3	1.000 – 4.999
Satisfactory	BB+ to B and unrated	CRR 4 to CRR 5	0.741 – 4.914	EL 4 to EL 5	5.000 – 19.999
Sub-standard	B- and below	CRR 6 to CRR 8	4.915 – 99.999	EL 6 to EL 8	20.000 – 99.999
Impaired	Impaired	CRR 9 to CRR 10	100	EL 9 to EL 10	100+ or defaulted[1]

1 *The EL percentage is derived through a combination of Probability of Default ('PD') and Loss Given Default ('LGD') and may exceed 100 per cent in circumstances where the LGD is above 100 per cent reflecting the cost of recoveries.*

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

Risk rating scales

All distinct HSBC customers are rated using the PD scale, except for those still under the Standard Basel II method.

Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications.

For the purpose of the following disclosure, retail loans which are past due up to 90 days are not disclosed within the EL grade to which they relate, but are separately classified as past due but not impaired. The following tables set out the group's distribution of financial instruments by measures of credit quality.

Distribution of financial instruments by credit quality

	31.12.2016							
	Neither past due nor impaired							
(in millions of euros)	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Impairment allowances	Total
Cash and balances at central banks	4,714	–	–	–	–	–	–	4,714
Items in the course of collection from other banks	437	–	–	–	–	–	–	437
Trading assets	17,232	4,084	2,256	17	–	–	–	23,589
Treasury and other eligible bills	62	328	3	–	–	–	–	393
Debt securities	12,923	2,343	344	–	–	–	–	15,610
Loans and advances to banks	1,669	1,359	1,613	17	–	–	–	4,658
Loans and advances to customers	2,578	54	296	–	–	–	–	2,928
Financial assets designated at fair value	930	84	19	–	–	–	–	1,033
Treasury and other eligible bills	–	–	–	–	–	–	–	–
Debt securities	930	84	14	–	–	–	–	1,028
Loans and advances to banks	–	–	5	–	–	–	–	5
Derivatives	43,163	3,684	499	21	–	–	–	47,367
Loans and advances held at amortised cost	27,704	9,298	6,205	700	223	1,200	(624)	44,706
Loans and advances to banks	2,470	478	429	2	–	–	–	3,379
Loans and advances to customers	25,234	8,820	5,776	698	223	1,200	(624)	41,327
– personal	14,501	534	122	–	156	308	(85)	15,536
– corporate and commercial	10,151	7,512	5,475	690	67	872	(520)	24,247
– financial (non-bank financial institutions)	582	774	179	8	–	20	(19)	1,544
Reverse repurchase agreement non trading	7,779	1,922	2,161	–	–	–	–	11,862
Financial investments	23,258	2,209	1,037	–	–	1	(1)	26,504
Treasury and other similar bills	–	–	–	–	–	–	–	–
Debt securities	23,258	2,209	1,037	–	–	1	(1)	26,504
Other assets	–	–	985	–	–	–	–	985
Endorsements and acceptances	–	–	–	–	–	–	–	–
Accrued income and other	–	–	985	–	–	–	–	985
Total	125,217	21,281	13,162	738	223	1,201	(625)	161,197
Off balance sheet	15,324	7,929	4,573	582	–	45	6	28,459
Financial guarantees and similar contracts	1,091	1,155	477	286	–	30	1	3,040
Loan and other credit-related commitments – endorsements and acceptances	14,233	6,774	4,096	296	–	15	5	25,419
Total	140,541	29,210	17,735	1,320	223	1,246	(619)	189,656

Risk management and control within the HSBC France group (continued)

	31.12.2015							
	Neither past due nor impaired							
(in millions of euros)	Strong	Good	Satis-factory	Sub-standard	Past due not impaired	Impaired	Impair-ment allow-ances	Total
Cash and balances at central banks	395	–	–	–	–	–	–	395
Items in the course of collection from other banks	381	–	–	–	–	–	–	381
Trading assets	20,058	4,482	2,590	31	–	–	–	27,161
Treasury and other eligible bills	388	386	17	–	–	–	–	791
Debt securities	14,449	2,700	662	20	–	–	–	17,831
Loans and advances to banks	2,394	1,235	1,472	11	–	–	–	5,112
Loans and advances to customers	2,827	161	439	–	–	–	–	3,427
Financial assets designated at fair value	861	177	80	–	–	–	–	1,118
Treasury and other eligible bills	–	–	–	–	–	–	–	–
Debt securities	861	177	69	–	–	–	–	1,107
Loans and advances to banks	–	–	11	–	–	–	–	11
Derivatives	47,070	1,992	392	30	–	–	–	49,484
Loans and advances held at amortised cost	27,766	6,960	7,048	551	202	1,343	(686)	43,184
Loans and advances to banks	3,607	96	952	5	–	–	–	4,660
Loans and advances to customers	24,159	6,864	6,096	546	202	1,343	(686)	38,524
– personal	13,688	366	15	–	82	308	(96)	14,363
– corporate and commercial	9,922	6,205	5,424	537	116	1,019	(576)	22,647
– financial (non-bank financial institutions)	549	293	657	9	4	16	(14)	1,514
Reverse repurchase agreement non trading	6,673	2,161	1,329	–	–	–	–	10,163
Financial investments	23,642	2,179	1,529	–	–	1	(1)	27,350
Treasury and other similar bills	–	–	68	–	–	–	–	68
Debt securities	23,642	2,179	1,461	–	–	1	(1)	27,282
Other assets			1,090	–	–	–	–	1,090
Endorsements and acceptances	–	–	–	–	–	–	–	
Accrued income and other	–	–	1,090	–	–	–	–	1,090
Total	126,846	17,951	14,058	612	202	1,344	(687)	160,326
Off balance sheet	14,782	7,476	4,711	288	–	92	5	27,354
Financial guarantees and similar contracts	1,321	766	587	35	–	22	1	2,732
Loan and other credit-related commitments – endorsements and acceptances	13,461	6,710	4,124	253	–	70	4	24,622
Total	141,628	25,427	18,769	900	202	1,436	(682)	187,680

Past due but not impaired gross financial instruments

Past due but not impaired are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

Ageing analysis of past due but not impaired gross financial instruments

(in millions of euros)	Up to 29 days	30-59 days	60-89 days	90-179 days	Over 180 days	Total
At 31 December 2016						
Loans and advances to customers held at amortised cost	**146**	**56**	**21**	**–**	**–**	**223**
– personal	**99**	**39**	**18**	**–**	**–**	**156**
– corporate and commercial	**47**	**17**	**3**	**–**	**–**	**67**
– financial (non-bank financial institutions)	**–**	**–**	**–**	**–**	**–**	**–**
Other assets	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2015						
Loans and advances to customers held at amortised cost	138	44	20	–	–	202
– personal	50	22	10	–	–	82
– corporate and commercial	84	22	10	–	–	116
– financial (non-bank financial institutions)	4	–	–	–	–	4
Other assets	–	–	–	–	–	–

Impairment of loans and advances and available-for-sale financial assets

For details of HSBC France's policy concerning impairments of loans and advances, please refer to note 2c in the Consolidated Financial Statements.

Impaired loans and advances to Customers and banks by client segment

	Year ended 31.12.2016		
(in millions of euros)	**Individually assessed**	**Collectively assessed**	**Total**
Banks	–	–	–
Customers	1,200	–	1,200
Personal	308	–	308
Corporate and commercial	872	–	872
Financial	20	–	20
At 31 December	**1,200**	**–**	**1,200**

	Year ended 31.12.2015		
(in millions of euros)	Individually assessed	Collectively assessed	Total
Banks	–	–	–
Customers	1,343	–	1,343
Personal	308	–	308
Corporate and commercial	1,019	–	1,019
Financial	16	–	16
At 31 December	1,343	–	1,343

Risk management and control within the HSBC France group (continued)

Renegotiated loans and forbearance

The contractual terms of a loan may be modified for a number of reasons, including changes in market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. 'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. We classify and report loans on which such concessions have been granted as 'renegotiated loans' when their contractual payment terms have been modified as a result of serious concerns on the capacity of the borrower to repay their contractual outstandings.

Concessions, on loans made to customers, which do not affect the payment structure or basis of repayment, such as temporary or permanent waivers granted by the bank to take advantage of the non respect of financial or security covenants, do not directly provide concessionary relief to customers in terms of their ability to service obligations as they fall due and are therefore not included in this classification.

For retail lending, our credit risk management policy sets out restrictions on the number and frequency of renegotiations, the minimum period an account must have been opened before any renegotiation can be considered and the number of qualifying payments that must be received. The application of this policy varies according to the nature of the market, the product and the management of customer relationships through the occurrence of exceptional events.

Credit quality classification of renegotiated loans

Under IFRSs, an entity is required to assess whether there is objective evidence that financial assets are impaired at the end of each reporting period. A loan is impaired and an impairment allowance is recognised when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated.

A renegotiated loan is presented as impaired when:

– there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider; and

– it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

This presentation applies unless the concession is insignificant and there are no other indicators of impairment.

The renegotiated loan will continue to be disclosed as impaired, for at least one year and until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. For loans that are assessed for impairment on a collective basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

For retail lending the minimum period of payment performance required depends on the nature of loans in the portfolio, but is typically not less than six months. Where portfolios have more significant levels of forbearance activity, such as that undertaken by HSBC Finance, the minimum repayment performance period required may be substantially more.

Payment performance periods are monitored to ensure they remain appropriate to the levels of recidivism observed within the portfolio. These performance periods are in addition to a minimum of two payments which must be received within a 60-day period for the customer to initially qualify for the renegotiation. The qualifying payments are required in order to demonstrate that the renegotiated terms are sustainable for the borrower. For corporate and commercial loans, which are individually assessed for impairment and where payments are frequently quarterly or longer, the observation of payment performance will depend on the structure of payments agreed as part of the restructuring.

Renegotiated loans are classified as unimpaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms correspond to normal market rates and contractual cash flows are expected to be collected in full following the renegotiation. Unimpaired renegotiated loans also include previously impaired renegotiated loans that have demonstrated satisfactory performance over a period of at least one year and have been assessed based on all available evidence as having no remaining indicators of impairment.

Loans that have been identified as renegotiated retain this designation during at least two years from the moment that they were not depreciated or until derecognition. When a loan is restructured as part of a forbearance strategy and the restructuring results in derecognition of the existing loan, such as in some debt consolidations, the new loan is disclosed as renegotiated. When determining whether a loan that is restructured should be derecognised and a new loan recognised, we consider the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument. The following are examples of circumstances that are likely to result in this test being met and derecognition accounting being applied:

- an uncollateralised loan becomes fully collateralised or vice versa;
- the addition or removal of debt to capital or quasi capital conversion clauses;
- multiple facilities are consolidated into a single new facility;
- a change in the borrower;
- a change in the currency in which the principal or interest is denominated at rates different to the applicable market rates; or
- the contract is altered in any other manner so that the terms under the new or modified contract are substantially different from those under the original contract.

The following are examples of factors that HSBC consider may indicate that the revised loan is a substantially different financial instrument, but are unlikely to be conclusive in themselves:

- a substantial change in guarantees such a change in the principal source of repayments of the loan;
- changes in structure or reference interest rate applied to the loan facility;
- a modification in the liquidation preference or ranking in case of a liquidation.

Renegotiated loans and recognition of impairment allowances

For retail lending, renegotiated loans are segregated from other parts of the loan portfolio for collective impairment assessment to reflect the higher rates of losses often encountered in these segments. When empirical evidence indicates an increased propensity to default and higher losses on such accounts, the use of roll rate methodology ensures these factors are taken into account when calculating impairment allowances by applying roll rates specifically calculated on the pool of loans subject to forbearance. When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll-rate methodology, a basic formulaic approach based on historical loss rate experience is used. As a result of our roll-rate methodology, we recognise collective impairment allowances on homogeneous groups of loans, including renegotiated loans, where there is historical evidence that there is a likelihood that loans in these groups will progress through the various stages of delinquency, and ultimately prove irrecoverable as a result of events occurring before the balance sheet date.

This treatment applies irrespective of whether or not those loans are presented as impaired in accordance with our impaired loans disclosure convention. When we consider that there are additional risk factors inherent in the portfolios that may not be fully reflected in the statistical roll rates or historical experience, these risk factors are taken into account by adjusting the impairment allowances derived solely from statistical or historical experience.

In the corporate and commercial sectors, Renegotiated loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessment. A distressed restructuring is classified as an impaired loan. The individual impairment assessment takes into account the higher risk of the non-payment of future cash flows in-herent in renegotiated loans.

Risk management and control within the HSBC France group (continued)

Renegotiated loans and advances to customers

(in millions of euros)	A 31 December 2016 Not past due nor impaired	Past due but not impaired	Impaired	Total	A 31 December 2015 Not past due nor impaired	Past due but not impaired	Impaired	Total
Residential Mortgages	**1**	**–**	**1**	**2**	1	–	–	1
Crédit Logement	**–**	**–**	**4**	**4**	2	–	–	2
Other personal lending	**3**	**–**	**1**	**4**	2	–	1	3
Commercial real estate	**1**	**–**	**3**	**4**	2	–	4	6
Corporate and commercial	**6**	**2**	**135**	**143**	121	–	107	228
Financial	**–**	**–**	**5**	**5**	–	–	6	6
Total renegotiated loans and advances	**11**	**2**	**149**	**162**	128	–	118	246
Impairment allowance on renegotiated loans and advances as a % of total gross loans	**–**	**–**	**–**	0.39%	–	–	–	0.63%

Loan impairment charge to the income statement by client segment

(in millions of euros)	**31.12.2016**	31.12.2015
Personal	**15**	14
– residential mortgages	**4**	4
– *Crédit Logement*	**–**	–
– other personal	**11**	10
Corporate and commercial	**47**	106
– manufacturing and international trade and services	**38**	70
– commercial real estate and other property-related	**4**	11
– other commercial	**5**	25
Financial	**11**	1
Total loan impairment charge at 31 December	**73**	121
Individually assessed impairment allowances	**85**	118
– new allowances	**222**	200
– release of allowances no longer required	**(134)**	(80)
– recoveries of amounts previously written off	**(3)**	(2)
Collectively assessed impairment allowances	**(12)**	2
– new allowances net of allowance releases	**–**	8
– recoveries of amounts previously written off	**(12)**	(6)
Total charges for impairment losses	**73**	120
Other credit risk provisions	**–**	2
Impairment charges on debt security investments available-for-sale	**–**	(1)
Total loan impairment charge at 31 December	**73**	121

Loan impairment charge to the income statement by client segment

(in millions of euros)	**31.12.2016**	31.12.2015
Individually assessed impairment allowances		
New allowances and unprovided losses	**222**	200
Release of allowances no longer required	**(134)**	(80)
Recoveries of amounts previously written off	**(3)**	(2)
Amount written off	**–**	118
Utilisation of allowance	**–**	(118)
	85	118
Collectively assessed impairment allowances		
New allowances	**–**	8
Release of allowances no longer required	**(12)**	(6)
Recoveries of amounts previously written off	**–**	–
	(12)	2
Total charge for impairment losses	**73**	120
– banks	**–**	–
– customers	**73**	120
Other credit risk provisions	–	2
Impairment charges on debt security investments available-for-sale	–	(1)
Loan impairment charges and other credit risk provisionse	**73**	121
Customer charge for impairment losses as a percentage of closing gross loans and advances to customers	**0.18%**	0.30%
Balances outstanding		
Non-performing loans	**1,200**	1,343
Individual impairment allowances	**560**	609
Gross loans and advances	**45,330**	43,870
– banks	**3,379**	4,660
– customers	**41,951**	39,210
Total	**45,330**	43,870
Total allowances cover as a percentage of non-performing loans and advances	**47%**	45%

Risk management and control within the HSBC France group (continued)

Movement in impairment allowances on loans and advances to customers and banks

(in millions of euros)	Banks Individually assessed	Customers Individually assessed	Customers Collectively assessed	Total
Impairment allowance at 1 January 2016	**–**	**(609)**	**(77)**	**(686)**
Amounts written off	**–**	**131**	**–**	**131**
Recoveries of loans and advances previously written off	**–**	**(3)**	**–**	**(3)**
Loan impairment charge	**–**	**(85)**	**12**	**(73)**
Exchange and other movements	**–**	**6**	**1**	**7**
At 31 December 2016	**–**	**(560)**	**(64)**	**(624)**
Impairment allowance on loans and advances	**–**	**(560)**	**(64)**	**(624)**
– personal	**–**	**(78)**	**(7)**	**(85)**
– corporate and commercial	**–**	**(467)**	**(53)**	**(520)**
– financial	**–**	**(15)**	**(4)**	**(19)**
as a percentage of loans and advances	**–**	**1.33%**	**0.15%**	**1.38%**
Impairment allowance at 1 January 2015	–	(614)	(75)	(689)
Amounts written off	–	118	–	118
Recoveries of loans and advances previously written off	–	(2)	–	(2)
Loan impairment charge	–	(118)	(2)	(120)
Exchange and other movements	–	7	–	7
At 31 December 2015	–	(609)	(77)	(686)
Impairment allowance on loans and advances	–	(609)	(77)	(686)
– personal	–	(88)	(8)	(96)
– corporate and commercial	–	(511)	(66)	(577)
– financial	–	(10)	(3)	(13)
as a percentage of loans and advances	–	1.55%	0.20%	1.56%

Wholesale lending

(in millions of euros)	Gross loans	Impaired loans	Impaired loans %	Impairment allowance	Impairment allowance/ impaired loans	Loans impairment charge	Loan loss rate %
At 31 December 2016							
Corporate and commercial	**24,766**	**872**	**4%**	**473**	**54%**	**47**	**0.19%**
– Manufacturing	**2,266**	**201**	**9%**	**77**	**38%**	**6**	**0.27%**
– International trade and services	**11,067**	**499**	**5%**	**290**	**58%**	**20**	**0.18%**
– Commercial real estate	**4,384**	**79**	**2%**	**31**	**39%**	**4**	**0.09%**
– Other property-related	**570**	**33**	**6%**	**29**	**88%**	**4**	**0.66%**
– Government	**1,598**	**–**	**–**	**–**	**–**	**–**	**–**
– Other commercial	**4,881**	**60**	**1%**	**46**	**77%**	**13**	**0.27%**
Non-bank financial	**1,565**	**20**	**1%**	**19**	**96%**	**11**	**0.73%**
Asset-backed securities reclassified	**3,379**	**–**	**–**	**–**	**–**	**–**	**–**
Total wholesale lending	**29,709**	**891**	**3%**	**492**	**55%**	**58**	**0.20%**
At 31 December 2015							
Corporate and commercial	23,223	1,019	4%	517	51%	101	0.42%
– Manufacturing	2,274	141	6%	83	59%	18	0.79%
– International trade and services	10,127	629	6%	321	51%	52	0.52%
– Commercial real estate	5,332	176	3%	46	26%	8	0.16%
– Other property-related	245	33	13%	32	97%	4	1.49%
– Government	1,162	–	–	–	–	–	–
– Other commercial	4,083	40	1%	35	87%	19	0.47%
Non-bank financial	1,528	16	1%	13	80%	3	0.19%
Loans and advances to banks	4,660	–	–	–	–	–	–
Total wholesale lending	29,411	1,035	4%	530	51%	104	0.35%

Loans and advances to banks

(in millions of euros)	**31.12.2016**	31.12.2015
Not collateralised	**3,128**	4,612
Fully collateralised	**224**	19
Partially collateralised	**–**	–
– collateral value		–
At 31 December	**3,352**	4,631

Residential mortgage loans including loan commitments by level of collaterals

	31.12.2016	31.12.2015
Non-impaired loans and advances		
Fully collateralised	**2,310**	2,873
– Less than 50% loan to value ('LTV')	**812**	932
– 51% to 60% LTV	**413**	381
– 61% to 70% LTV	**411**	413
– 71% to 80% LTV	**356**	441
– 81% to 90% LTV	**188**	290
– 91% to 100% LTV	**130**	416
Partially collateralised		
Greater than 100% LTV (A)	**123**	196
– 101% to 110% LTV	**33**	78
– 111% to 120% LTV	**26**	44
– greater than 120% LTV	**64**	74
– collateral value	**122**	193
Not collateralised	**–**	4
Total non-impaired loans and advances	**2,433**	3,073
Impaired loans and advances		
Fully collateralised	**44**	123
– Less than 50% loan to value ('LTV')	**14**	31
– 51% to 60% LTV	**8**	12
– 61% to 70% LTV	**4**	31
– 71% to 80% LTV	**8**	18
– 81% to 90% LTV	**7**	18
– 91% to 100% LTV	**3**	13
Partially collateralised	**62**	117
– 101% to 110% LTV	**53**	105
– 111% to 120% LTV	**1**	5
– greater than 120% LTV	**8**	7
– collateral value	**12**	112
Not collateralised	**–**	–
At 31 December	**2,539**	3,313

Analysis of Asset-Backed Securities (ABS)

This section contains information about our exposure to asset-backed securities ('ABSs'), some of which are held through consolidated structured entities and summarised in the table below.

Overall exposure

(in millions of euros)	**2016**	2015
– Fair value through profit and loss	**–**	–
– Available for sale	**–**	1
– Held to maturity	**–**	–
– Loans and receivables	**–**	–
Total of Asset-Backed Securities	**–**	1

Risk management and control within the HSBC France group (continued)

The table below shows the group's market risk exposure to Asset-Backed Securities:

(in millions of euros)	31.12.2016 Gross principal [2]	CDS gross protection [3]	Net Principal exposure [4]	Carrying amount [5]
– High grade [1]	–	–	–	–
– Rated C to A	–	–	–	–
– Not publicly rated	–		–	–
Total Asset-Backed Securities	–	–	–	–
Of which:				
– loans and advances to customers	–	–	–	–
– available-for-sale portfolio	–	–	–	–

(in millions of euros)	31.12.2015 Gross principal [2]	CDS gross protection [3]	Net Principal exposure [4]	Carrying amount [5]
– High grade [1]	–	–	–	–
– Rated C to A	–	–	–	–
– Not publicly rated	9	–	9	1
Total Asset-Backed Securities	9	–	9	1
Of which:				
– loans and advances to customers	–	–	–	–
– available-for-sale portfolio	9	–	9	1

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*

	31.12.2016			31.12.2015		
(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]	–	–	–	–	–	–
– Rated C to A	–	–	–	–	–	–
– Not publicly rated	(9)	–	–	3	–	–
Total Asset Backed Securities	(9)	–	–	3	–	–

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 of available-for-sale assets.*

Carrying amount of HSBC France group's consolidated holdings of ABSs

(in millions of euros)	Trading	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Total
Mortgage-related assets	–	–	–	–	–	–
Leveraged finance-related assets	–	–	–	–	–	–
Student loan-related assets	–	–	–	–	–	–
Other assets	–	–	–	–	–	–
At 31 December 2016	–	–	–	–	–	–
Mortgage-related assets	–	–	–	–	–	–
Leveraged finance-related assets	–	1	–	–	–	1
Student loan-related assets	–	–	–	–	–	
Other assets	–	–	–	–	–	–
At 31 December 2015	–	1	–	–	–	1

Counterparty Credit Risk

Counterparty Credit Risk exposure

Counterparty credit risk ('CCR') arises for derivatives and securities financing transactions. It is calculated for both the trading and non-trading books and is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction.

The Calculation of CCR Exposure

HSBC France applies the mark-to-market method to determine the CCR exposures (EAD). The mark-to-market evaluation method consists of the aggregation of the positive market values of all the transactions, supplemented by an "add on".

This majoration factor (future potential risk) is established according to directive CRD IV, and corresponds to a fixed percentage applied to the nominal of the transaction (according to the residual period and the type of the transaction).

The impacts of the netting agreements are also taken into account by applying the netting rules as defined in the mark-to-market methodology and by removing the guarantees.

As regards the securities financing transactions and collaterals, the exposure values are determined under the Financial Collateral Comprehensive Method. This method provides in the regulation CRDIV the supervisory volatility adjustment to be applied. For the banking book, the eligible collateral has more restrictive criteria than the trading book portfolio.

These exposure values are used to determine the counterparty credit risk capital requirements and weighted depending on the IRB approaches or standard approach.

Framework / Limits and Monitoring

Counterparty Credit Risk (CCR) management in HSBC France is performed through different levels:

Credit authority is held by Wholesale Credit Risk (WCR) which is part of the Wholesale Credit and Market Risk (WMR) sub function, within the Risk function, either at local level or regional level or even Group level.

Credit exposure monitoring is performed by Traded Credit Risk (TCR), inside Traded Risk which is part of the WMR sub function. TCR is split into two teams: Traded Credit Risk Management (TCRM) and Traded Credit Risk - Run the Bank (TCR - RTB)

Credit authority for CCR

Corporate, Insurers and Asset Managers are under Wholesale Credit Risk's credit authority. Depending of the level of requested risk appetite, credit escalation is required to HSBC Bank plc WCR and Group WCR.

Risk management and control within the HSBC France group (continued)

Sovereigns and Banks are directly under HSBC Bank plc WCR's credit authority and Group WCR in case of escalation.

All credit lines are reviewed at least once in the year based on the following responsibilities:

- Traded risk portfolio and market environment analysis and recommendation performed by TCR.
- Credit outlook, risk appetite update and limit validation is performed by HSBC France WCR, HSBC Bank plc WCR and Group WCR

HSBC France TCRM, within HSBC France Traded Risk, has no credit authorities. Credit limits requests are decided and approved by the relevant credit authority as seen above. HSBC France TCRM only recommends credit limit application to the relevant credit authority, in the context of Global Annual Review and for specific limit requests. TCRM's recommendation highlights the main risk drivers and is based on the existing portfolio deep analysis, including a contingent market risk view, stress exposure and eventually mitigant improvements.

Credit limit set up for CCR management

Credit limits are granted at counterparty level and divided into four categories: Category A (Money Market and Issuer Risk), Category B (derivative fluctuation risk), Category S (settlement risk) and Loan Look Alike (LLA such as repo / reverse repo):

Category A: Split into two sub categories MM limit for money market lending and BON for debt capital activity. MM is quantified in term of money amount lent/borrowed and BON in term of exposure at default (EAD) e.g. notional multiplied by price of the bond.

Category B: Aims to quantify derivative price positive drift risk, and is calculated by aggregating current exposure (e.g. MtM – collateral if there is a CSA) and Future Fluctuation of Risk (FFR). FFR is quantified through either an advanced method based on a 95% Monte Carlo VaR at portfolio level or a default method at trade level (add on basis). Both of these methods takes into account risk mitigants such as a master agreement and CSA's.

Settlement risk (Treasury Settlement Limit): Settlement exposure is equal to notional exchanged on FX trades where there is no contractual netting nor use of clearing house.

Loan Look alike: Aims to cap amount of collateral cash exchanged through repo/reverse repo and funding amount through bond forward. Exposure is followed up in term of cash out and notional for bond forwards

Mitigating actions for counterparty credit risk

The master agreement provides the contractual framework within which dealing activity across a full range of OTC products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur.

It is common and preferred practice, for the parties to execute a Credit Support Annex ('CSA') in conjunction with a master agreement. Under a CSA, collateral is passed between the parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions.

TRCM manage the counterparty exposure arising from market risk on the OTC derivative contracts by using collateral agreements with counterparties and netting agreements.

HSBC France has placed restrictions on collateral types and as a consequence the types of collateral received and pledged are, by value, highly liquid and of a strong quality, being predominantly cash.

The majority of the counterparties with whom we have a collateral agreement are European. The majority of the group's CSAs are with financial institutional clients.

Credit Valuation Adjustment

In addition, CRD IV introduced a regulatory capital charge to cover the credit valuation adjustment (CVA) risk, the risk of adverse movements in the credit valuation adjustments taken for expected credit losses on derivative transactions. Some counterparty exposures are exempt from CVA, such as non-financial counterparties and sovereigns.

Institutions that hold internal model method approvals both for the specific risk and the counterparty credit risk can calculate the CVA capital charge under the advanced approach otherwise a standard approach have to be used.

HSBC France applies the Standard approach to determine the CVA capital charge; this approach relies on the counterparty credit risk exposures and is based on the effective maturity of the transactions. CVA weightings are provided in the CRDIV regulation based on counterparty external ratings.

Wrong Way Risk

On top of those limits recorded at counterparty level, there are additional concentration limits such as Wrong Way Risk.

Indeed, the standard methodology of measuring risk exposure assumes there is no correlation between a counterparty's creditworthiness and the replacement cost of transactions undertaken with that counterparty. Under certain transactions however, a correlation would exist and depending on the underlying structure of the transaction, these could be considered as either "Wrong-Way Risk" or "Right-Way Risk" transactions. Of these risks only "Wrong-Way Risk", of which there are two specific types "General" and "Specific", are monitored and controlled on a daily basis:

General wrong way risk: is referred to a trade where there is strong correlation between counterparty default and market risk factor. For HSBC France, general wrong way risk covers reverse repo where counterparty country registration is the same as bond issuer country, as default could potentially mean a drop in bond price exchanged against cash. This is monitored in term of cash out on sole reverse repo trade and aggregated at country level.

Specific wrong way risk: is referred to a trade where there is a 100% correlation between counterparty default and market risk factor (reverse repo where the bank receives a debt instrument of the counterparty against the cash posted). There is a very limited appetite for this risk.

As the legal documentations (margin calls) available to secure the bank's derivative and repo businesses with its clients leads to receive or post bonds, some WWR can be created and hence the collateral is monitored to control these potential exposures.

CCR limits monitoring

Counterparty Credit Risk exposures are monitored intraday and at close of business by the TCRM team which uses Groups systems. Any breach to the credit authority decision is escalated by TCRM as per the Functional Instruction Manual (FIM) escalation process. Main CCR limits/exposure movements are reported monthly in the GBM Risk Management Meeting.

Countrepart risk[1] - by type of exposure and by product

(in millions of euros)	**31.12.2016 Risk Weighted Assets**	31.12.2015 Risk Weighted Assets
By exposure class		
IRB advanced approach		
Central governments and central banks Institutions	**–**	1
Institutions	**866**	916
IRB foundation approach		
Corporates	**1,068**	979
Standardised approach		
Central governments and central banks Institutions	**–**	–
Institutions	**449**	427
Corporates	**1**	1
CVA Standardised approach	**1,191**	1,275
CCP default fund contribution	**131**	210
Total	**3,707**	3,809
By product		
Derivatives	**2,285**	2,247
Securities financing transactions	**100**	77
CVA Standardised approach	**1,191**	1,275
CCP default fund contribution	**131**	210
Total	**3,707**	3,809

1 *Includes* settlement risk.

Risk management and control within the HSBC France group (continued)

Liquidity and funding risk management

Liquidity and funding risk management framework

Liquidity risk is the risk that HSBC France does not have sufficient financial resources to meet its obligations as they fall due, or will have to access such resources at excessive cost. The risk arises from mismatches in the timing of cash flows or when the funding needed for illiquid asset positions cannot be obtained at the expected terms as and when required.

The objective of the group's internal liquidity and funding risk management framework ('LFRF') is to allow it to withstand very severe liquidity stresses and be adaptable to changing business models, markets and regulations.

The group does not manage liquidity risk and funding risk centrally on a group consolidated basis. It is managed by each operating entity on a standalone basis with no implicit reliance assumed on any other Group entity unless pre-committed. HSBC general policy is that each defined operating entity should be self-sufficient in funding its own activities.

All operating entities are required to manage liquidity risk and funding risks in accordance with the LFRF which includes having established Asset and Liability Committees ('ALCO') who are responsible for monitoring and controlling liquidity and funding.

HSBC France (HSBC France and its consolidated subsidiaries) manages its liquidity and funding risks in line with the HSBC Group framework.

Developments in 2016

On 1 January 2016, the Group implemented a new LFRF. It uses the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') regulatory framework as a foundation, but adds extra metrics, limits and overlays to address the risks that are considered to not be adequately reflected by the regulatory framework.

The LFRF is delivered using the following key aspects:

– stand-alone management of liquidity and funding by operating entity;

– operating entity classification by inherent liquidity risk ('ILR') categorisation;

– minimum LCR requirement depending on ILR categorisation;

– minimum NSFR requirement depending on ILR categorisation;

– legal entity depositor concentration limit;

– three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financial institutions and securities issued;

– annual individual liquidity adequacy assessment ('ILAA') by principal operating entity;

– minimum LCR requirement by currency;

– intra-day liquidity; and

– forward-looking funding assessments.

The new internal LFRF and the risk tolerance limits were approved by the Group Board on the basis of recommendations made by the Group Risk Committee.

Our ILAA process aims to:

– identify risks that are not reflected in the LFRF, and, where required, to assess additional limits required locally; and

– validate the risk tolerance at the operating entity level by demonstrating that reverse stress testing scenarios are acceptably remote and ensuring vulnerabilities have been assessed through the use of severe stress scenarios.

Management of liquidity and funding risk

Liquidity Coverage Ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission ('EC') Delegated Regulation 2015/61.

It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consists of cash or assets that can be converted into cash very quickly with little or no loss of value in markets.

The calculation of the LCR metric, amongst other things, involves an assumption on operational deposits. Operational deposits are principally defined as transactional (current) accounts arising from the provision of the Global Liquidity and Cash Management business. To make an assessment of operational deposits both the balance history as well as the values of debits and credits over an account over a period time are referenced.

Net Stable Funding Ratio
The NSFR is designed to promote the long term stability of a bank by requiring it to fund its long term illiquid assets with commensurately stable funding; this reflects the bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The European calibration of NSFR is pending following the Basel Committee's final recommendation in October 2014. HSBC France, like the HSBC Group, calculates NSFR in line with Basel Committee on Banking Supervision's publication number 295 ('BCBS295'), pending its implementation in Europe. This calculation requires various interpretations of the text, and therefore HSBC France's NSFR may not be directly comparable with the ratios of other institutions.

Liquid assets
Liquid assets are held and managed directly by HSBC France's Balance Sheet Management ('BSM') department, primarily for the purpose of managing liquidity risk in line with the LFRF.

Liquid assets also include any unencumbered liquid assets held outside BSM departments for any other purpose. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to BSM.

Inherent liquidity risk categorisation
Each operating entity within the HSBC Group internally is assigned an inherent liquidity risk (ILR) categorisation, amongst the two existing categories, that is subjectively applied considering political, economic and regulatory factors within the host country and factors specific to the operating entities themselves, such as their local market, market share and balance sheet strength. The ILR is used to determine in part the entities risk appetite and the prescribed stress scenarios that each operating entity has to be able to withstand and manage to, including HSBC France.

Sources of funding
Customer deposits in the form of current and savings accounts payable on demand or at short notice form a significant part of our stable funding. Therefore HSBC places considerable importance on maintaining their stability. For deposits, stability depends upon numerous factors including maintaining depositor confidence in the capital and liquidity strength of the bank.

HSBC France also issues debt securities (secured or unsecured) either directly on wholesale markets or via private placements and borrows from secured repo markets against high-quality collateral, to complement deposits and diversify currency, maturity and investor base.

Additional source of funding includes ordinary share capital, non-core capital instruments and total loss absorbing capacity ('TLAC') eligible debt securities.

Liquidity behaviouralisation
All stable deposits are assumed under the Group's frameworks to have a liquidity behaviouralised life beyond one year and to represent a homogeneous source of stable funding. The behaviouralisation of assets is far more granular and seeks to define the period for which it is assumed stable funding will be required for that asset.

Funds transfer pricing
HSBC separately manages interest rate risk and liquidity and funding risk under different assumptions. They have been developed to be consistent with HSBC's risk management framework. HSBC France is required to apply the Group's transfer pricing policy framework to determine for each material currency the most appropriate interest rate risk transfer pricing curve and a liquidity premium curve. The liquidity premium curve reflects the assessed cost of paying for term debt and stable funding more broadly. This cost is charged to the assets that require stable funding and then credited to the deposits that provide stable funding after external debt costs are paid for. The liquidity premium process supports the creation of assets and liabilities that meet the requirements of the NSFR regulation. In addition to this, where an asset or liability generates an outflow that requires HQLA to be held, it is charged the cost of holding the HQLA which is the difference between the assumed yield of the HQLA and the interest rate transfer pricing curve.

Liquidity stress testing
The group undertakes liquidity stress testing to confirm that its risk appetite is correct, to validate that it can continue to operate under various stress scenarios and to confirm that the stress assumptions within the LCR scenario are appropriate and conservative enough for the group's business. The group also conducts reverse

stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead the group to exhaust its liquidity resources. If the scenarios are not deemed remote enough then corrective action is taken.

Several different stress testing scenarios are run that test the quality of liquidity resources under stresses of varying durations and nature. The ALCO approves the underlying assumptions and reviews results. These results are also presented through the ILAAP to the Board.

Liquidity and funding risk profile

Management of liquidity and funding risk in 2016

Liquidity coverage ratio

At 31 December 2016, HSBC France within the LCR risk tolerance level established by the Board and applicable under the Group's LFRF.

HSBC France reported European Commission ('EC') LCR at 31 December 2016 of 122% (31 December 2015: 127%) to the French Autorité de Contrôle Prudentiel et de Régulation (ACPR).

The following table displays the LCR levels for HSBC France consolidated on an EC LCR Delegated Regulation basis.

Liquidity Coverage Ratio

(in %)	**31.12.2016**	31.12.2015
HSBC France	**122**	127

Net stable funding ratio

At 31 December 2016, HSBC France was within the NSFR risk tolerance level established by the Board and applicable under the LFRF.

The table below displays the NSFR levels for HSBC France consolidated on a BCBS295 basis.

Net Stable Funding Ratio

(in %)	**31.12.2016**
HSBC France	**120**

Depositor concentration and term funding maturity concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is undermined if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists.

In addition to this, HSBC France is exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

At 31 December 2016, HSBC France was within the risk tolerance levels set for depositor concentration and term funding maturity concentration which were established by the Board and are applicable under the LFRF.

Liquid assets

The table below shows the unweighted liquidity value of assets categorised as liquid, which is used for the purposes of calculating the LCR metric.

This reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets.

Liquid assets

	Estimated liquidity value	
(in millions of euros)	**31.12.2016**	31.12.2015
Level 1	**19,686**	17,778
Level 2a	**760**	2,485
Level 2b	**14**	–

Level 1 liquid assets include HSBC France balances with its central bank (excluding non-withdrawable reserves) and notes and coins.

Funding sources and uses

The following 'Funding sources and uses' table provide a consolidated view of how our balance sheet is funded, and should be read in light of the LFRF, which requires operating entities to manage liquidity and funding risk on a stand-alone basis.

The table analyses our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds.

In 2016, the level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets – cash and balances with central banks and financial investments – as required by the LFRF.

Funding sources and uses

(in millions of euros)	**2016**	2015
Sources		
Customer accounts	**34,220**	32,811
Deposits by banks	**12,061**	7,086
Repurchase agreements – non-trading	**7,592**	10,283
Debt securities issued	**6,616**	10,501
Subordinated liabilities	**276**	276
Financial liabilities designated at fair value	**8,464**	8,476
Liabilities under insurance contracts	**21,302**	20,943
Trading liabilities	**26,468**	22,647
Total equity	**5,873**	5,938
At 31 December	**122,872**	118,961

	2016	2015
Uses		
Loans and advances to customers	**41,327**	38,524
Loans and advances to banks	**3,379**	4,660
Repurchase agreements – non-trading	**11,862**	10,163
Trading assets	**23,589**	27,161
Financial investments	**26,504**	27,677
Cash and balances with central banks	**4,714**	395
Net deployment in other balance sheet assets and liabilities	**11,497**	10,381
At 31 December	**122,872**	118,961

Contingent liquidity risk arising from committed lending facilities

HSBC France provides customers with committed facilities such as standby facilities to corporate customers and committed backstop lines to conduit vehicles sponsored by the group. All of the undrawn commitments provided to conduits or external customers are accounted for in the LCR and NSFR in line with the applicable regulations. This ensures that under a stress scenario any additional outflow generated by increased utilisation of these committed facilities will not give rise to liquidity risk for HSBC France.

HSBC France has set limits for non-cancellable contingent funding commitments after due consideration of its ability to fund them. The limits are split according to the borrower, the liquidity of the underlying assets and the size of the committed line. In relation to commitments to customers, the table below shows the level of undrawn commitments outstanding in terms of the five largest single facilities and the largest market sector.

HSBC France's contractual exposures as at 31 December monitored under the contingent liquidity risk limit structure

(in billions of euros)	**2016**	2015
Commitments to conduits [1]		
- Total lines	**0.1**	2.4
- Largest individual lines	**0.0**	0.6
Commitments to customers		
- Five largest [2]	**2.9**	2.9
- Largest market sector [3]	**1.3**	2.2

1 *These exposures relate to the Regency conduit. In 2016, HSBC France replaced these off-balance sheet facilities by on-balance sheet funding.*
2 *Sum of the undrawn balance of the 5 largest facilities excluding conduits*
3 *Sum of the undrawn balance of facilities granted to customers of the largest market sector, excluding conduits*

Risk management and control within the HSBC France group (continued)

Asset encumbrance and collateral management

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. Collateral is managed on an HSBC France basis consistent with the approach to managing liquidity and funding. Available collateral held in an operating entity is managed as a single consistent collateral pool from which HSBC France will seek to optimise the use of the available collateral.

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Summary of assets available to support potential future funding and collateral needs (on- and off-balance sheet)

(in millions of euros)	**2016**	2015
Total on-balance sheet assets at 31 Dec.	**169 423**	168 458
Less:		
– reverse repo/ stock borrowing receivables and derivative assets	**(59 330)**	(59 750)
– other assets that cannot be pledged as collateral	**(25 500)**	(32 560)
Total on-balance sheet assets that can support funding and collateral needs at 31 Dec	**84 593**	76 148
Add: off-balance sheet assets		
– fair value of collateral received in relation to reverse repo/ stock borrowing / derivatives that is avail-able to sell or repledge	**34 408**	36 071
Total assets that can support future funding and collateral needs	**119 001**	112 219
Less:		
– on-balance sheet assets pledged	**(24 225)**	(25 389)
– re-pledging of off-balance sheet collateral received in relation to reverse repo/ stock borrowing/ derivatives	**(29 036)**	(27 293)
Assets available to support funding and collateral needs at 31 Dec	**65 740**	59 537

Market risk

Market risk is the risk that the market rates and prices on which the Group has taken views – interest rates, exchange rates, equity prices etc – will move adversely relative to positions taken causing losses to the Group.

All open market risk must be subject to limits.

A governance process ensures that this rule is respected in all the HSBC Group entities.

These limits are defined in terms of lists of authorised instruments, underlying assets, markets and maturities, Value at Risk (VaR) limits, sensitivity levels, maximum losses and stress tests. They are revised at least once a year in the annual limit review process and are presented in the Market Risk Forum.

The process for allocating market risk 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 specific committees, the roles of which are set out below.

Market Risk governance

Market risk is managed and controlled through limits approved by the Risk Management Meeting for HSBC Holdings plc. These limits are allocated across business lines and to the Group's legal entities. Each major operating entity, such as HSBC France, has an independent market risk management and control sub function which is responsible for measuring market risk exposures, monitoring and reporting these exposures against the prescribed limits on a daily basis.

Group Wholesale credit and Market Risk (Group WMR)
In the HSBC Group, market risk supervision is carried out within the Wholesale credit and Market Risk

department which is a sub function of the Group Risk function. The Head of Group WMR reports to the HSBC Group Chief Risk Officer. This department is in charge, via its Traded Risk entity, of subsequently allocating risk limits to the various HSBC Group entities and business lines, via the Site Entity Room Mandates, once these have been validated by the appropriate HSBC Group governance body. Similarly, this department is in charge of monitoring exposure at the HSBC Group level and of granting temporary limits. The Wholesale and Market Risk has a European dimension and a local dimension in certain countries such as France.

Europe Traded Risk
The Head of Traded Risk Europe, who reports directly to the Global Head of Traded Risk and to the Head WMR Europe, supervises the mandates review process within his geographic zone of responsibility. He submits them for review to Group WMR. He is also functional head of the Head of Traded Risk France.

HSBC France market risk governance
Locally, the Chief Risk Officer confers to WMR France the management of the market risks limits for HSBC France and the business lines it operates. On top of their submission to Group WMR through Traded Risk Europe, the risks mandates are also approved by the Head of WMR France within the risk appetite limits approved by the HSBC France Board. These are subject to an annual review by the HSBC France Market Risk Forum.

The HSBC France Market Risk Forum (MRF)
Its role is to oversee all market risks aspects, to ensure that appropriate controls are in place and to approve the main rules included in the supervision system.

The MRF is chaired by the Head of WMR France and is held on a monthly basis. It includes the heads of the businesses concerned by these risks and the main heads of the associated control functions: the Head of WMR France, the Head of Traded Risk France, the Head of Independent Model Review (IMR) and the Head of Product Control. Traded Risk France acts as secretary of the committee.

The HSBC France Market Risk Forum reviews risks and results indicators, analyses any significant events observed during the previous month, including any breaches of significant limits, any requests for permanent or temporary limits.

The Risk Management Meeting (RMM)
The Head of Traded Risk presents on a monthly basis the main points of the Market Risk Forum to be raised at HSBC France RMM in terms of market risk.

Wholesale Credit and Market Risk (WMR) France
WMR France is responsible for the wholesale credit risk and the market risk of the French balance sheet.

The Head of Wholesale credit and Market Risk France chairs the HSBC France Market Risk Forum. He is also a member of the HSBC France Balance Sheet ALCO.

Traded Risk France
Within WMR Risk, Traded Risk designs, develops and implements the market risk management policy. This in particular covers:

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

The Head of Traded Risk France reports hierarchically to the Head of Wholesale and Market Risk France.

The Head of Traded Risk France is responsible for both MRMaC (Market Risk Management and Control) France and Traded Credit France. He is responsible for ensuring the consistency and effectiveness of the market risk control framework. In general, it is the responsibility of the Head of Traded Risk France to provide Senior Management and HSBC France's Market Risk Forum with comments and explanations concerning any significant breaches of max-loss and limits, or any positions he deems useful for Senior Management to know about.

MRMaC is made up of two teams: the Market Risk Management (MRM) and the Market Risk Control (MRC).

Market Risk Management (MRM)
Market Risk Management (MRM) defines market risk mandate limits, deals with breaches of limits and exceptional situations, monitor and analyses positions, depending on market movements, analyses the appropriateness of risk metrics (sensitivity, VaR, stress scenarios), defines and prepares a summary analysis

Risk management and control within the HSBC France group (continued)

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 limit review jointly with the business heads and submit it for approval to the Head of WMR France and to Group WMR via the Head of Traded Risk Europe.

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 weekly the stress tests. They also carry out the back-testing of the VaR.

They also produce and distribute HSBC France's consolidated market risk reports for Senior Management and for the HSBC Group Consolidation. The team is also responsible for producing the various periodical summary state-ments required for both internal needs (packs for the RMM, Risk Committee, the board, annual reports, etc.) and external needs, such as supervisory authorities.

Market Risk Control reports hierarchically to the Head of Traded Risk France.

Traded Credit Risk
Two teams are responsible for the daily monitoring of the counterparty risk exposures of HSBC France.

A first one is focusing on the reporting of counterparty risk. It ensures completion of the scope, performs daily con-trols and produces daily risk report to the second one, the risk managers.

On top of controlling adherence to the dedicated limits, the Traded Credit Risk Managers provide detailed and ad hoc analysis to senior management, ensure that risk measures are fit-for-purpose and runs regular stress tests on the portfolio.

Both teams locally report into the Head of Traded Risk France.

Independent Model Review (IMR)
Models developed by the front office research team are used for managing, valuing and assessing the risks of some derivative products. These models as well as VaR models are reviewed by an independent unit of experts, the Independent Model Review (IMR) previously called Quantitative Risk and Valuation Group (QRVG). Its manager reports at a local level to the Chief Risk Officer in charge of risks and functionally to the Head of IMR EMEA (Europe Middle East & Africa).

Product Control
Product Control is responsible for daily independent controls over the valuation of the positions. It produces daily and detailed explanations of the economical PL, and reconciles it at month-end with the accounting PL. It performs controls over off-market and off-margin transactions and is occasionally involved in the resolution of collateral disputes.

Definition, implementation and monitoring of Fair Value Adjustments are part of its remit, and it is also involved in the monitoring of the different recommendations issued by IMR in terms of model limitation.

Head of Product Control locally reports to HSBC France Chief Finance Officer, and functionally to the regional Head of Product Control.

The HSBC France Valuation Committee
The Valuation Committees meets on a monthly basis and features representation from Front Office, Product Control, Market Risk Management and IMR

It notably reviews and approves of the results of the month-end IPV and FVA calculation process as well as the prudent valuation calculations on a quarterly basis. Approximate bookings where systems do not adequately reflect the economics of a transaction are also considered during this meeting. All fair value adjustment methodologies are reviewed and approved by this forum at least annually.

Market risk in 2016

The 2016 HSBC France market risk limits were broadly in line with those in 2015 without any substantial changes on the main risk limits. As a reminder, market risk limits have been progressively reduced in the aftermath of the 2008 financial crisis for the Structured Rates desk and following the 2011 European sovereign debt crisis for the Flow Rates desk.

The Quantitative Easing program launched by the European Central Bank (ECB) in January 2015 continues to have a strong effect on European interest rates by bringing them at very low levels, even in negative territory. That effects even spreads to very high quality sovereign issuers as Germany for instance. The result of the British referendum in favour of an exit of the European Union (Brexit) has nevertheless brought more volatility to the financial markets at the beginning of the summer and triggered an increase of the rates curves. This reversion was fuelled by the US election which pushed rates further higher and close to their levels of the start of the year. The Italian referendum and the resignation of Matteo Renzi made the Italian treasury curve diverge from the other peripheral countries.

HSBC France participated in 2016 to the PRA (Prudential Regulation Authority) Stress Test exercises as part of HSBC Group in continuation to 2014 and 2015.

During 2016 year, HSBC France continued to play a major role as a platform for HSBC Group in Eurozone sover-eign debt and Rate Derivatives in Euro and US Dollar.

Eurozone Sovereign exposures, in particular peripherals remained throughout 2016 within the allocated risk appe-tite limits.

Regarding capital requirement (RWA Market) computation, HSBC France operated with the minimal coefficient in 2016.

Market risk measures

Market Risk monitoring system

The objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite. HSBC uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, Value at Risk and stress testing.

The maximum exposure and risk that HSBC France intends to bear are defined by a set of mandates which cover 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) per bond issuers;
- maximum daily and monthly losses, referred to as “max loss”;
- authorised instruments.

Each business mandates encompasses several business units called Volcker and FBL (which stands for French Banking Law) desks which in turn receive a set of limits from MRM after submission by the desk head of a Trading Desk Profile. This document summarises the desk’s strategy, the required risk limits as well as any other relevant information for the desk’s operations.

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices, such as the effect of a one basis point change in yield. HSBC uses sensitivity measures to monitor the market risk positions within each risk type. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

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 (99 per cent for HSBC). 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. 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;

Risk management and control within the HSBC France group (continued)

– the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur be-yond 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 has been working with Group HSBC to improve the VaR current model and submitted to the ECB a new VaR model at the beginning of 2016 in order to better encompass very low or negatives rates environment. This new submitted model is currently being reviewed by ECB.

The back-testing process compares the ex-ante calculated VaR figures with ex post daily P&L (Profit and 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.

The "back-testing violation" exceptions are reported and analysed.

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

Risk not in VAR framework

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, mean reversion parameters, etc. Therefore, since 31 December 2007, HSBC France also calculates an additional VaR measure called 'Add-On VaR' or Risk not in VaR in respect of these exotic risk factors.

Stressed VaR

The 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, mean reversion parameters, etc. Therefore, since 31 December 2007, HSBC France also calculates an additional VaR measure called 'Add-On VaR' or Risk not in VaR in respect of these exotic risk factors.

Stressed VaR can be rescaled to a one-day equivalent holding period by dividing it by the square root of 10.

Stress Testing

Stress testing is an important tool that is integrated into the groups market risk management tool to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by VaR modelling.

Stress testing is implemented at the legal entity, regional and the Group levels. A standard set of scenarios is used consistently across all regions within the Group. Scenarios are tailored in order to capture the relevant events or market movements at each level. The process is governed by the Stress Testing Review Group forum which, in conjunction with Group risk management, determines the scenarios to be applied at portfolio and consolidated level, as follows:

– single risk factor stress scenarios that are unlikely to be captured within the VaR models, such as the break of a currency peg;

– technical scenarios consider the largest move in each risk factor without consideration of any underlying market correlation;

– hypothetical stress scenarios consider potential macroeconomic events, for example, the slowdown in mainland China and the potential effects of a sovereign debt default, including its wider contagion effects; and

– historical stress scenarios incorporate historical observations of market movements during previous periods of stress which would not be captured within VaR.

Others scenarios are designed locally to take into account HSBC France specific activities and are presented to the MRF on top of selected Group stress tests. Indeed, the whole set of scenarios with a significant impact on portfolio valuations is discussed and reviewed during the monthly Market Risk Forum. Local stress test scenarios defined in HSBC France contemplates different scenarios on Eurozone (mixing different deformations of the yield curves of the sovereign issuers, including serious tensions on these spreads) and are regularly recalibrated to adjust to market conditions. Dedicated scenarios involving deformation of the swap curve and the volatility surface are also applied to more exotic books in order to capture the convexity and the deformation of risks of these books. These results are presented on a monthly basis to the MRF.

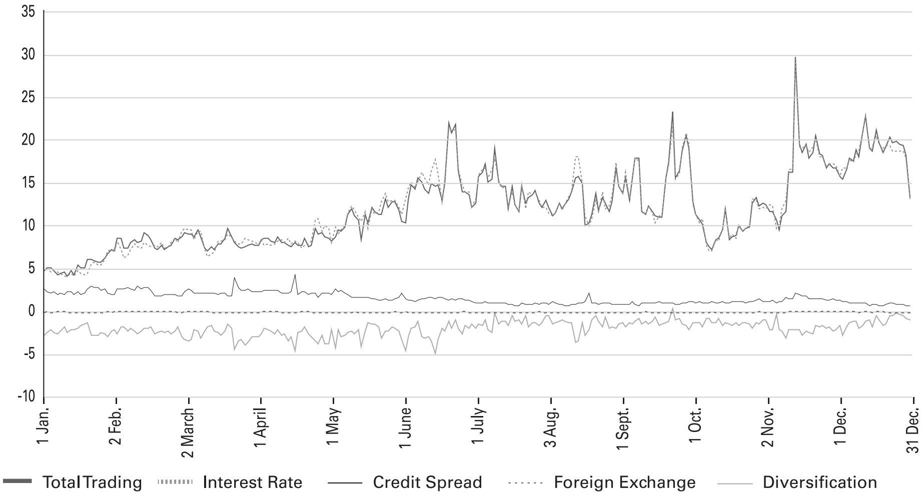
Trading portfolios

Value at Risk of the trading portfolios

Given the very low rates environment and the identified model deficiencies, the Value at Risk and Stressed Value at Risk levels increased in 2016 compared to 2015, with a particular increase during the last quarter of 2016. However, the daily analysis of the market risks shows that this increase is caused by the model and does not reflect a substantial increase of the open market risks in HSBC France's books. Moreover, the level of VaR and Stressed VaR in the model currently being validated are significantly lower.

Total trading VaR by risk type

(in millions of euros)	Foreign Exchange	Interest Rate	Equity	Credit Spread	Portfolio divers-ification	Total
Year 2016	**0.02**	**13.28**	–	**0.77**	**(0.81)**	**14.22**
Average	**0.02**	**12.15**	–	**1.66**	**(1.88)**	**13.97**
Maximum	**0.14**	**29.23**	–	**4.32**	**(4.85)**	**31.75**
Year 2015	0.02	6.66	–	2.26	(0.60)	8.40
Average	0.02	6.36	–	2.35	(2.01)	6.79
Maximum	0.26	16.71	–	6.22	(4.41)	20.21

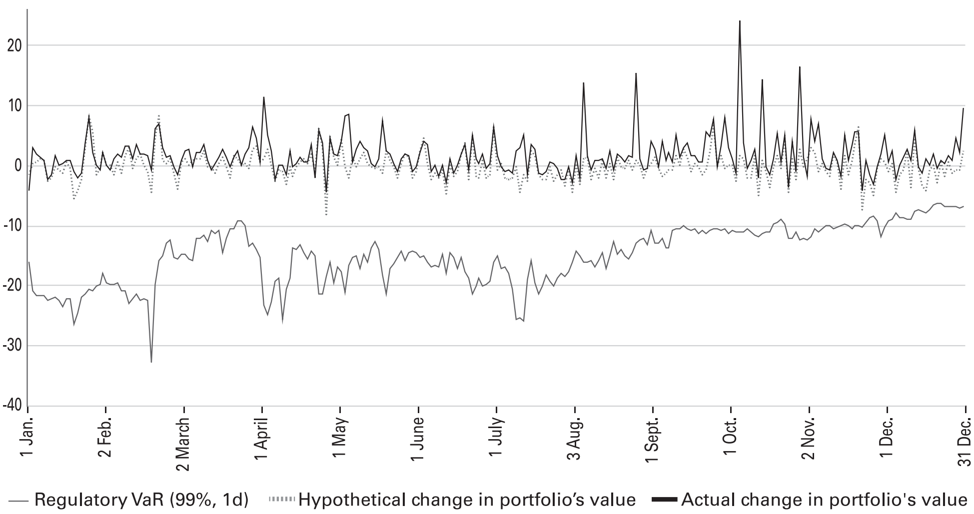


10D SVaR of the Trading portfolio

(in millions of euros)	
Average	50.34
Max	145.24
Min	15.00
At 30 december 2016	44.21

The period used for the Stressed VaR is calibrated regularly during the year and is extracted for the period starting in 2007.

As at 31 December 2016, the worst period used includes the second semester 2007 and the first semester 2008.



No exception has been recorded in 2016 for HSBC France.

Risk management and control within the HSBC France group (continued)

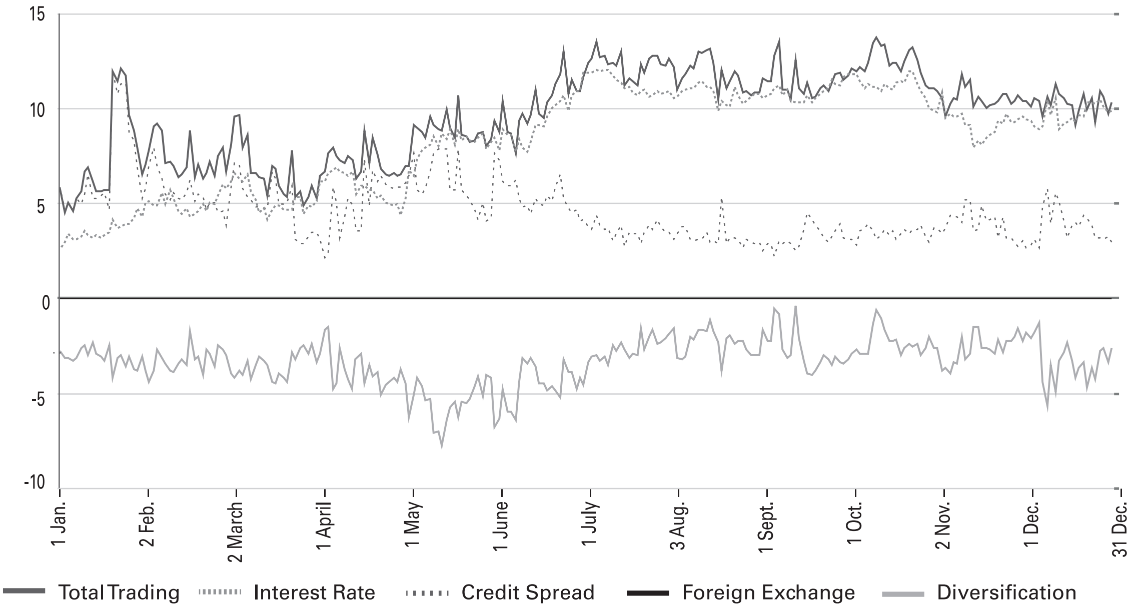
Non-trading portfolios

Value at Risk of the non-trading portfolio

The VaR of the non-trading portfolio is higher at the end of 2016 than at the end of 2015. This is explained by the same reasons as for the trading portfolio.

Total accrual VaR by risk type

(in millions of euros)	Foreign Exchange	Interest Rate	Equity	Credit Spread	Portfolio divers-ification	Total
Year 2016	–	**9.93**	–	**2.99**	**(2.61)**	**12.99**
Average	–	**8.36**	–	**4.57**	**(3.32)**	**13.01**
Maximum	–	**12.05**	–	**12.01**	**(7.79)**	**17.07**
Year 2015	–	2.77	–	5.36	(2.53)	5.63
Average	–	3.67	–	5.10	(2.67)	6.12
Maximum	–	8.41	–	10.81	(6.28)	12.81



Risk Weighted Assets (RWAs)

(in millions of euros)	31.12.2016	31.12.2015
Internal model VaR:	**2,358**	1,148
Foreign exchange risk	**4**	3
General interest rate risk	**2,359**	1,147
General equities risk	**–**	–
Netting effect	**(5)**	(3)
Internal Model Stress VaR:	**5,245**	1,004
Foreign exchange risk	**34**	15
General interest rate risk	**5,255**	1,004
General equities risk	**–**	–
Netting effect	**(44)**	(15)
Standard method:	**304**	442
Foreign exchange risk	**–**	–
General interest rate risk	**177**	231
Specific interest rate risk	**127**	211
General equities risk	**–**	–
Specific equities risk	**–**	–
Total	**7,907**	2,594

Interest-rate risk of the banking book

Interest-rate risk of the banking book (IRRBB) is managed in accordance with HSBC Group standards and centrally by the Asset, Liability and Capital Management (ALCM) which is part of the Finance department.

Structural interest rate risk arises mainly from the changes in the spread between future returns on assets and future costs of liabilities due to variations in interest rates. Analysis of this risk relies on methodology assumptions and modelling. The main assumptions are on the options available to customers on some products, for instance early repayment of home loans, and on the behaviour of depositors sight deposits. When necessary, behavioural features will be different from contractual elements but assess in a better way the actual underlying interest rate risk.

This structural interest rate risk stems from banking operations and structural components of the balance sheet and does not include market operations. The main objective of HSBC France Interest Rate Risk of the Banking Book (IRRBB) management is to reduce the sensitivity of net income to interest rates changes by managing the fixed interest rate (gap resulting from imbalance between expected fixed interest inflows and outflows by maturity buckets).

Global interest rate risk hedging strategies set up by the bank are based on internal modelling of this risk. Behavioural features used are subject to be impacted by changes in the macro-economic or interest rate environment, which does not remove risk of impact on profitability. Moreover, the way profit or loss on hedging operations are accounted for may increase volatility in reported results. Residual sensitivity of result subject to monitoring within the framework of governance of asset and liability risks management.

Governance

The body responsible for monitoring structural interest rates, liquidity and forex risks is the Balance Sheet ALCO which is headed up by the ALCM, and which reports to the Risk Management Committee. The Balance Sheet ALCO, which meets every month, brings together the CEO, the Deputy CEO, the Chief Risk Officer, the Chief Financial Officer and the main heads of businesses and support functions concerned by ALCM. It examines risk indicators prepared by the Finance Department and analyses all significant changes in the financial and regulatory environment relating to these risks.

Balance sheet ALCO's duty is to supervise as well balance sheet risks in a systematic way, to ensure that appropriate controls exist. In respect of structural interest rate risk management, the Committee reviews and approves at least annually the main behaviouralisation rules and risk appetite part of the supervision framework

Any incidents observed during structural interest rate process and the mitigating actions are presented to the Balance Sheet ALCO on a quarterly basis.

Risk management and control within the HSBC France group (continued)

HSBC France analyses a number of indicators each month on a consolidated basis, allowing for effective monitoring of interest rate risk (including static gaps, calculating the sensitivity of results, stress scenarios, etc.). The ALCM coordinates the work of the TALCO IRRBB, a sub-committee of the Balance Sheet ALCO, which meets monthly to supervise structural interest-rate risk management in the Commercial and Retail businesses. The minutes of the TALCO IRRBB and all the above mentioned interest-rate risk indicators are reported monthly to Balance Sheet ALCO for approval.

The main IRRBB indicators are reported to the Balance sheet ALCO are presented to the Risk Committee on a quarterly basis.

Interest-rate risk methodology measurement and reduction

The interest-rate risk assessment process is performed monthly and based on the relevant banking businesses interest rate gap analysis. The interest rate gap is a presentation of the assets less liabilities outstandings on the balance sheet by time bucket and at a given date. Each maturity of the gap is calculated on the basis of contractual or theoretical maturity when a management rule is applied. It takes into account the next interest rate repricing date. These rules result from the behaviouralisation review of certain assets or liabilities. This happens notably as regards non-interest bearing current accounts, or embedded prepayment options for fixed-rate home loans. Interest rate hedges are set up based on this gap.

Indeed, on the basis of gathered information, ALCM monthly measures and supervises structural interest-rate risk on a solo entity basis, where the risk is significant and on a consolidated basis for the other entities. Centralised process enables ALCM to manage risk in the best way possible and lays down rules for transferring this risk to Balance Sheet Management (BSM) and Global Markets (GM).

The net interest rate risk exposure is transferred to BSM or hedged by GM in dedicated books through a series of internal deals. Net exposure is managed through the use of derivatives dealt in the markets with counterparts external to the HSBC group.

Hedging derivatives are mostly accounted for as Cash Flow Hedge of assets and liabilities with floating rates indices (CFH), Fair Value Hedge of fixed rates items (FVH) or Non Qualifying Hedges in respect of IFRS rules (NQH). The breakdown of derivative instruments by types of contract used is set out in Note 12 of the Consolidated financial statements.

The structural interest-rate risk management model sets out a framework of operational limits to comply with in defining new hedging transactions. As such, the new gap after hedging must ensure that the residual exposure by time-bucket is kept within defined limits.

One of the principal management tool for the structural interest rate risk is the control of the interest-rate sensitivity of the projected twelve months net margin under varying interest rate scenarios:

– Immediate parallel shift of the yield curve of +/-100 basis points;

– Ramping parallel shifts of the yield curve of +/-25 basis points at the beginning of each quarter.

In addition, HSBC France also assesses, on a quarterly basis, the impact on equity of an across-the-board rise or fall of 200 basis points (applying a -0.50% floor). The Economic Value of Equity (EVE) of a balance sheet represents the residual economic value that would be available to distribute to equity providers under a managed solvent run off. Interest rate risk in the banking book (IRRBB) can therefore be quantified by assessing the variability/sensitivity of the EVE to changes in interest rates that is caused by the assets and liabilities in the regulatory banking book.

These amounts concern HSBC France SA perimeter. Given the interest rate risk management policies applied in the subsidiaries, the inclusion of this scope is considered non material, with the exception of HSBC Assurance France, which has its own structure (Cf. risk management of Insurance operations page 173).

Risk is measured and hedging transactions are carried out centrally by ALCM: these activities rely on a set of formalised controls.

In the fourth quarter of 2016, a macro cash flow hedge relationship was partially de-recognised in the context of negative interest rates; the hedge accounting relationship having become insufficiently effective under IAS 39 (Cf. Note related to the consolidated financial statements n° 1).

Expositions

HSBC France SA is exposed to a change of Eurozone interest rates curve on banking operations and structural elements of the balance sheet and would see its net interest income decrease by EUR 24.4 million as of 31 December 2016 for a decrease of 100 basis points. The impact of an up 200 basis point scenario on shareholders' equity would be EUR -480 million at 31 December 2016.

The following table sets out the interest rate gap by time buckets on Retail and Commercial bank's euro activities as of 31 December 2016 before hedging transactions.

Retail and Commercial Bank

(in millions of euros)	1 year	3 years	5 years	7 years	10 years
Interest rate gap	2,020	(1,561)	(1,612)	(720)	1,205

Following the large number of renegotiations and early repayments in 2015 and 2016 in a context of strong competition and low interest rates, the managed constant prepayment rates for such loans taken into account in the IRBB management have been adjusted in 2016. In addition, low or negative rates environment resulting in an increase of the non-interest bearing current accounts balances. Considering the cyclical increase, HSBC France has adapted the hedging maturities accordingly. The historically low rates environment, should it last longer, would keep on burdening the banking book's Net Interest Margin.

Balance sheet management

Effective governance across BSM is supported by the dual reporting lines it has to the Deputy Head of HSBC France GB&M and to the Head of BSM EMEA. BSM is responsible for managing liquidity and funding under the supervision of the local ALCO. It also manages the non-trading interest rate positions transferred to it within a defined Risk mandate.

In executing the management of the liquidity risk on behalf of ALCO, and managing the non-trading interest rate positions transferred to it, BSM invests in highly-rated liquid assets in line with the Group's liquid asset policy. The majority of the liquidity is invested in central bank deposits and government, supranational and agency securities with the remainder held in short-term interbank and central bank loans.

Withdrawable central bank deposits are accounted for as cash balances. Interbank loans, statutory central bank reserves and loans to central banks are accounted for as loans and advances to banks. BSM's holdings of securities are accounted for as available-for-sale assets.

Statutory central bank reserves are not recognised as liquid assets. BSM is permitted to use derivatives in accordance with its mandate to manage interest rate risk. Derivative activity is predominantly through the use of vanilla interest rate swaps which are part of cash flow hedging and fair value hedging relationships.

Credit risk in BSM is predominantly limited to short-term bank exposure created by interbank lending, exposure to central banks and high quality sovereigns, supranationals or agencies which constitute the majority of BSM's liquidity portfolio. BSM does not manage the structural credit risk of any Group entity balance sheets.

VaR is calculated on both trading and non-trading positions held in BSM. It is calculated by applying the same methodology used for the Markets business and utilised as a tool for market risk control purposes.

BSM holds trading portfolio instruments in only very limited circumstances.

Positions and the associated VaR were not significant during 2016 and 2015.

Structural foreign exchange risk

The structural foreign exchange exposition of HSBC France is limited. It concerns few investments, not significant, in the foreign subsidiaries, as structural foreign exchange exposition arising from banking operations is systematically transferred to the trading room which manages exchange rate risk according to the limits set by the Risk Management Committee.

The exchange rate risk on equity is due to investments in foreign currency that are not hedged by financing in foreign currency. This exposure 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.

HSBC France monitors this risk through an indicator of exposure and capital ratios sensitivity to movements in main currencies, calculated by the Finance Department.

At end 2016, the sensitivity of the capital ratios due to a variation in the main currencies is considered non material.

OPERATIONAL RISKS

In accordance with the Order of 3 November 2014 and the Operational Risk FIM definition (Functional instructions Manual), operational risk is defined within HSBC Group as a risk that might be the result of:

– Inadequacy, ineffectiveness or failure of internal processes, performed manually or automatically;

– External events.

This risk includes notably external or internal fraud risk (article 324 of EU regulation N°575/2013), non-authorised activities, errors and omissions including events characterised by a low probability but with a high operational loss in case of occurrence, and risks related to models.

The HSBC Group defined a risk taxonomy in which operational risks are split in 16 risk categories: Financial Crime Compliance, Regulatory Compliance, Fiduciary, Legal, Information, Accounting, Tax, External Fraud, Internal Fraud, Human Resources, Political, Physical, Contingency, Systems, Operations and Projects.

Regulatory disposition

Basel II regulatory dispositions require that banking institutions take into account the operational risk management on three levels:

– In terms of capital requirements to take into account all banking risks and their economic reality (Pillar I);

– In terms of operational risk framework, meaning an implementation of an internal framework to manage risks which should enhance the prudential supervision by the national supervisors (Pillar II);

– In terms of information and financial communication on the matter, intended to administrators, supervisory authorities, shareholders, etc. (Pillar III).

Beyond regulatory requirements, managing operational risks and the permanent evolution of the control framework depending on changing activities and regulations to reduce losses from the P&L is a major strategic issue for HSBC France and represents one of the main ways for improvement of a customer quality service.

Methodology defined by the regulator

Regulators have defined three methods which are the following:

– Basic approach;

– Standardised approach;

– Advanced approach.

Each of these methods is more complex than the other to determine the capital required to cover operational losses, leading to more complexity in terms of operational risk management. Each method is linked to specific requirements in terms of risk management and external information on the framework of which implementation is a condition for the approach application.

Like the HSBC Group, HSBC France currently uses the standardised approach in terms of operational risks.

This approach is based on the application of different ratios (12%, 15%, 18%) to the average gross income (over three years) of each one of the eight business lines defined by the Basel II framework.

It implies that a method has to be determined to divide the global gross income between business lines defined by the regulator.

Among qualitative criteria used for this method, the implementation of an internal operational risk framework is required and needs to include the following aspects:

– Regular inventory of operational losses;

– Potential operational risks identification for all entities;

– Implementation of risk management processes, by defining and implementing action plans to mitigate the risks and by monitoring risk indicators;

– Implementation of an independent structure to manage those risks;

– Regular communication of information about the evolution of these risks to the executive management.

Quantitative aspects

The Finance department is in charge of calculating capital requirement related to operational risks and communicating it to the ACPR (*Autorité de Contrôle Prudentiel et de Résolution*).

First, the net banking income has to be divided between the eight business lines defined by Basel II requirements to calculate the regulatory capital allocation.

Basel Lines of Business	Regulatory Capital Charge
Corporate Finance	18%
Trading and Sales	18%
Retail Banking	12%
Commercial Banking	15%
Payments and Settlement	18%
Agency Services	15%
Asset Management	12%
Retail Brokerage	12%

For operational losses, COREP statements are produced and communicated to the ACPR by the Finance department on behalf of HSBC France; the Operational Risk function contributes to the production of two of these three COREP statements: Operational Risk Details and Operational Risk Loss Details on the consolidated perimeter of HSBC France, excluding its subsidiary HSBC SFH (France), 100% owned, which is specialised in the issuance of Covered Bonds and is monitored directly by the Finance department.

Using information recorded by BRCM in the operational risk management system, the Operational Risk function is in charge of:

- Completing some COREP statements communicated by the Finance department.
- Performing first level controls of these COREP statements production.

Qualitative aspects

Tasks include the following activities:

- Specific organisation in charge of monitoring and managing operational risks;
- Identification, scoring and actualisation of potential risks to which group entities are exposed and first level controls to mitigate them;
- Close monitoring of main material risks for the Group or concerned entities;
- Definition and monitoring of action plans to mitigate the most material risks;
- Annual definition of operational risk tolerance;
- Recording and analysis of operational losses, notably regarding tolerance and reporting to executive management;
- Promotion of operational risk culture intended to all group entities, through work performed by Operational Risk function and BRCM and training and awareness actions;
- Centralisation and coordination of HSBC France ORM work chaired by the CRO;
- Contribution to operational risk management systems evolution;
- Implementation and monitoring of operational risk indicators.

Identification and management of operational risks

Governance

The general organisation of the permanent control is the responsibility of the Chief Risk Officer (CRO), who is supported by the Operational Risk function. The Operational Risk function works closely with the independent control teams BRCM (Business Risk and Control Management) of Global Businesses, Global Functions and HOST and with the other Global Functions belonging to the second line of defence.

Within this framework, the lead committee in charge of overseeing risks is the Risk Management Meeting. This committee relies on works of global businesses and some second line of defense functions (legal, regulatory compliance, financial crime compliance) risks management committees. The RMM reviews on a monthly basis the operational risks of businesses, functions and HOST, the progress made in action plans implemented to mitigate identified risks and operational losses. Operational Risk function holds a specific meeting on a regular basis, called Operational Risk Meeting and transversal topics with an operational impact; and disseminate risk culture within Global Business and Global Functions.

This framework relies on Forums and working groups related to operational risks and internal control within the businesses and risk functions that are responsible for overseeing management of the operational risks and permanent controls of each entity.

Risk management and control within the HSBC France group (continued)

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;
- Identification and assessment of risks and controls across the entire scope are updated at least once a year in order to identify any significant changes;
- Operational losses are collated and reported on a monthly basis.

HSBC France uses the standardised approach for calculating the regulatory capital needed to cover operational risks. To estimate economic capital, HSBC France uses the same concept, but as applied to certain specific businesses in the HSBC Group's structure instead of the eight businesses of the regulatory approach.

Operational Risk management framework

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

- operational risks link to Record Management process related to customer's document and data and ability to retrieve them with integrity and completeness in short delays;
- Risks link to data quality, accuracy and completeness in particular for data in scope of new regulatory requirements and reportings;
- Operational risks and Execution risk related to change management, and process, systems and organisations modifications;
- Risks link to outsourced services management (external vendors and HSBC Intra-group);
- IT risks notably link to security, resilience and ever greening of systems and architecture and to license management;
- Information security risks;
- Risk related to cybercrime (phishing, malware, cyber-attacks…);
- External fraud risks, in particular: card fraud, Internet fraud, false transfers, social engineering;
- Risk of mistakes in processing transactions;
- Risk related to customer relations.

Operational risks may have consequences on reputational risk. Any lapse by HSBC France in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk which may impact its relationship with its clients, counterparts, shareholders, regulators and any other stakeholders. Safeguarding and building upon the Group's reputation is the responsibility of every employee of HSBC France.

Risk maps

Business Risk and Control Management (BRCM) teams ensure establishment and regular update of risk maps identifying operational risks. According to the FIM (Functional Instructions Manual), risk maps should be driven by Risk Owners and Control Owners, BRCM teams intervene as coordinators.

According to the Order of 3 November 2014 (article 100-102), risk maps cover all entities.

To establish these risk maps, BRCM teams follow notably Operational Risk FIM instructions by using, for a defined perimeter, a methodology called RCA (Risk and Control Assessment) which is based on risks assessment through a risk prioritisation matrix (RPM). With this methodology, operational risks assessment is based on the assessment of inherent risks, which is the risk level without considering the effectiveness of controls, and then on the assessment of residual risks, which is the risk level remaining after taking into consideration the control framework. The latter is based on a typical impact (occurrence likelihood in the year to come) and a severe impact (occurrence likelihood once in the 25 years to come). Typical and severe impacts cover direct and financial impacts, as well as indirect and qualitative impacts in terms of client services, reputation and regulatory sanctions.

For each risk identified in a risk map, the four impacts are assessed on a four-level scale using criteria defined by the FIM: A-Very High, B-High, C-Medium, D-Low.

A synthetic scoring called risk priority is associated to each risk and allows to prioritise risks. It corresponds to the highest level of all impacts (typical, severe; direct, indirect). This risk prioritisation is a monitoring and decision-making tool for executive management. It enables to prioritise mitigating actions and reinforcement action plans. It is also used by control teams to establish second level control plans in a risk-based approach.

Risk maps cover operational risks to which entities are exposed and includes first level key controls as well as second level controls to mitigate risks.

First level controls are scored according to a three scores scale:

– Effective control: the control has been effectively designed and is efficient as expected;

– Needs improvement control: the design or the functioning of the control have some deficiencies but improvement measures are being taken;

– Ineffective control: the design or the functioning of the control have some deficiencies and no measure has been taken to improve it, or there is no control in place.

Controls scored needs improvement or ineffective lead to a corrective action plan to ensure control will be effective.

BRCM teams coordinate risk maps assessment and ensure the appropriate methodology is used and regularly updated. They also may bring help on the RCA methodology and use of the operational risk system, ORION.

To do so, BRCM teams organise workshops with operational teams and the main actors of the second line of defense to ensure operational risks are being appropriately covered and assessed over the entity in their perimeter. Before these workshops, they gather every information needed to analyse the entity's risks such as operational incidents, external events, internal control missions results, periodic control missions results, external investigations (regulators, auditors…).

Operational teams, specifically Risk Owners, are in charge of establishing and updating risk maps in first instance. They have to identify and assess risks with Control Owners as well as first level controls to perform. This work is performed regularly notably based on permanent control results performed by BRCM and Risk Stewards, on periodic control reports, or third parties reports (including regulators) and on internal or external events.

Heads of entities may be supported by BRCM for the regular update in the operational risk recording system and they remain accountable for RCAs.

The Operational Risk function used to organize RCA challenge sessions or workshops to review higher risks, with Risk Stewards, BRCM, heads of businesses, functions, HOST and the CRO to present the most material risks for the entity.

BRCM: Internal Control Monitoring plan (ICM)

Based on risk maps established by businesses, functions and HOST, BRCM teams define a second level control plan for their entities. This plan presents independent second level control activities that will be performed the year after. The program has to be reviewed and updated regularly, based on any change of circumstances to ensure its relevance.

The control plan is established using a risk-based approach to ensure an appropriate and regular cover of risks on a 2-year cycle maximum. BRCM can use various assessment methods to do so: tests, thematic reviews or indicators monitoring or any other investigation method that may help obtain reasonable assurance on first level control efficiency.

Risk management and control within the HSBC France group (continued)

The ICM has to be approved via an appropriate governance process including Risk Stewards. ICM governance framework is overseen by Operational Risk function. Material changes to the control plan have to be notified in the businesses risk committees.

The control plan has to be recorded in the operational risk management system and results have to be recorded all along its execution.

BRCM teams have to regularly monitor the plan progress and have to notify any delay. In case of significant delay, an action plan has to be implemented to ensure a coverage of all material risks (Very High / High and Medium inherent risks).

Main deficiencies raised during control plan have to be presented during the entity's risk committee and during HSBC France ORM. A formalised monitoring of the corrective actions implemented has to be performed by BRCM, notably by recording in the Group operational risk management system. Operational Risk function produces regular summary of the main deficiencies identified by BRCM reviews to the governance bodies: Risk Management Meeting (RMM), Risk Committee and the Board of Directors.

Incidents management and escalation

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

Reporting statements are prepared on the basis of declarations made in the HSBC Group's incidents and operational risks management system, ORION, which should ultimately constitute an Enterprise Risk Management (ERM) tool. This application allows for decentralised management of the risk identification and updating process, declarations of operating losses and the monitoring of action plans decided with a view to mitigating the criticality of risks deemed to be major.

Operational incidents nature

The FIM (Functional Instructions Manual) allows to categorise operational incidents respective of different natures.

The FIM also allows to distinguish various impacts types associated to incidents. For instance, provisions, losses, provisions recovery, gains are recorded respectively as different direct impacts, concomitantly with accounting issues. Likewise, all indirect impacts associated to an incident are recorded in distinct categories (for instance, customer impact, regulatory impact, etc.).

Significant incidents result in a detailed analyse of root causes and in the review of other processes that might be impacted by the same root causes to control them as soon as possible. A diagnosis on control deficiencies is established and associated risk maps and procedures have to be updated consequently. All these tasks have to be performed by BRCM.

Main risks, incidents and risk indicators (Key Risk Indicators – KRI) may result in action plans that have to be monitored and integrated in the control framework of BRCM. These action plans are also monitored by businesses and functions risk committees and by the HSBC France Operational Risk Forum.

Operational Risk losses: quantitative data starting from 2008.

Operational losses from 2008 to end of 2016 per risk category (in millions of euros)

	Accounting	Bulk	Business Continuity	External Fraud	Fiduciary Risk	Financial Crime Compliance	Information	Internal Fraud	Legal	Operations	People	Physical	Project	Regulatory Compliance	Systems	Tax	**Total**
2008	0.01	1.86	0.00	4.69	0.00	0.55	0.03	2.20	4.16	17.06	1.21	(3.49)	0.01	11.91	2.28	5.53	**48.02**
2009	1.93	1.72	0.04	25.91	0.00	0.07	0.04	(0.02)	3.84	21.06	(0.03)	0.05	0.32	6.97	2.40	4.19	**68.48**
2010	0.79	1.95	0.00	6.49	0.25	0.00	0.00	0.40	(0.69)	7.47	0.33	0.12	0.18	21.27	(0.21)	0.04	**38.40**
2011	9.02	1.07	0.16	5.39	0.00	0.00	0.00	(0.14)	1.90	9.33	0.85	0.01	0.00	(18.18)	0.50	3.13	**13.04**
2012	1.09	0.85	0.00	10.54	0.02	0.07	0.06	0.47	0.91	12.43	0.74	0.07	0.00	0.50	1.10	1.42	**30.29**
2013	0.35	0.33	0.00	12.15	0.00	0.00	0.15	0.22	1.19	4.77	1.60	0.03	0.01	0.28	2.19	(1.00)	**22.26**[1]
2014	0.00	0.23	0.09	6.35	0.00	0.00	0.01	0.10	0.68	3.14	1.30	(0.03)	0.00	(3.43)	(0.32)	(0.10)	**8.04**
2015	0.11	0.34	0.00	4.83	0.00	0.00	0.00	0.05	1.33	6.97	1.12	0.00	0.13	2.02	0.48	1.31	**18.69**
2016	0.00	0.38	0.00	10.93	0.01	(0.03)	0.00	0.02	2.60	(13.27)	0.60	0.00	0.38	31.63	0.30	0.00	**33.55**

1 *Excluding a one-off legacy incident within GBM.*

Event (financial impact) numbers per risk category

	Accounting	Bulk	Business Continuity	External Fraud	Fiduciary Risk	Financial Crime Compliance	Information	Internal Fraud	Legal	Operations	People	Physical	Project	Regulatory Compliance	Systems	Tax	**Total**
2008	1	46	–	122	–	2	4	8	58	263	3	10	1	70	26	7	**621**
2009	9	21	4	163	–	2	7	3	37	419	13	6	3	83	22	5	**797**
2010	4	21	–	156	2	–	–	6	41	248	10	6	5	37	13	3	**552**
2011	5	21	7	135	3	–	–	4	14	242	11	1	–	18	10	4	**475**
2012	3	21	–	106	8	1	1	2	14	193	6	1	–	13	9	3	**381**
2013	1	19	–	104	–	–	1	3	21	127	7	1	1	21	11	4	**321**[1]
2014	–	13	1	166	–	–	1	1	16	117	11	–	–	32	5	–	**363**
2015	1	16	–	93	–	–	–	1	25	114	16	–	2	35	3	2	**308**
2016	–	15	–	70	1	0	–	1	12	116	3	–	1	18	2	–	**239**

1 *Excluding a one-off legacy incident within GBM*

RWA and capital requirements related to operational risk.

Distribution per line of business

(in thousands of euros)	RWAs	Exigences de FP
RBWM	1,138,173	91,054
CMB	913,151	73,052
GBM	1,097,166	87,773
PB	63,640	5,091
Corporate Center	325,174	26,014
Total	3,537,303	282,984

The operational risk management framework is described in the Chairman's report on the internal control and risk management procedures on pages 68 et seq.

Non-compliance risk

Management of the risk of non-compliance is described in the Chairman's report on page 72 et seq.

Legal risks and litigation management

The HSBC France Legal Department (DAJ) is responsible for HSBC France group's legal risks oversight as a second line of defence, and helps the various HSBC France group businesses and functions to prevent and control legal risk. The DAJ is in charge of litigation follow-up.

Prevention of legal risks

The DAJ is responsible for running the Legal and Tax Risks Committee which 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 Meeting, which examines the legal, accounting, tax, financial, and reputational risks arising from complex structured transactions. The DAJ participates in the Products Examination and Operational Risks Forum, in the RMM (Risk Management Meeting) of the HSBC France group, and is involved 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 also responsible for managing risks, directly or indirectly, connected with defence litigation matters. It is involved in dealing with credit files requiring special management or in default. The DAJ monitors other risks that might have a legal impact.

Control framework of legal risk

The Legal and Tax Risks Committee, chaired by the Chief Risk Officer, meets quarterly to ensure that the risks framework for legal and tax risks remains adequate in the face of changes in laws, regulations and group organisation. The Committee also examines the monitoring of incidents raised previously, the results of implemented controls, along with any new incidents and measures taken. It reports on its activities to the HSBC France group Operational Risks Forum.

This framework is wholly effective and a detailed description of it is given in a regularly updated internal procedure. In the operational risk framework, The DAJ operates as first and second line of defence. A legal risks taxonomy has been defined to harmonise their identification and control. The DAJ is deeply involved in the review and control of the legal risks assessed by the businesses and functions in their RCAs.

Risk management and control within the HSBC France group (continued)

Litigation monitoring with regard to HSBC France group entities [1]

The situation of the risks arising from significant litigation in progress against the HSBC France group is examined quarterly by a committee chaired by the Chief Risk Officer 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 litigation provision to be charged or written back.

Cases in progress as at 31 December 2016 involving legal risks likely to have a significant effect on the financial situation of the HSBC France group net assets are set out below. These cases have given rise to appropriate provisions, as necessary.

Interbank commissions relating to electronic cheque processing

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

In March 2008, the French Competition Authority sent notification of a complaint to the 12 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 EIC 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 Banque de France, decided to appeal this unfavourable decision.

The banks actually contest as much the anticompetitive purpose as the anticompetitive effect of the EIC-related commission and argue that it has no significant effect on the costs of banking services. The banks, including HSBC France, 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 object. The Paris Court of Appeal cleared the banks of wrongdoing and ordered the repayment of fines paid by the banks. The French Competition Authority appealed to the Supreme Court against the decision.

On 14 April 2015, the French Supreme Court overturned the decision of the Appeals Court of Paris of 23 February 2012 solely on procedural grounds.

Consequently, the banks had to transfer back the sums reimbursed on the basis of the decision of the Appeals Court of Paris of 23 February 2012.

The French Supreme Court referred the parties back to the Appeals Court of Paris.

The oral hearing before the Appeals Court of Paris took place in November 2016. The decision is expected to be rendered in May 2017.

The Apollonia case

As was the case for around twenty other banks, HSBC worked during a limited period of time (from early 2006 to April 2007), and mainly in one branch, with a financial adviser and estate agent, known as 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 purportedly reached around EUR 2 billion.

At the end of September 2008, HSBC France became aware of the use of inappropriate 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.

1 *See the Consolidated financial statements, Note 30 Legal proceedings and regulatory matters page 280 and following relating to HSBC Group entities generally.*

HSBC France systematically files proceedings against those investors with loan repayments due but the hearings are held in abeyance because of the criminal proceedings 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 notaries involved and their insurer MMA. These proceedings have also been adjourned for the time being.

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

European interbank offered rates investigations and litigation

See Note 30 of the consolidated financial statements with regard to other significant legal proceedings and regulatory matters relating to HSBC Group entities generally, including HSBC France.

Other regulatory, civil law or arbitration proceedings

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.

As reported in the French press, in April 2013 French judicial authorities opened an investigation against unnamed persons on the grounds of alleged illicit solicitation for banking and financial services, organised money laundering of funds obtained through illicit banking or financial solicitation, and organised money laundering for the purpose of tax evasion in the matter involving client data stolen from HSBC in Switzerland and relating to French residents. In November 2014, a member of the HSBC Group which is not a subsidiary of HSBC France, HSBC Private Bank Suisse SA, was formally placed under criminal investigation by magistrates in France. In April 2015, HSBC Holdings was informed that it has been placed under formal criminal investigation by the French magistrates in connection with the conduct of HSBC Swiss Private Bank in 2006 and 2007 for alleged tax offences, and a EUR 1 billion bail was imposed. HSBC Holdings appealed the magistrates' decision and, in June 2015, bail was reduced to EUR 100 million. As reported in the press, in March 2016, HSBC was informed that the French magistrates had completed their investigation with respect to HSBC Private Bank Suisse SA and HSBC Holdings plc, respectively, and referred the matter to the public prosecutor.

Tax risk

The HSBC France Tax Department (DAF), oversees as a second line of defence the HSBC France group tax risk.

This Department assists HSBC France group various businesses, along with its subsidiaries, in the prevention and the monitoring of tax risks.

The Department has analysed the 5 major tax risks Tax reporting, tax payments, tax compliance, tax avoidance and tax evasion and has mapped them. Some tax positions are discussed with tax authorities.

Prevention of tax risks

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

Accounting risk

The accounting risk control framework is described in the Chairman's report on page 64 et seq.

IT Systems Risk

IT risk management

IT risk has consequences mainly on four levels:

- operational: even if the activity is not directly based on an IT process, closure of the IT service generally results in a shutoff or slowdown in the bank's production;
- financial: IT expenditure (hardware, software, know-how) constitutes a significant proportion of the bank's assets;

Risk management and control within the HSBC France group (continued)

- legal: regulations require oversight of the security of the IT system (Loi Informatique et Libertés, LCEN, SOX Act, LSF, etc.);
- projects: wrong design or mismanagement of projects could lead to serious consequences and have significant impacts on operations in the future.

IT risks are assessed using the HSBC Group's methodology. Control of these risks is based on a governance and organisational structure meeting Group standards and best practice guidelines (CMM, ITIL, COBIT) used in the financial services and banking industry.

Missions and coverage

HSBC France's IT function is part of HSBC Operations, Services and Technology (HOST) and relies on four structures to support the IT services delivered to the HSBC France businesses and support functions:

- IT Infrastructure Delivery (ITID) Structure in charge of the implementation and maintenance of systems and infrastructures on which are hosted the banking functionalities rolled out within the businesses and functions of HSBC France;
- Application Development & Maintenance (ADM) Structure in charge of the development and maintenance of intra group or third parties software solutions;
- Business Management IT, Structure within Information Technology department which is in charge, among others, of managing major change programmes within HSBC France;
- IT Security (IT Sec) Structure in charge of monitoring the infrastructures and applications security risks.

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

- Global Standard Manual (GSM).
- HOST Functional Instructions Manual (HOST FIM).

The IT function aims to implement an IT risk reduction strategy that is consistent with the information system strategy. This one also aims to meet the information system's confidentiality, integrity and availability requirements with respect to the bank's businesses. This IT function monitors risks following this typology of risks:

- loss of information system integrity;
- leakage of confidential data;
- loss of key personnel;– failure to comply with legal duties as regards projects monitoring, IT assets management or infrastructure implementation;
- human or code errors;
- loss of expertise relating to projects and/or technologies of HSBC in France key services;
- unavailability or damage of information system and critical services performance and capacity;
- infrastructure and/or software vulnerabilities relating to external and internal threats (cyber);
- loss or lack of controls relating to sensitive functions or processes for outsourced services located in other HSBC entities in the world or provided by external suppliers;
- loss of or damage to audit trails relating to IT critical resources stored in the log book;
- failure of key suppliers in the regulatory sense leading to loss of critical services recovery or quality services damage;
- internal fraud.

The IT risks control framework

The identification of all IT risks and control is performed in accordance with the RCA Group (Risk and Control Assessment) methodology. And controls libraries provided by the Global IT risk function. IT structures risks are identified around the four mapped departments

Each IT risk cartography is revised at least annually and updated so as to reflect the main risk profile changes such as:

– global risk level assessed by the IT function;

– internal or external incidents and/or significant regulatory changes;

– significant changes or new processes or systems relating to the IT function;

– identification of a significant control issue through processes such as follow up and controls monitoring, SOX or issues raised by the regulator, the internal or external auditors.

For each significant IT risk identified, the IT functions identify and document key controls so as to mitigate the risk. In addition, a description of the current monitoring for each key control is identified.

The IT 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 communicated monthly to HOST' governance committee (ExCo). Permanent control work and principal results are also reported monthly in the Risk Management Meeting (RMM).

In addition, 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 HOST IT functions prepare a control plan on an annual basis. This plan sets out the key control monitoring activities that are performed annually. Their monitoring is performed by the HOST IT functions through a detailed controls assessment, key indicators monitoring or thematic reviews.

The results of risk assessments and controls form the basis of the annual control plan. It is approved annually.

Any major IT problem identified through control monitoring is reported to HOST' permanent control management and HSBC France's permanent control supervision department (Operational Risk team).

Security and fraud risk

Security and fraud risk issues are managed at Group level by Global Security and Fraud Risk. Security and Fraud Risk in France takes functional direction from Security and Fraud Risk in Europe. This unit has responsibility for information, fraud, contingency, financial intelligence and physical risks. This enables management to identify and mitigate the consequences of these and other non-financial risks to its business lines across the jurisdictions in which the bank operates.

– The Information Security Risk sub-function is responsible for defining the strategy and policy by which the organisation protects its information assets and services from compromise, corruption or loss, whether caused deliberately or inadvertently by internal or external parties. It provides independent advice, guidance and oversight to the business about the effectiveness of information security controls and practices in place or being proposed.

– The Fraud Risk sub-function is responsible for ensuring that effective prevention, detection and investigation measures are in place against all forms of fraudulent activity, whether initiated internally or externally, and is available to support any part of the business. To achieve that and to attain the level of integration needed to face the threat, the management of all types of fraud (e.g. card fraud, non-card fraud and internal fraud, including investigations) is undertaken by a single team. The bank uses technology extensively to prevent and detect fraud; for example, customers' credit and debit card spending is monitored continuously and suspicious transactions are highlighted for verification, internet banking sessions are reviewed and transactions monitored in a similar way and all new account applications are screened for fraud. The bank has a fraud systems strategy which is designed to allow easier sharing of best practices to detect fraud and minimise false alerts. To this end, the investigation team of the bank work in liaison with law enforcement where appropriate.

Risk management and control within the HSBC France group (continued)

– The Business Contingency Risk sub-function is responsible for ensuring that the group's critical systems, processes and functions have the resilience to maintain continuity in the face of major disruptive events. Within this very large perimeter, business continuity management covers the pre-planning for recovery, seeking to minimise the adverse effects of major business disruption, either globally, regionally or within country, against a range of actual or emerging risks. The pre-planning concentrates on the protection of customer services, the bank's staff, revenue generation, the integrity of data and documents and meeting regulatory requirements. Each business has its own recovery plan, which is developed following the completion of a business impact analysis. This determines how much time the business could sustain an outage before the level of losses becomes unacceptable, i.e. its criticality. These plans are reviewed and tested every year. The planning is undertaken against Group policy and standards and each business confirms in an annual compliance certificate the adherence to these plans. Should there be exceptions, these are raised and their short-term resolution is overseen by the business continuity teams. It is important that plans are dynamic and meet all risks, particularly those of an emerging nature such as possible pandemics and cyber attacks. The ORMF is used to measure the resilience of the bank to these risks, and is confirmed to the HSBC France risk committee. Resilience is managed through various risk mitigation measures. Amongst these include the requirement to agree with HSBC Operations, Services and Technology (HOST) acceptable recovery times of systems, ensuring that the bank's critical buildings have the correct infrastructure to enable operations to continue and requiring the bank's critical vendors to have their own recovery plans.

– The Financial Intelligence Unit is jointly administered by Security and Fraud Risk and Financial Crime Compliance. It uses advanced analytics and subject matter expertise to detect indicators of financial crime in the Group's clients and counterparties.

– The Physical Security sub-function develops practical physical, electronic and operational countermeasures to ensure that the people, property and assets managed by HSBC France are protected from crime, theft, attack and groups hostile to HSBC's interests.

Human Resources

Risks relating to human resources management and control system

At the end of 2016, the main HR risks with potentially significant impacts on the operation of HSBC France were as follows:

– psycho-social risks created by a poor working environment, inadequate working conditions or inadequate managerial practices;

– data security risks relating to the loss or unauthorised distribution of sensitive data relating to staff;

– legal risks relating to non-compliance with regulations;

– risks of non-payment of employer contributions and taxes on remuneration.

HSBC France's Human Resources Department is involved in the second line of defence of the Human Resources (HR) risk of the HSBC France group.

For this purpose, it has mapped the transverse risks relating to HR as well as the HR function risks. This document is updated at least once a year and is used in support of the annual control plan.

The internal control also relies on risk indicators (HR Operational Risk and People Risk), which are commented monthly at the Risk Management Committee.

The HR Risk Forum (previously 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 are the main Heads of HSBC in France's Human Resources Department, the HR Operational Risk Function correspondent, the representative of Legal in charge of Employment law and the representative of Audit France.

The Forum presents the governance topics managed by HR and action plans in progress. It reviews progress on recommendations communicated to HR by Audit, or other Functions or internal control and progress on risk identified by HR departments. It performs analysis on operational loss and HR incidents. It ensures that service providers are listed and that the risks relating to the services provided have been assessed. It reports on its work to the "Operational Risk Meeting".

Role of the HSBC France People Committee

The People Committee supports Head of HR and local CEO with respect to strategies, policies and any initiatives in term of staff management according to the Group HR policy approved by the Group People Committee (GPC), while taking into account local practices and regulatory constraints.

The main missions of the People Committee are:

– Follow up, on a transversal way at local level and within every Global Business and Global Function, of the implementation of Group strategies in term of staff management, for instance regarding diversity, international mobility, employees engagement score, recruitment, personal development…;

– Review of possible dispensations obtained towards GPC on approaches adopted with regard to strategies implementation and/or Group main policies in term of staff management;

– Follow up of main risks in term of staff management at local level (especially cases of breaches identified through consequence management process, statistics on turn-over, results of Global People Survey (GPS) and corresponding action plans);

– Identification of local talented employee, according to the Group Talent Pool process and elaboration of the succession plan for local positions;

– Follow up of the appropriate application of the Group Strategy in term of performance management and assessement of talented employee;

– Analysis of the evolution of organisational structures if any and corresponding decisions at local level (for example major changes to Job Catalogue, to managers scope of responsibilities);

– Review of GCB0-3 career movements;

– Approval of minutes and review of previous People Committee actions plans.

In term of remuneration, the People Committee performs different roles both in its global and individual aspects.

Remuneration policy

It examines the main thrust of the remuneration policy put forward by the Human Resources Department for France and approves it.

It ensures that this policy fits in with the general principles of the remuneration policy set out by the HSBC Group for all of its subsidiaries, in accordance with the specific directives set by the global businesses lines.

It gives its opinion on whether this policy complies with local industry standards and the recommendations of the French bank supervisory authorities (*Autorité de Contrôle Prudentiel et de Résolution, Autorité des Marchés Financiers, Fédération Bancaire Française*).

Variable remuneration arrangements

It checks that all variable remuneration arrangements in place in the bank's various businesses are in line with the general principles set out in the remuneration policy for France, Group and the global businesses lines and comply with the requirements of the supervisory authorities.

It reviews the variable remuneration packages awarded by global businesses lines to French teams on the basis of the overall performance of each business and of the relative performance of French teams, while taking risk and compliance into account.

It approves the structure of these packages, i.e. the split between cash and shares, between immediate remuneration and deferred remuneration in application of the HSBC Group rules, and local industry standards on the subject.

Individual awards

After approval of the list, it reviews and approves the consistency of remuneration of the "Material Risk Takers" (except for the members of the People Committee) before submitting them to the appropriate HSBC France and HSBC Group decision-making bodies.

It reviews the businesses' 20 highest earners (except the members of the People Committee) in conjunction with the HSBC France and HSBC Group's decision-making bodies and the global businesses lines.

Risk management and control within the HSBC France group (continued)

It ensures that proposed individual remuneration packages take account of any individual breaches with respect to internal rules in term of credit risk, compliance and reputation, information security, and for specific employees, to mandates provided by Volker and SRAB rules.

The Human Resources department undertakes to submit the renumeration policy to the first Remuneration Committee of the Board of Directors following the People Committee.

Role of the Remuneration Committee

On the basis of the remuneration policy papers prepared by the People Committee, the Remuneration Committee, chaired by an independent Director, gives his view on the bank's remuneration policies and, practices ensuring they are consistent with the HSBC Group policy and that they comply with applicable local standards. It also ensures that risk management and compliance issues are taken into account.

Its scope of responsibility covers all remuneration policies and practices in place within the company, with a more in-depth review of market professionals and Executive Directors.

It also reviews the remuneration paid to Executive Directors and submits its recommendations to the Board of 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 Global Standards Manual – GSM) referred to for advice on laying down remuneration policies on introducing new variable remuneration systems and finally during the pay review process when allocating individual discretionary variable.

Thus, from 2009, situations of breach of compliance and infringements of internal rules, identified by the Risk and Compliance functions, have been taken into account when awarding variable remuneration.

To strengthen the Risk and Compliance functions, throughout the year and especially during the annual salary review process when individual variable remuneration is decided, certain changes were made in 2010 and significantly reinforced in 2015.

On a practical level, these functions are responsible, in their respective fields of operation, for:

– identifying and listing, throughout the year, all instances of non-adherence to compliance rules and/or rules of internal procedure and/or rules concerning risk or security information;

– instructing cases of individual breach in coordination with employee's manager and, if appropriate, with employment law team;

– presenting cases to the Operational Risk Committee of the business concerned in order to assess the gravity of the risk and the level of severity of the individual breach taking into account aggravating and mitigating factors. Finally, the Committee decides the disciplinary and/or managerial actions to be implemented;

– if necessary, providing feedback to management for possibly making possible changes to internal procedures and to the "balanced scorecard" of the employees involved in the breaches.

In addition, Global Business/Global Function Consequence Management Committees, attended by the Head of Business or Function concerned, the Chief Risk Officer, the Head of Regulatory Compliance, the Head Financial Crimes Compliance, the Head of HR, the Head of Performance and Reward and the HRG concerned, are held during the pay review process. For each identified breach case, and even more for the ones identified as high or very high the Committee decides:

– the potential adjustment on performance rating;

– the impact on the variable remuneration of the employees concerned;

– whether, regarding the severity of the breach, the "malus" rule needs to be applied, cancelling some or all previously awarded and unvested shares.

After these decisions, the HR Department checks that any adjustments validated by the Committee is duly uploaded into the Group Pay Review System (GPRS) with the appropriate rational.

If the proposed variable remuneration requires it (above a certain threshold), Risk and Compliance 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 remuneration.

The Human Resources Department notifies the People Committee and the RemCo 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.

Insurable Risk Coverage

HSBC in France is covered through Global insurance programmes arranged by HSBC Holdings plc for major risks (bankers' risks, fraud, cyber, professional liability, directors' and officers' liability).

Amounts of cover are determined on an 'extreme' loss basis with significant impacts on the Group activities and retention amounts allow a robust risk Management policy.

Master programmes are arranged centrally at a group level with local policies issued where needed, notably in regards of property damage and Business interruption insurance. Premises are covered for their reinstatement value. Risk visits are planned on a regular basis by insurers' engineers.

HSBC France arranges also regulatory required local insurance programmes, such as, civil liability for licensed activities third party liability motor insurance, etc.

As a principle, levels of coverage and retentions are in line with:

– insurance market conditions, business practices and regulations;
– Assets values and potential impact on HSBC France and HSBC Holdings plc balance sheets.

The total amount of insurance premiums paid in 2016 represents 0.32 per cent of HSBC France net operating income.

Major programmes, involve the HSBC Group reinsurance captive's participation.

Broker, insurers and partners are chosen in accordance with a strict selection and solvency supervision policy.

Environmental risk

The management of environmental risks is described in the Corporate, social and environmental responsibility section on pages 89 et seq.

Risk management of Insurance operations

The risk governance framework of HSBC Assurances Vie (France) focuses on several committee, whose responsibility is to manage the exposure of the business to risks according to the limits of the risk appetite. The main committees involved in the risk governance are the following:

– the Actuarial Control Committee validates the changes in assumptions, methodology and processes that result in a material impact on profit before tax or solvency position;
– the Local Insurance Model Oversight Committee validates and controls the models used by the business;
– the Asset and Liabilities Committee manages the asset-liability risk and monitors the economic and regulatory capital levels;
– the Investment Committee manages the investment risks (market, credit and liquidity risks);

Risk management and control within the HSBC France group (continued)

– the Financial Crime Compliance Committee covers the topics related to the fight against financial crime and money laundering;

– the Insurance Risk Committee monitors the insurance risks, including the lapse rate (redemption, mortality and morbidity), the reinsurance strategy and the non-economic assumptions used in the models;

– the BRCM Meeting is in charge of the operational, regulatory and compliance risks.

The Risk Management Meeting's responsibilities extend to all risks to which the Insurance business is exposed. The RMC uses the risk reports from the above committees and exercises governance on those committees, overseeing their structure and their running. The RMC reports to the Audit Committee of HSBC Assurances Vie (France) the significant issues and the actions being taken to manage them.

This section provides disclosures on the risks arising from insurance manufacturing operations including financial risks such as market risk, credit risk and liquidity risk, and insurance risk.

Risks in these operations are managed within the insurance entity using methodologies and processes appropriate to the insurance activities, but remain subject to oversight at HSBC Group Insurance level.

HSBC France's bancassurance model

We operate an integrated bancassurance model which provides wealth and protection insurance products principally for customers with whom the group has a banking relationship. Insurance products are sold predominantly by Global Businesses Retail Banking & Wealth Management and Commercial Banking through their branches and direct channels.

The insurance contracts HSBC France sells relate to the underlying needs of the HSBC Group's banking customers, which it can identify from its point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts.

Where HSBC France does not have the risk appetite or operational scale to be an effective manufacturer, a handful of leading external insurance companies are engaged in order to provide insurance products to the HSBC Group's customers through its banking network and direct channels.

HSBC Assurances Vie sets its own control procedures in addition to complying with guidelines issued by the HSBC Group Insurance. Country level oversight is exercised by the subsidiary's local Risk Management Committee.

In addition, local subsidiary's ALCO monitors and reviews the duration and cash flow matching of insurance assets and liabilities.

All insurance products, whether manufactured internally or by a third party, are subjected to a product approval process prior to introduction.

Financial risks of insurance operations

The HSBC France group's insurance businesses are exposed to a range of financial risks which can be categorised into:

– market risk: risks arising from changes in the fair values of financial assets or their future cash flows from fluctuations in variables such as interest rates, foreign exchange rates and equity prices;

– credit risk: risk of financial loss following the default of third parties to meet their obligations; and

– liquidity risk: risk of not being able to make payments to policyholders as they fall due as a result of insufficient assets that can be realised as cash.

Regulatory requirements prescribe the type, quality and concentration of assets that the HSBC Group Insurance must maintain to meet insurance liabilities. These requirements complement the HSBC Group-wide policies.

The following table analyses the assets held in HSBC France's insurance manufacturing company by type of contract, and provides a view of the exposure to financial risk:

Financial assets held by HSBC Assurances Vie (France)

	31.12.2016			
(in millions of euros)	**Linked contracts**	**Non-linked contracts**	**Other assets**	**Total**
Financial assets designated at fair value				
– Interest rate assets	**–**	**748**	**–**	**748**
– equity assets	**57**	**5,777**	**419**	**6,253**
Total	**57**	**6,525**	**419**	**7,001**
Financial investments – available for sale				
– debt securities	**–**	**12,049**	**1,053**	**13,102**
– equity assets	**–**	**–**	**–**	**–**
Total	**–**	**12,049**	**1,053**	**13,102**
Derivatives	**–**	**133**	**44**	**177**
Other financial assets	**–**	**1,749**	**(192)**	**1,557**
Total	**57**	**20,456**	**1,324**	**21,837**

	31.12.2015			
(in millions of euros)	Linked contracts	Non-linked contracts	Other assets	Total
Financial assets designated at fair value				
– Interest rate assets	–	712	–	712
– equity assets	64	5,188	397	5,649
Total	64	5,901	397	6,362
Financial investments – available for sale				
– debt securities	–	12,372	969	13,341
– equity assets	–	–	–	–
Total	–	12,372	969	13,341
Derivatives	–	102	46	149
Other financial assets	–	1,704	(185)	1,519
Total	64	20,080	1,227	21,370

Approximately 63 per cent of financial assets were invested in debt securities at 31 December 2016, with 29 per cent invested in equity securities.

In life linked insurance, the net premium is invested in a portfolio of assets. HSBC Assurances Vie (France) manages the financial risks of this product on behalf of the policyholders by holding appropriate assets according to the type of contracts subscribed.

Market risk of insurance operations

Market risk arises when mismatches occur between product liabilities and the investment assets which back them. For example, mismatches between asset and liability yields and maturities give rise to interest rate risk.

The main features of products manufactured by the group's insurance manufacturing company which generate market risk, and the market risk to which these features expose the company, are discussed below.

Long-term insurance or investment products may incorporate benefits that are guaranteed. Interest rate risk arises to the extent that yields on the assets supporting guaranteed investment returns are lower than the investment returns implied by the guarantees payable to policyholders.

The income from the insurance and investment contracts with discretionary participation is primarily invested in bonds; a fraction is allocated to other asset classes in order to provide customers with an enhanced potential yield. The subsidiaries holding such type of product portfolio are at risk of falling market prices when discretionary bonuses cannot be fully taken into account. An increase in market volatility may also result in an increase in the value of the collateral for the insured.

Risk management and control within the HSBC France group (continued)

Long-term insurance and investment products typically permit the policyholder to surrender the policy at any time or to let it lapse. When the surrender value is not linked to the value realised from the sale of the associated supporting assets, the subsidiary is exposed to market risk. In particular, when customers seek to surrender their policies when asset values are falling, assets may have to be sold at a loss to fund redemptions.

For unit-linked contracts, market risk is substantially borne by the policyholder, but market risk exposure typically remains as fees earned for management are related to the market value of the linked assets.

Each insurance manufacturing subsidiary of the HSBC Group manages market risk by using some or all of the following techniques:

– for products with DPF, adjusting bonus rates to manage the liabilities to policyholders. The effect is that a significant portion of the market risk is borne by the policyholder;

– structuring asset portfolios to support liability cash flows;

– using derivatives, to a limited extent, to protect against adverse market movements or better match liability cash flows;

– for new products with investment guarantees, considering the cost when determining the level of premiums or the price structure;

– periodically reviewing products identified as higher risk, which contain investment guarantees and embedded optionality features linked to savings and investment products;

– including features designed to mitigate market risk in new products; and

– exiting, to the extent possible, investment portfolios whose risk is considered unacceptable.

The French insurance manufacturing company monitors exposures against mandated limits regularly and reports these quarterly to HSBC Group Insurance. Exposures are aggregated and reported on a quarterly basis to senior risk management forums in HSBC Group Insurance.

Standard measures for quantifying market risks are as follows:

– for interest rate risk, the sensitivities of the net present values of asset and expected liability cash flows, in total and by currency, to a one basis point parallel upward or downward shift in the discount curves used to calculate the net present values, and to a steepening of a flattening of these curves;

– for equity price risk, the total market value of equity holdings and the market value of equity holdings by region and country.

The standard measures are relatively straightforward to calculate and aggregate, but they have limitations. The most significant one is that a parallel shift in yield curves of one basis point does not capture the non-linear relationships between the values of certain assets and liabilities and interest rates. Non-linearity arises, for example, from investment guarantees and product features which enable policyholders to surrender their policies. HSBC Assurances Vie (France) bears the shortfall if the yields on investments held to support contracts with guaranteed benefits are less than the investment returns implied by the guaranteed benefits.

On another hand, the sensitivity of some assets to the movement of the interest rates curve may vary itself according to the level of this curve. So it will not be adequate to calculate the impact of an important movement using only the impact of a small movement. Additional calculations will be necessary.

The group recognises these limitations and augments its standard measures with stress tests which examine the effect of a range of market rate scenarios on the aggregate annual profits and total equity of the insurance manufacturing companies after taking into consideration tax and accounting treatments where material and relevant. The results of these stress tests are reported to the HSBC Group Insurance and risk committees every quarter.

The following table illustrates the effect of selected interest rates, equity price and credit spread scenarios on the profits for the year and total equity of insurance manufacturing subsidiaries. Where appropriate, the impact of the stress on the present value of the in-force long-term insurance business asset ('PVIF') is included in the results of the sensitivity tests. The relationship between the profit and total equity and the risk factors is non-linear and, therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. The sensitivities are stated before allowance for the effect of management actions which may mitigate the effect of changes in market rates, and for any factors such as policyholder behaviour that may change in response to changes in market risk.

Sensitivity of risk factors related to the Insurance Company of the Group

	Effect on total equity	
(in millions of euros)	**31.12.2016**	31.12.2015
+ 100 basis points parallel shift in yield curves	**49**	(1)
– 100 basis points parallel shift in yield curves	**(109)**	(65)
10 per cent increase in equity price	**13**	14
10 per cent decrease in equity price	**(13)**	(13)
50 basis points increase in credit spread	**47**	31
50 basis points decrease in credit spread	**(59)**	(53)

The increase of the PVIF sensitivity to interest rates and credit spread stresses is mainly due to the deterioration of market conditions (i.e. decrease of the yield curve and shrinking of credit spreads) leading to an increase in the cost of options and guarantees granted to Saving contracts. This impact is partly offset by the model evolutions implemented following the recommendations raised by the different review: accounting auditor, French regulator, and IMR. Those evolutions aimed to improve the modelling of the return rate expected by the policyholders and their dynamic behavior (i.e. dynamic lapses in specific market situations), to enhance the modelling of the deferred profit-sharing reserve (PPE) and to include in the simulations the share of the unrealised gains/losses (including the treatment of the capitalisation reserve) between shareholder and policyholders at the end of the projection period (40 years).

There are scenarios focusing on all the negative sensitivities presented in the table above. The amount of PVIF can thus vary significantly in certain exceptional circumstances.

Credit risk of insurance operations

Credit risk can give rise to losses through default and can lead to volatility in income statement and balance sheet figures through movements in credit spreads.

Management of the French insurance manufacturing company is responsible for the credit risk, quality and performance of their investment portfolios. The assessment of creditworthiness of issuers and counterparties is based primarily upon internationally recognised credit ratings and other publicly available information.

Investment credit exposures are monitored against limits by the local insurance manufacturing subsidiaries, and are aggregated and reported to HSBC Group Insurance Credit Risk and HSBC Group Credit Risk. Stress testing is performed by HSBC Group Insurance on the investment credit exposures using credit spread sensitivities and default probabilities. A number of tools are used to manage and monitor credit risk. These include a Credit Watch Report which contains a watch list of investments with current credit concerns and is circulated fortnightly to Senior Management in HSBC Group Insurance and to the individual Country Chief Risk Officers to identity investments which may be at greater risk of future impairment.

Credit quality

The following table presents an analysis of treasury bills, other eligible bills and debt securities within the French insurance business by measures of credit quality. The five credit quality classifications are defined on page 132.

Only assets supporting liabilities under non-linked insurance, investment contracts and shareholders' funds are included in the table, as financial risk on assets supporting linked liabilities is predominantly borne by the policyholder. 81 per cent of the assets included in the table are invested in investments rated as 'Strong'.

Risk management and control within the HSBC France group (continued)

Treasury bills, other eligible bills and debt securities in the French insurance manufacturing company

	31.12.2016 Strong	Good / Satisfactory	Total
Financial assets designated at fair value	**649**	**99**	**748**
– treasury and other eligible bills	**–**	**–**	**–**
– debt securities	**649**	**99**	**748**
Financial investments – available for sale	**10,878**	**2,224**	**13,102**
– treasury and other eligible bills	**–**	**–**	**–**
– debt securities	**10,878**	**2,224**	**13,102**
Total	**11,527**	**2,323**	**13,850**

	31.12.2015 Strong	Good / Satisfactory	Total
Financial assets designated at fair value	467	246	713
– treasury and other eligible bills	–	–	–
– debt securities	467	246	713
Financial investments – available for sale	10,915	2,426	13,341
– treasury and other eligible bills	–	–	–
– debt securities	10,915	2,426	13,341
Total	11,382	2,672	14,054

Liquidity risk of insurance operations

Every quarter, HSBC Assurances Vie is required to complete and submit liquidity risk reports to the HSBC Group Insurance for collation and review. Liquidity risk is assessed in these reports by measuring changes in expected cumulative net cash flows under a series of stress scenarios designed to determine the effect of reducing expected available liquidity and accelerating cash outflows. This is achieved, for example, by assuming new business or renewals are lower, and surrenders or lapses are greater, than expected.

The following tables show the expected undiscounted cash flows for insurance contract liabilities. The remaining contractual maturity of investment contract liabilities is all undated as in most cases, policyholders have the option to terminate their contracts at any time.

Expected maturity of insurance contract liabilities

31 December 2016 *(in millions of euros)*	Expected cash flow (undiscounted) < 1 year	1-5 years	5-15 years	> 15 years	Total
Non-linked insurance[1]	**35**	**40**	**29**	**16**	**120**
Linked life insurance[1]	**2**	**13**	**12**	**13**	**39**
Total	**37**	**53**	**41**	**29**	**160**

31 December 2015 *(in millions of euros)*	Expected cash flow (undiscounted) < 1 year	1-5 years	5-15 years	> 15 years	Total
Non-linked insurance[1]	32	28	–	62	123
Linked life insurance[1]	–	–	–	45	45
Total	32	28	–	107	168

1 *Non-linked insurance includes remaining non-life business.*

Insurance risk

Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the insurer. Insurance risk is principally measured in terms of liabilities under the contracts.

The insurance risk profile of the HSBC French life insurance manufacturing business has not changed materially during 2016 despite the increase in liabilities to policyholders on these contracts to EUR 20.96 billion (2015: EUR 20.82 billion).

A principal risk faced by the HSBC French Insurance business is that, over time, the cost of acquiring and administering a contract, claims and benefits may exceed the aggregate amount of premiums received and investment income. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates.

The following tables analyse the HSBC French insurance risk exposures by type of business.

Analysis of life insurance risk – liabilities to policyholders

(in millions of euros)	**31.12.2016**	31.12.2015
Insurance contracts with dpf[1]	**–**	–
Credit Life	**40**	45
Annuities	**67**	64
Term assurance and other long term contracts	**13**	14
Non-Life insurance	**–**	–
Total non linked insurance[2]	**120**	123
Life linked	**57**	64
Investments contracts with dpf[1,3]	**21,142**	20,775
Liabilities under insurance contracts	**21,320**	20,962

1 *Insurance contracts and investments contracts with discretionary participation features ('DPF') give policyholders the contractual right to receive, as a supplement to their guaranteed benefits, additional benefits that are likely to be a significant portion of the total contractual benefits, but whose amount or timing is contractually at the discretion of the Group. These additional benefits are contractually based on the performance of a specific pool of contracts or assets, of the profit of the company issuing the contracts.*
2 *Non-linked insurance includes remaining non-life business.*
3 *Although investment contracts with DPF are financial investments, the Group continues to account for them as insurance contracts as permitted by IFRS*

Sensitivities to non-economic assumptions

The Group's life insurance business is accounted for using the embedded value approach which, inter alia, provides a risk and valuation framework. The sensitivity of the present value of the in-force ('PVIF') long-term asset to changes in economic and non-economic assumptions is described in Note 16.

Please note that the value approach simulation used has been reviewed by several external auditors which have confirmed that this one is compliant with market standards.

Capital and Leverage Management

Approach and policy

HSBC France's approach to managing its capital position has been to ensure the bank exceeds current regulatory requirements and is well placed to meet expected future capital requirements

The CET1 ratio as at 31 December 2016 stands at 13.2 per cent under transitional view, and at 13.1 per cent under Basel III end-point view.

It is HSBC France's objective to maintain a strong capital base to support the development of our business and to meet regulatory capital requirements. To achieve this, we manage our capital within the context of an annual capital plan which is approved by the Board and which determines the appropriate amount and mix of capital.

HSBC France's capital management policy is underpinned by the capital management framework, which is embedded within Regional and Group's processes, and within the Bank's Annual Operation Plan, as validated by the Board of Directors. This framework enables HSBC France to manage its capital in a consistent manner. The Internal Capital Adequacy Assessment Process (ICAAP) incorporates different assessments methods of the requirements related to the management and allocation of capital within HSBC France. These capital measures include invested capital, economic capital and regulatory capital defined as follows:

– Invested capital is the equity capital provided to the bank by HSBC Bank plc;

– Economic capital is the internally calculated capital requirement which is deemed necessary by HSBC France to support the risks to which it is exposed; and

– Regulatory capital is the level of capital which HSBC France is required to hold in accordance with the rules set by the ECB for the bank.

The following risks managed through the capital management framework have been identified as material: credit risk, market risk, operational risk, interest rate risk in the banking book, and insurance risk.

Stress testing

Stress testing is incorporated in the capital management framework and is an important component of understanding the sensitivities of the core assumptions included in HSBC France's capital plans to the adverse effect of extreme but plausible events. Stress testing allows senior management to formulate its response, including risk mitigating actions, in advance of conditions starting to reflect the stress scenarios identified.

The actual market stresses experienced by the financial system in recent years have also been used to inform the capital planning process and further develop the stress scenarios employed within HSBC France.

Other stress tests and sensitivity analysis are also carried out at the request of regulators using their prescribed assumptions. HSBC France takes into account the results of all such regulatory and internal stress testing when assessing internal capital requirements.

Risks to capital

Beyond stress-testing, a list of the main risks with the related potential impacts on HSBC France's capital ratios is regularly reviewed. These risks are identified as possibly affecting Risk Weighted Assets ('RWAs') and/or capital position. They can either result from expected regulatory changes, or from structural and activity related items. These risks are monitored regularly within the ALCO and the Risk Committee. For certain categories of risk that are particularly relevant, scenario analysis are performed. The downside or upside scenarios are assessed against our capital management objectives and mitigating actions are assigned as necessary.

HSBC France's approach to managing its capital position has been to ensure the bank complies with current regulatory requirements and internal limits, as well as to ensure that future regulatory requirements are considered for capital planning purposes.

Risk-weighted asset targets

RWA targets for our global businesses are established in accordance with the Group's strategic direction and risk appetite, and approved through the Region's and Group's processes, and through the Bank's annual planning process.

These targets are implemented at the transaction level taking into account growth strategies; active portfolio management; business and/or customer-level reviews; RWA accuracy and allocation initiatives and risk mitigation.

Business performance against RWA targets is monitored through regular reporting discussed in ALCO and in the Bank's Executive Committee.

Capital generation

HSBC Bank plc is the sole provider of equity capital to HSBC France and also provides non-equity capital where necessary. Capital generated in excess of planned requirements is returned to HSBC Bank plc in the form of dividends.

Capital measurement

From 1 January 2014, HSBC France capital has been calculated under CRD IV / CRR.

The ECB is the supervisor of HSBC France. The ECB sets its capital requirements, in line with the regulatory framework.

HSBC France complied with the capital adequacy regulatory requirements throughout 2016.

Regulatory capital

HSBC France's capital base is divided into three main categories, namely Common Equity tier 1, Additional Tier 1 and Tier 2, depending on the maturity, and on the loss absorbency. Nevertheless, HSBC France does not currently hold any Additional Tier 1 capital.

- Common equity tier 1 ('CET 1') capital is the highest quality form of capital, comprising shareholders' equity and related non-controlling interests (subject to limits). Under CRD IV / CRR various capital deductions and regulatory adjustments are made against these items – these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability, negative amounts resulting from the calculation of expected loss amounts under IRB, Holdings of Common Equity Tier 1 securities of financial sector entities are deducted from additional Tier 1 capital, up to the amount that exceeds a regulatory-defined threshold;
- Additional Tier 1 capital comprises eligible non-common equity capital securities and any related share premium. Holdings of additional Tier 1 securities of financial sector entities are deducted from additional Tier 1 capital;
- Tier 2 capital comprises eligible capital securities and any related share premium and other qualifying Tier 2 capital securities subject to limits. Holdings of tier 2 capital of financial sector entities are deducted.

Overview of Regulatory Capital Framework

Eligible Regulatory Capital

RWAs at 31 December 2016 are calculated and presented based on HSBC France's interpretation of its applicable rulebook in particular of final CRD IV/CRR regulations. These rules notably involve a phased-in set up of certain prudential adjustments and deduction, in the period running from 1 January 2014 to 1 January 2018.

Additionally, the regulatory framework also includes some regulatory provisions resulting from the French prudential authorities decision, in particular: transitional disposition on AFS unrealized gains, a specific phase-in on Defered Tax Assets ('DTA'), and the potential application of the financial conglomerate prudential framework for institutions holding significant insurance companies participations.

Under CRD IV, as implemented under ECB supervision, banks are required to meet in 2016 a minimum CET1 ratio of 5.125 per cent of RWAs that include:

– A basis requirement of 4.5 per cent;

– A Capital Conservation Buffer of 0.625 per cent.

This ratio will reach 5.75 per cent on 1 January 2017, in line with the step-up of the Capital Conservation Buffer to 1.25 per cent.

Banks also have to respect a minimum Tier 1 ratio of 6.625 per cent of RWAs, increasing to 7.25 per cent from 1 January 2017, and a total capital ratio of 8.625 per cent of RWAs increasing to 9.25 per cent from 1 January 2017.

Pillar 1 Capital requirements

Pillar 1 covers the capital requirements for credit risk, market risk and operational risk. Credit risk includes counterparty credit risk and securitisation requirements. These requirements are expressed in terms of RWAs.

Credit risk capital requirements

CRR allows 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. Other counterparties are classified into broad categories and standardised risk weightings are applied to these categories.

The internal ratings-based ('IRB') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), while their estimates of exposure at default ('EAD') and loss given default ('LGD') are subject to standard supervisory parameters.

Finally, the IRB Advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.

Expected Losses are assessed by multiplying EAD by PD and LGD. The capital requirement is intended to cover unexpected losses. It is based on a formula foreseen by the regulatory framework which incorporates PD, LGD, EAD and other variables such as maturity and correlation.

In order to assess its credit risk, HSBC France used IRB advanced approach on sovereign, institutions, and retail customers' risks since 2007 year-end, following ACPR approval. HSBC France has also been granted ACPR approval for the use of IRBA advanced approach on commercial customers (LGD in 2009, EAD in 2012). Only few residual expositions are currently still assessed based on IRB foundation or standardized approaches.

Counterparty credit risk ('CCR')

CCR is defined as the risk that a counterparty would default before the term of the contract and the associated payment of the expected cash flows. It applies to:

– Derivative instruments;

– Securities Financing Operations;

– Deferred Payment Transactions.

CCR applies to all these exposures, whether they are constituted of banking or trading book items.

Three approaches to calculating CCR and determining exposures are defined by the CRR: mark-to-market, standardised and Internal Model Method ('IMM'). These exposures are used to determine capital requirements under one of the credit risk approaches; standardised, IRB foundation and IRB advanced.

In order to determine exposures at default, HSBC France applies the mark-to-market evaluation method for derivatives and the financial security - based method for deferred payment transactions.

Two approaches are set out by the Regulatory Authorities for calculating the Credit Valuation Adjustment ('CVA') risk capital charge: an advanced methodology that is only available to institutions that have approved internal models, and a standardised approach.

HSBC France currently uses the latest that determines the CVA risk charge according to a prescribed formula which is based on the exposure at default of the counterparty credit risk and the effective maturity of the transaction. Risk-Weights are applied in the calculation and are based on the external credit rating of the counterparty.

Securitisation

HSBC France only holds securitisation positions in banking books. CRR specifies two methods for calculating relevant credit risk, the standardised approach and the IRB approach. They both rely on the mapping of rating agency credit ratings to risk weights, which range from 7 per cent to 1,250 per cent.

HSBC France uses the ratings-based IRB method except for liquidity facilities and program-wide enhancements for asset-backed securitisations for which the full internal IRB assessment approach is applied.

Market risk capital requirement

The market risk related capital requirements cover:

a) Position risk and associated optional risk.

Position risk divides into two items:

- General risk (linked to a price variation resulting from interest rates or stock market movements);
- Specific risk (related to a price variation resulting from issuer or underlying instrument characteristics changes).

b) Foreign Exchange Risk and associated optional risk

According to the CRR, Market risk capital requirements can be determined under either the standard rules or the Internal Model Approach. The latter involves the use of internal VaR models to measure market risks and determine the appropriate capital requirement.

The risks presented above are measured by HSBC France via internal models when approved by the ECB and the PRA, except the specific risk which is captured through the standardised approach. Internal Market Risk models are based on VaR and Stressed VaR.

Operational risk capital requirement

The CRR includes a capital requirement for operational risk, once again based on three levels of sophistication.

The capital required under the basic indicator approach is a simple percentage of gross revenues. Under the standardised approach banks apply different percentages to the total operating income to each of eight defined business lines. Finally, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements. HSBC France has adopted the standardised approach.

Cumulated Capital Requirements

The CRD IV / CRR establish a number of capital buffers, to be met with CET1 capital, consistent with the Basel III prudential framework. CRD IV / CRR foresee a gradual entry into force of these buffers phased from 1 January 2016 on.

Capital conservation buffer

The Capital Conservation Buffer ('CCB') was designed to ensure banks build up capital outside periods of stress that can be drawn down when losses are incurred. It is set at 2.5 per cent of RWAs across all banks, which is to be phased in from 1 January 2016. At 1 January 2016, HSBC France's CCB was 0.625 per cent. From 1 January 2017, it will increase up to to 1.25 per cent.

Capital and Leverage Management (continued)

Countercyclical and other macro-prudential buffers

The Countercyclical Buffer ('CCyB') is a macro-prudential tool at the disposal of National Authorities. In France, it is set by the *Haut Conseil de Stabilité Financière* ('HCSF') based on its assessment of threats to financial stability in France resulting from changes in economic environment and in particular levels of leverage, debt or credit growth that would pose a systemic threat increasing system-wide risk. This buffer is aimed at protecting the banking sector against arising future losses. Should a CCyB be required, it is expected to be set in the range of 0-2.5 per cent of relevant credit exposures RWAs, although it is uncapped. Regarding the CCyB, HCSF has set 2016 French buffer at 0 per cent.

Global / Other Systematically Important Institutions buffers

The Global Systemically Important Institution Buffer ('G-SII') buffer is intended to address systemic risk, which is assessed on an annual basis according to a number of indicators such as the size of a bank, its connectivity, lack of readily available substitutes or financial information infrastructure for the services it provides, its global cross-jurisdictional activity, and the complexity of its business model. From 1 January 2016, the ACPR is responsible for identifying the Other Systematically Important Institutions Buffer ('O-SII') in France. This buffer was not applicable to HSBC France over year 2016.

Systemic Risk Buffer

In addition to the measures above, CRD IV sets out a Systemic Risk Buffer ('SRB') for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk related to the sole financial sector activity.

The SRB can be applied on an individual, sub consolidated or consolidated basis. HSBC France is not submitted to the SRB at this stage.

Automatic restrictions on capital distributions apply if the bank's CET1 capital falls below the level of these combined requirement.

The planned cumulative requirement table applicable to HSBC France on a year by year basis is displayed below. The levels of some of the different applicable buffers are a consequence of the environment or of the bank's activity (CCyB, o-SII, SRB) and are set as at 2016 value as an assumptions, with no assurance that these constitute an accurate level.

	2016	2017	2018	2019
CET1 requirement	4.5%	4.5%	4.5%	4.5%
Additional Tier 1 requirement	1.5%	1.5%	1.5%	1.5%
Tier 2 requirement	2%	2%	2%	2%
Capital Conservation Buffer	0.625%	1.25%	1.875%	2.5%
Contracyclical Buffer	0%	0%	0%	0%
O-SII Buffer	0%	0%	0%	0%
SRB Buffer	0%	0%	0%	0%
Total Capital requirement	8.625%	9.25%	9.875%	10.5%

Pillar 2 Capital requirement

Pillar 2 (Supervisory and own funds management process) consists of the own assessment by banks and of the assessment from supervision authorities, of the need to allocate capital resources to risks that are not covered by Pillar 1 framework. A major tool of the Pillar 2 is the Internal Capital Adequacy Assessment Process (ICAAP), conducted by HSBC France, to determine a forward-looking assessment of its capital requirements given its business strategy, risk profile, risk appetite and capital plan. This process incorporates HSBC France's risk management processes and governance framework.

As part of this ICAAP, a range of stress tests are applied to our base capital plan. These tests, coupled with its economic capital framework and other risk management practices, are used to assess our internal capital adequacy internal evaluation by HSBC France.

This evaluation process is summarized in an annual ICAAP report. The ICAAP is approved by the Board, which has the ultimate responsibility for the effective management of risk and approval of HSBC France's risk appetite. It is then submitted to the supervisory authorities.

Pillar 2 definition is embedded in a broader Supervisory Review and Evaluation Process (SREP), which leads to an annual determination by the ECB of individual capital requirement and guidance under Pillar 2. This process can also include specific demands on capital, liquidity and other aspects of the bank's management. Pillar 2 requirement is binding, and breaches can have direct legal consequences for the bank, for example with regards to dividends as well as coupons payments.

In the context of the SREP, HSBC France Pillar II Total Capital Ratio requirement has been set at 10.63 per cent, for 2017.

Leverage Ratio

In parallel, the leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as tier 1 capital divided by total on- and off-balance sheet exposures. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement.

Pillar 3 disclosure requirements

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to increase market transparency by requiring banks to publish, at least annually, wide-ranging information on their risks and capital, and how these are managed. HSBC France does not publish Pillar 3 related data as such. Pillar 3 Disclosures are published, at HSBC Bank plc's and HSBC Holdings plc's levels, on HSBC's website, www.hsbc.com, under 'Investor Relations'.

Financial Conglomerate

HSBC France holds an Insurance activity subsidiary, and as such, has been identified by the ECB as a financial conglomerate. Therefore, the bank is submitted to a supplementary conglomerate supervision by the ECB.

In this context, the conglomerate ratio is defined as the ratio between the total capital within the financial conglomerate, and the capital requirement due banking status cumulated with the capital requirement due to insurance status. The required minimum for this indicator is 100 per cent.

At HSBC France's level, the excess of capital towards this indicators is of EUR 1.7 billion as at 2016.

Capital Overview

The table below provides a comparison of the key capital numbers based on the applicable capital requirements for each period. Between 31 December 2015 and 31 December 2016, regulatory capital and RWA evolution is mainly a result of the Bank's activity.

CET1 capital as at 31 December 2016 stands at EUR 4,739 million based on a transitional view. Despite a generated capital of EUR 42 million through profits net of dividends, the CET1 capital has deflated since 31 December 2015 following the increase of certain prudential adjustments. The Risk-Weighted Assets increased by EUR 3,525 million up to EUR 36,016 million on a transitional view. This increase mostly results from the growth on Market Risk related Risk-Weighted Assets linked to the increase in VaR and Stressed VaR levels. This effect is a consequence of the market risk model, and does not reflect an actual and significant increase in un-hedged market risk within trading books. VaR and Stressed VaR levels are significantly lower under the new market risk model that is under the course of validation, which confirms this observation.

Capital and Leverage Management (continued)

Key capital numbers – (CRD IV transitional)

(in millions of euros)	As at 31 December CRD IV Phased-in 2016	2015
Capital resources		
CET1	**4,739**	4,825
Tier 1 Capital	**4,739**	4,825
Total Capital	**4,739**	4,825
Risk Weighted Assets		
Counterparty Credit Risk	**3,644**	3,654
Credit Risk	**20,928**	21,155
– IRB	**15,894**	15,748
– Standardised	**5,034**	5,407
Market Risk	**7,907**	2,594
Operational Risk	**3,537**	3,618
Transitional requirement	**–**	1,470
Total Risk Weighted Assets	**36,016**	32,491
Capital Ratios (%)		
CET1	**13.2%**	14.9%
Total Tier 1	**13.2%**	14.9%
Total Capital	**13.2%**	14.9%

Regulatory Capital statement

The table below illustrates the detaiiled drivers of regulatory capital:

(in millions of euros)	As at 31 December CRD IV Phased-in 2016	2015
Common Equity Tier 1 capital (CET1):		
Shareholders' funds of the parent company	**5,842**	5,838
Non-controlling interests	**13**	60
Less: dividends paid to the parent company	**(135)**	(30)
Less: items with a regulatory treatment	**39**	(82)
Less: prudent valuation adjustment (PVA)	**(145)**	(30)
Less: goodwill and intangible assets	**(264)**	(374)
Less : deductions in respect of expected losses	**(87)**	(85)
Less : investments in financial sector entities exceeding the 10% threshold of regulatory own funds	**(467)**	(369)
Less : investments in financial sector entities and deferred tax assets exceeding the 17.65% threshold of regulatory own funds	**–**	(48)
Tier 2 over balance	**(56)**	(56)
Total CET1 capital	**4,739**	4,825
Tier 2 capital:		
Reserves arising from revaluation of property and unrealised gains on available-for-sale securities	**–**	–
Perpetual subordinated debts and term-subordinated debts	**276**	276
Less: deductions in respect of expected losses	**–**	–
Less: subordinated debts of HSBC Assurances Vie (France) consolidated by the equity method		
- Of which subordinated debt of HSBC Assurance Vie (France)	**(332)**	(332)
Tier 2 over balance	**56**	56
Total qualifying tier 2 capital	**–**	–
Investments in other credit institutions and other financial institutions	**–**	–
Total capital	**4,739**	4,825
Total Basel III risk-weighted assets (unaudited)	**36,016**	32,491
Total risk-weighted assets before the additional requirement due to the floor	**36,016**	31,021

Between 31 December 2015 and 31 December 2016, no movement, neither issuances nor reimbursement has been performed on subordinated debts accounting for Tier 2 at HSBC France's level.

The main prudential adjustments applied to Accounting Equity to CET1 Regulatory Capital are mainly:

– The exclusion of certain reserves, including Cash Flow Hedge reserves;

– The exclusion of the stock value of credit spread on own debt under fair value option;

– The inclusion of Prudent Valuation Adjustment ('PVA');

– The deduction of Goodwill and Intangible Assets;

– The deduction of expected losses to the extent that they exceed total accounting impairment allowances;

– The deduction of the holdings of material CET1 participation within other financial sector institution that exceed a threshold of 10 per cent of the CET1 excluding this deduction.

On a transitional approach, transitional adjustments are also applied, notably:

– Phase-in of unrealised gains on AFS securities;

– Phase out of non-banking minority interests.

Risk-Weighted Assets Statement

The table below illustrates the Risk-Weighted Assets by business line and category of risk:

	As at 31 December	
	CRD IV Fully-Loaded	
(RWA in millions of euros[1])	**2016**	2015
Retail Banking and Wealth Management	**4,905**	4,927
Credit Risk	**2,454**	2,433
Material Holdings	**1,313**	1,271
Operational Risk	**1,138**	1,223
Commercial Banking	**10,422**	10,451
Credit Risk	**9,470**	9,273
Operational Risk	**952**	1,178
Global Banking and Markets	**19,859**	14,693
Non-Counterparty Credit Risk	**6,862**	7,137
Counterparty Credit Risk	**2,449**	2,378
Credit Valuation Adjustment	**1,192**	1,275
Settlement risk	**3**	–
Default funds	**63**	155
Market Risk	**7,907**	2,594
Operational Risk	**1,384**	1,153
Global Private Banking	**830**	950
Credit Risk	**766**	885
Operational Risk	**64**	64
HSBC France	**36,016**	31,021

1 *Excluding Basel 1 floo impact.*

Capital and Leverage Management (continued)

Risk-Weighted Assets Variation Drivers at 31 December

(in millions of euros)	At 31 December CRD IV Fully-Loaded 2016	2015	Variation	Volume effect	Parameter effect	Perimeter effect	Methodological effect
Risk Weighted Assets	**36,016**	**31,021**	**4,995**	**N/A**	**N/A**	**N/A**	**N/A**
Counterparty Risk (incl. Credit Valuation Adjustment)	3,644	3,654	(10)	(21)	11	0	0
Non-Counterparty Risk (incl. Default funds)	20,928	21,155	(227)	311	(538)	0	0
Market Risk	7,907	2,594	5,313	N/A	N/A	N/A	N/A
Operationnal Risk	3,537	3,618	(81)	(81)	0	0	0

RWA increased by EUR 3,525 million on a transitional view, mainly driven by the growth in Market Risk Weighted Assets. On Credit Risk, main driver was a combined effect of the increase in activity and of an improvement in risk parameters. Counterparty Risk decrease was mostly driven by a volume effect, while for Operational Risk the variation was fully carried by volume effect, as these Risk Weighted Assets are computed under standardised approach.

Leverage Ratio at 31 December

(in millions of euros)	As at 31 December CRD IV transitional 2016	2015
Tier 1 Capital	**4,739**	4,825
Leverage Exposure	**118,221**	116,455
Leverage ratio	**4.0%**	**4.1%**

Tier 1 capital deflated by EUR 86 million to EUR 4,739 million during 2016, alongside with CET1 capital. The Leverage exposure increased by EUR 2 billion to EUR 118 billion, mainly due to the increase on customers' loans within the balance sheet.

Regulatory Capital Developments

Notwithstanding the rules published to date, there remains continued uncertainty around the amount of capital that banks will be required to hold in the future. Expected regulatory evolutions either international or European, as listed below, could notably change applicable requirements within the banking sector.

Conversely, the amount of regulatory capital that HSBC France will be required to hold, will depend on the evolution of the requirement set by the ECB within the Pillar 2 framework, and on its articulation with the different capital buffers.

EU developments

The European Commission has submitted a CRD V / CRR II proposal to the European colegislators at the end of 2016. These propositions notably aim at setting up a 3 per cent leverage ratio biding measure, bring further details on the exclusion of certain exposures from the leverage calculation, and introduces the Standardised Approach on Counterparty Credit Risk framework in determining the exposure on derivatives. From the Market Risk point of view, this European Commission's proposition also brings further details on the definition of future risk calculation methodologies through the Fundamental Review of the Trading Book ('FRTB') scheme, after the publication by the Basel Committee of its final rules regarding FRTB in January 2016. Finally, the European Commission also proposes future applicable rules for the Net Stable Funding Ratio ('NSFR').

International developments

All over year 2016, the Basel Committee further performed its works on the role of models and the respective room for standardised approach, Foundation and Advanced Internal Models. This discussion includes a wide range of topics that include credit risk, exposure to corporates and financial institutions, specialized lending, operational risk and CVA. The option of limiting the models effect by a system of floor is also being considered. At this stage, these different topics have not been submitted to a formal agreement, and shall be discussed further in early 2017.

Loss Absorbing Capacity (Total Loss Absorbing Capacity – TLAC and Minimum Requirement for Eligible Liabilities – MREL)
The aim of these new requirements (TLAC and MREL) is to ensure that the resolution authorities have adequate tools at their disposal in case of difficulties or failure of a banking institution that would allow them to tackle the situation without any call for external contribution including public funds (bail-out). These tools involve in particular the conversion of certain categories of instruments into shareholders' funds (bail-in) along with internal restructuring measures that would be undertaken in such a context.

The MREL has been set-up by the Bank Recovery and Resolution Directive ('BRRD'). It shall be applied on an institution-by-institution base, under the definition of a specific level of requirement.

The TLAC has been defined in the context of the Basel Committee's and the Financial Stability Board's projects on resolution. It will be applicable to the largest international institutions with a standardised level of requirement, and a phased-in entry into force in the period from 2019 and 2022.

In this context, and within its proposition of CRD V / CRR II, the European Commission has brought further clarity and convergence between the MREL and TLAC framework for the largest institutions, and on the definition of MREL for other banks. The EBA has released its final report on MREL observation in December 2016.

For European Union G-SIBs (Global Systemically Important Banks), the is therefore expected to be set at 16 per cent of RWA or 6 per cent of the leverage exposure as of 1 January 2019 and at 18 per cent of RWA or 6.75 per cent of the leverage exposure as of 1 January 2022. Add-ons will possibly be applying to them, on a specific basis. For other institutions, the level of MREL could be determined by taking into account both the liability needed for the resolution process and for the start-up of a new bank.

As far as HSBC France is concerned, and as for other Eurozone institutions, the Single Resolution Board is in charge of resolution-related issues. As at 31 December 2016, HSBC France has not been communicated a target level of MREL by the resolution authorities.

Finally, in the context of the Loi Sapin II adopted in December 2016, a new category of subordination has been created, with the set-up of 'un-preferred senior debt'. These instruments will be bail-inable and considered as eligible to the MREL framework. The European Commission's CRD V / CRR II project is following the same approach.

Consolidated financial statements

Consolidated income statement for the year ended 31 December 2016

(in millions of euros)	*Notes*	**31.12.2016**	31.12.2015
Interest income		**1,605**	1,792
Interest expense		**(387)**	(318)
Net interest income		**1,218**	1,474
Fee income		**898**	906
Fee expense		**(250)**	(241)
Net fee income		**648**	665
Trading income excluding net interest income		**504**	(22)
Net interest income on trading activities		**12**	245
Net trading income		**516**	223
Changes in fair value of long term debt issued and related derivatives		**(16)**	15
Net Income/(expense) from other financial instruments designated at fair value		**274**	312
Net income from financial instruments designated at fair value		**258**	327
Gains less losses from financial investments		**121**	34
Dividend income		**2**	2
Net earned insurance premiums	*2*	**1,763**	1,957
Other operating income		**(11)**	174
Total operating income		**4,515**	4,856
Net insurance claims incurred, benefits paid and movement in liabilities to policyholders	*2*	**(2,198)**	(2,485)
Total operating income before loan impairment (charges)/release and other credit risk provisions		**2,317**	2,371
Loan impairment charges and other credit risk provisions	*3*	**(73)**	(121)
Net operating income	*3*	**2,244**	2,250
Employee compensation and benefits	*4*	**(957)**	(925)
General and administrative expenses		**(680)**	(649)
Depreciation and impairment of property, plant and equipment	*18*	**(40)**	(50)
Amortisation and impairment of intangible assets and goodwill	*16*	**(135)**	(8)
Total operating expenses		**(1,812)**	(1,632)
Operating profit		**432**	618
Share of profit in associates and joint ventures	*15*	**–**	–
Profit before tax		**432**	618
Tax expense	*6*	**(120)**	(171)
Net profit of discontinued operations		**–**	–
Profit for the period		**312**	447
Profit attributable to shareholders of the parent company		**310**	445
Profit attributable to non-controlling interests		**2**	2

(in euros)			
Basic earnings per ordinary share	*7*	4.61	6.61
Diluted earnings per ordinary share	*7*	4.61	6.61
Dividend per ordinary share	*7*	4.00	4.15

Consolidated statement of comprehensive income for the year ended 31 December 2016

(in millions of euros)	*Notes*	**31.12.2016**	31.12.2015
Profit for the year (a)		**312**	447
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Available-for-sale investments: (b)		**(46)**	75
– fair value gains/(losses)		**96**	104
– fair value gains/(losses) transferred to the income statement on disposal		**(127)**	(32)
– amounts transferred to/(from) the income statement in respect of impairment losses		**–**	(1)
– income taxes		**(15)**	4
Cash flow hedges: (c)		**(61)**	(46)
– fair value gains/(losses)		**(30)**	(36)
– fair value (gains)/losses transferred to income statement		**(64)**	(36)
– income taxes		**33**	26
Exchange differences net of deferred tax (d)		**(39)**	39
Other comprehensive income for the period, reclassified in income statement on certain conditions (b) + (c) + (d) = (e)		**(146)**	68
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit plans		**2**	(4)
– before income taxes	*4*	**3**	(6)
– income taxes		**(1)**	2
Total variation of assets and liabilities that cannot be reclassified in income statement (f)		**2**	(4)
Total comprehensive income for the year (a) + (e) + (f)		**168**	511
Total comprehensive income for the year attributable to:			
– shareholders of the parent company		**166**	504
– non-controlling interests		**2**	7
		168	511

Consolidated financial statements (continued)

Consolidated balance sheet at 31 December 2016

ASSETS

(in millions of euros)	*Notes*	**31.12.2016**	31.12.2015
Cash and balances at central banks		**4,714**	395
Items in the course of collection from other banks		**437**	381
Trading assets	8	**23,589**	27,161
Financial assets designated at fair value	11, 24	**7,305**	6,768
Derivatives	12	**47,367**	49,484
Loans and advances to banks	24	**3,379**	4,660
Loans and advances to customers	24	**41,327**	38,524
Reverse repurchase agreements – non-trading	24	**11,862**	10,163
Financial investments	13, 24	**26,504**	27,677
Other assets		**214**	258
Current tax assets		**156**	149
Prepayments and accrued income		**779**	852
Interests in associates and joint ventures	15	**2**	2
Goodwill and intangible assets	16	**725**	860
Property, plant and equipment	18	**814**	828
Deferred tax assets	6	**249**	296
TOTAL ASSETS		**169,423**	168,458

LIABILITIES AND EQUITY

(in millions of euros)	*Notes*	**31.12.2016**	31.12.2015
Liabilities			
Deposits by banks	24	**12,061**	7,086
Customer accounts	24	**34,220**	32,811
Repurchase agreements – non trading	24	**7,592**	10,283
Items in the course of transmission to other banks		**416**	385
Trading liabilities	19	**26,468**	22,647
Financial liabilities designated at fair value	20, 24	**8,464**	8,476
Derivatives	12	**44,013**	46,903
Debt securities in issue	24	**6,616**	10,501
Other liabilities	21	**734**	914
Current tax liabilities		**11**	32
Liabilities under insurance contracts issued	2, 24	**21,302**	20,943
Accruals and deferred income		**828**	762
Provisions	22	**183**	132
Deferred tax liabilities	6	**201**	204
Retirement benefit liabilities	4	**165**	165
Subordinated liabilities	23, 24	**276**	276
TOTAL LIABILITIES		**163,550**	162,520
Equity			
Called up share capital	26	**337**	337
Share premium account		**16**	16
Other reserves [1]		**1,618**	1,765
Retained earnings [1]		**3,871**	3,720
TOTAL SHAREHOLDERS' EQUITY		**5,842**	5,838
Non-controlling interests		**31**	100
TOTAL EQUITY		**5,873**	5,938
TOTAL EQUITY AND LIABILITIES		**169,423**	168,458

1 *The opening balance as of 1 January 2015 includes:*
- a reclassification of EUR 53 million net of deferred tax from "other reserves (cash flow hedge reserves)" to "retained earnings" resulting from the disqualification of economic hedges which originally did not meet all the conditions defined by IAS 39 to benefit from hedge accounting;
- a reclassification of EUR 33 million net of deferred tax from "retained earnings" to "merger reserves" and a reclassification of EUR 21 million net of deferred tax from "retained earnings" to "non-controlling interests". HSBC Trinkhaus Gesellschaft für Kapitalmarktinvestments oHG is 90% owned by the HSBC France group and went into liquidation during the reporting year. The share of profit's impact on the profit of the previous periods is not significant.

Consolidated cash flow statement for the year ended 31 December 2016[1]

(in millions of euros)	*Notes*	**31.12.2016**	31.12.2015
Profit before tax		**432**	618
Adjustment for non-cash items:		**203**	245
Depreciation, amortisation and impairment		**175**	58
Net gain from investing activities		**(122)**	(34)
Share of profits in associates and joint ventures		**–**	–
(Gain)/loss on disposal of subsidiaries, businesses, associates and joint ventures		**–**	–
Loan impairment losses gross of recoveries and other credit risk provisions		**68**	115
Provisions including pensions		**96**	31
Share-based payment expense	4	**13**	19
Other non-cash items included in profit before tax		**37**	27
Elimination of exchange differences		**(64)**	29
Change in operating assets and liabilities		**2,589**	(1,056)
Change in net trading securities and derivatives		**6,664**	3,210
Change in loans and advances to banks and customers		**(2,116)**	(2,437)
Change in reverse repurchase agreements – non-trading		**(1,392)**	2,060
Change in financial assets designated at fair value		**(537)**	(612)
Change in other assets		**(11)**	(88)
Change in deposits by banks and customer accounts		**6,384**	(759)
Change in repurchase agreements- non trading		**(2,691)**	(5,654)
Change in debt securities in issue		**(3,885)**	1,264
Change in financial liabilities designated at fair value		**(12)**	1,564
Change in other liabilities		**236**	534
Dividends received from associates		**–**	–
Contribution paid to defined benefits plan		**–**	–
Tax paid		**(51)**	(138)
Net cash (used in)/generated from operating activities		**3,224**	(193)
Purchase of financial investments		**(5,512)**	(7,855)
Net cash flow on financial investments		**6,673**	4,403
Net cash flows from the purchase and sale of property, plant and equipment		**(33)**	(112)
Net cash flow on disposal/purchase of goodwill and intangible assets		**(25)**	(8)
Net cash flow on disposal of subsidiaries, businesses, associates and joint ventures		**–**	–
Net Cash flows from financing activities		**1,103**	(3,572)
Issue of ordinary share capital and other equity instruments		**–**	–
Net sales/(purchases) of own shares for market-making and investment purposes		**–**	–
Redemption of preference shares and other equity instruments		**–**	–
Subordinated loan capital issued		**–**	–
Subordinated loan capital repaid		**–**	–
Dividends paid to shareholders of the parent company	7	**(165)**	(401)
Net cash inflow from change in stake of subsidiaries		**–**	24
Dividends paid to non-controlling interests		**–**	–
Net cash (used in)/from financing activities		**(165)**	(377)
Net (decrease)/increase in cash and cash equivalents		**4,162**	(4,142)
Cash and cash equivalents at 1 January[2]		**5,638**	9,734
Exchange differences in respect of cash and cash equivalents		**7**	46
Cash and cash equivalents at 31 December[2]		**9,807**	5,638
Cash and cash equivalents comprise of:			
Cash and balances at central banks		**4,714**	395
Items in the course of collection from other banks		**437**	381
Loans and advances to banks of one month or less		**1,599**	2,125
Reverse repurchase agreement with banks of one month or less[2]		**3,341**	3,034
Treasury bills, other bills and certificates of deposit less than three months		**132**	88
Less: items in the course of transmission to other banks		**(416)**	(385)

1 *The format has been changed in 2016 to align with the HSBC Group format.*
2 *Reverse repurchase agreement with banks of one month or less were not included in the presentation in 2015. Cash and cash equivalents as of 31 December 2015 include now reverse repurchase agreement with banks of one month or less amounting EUR 3,034 million.*

Consolidated financial statements (continued)

Consolidated statement of changes in equity for the year ended 31 December 2016

	2016									
				Other reserves						
(in millions of euros)	Called up share capital	Share premium	Retained earnings	Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger reserve	Total share-holders' equity	Non-controlling interests	Total equity
At 1 January	**337**	**16**	**3,720**	**208**	**(44)**	**14**	**1 587**	**5,838**	**100**	**5,938**
Profit for the year	–	–	310	–	–	–	–	310	2	312
– Available-for-sale investments	–	–	–	(46)	–	–	–	(46)	–	(46)
– Cash flow hedges	–	–	–	–	(61)	–	–	(61)	–	(61)
– Actuarial gains/(losses) on defined benefit plans	–	–	2	–	–	–	–	2	–	2
– Exchange differences and other	–	–	–	–	–	(39)	–	(39)	–	(39)
Other comprehensive income (net of tax)	–	–	2	(46)	(61)	(39)	–	(144)	–	(144)
Total Comprehensive income for the year	–	–	312	(46)	(61)	(39)	–	166	2	168
– Dividends to shareholders	–	–	(165)	–	–	–	–	(165)	–	(165)
– Exercise and lapse of share options and vesting of share awards	–	–	(10)	–	–	–	–	(10)	–	(10)
– Cost of share-based payment arrangements	–	–	6	–	–	–	–	6	–	6
– Other Movements	–	–	8	(1)	–	–	–	7	(71)	(64)
– Transfers	–	–	–	–	–	–	–	–	–	–
– Changes in ownership interest in subsidiaries that did not result in loss of control	–	–	–	–	–	–	–	–	–	–
Total Other	–	–	(161)	(1)	–	–	–	(162)	(71)	(233)
At 31 December	**337**	**16**	**3,871**	**161**	**(105)**	**(25)**	**1 587**	**5,842**	**31**	**5,873**

Consolidated statement of changes in equity for the year ended 31 December 2015

(in millions of euros)	Called up share capital	Share premium	Retained earnings[1,3]	Available-for-sale fair value reserve	Cash flow hedging reserve[1]	Foreign exchange reserve[2]	Merger reserve[3]	Total share-holders' equity	Non-controlling interests[3]	Total equity
	2015									
				Other reserves[1]						
At 1 January	337	16	3,678	133	2	(20)	1,566	5,712	92	5,804
Profit for the year	–	–	445	–	–	–	–	445	2	447
– Available-for-sale investments	–	–	–	75	–	–	–	75	–	75
– Cash flow hedges	–	–	–	–	(46)	–	–	(46)	–	(46)
– Actuarial gains/(losses) on defined benefit plans	–	–	(4)	–	–	–	–	(4)	–	(4)
– Exchange differences and other	–	–	–	–	–	34	–	34	5	39
Other comprehensive income (net of tax)	–	–	(4)	75	(46)	34	–	59	5	64
Total Comprehensive income for the year	–	–	441	75	(46)	34	–	504	7	511
– Dividends to shareholders	–	–	(401)	–	–	–	–	(401)	–	(401)
– Exercise and lapse of share options and vesting of share awards	–	–	(10)	–	–	–	–	(10)	–	(10)
– Cost of share-based payment arrangements	–	–	9	–	–	–	–	9	–	9
– Other Movements	–	–	3	–	–	–	21	24	(23)	1
– Transfers	–	–	–	–	–	–	–	–	–	–
– Changes in ownership interest in subsidiaries that did not result in loss of control	–	–	–	–	–	–	–	–	24	24
Total Other	–	–	(399)	–	–	–	21	(378)	1	(377)
At 31 December	337	16	3,720	208	(44)	14	1,587	5,838	100	5,938

1 *The opening balance as of 1 January 2015 includes a reclassification of EUR 53 million net of deferred tax from "other reserves (cash flow hedge reserves)" to "retained earnings" resulting from the disqualification of economic hedges which originally did not meet all the conditions defined by IAS 39 to benefit from hedge accounting.*
2 *The movement for the reporting period includes a correction of EUR 38 million net of deferred tax due to exchange differences which were previously recognised through profit and losses instead of other comprehensive income (Foreign exchange reserve).*
3 *The opening balance as of 1 January 2015 includes a reclassification of EUR 33 million net of deferred tax from "retained earnings" to "merger reserves" and a reclassification of EUR 21 million net of deferred tax from "retained earnings" to "non-controlling interests". HSBC Trinkhaus Gesellschaft für Kapitalmarktinvestments oHG is 90% owned by the HSBC France group and went into liquidation during the reporting year. The share of profit's impact on the profit of the previous periods is not significant.*

Consolidated financial statements (continued)

Notes to the consolidated financial statements

1 Basis of preparation and future accounting development

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 8 February 2017.

1.1 Basis of preparation

a *Compliance with International Financial Reporting Standards*

International Financial Reporting Standards (IFRSs) comprise accounting standards issued or adopted by the International Accounting Standards Board (IASB) as well as interpretations issued or adopted by the IFRS Interpretations Committee (IFRIC).

The consolidated financial statements of HSBC France have been prepared in accordance with IFRSs as issued by the IASB and as endorsed by the EU. EU-endorsed IFRSs could differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs were not to be endorsed by the EU. At 31 December 2016, there were no unendorsed standards effective for the year ended 31 December 2016 affecting these consolidated financial statements 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. Accordingly, HSBC France's financial statements for the year ended 31 December 2016 are prepared in accordance with IFRSs as issued by the IASB.

Standards adopted during the year ended 31 December 2016

There were no new standards applied during the year ended 31 December 2016.

b *Future accounting developments*

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'.

IFRS 9 and IFRS 15 have been endorsed for use in the EU and IFRS 16 has not yet been endorsed.

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. However, based on an assessment of financial assets performed to date and expectations around changes to balance sheet composition, the group HSBC France does not expect any significant impact of the phase 1 Classification and Measurement.

For financial liabilities designated at fair value, gains or losses relating to changes in the entity's own credit risk from 1 January 2017 will be accounted in other comprehensive income.

1 Basis of preparation and future accounting development *(continued)*

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks, but do not explicitly address macro hedge accounting strategies, which are particularly important for banks. Based on the analysis performed to date, the group expects to exercise the accounting policy choice to continue IAS 39 hedge accounting, although it will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

Transition

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The group does not intend to restate comparatives.

The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the new presentation of own credit spread on liabilities designated at fair value variation from 1 January 2017.

If this presentation was applied at 31 December 2016, the effect would be to increase profit before tax with the opposite effect on other comprehensive income. Note 20 is disclosing information related to the own credit spread.

The joint workteam including "Central Finance" and "Risk" is continuing its documentation works on accounting policy, IT's development and methodology set up for risk modelling concerning impairments calculations.

HSBC France plans to realise a parallel run for 2017's second semester in order to have a better comprehension of all potentials effects of this new standard.

HSBC France intends to quantify the potential impact of IFRS 9 once it is practicable to provide reliable estimates, which will be no later than in the Annual Report and Accounts 2017.

1 Basis of preparation and future accounting development *(continued)*

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied.

The retrospective regulatory standard includes simplifying measures which are applicable for the first application.

HSBC France expects that the standard will have no significant effect, when applied, on the consolidated financial statements.

IFRS 16 'Leases''

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date for annual periods beginning on or after 1 January 2019 (included). IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'.

Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet.

The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17.

HSBC France is currently assessing the impact of IFRS 16 on financial statements.

Existing operating lease commitments are set out in Note 28.

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c *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 income statement at the functional currency and converted at the exchange rate prevailing at the date of the statement of account. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange 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.

Any foreign exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the income statement depending where the gain or loss on the underlying non-monetary item is recognised.

In the consolidated financial statements, the assets, and liabilities of branches, subsidiaries, and associates whose functional currency is not euros, are translated into the group's presentational currency at the rate of exchange at the balance sheet date while their results are translated into Euro at the closing rates of exchange for the reporting period. Exchange differences on a non monetary item that is part of a net investment in a foreign operation are recognised in other comprehensive income in consolidated financial statements. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

Consolidated financial statements (continued)

1 Basis of preparation and future accounting development *(continued)*

d *Presentation of information*

Disclosures under IFRS 4 'Insurance Contracts' and IFRS 7 'Financial Instruments: Disclosures' concerning the nature and extent of risks relating to insurance contracts and financial instruments have been included in the 'Risk management and control' section from page 173 to 179.

Capital disclosures under IAS 1 'Presentation of Financial Statements' have been included in the 'Capital management and leverage' section from 180 to 189.

HSBC France's Secutirisation activities and structured product disclosures are published in Note 29 from page 277 to 279.

The functional currency of the bank is Euro, which is also the presentation currency of the consolidated financial statements of the HSBC France group.

Following sections, are presented in "Risk factors and their management within HSBC France":

– Credit risks: page 122 and following;

– Market risks: page 150 and following;

– Liquidity risks: page 146 and following;

– Insurance risks: page 173 and following;

– Capital management and allocation: page 180 and following.

Information related to results by activity (IFRS 8) are now disclosed in the "Report of the Board of Directors to the Annual General Meeting" in page 11 and 12.

e *Critical accounting estimates and judgements*

The preparation of financial information requires the use of estimates and judgements about future conditions.

In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2016 Financial Statements. Management's selection of the group's accounting policies which contain critical estimates and judgements, the most important for HSBC France are listed below.

– Impairment of loans and advances: refer to risk management report on pages 131 to 143;

– Deferred tax assets: refer to Note 6;

– Valuation of financial instruments: refer to Note 9;

– Goodwill impairment: refer to Note 16a;

– PVIF: refer to Note 16c;

– Provisions for litigations: refer to Note 22 and 30.

f *Segmental Analysis*

Measurement of segmental assets, liabilities, income and expenses is in accordance with the group's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. The types of products and services from which each reportable segment derives its revenue are discussed in the 'Report of the Directors: Operating and Financial Review – Products and Services' page 13 to 17.

1 Basis of preparation and future accounting development *(continued)*

g *Going concern*

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

1.2 Main accounting methods

a *Consolidation and related disclosure*

The HSBC France group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is initially assessed based on consideration of all facts and circumstances, and is subsequently reassessed when there are significant changes to the initial setup.

Where an entity is governed by voting rights, the group would consolidate when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power over the relevant activities or holding the power as agent or principal.

All internal transactions to the HSBC France group are eliminated on consolidation.

The consolidated financial statements of the group also include the attributable share of the results and reserves of joint ventures and associates, based on either financial statements made up to 31 December.

b *Income and expense*

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 method. The effective interest method 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.

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.

Non-interest income and expense

- Fee income and expense

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 for the provision of services, 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 and expense'.

Consolidated financial statements (continued)

1 Basis of preparation and future accounting development *(continued)*

- Net Trading income

Net 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.

- Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value includes:

– all gains and losses from changes in the fair value of financial assets and liabilities designated at fair value through profit or loss, including liabilities under investment contracts;

– all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets or liabilities designated at fair value through profit or loss; and

– interest income, interest expense and dividend income in respect of:

• financial assets and liabilities designated at fair value through profit or loss; and

• derivatives managed in conjunction with the above,

• except for interest arising from issued debt securities and derivatives managed in conjunction with those debt securities, which is included in ‘Interest expense’.

- Dividend income

Dividend income is recognised when the right to receive payment is established.

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c *Financial instruments carried at amortised cost*

Loans and advances to banks and customers and most of the financial debt are carried at amortised cost. Initial recognition includes direct transaction cost. When the initial fair value is lower than the cash amount advanced, the write down is differed in balance sheet and amortised over the life of the instrument, except if loan is impaired.

Loans and advance to 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 allowance. Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

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 in other operating income. 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.

1 Basis of preparation and future accounting development *(continued)*

Impairment of loans and advances

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances.

- Individually assessed loans

All loans are individually assessed for the purpose of determining whether there is objective evidence of a loss and raise an impairment charge accordingly. Determining whether there is objective evidence that a loss event has occurred and, if so, the measurement of the impairment allowance, both require judgement. In determining whether there is objective evidence that a loss event has occurred, judgement is exercised in evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past-due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress, particularly where the likelihood of repayment is affected by the prospects for refinancing or the sale of a specified asset. For those loans where objective evidence of impairment exists, management determine the size of the allowance required based on a range of factors such as the realisable value of security, the likely dividend available on liquidation or bankruptcy, the viability of the customer's business model and the capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

The HSBC France group might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximize collection opportunities or avoid default or repossession. Where forbearance activities are significant, higher levels of judgment and estimation uncertainty are involved in determining their effects on loan impairment allowances. Judgements are involved in differentiating the credit risk characteristics of forbearance cases, including those which return to performing status following renegotiation. Forbearance activities take place in both retail and wholesale loan portfolios.

The exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which our loan impairment allowances as a whole are sensitive.

The criteria used to make this assessment include:

– known cash flow difficulties experienced by the borrower;

– contractual payments of either principal or interest being past due for more than 90 days;

– the probability that the borrower will enter bankruptcy or other financial realisation;

– a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant;

– there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

Consolidated financial statements (continued)

1 Basis of preparation and future accounting development *(continued)*

Losses for impaired loans are recognised promptly when there is objective evidence of impairment. Impairment losses are calculated on individual loans and on loans assessed collectively and are recorded as charges to the income statement against the carrying amount of impaired loans on the balance sheet.

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 amount and timing of expected receipts and recoveries;

– 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 realisable value of security (or other credit mitigants) and likelihood of successful repossession;

– the likely costs of obtaining and selling collateral as part of foreclosure;

– 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.

The determination of the realisable value of security is based on the market value at the time the impairment assessment is performed.

Impairment loss is calculated by comparing the present value of the expected future cash flows, which includes expected future receipts of contractual interests, discounted at the original effective interest rate of the loan, with its current carrying value. The impairment allowances on individually significant accounts are reviewed at least quarterly.

• Collective impairment
A collective impairment is raised on loan portfolios to recognise losses incurred but not yet reported.

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. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. The estimated period between a loss occurring and its identification may consequently vary over time as these factors change.

Regarding Retail customers, the collective provisioning methodology differs between the Home Loan portfolio and the other types of credit exposures.

Regarding Home Loans, the collective provision calculation makes a difference between those exposures that are secured by a mortgage on the property and those that are guaranteed by a specialised company. In both cases, it takes into account the observed Probabilities of Default over the last 12 months and, for the defaulted exposures, the actual provisioning rate applied.

1 Basis of preparation and future accounting development *(continued)*

In respect of the other exposure types, the calculation method is based on the HSBC Group's "Net Flow Rate" model, which extrapolates the foreseeable losses over a given period on the basis of, on the one hand, the observed migration rates between payments that are overdue by more than 30 days, 60 days and 90 days, and, on the other hand, the historical loss rates of the latter category.

- Write-off of loans and advances

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 the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly.

The write-back is recognised in the income statement.

- Renegotiated loans

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans taking into account the new contractual terms following renegotiation. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument. Any new agreements arising due to derecognition events will continue to be disclosed as renegotiated loans.

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d *Financial Instruments at Fair Value*

Available-for-sale debt securities

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 11) or classified as 'held-to-maturity'. Financial investments are recognised at trade date, when HSBC France 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.

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.

Impairment of available-for-sale financial assets

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. If such evidence exists as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated, an impairment loss is recognised.

If the available-for-sale financial asset is impaired, the difference between its acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

1 Basis of preparation and future accounting development *(continued)*

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provision' in the income statement and impairment losses for available-for-sale equity securities are recognised within 'Gains less losses from financial investments' in the income statement. The impairment methodologies for available-for-sale financial assets are set out in more detail below.

Available-for-sale debt securities

In assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, level of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

Available-for-sale equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the type of asset:

- for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in fair value of the financial asset is recognised in other comprehensive income. If the fair value of the debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, or the instrument is no longer impaired, the impairment loss is reversed through the income statement;
- for an available-for-sale equity security, all subsequent variations in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on equity securities are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity securities are recognised in the income statement, to the extent that further cumulatives impairment losses have been incurred.

Financial assets 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 irrevocably at its inception. HSBC France may designate financial instruments at fair value where the designation:

1 Basis of preparation and future accounting development *(continued)*

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial instruments or recognising the gains and losses on them on different bases from related positions. Under this criterion, the main classes of financial assets designated by the HSBC France group are financial assets under unit-linked insurance and unit-linked investment contracts. Liabilities to customers under linked contracts are determined based on the fair value of the assets held in the linked funds. If no fair value designation was made for the related assets, the assets would be classified as available for sale, with changes in fair value recorded in other comprehensive income. These financial instruments are managed on a fair value basis and information is provided to management on that basis. Designation at fair value of the financial assets under investment contracts allows the changes in fair values to be recorded in the income statement and presented in the same line;
- applies to a group of financial assets that is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management staff;
- 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 in respect of the financial instruments it affects.

Designated financial assets are recognised at trade date when HSBC France enters into contractual arrangements with counterparties, which is generally on trade date, and are normally derecognised when sold. Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured. Gains and losses arising from fair value changes of these assets are recognised in the income statement at the occurring date and, with interest income and expenses and dividend related 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 are also included in 'Net income from financial instruments designated at fair value'. Interest on these derivatives is also included in this line. The amount of change during the period, and cumulatively, in the fair value of designated 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.

Financial liabilities designated at fair value

The fair value designation, once made, is irrevocable.

Designated financial liabilities are recognised at settlement date when HSBC France enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when extinguished.

HSBC France may designate financial instruments at fair value in the following cases:

Long-term debt issues

The interest payable on certain fixed rate long-term debt securities issued has been matched with the interest on 'receive fixed/pay variable' interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities issued were accounted for at amortised cost, because the related derivatives are measured at fair value with changes in the fair value recognised in the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will also be recognised in the income statement.

Consolidated financial statements (continued)

1 Basis of preparation and future accounting development *(continued)*

Financial liabilities under unit-linked insurance and unit-linked investment contracts

Through its insurance subsidiary, HSBC France issues contracts to customers that contain insurance risk, financial risk or a combination thereof.

A contract under which HSBC France accepts insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. A contract may also transfer financial risk, but is accounted for as an investment contract if the insurance risk is not significant.

Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value which is calculated by reference to the value of the relevant underlying funds or indices. A liability adequacy test is carried out on insurance liabilities to ensure that the carrying amount of the liabilities is sufficient in the light of current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared with the carrying value of the liability. When a shortfall is identified it is charged immediately to the income statement.

Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative, this includes embedded derivatives which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in 'Net trading income'. Gains and losses on derivatives managed in conjunction with financial instruments designated at fair value are reported in 'Net income from financial instruments designated at fair value' together with the gains and losses on the economically hedged items. Where the derivatives are managed with debt securities issued by the group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

1.3 Significant events during the year

Review of macro hedge accounting

During the last quarter of 2016, in a context of decreasing interest rates, some macro cash flow hedge relationships became inefficient according to IAS 39 policy. Hedge accounting for these items should have been partially discontinued from the 30 June 2015. Because the impact on 2015 financial statement has been considered as non significant, according to IAS 8 accounting principles, this impact has been recognized in the income statement in 2016. During 2016, the persistence of the context of negative interest rates involved a partial de-designation of the hedge relationships, that are now accounted in Trading. The partial de-designation has generated an impact of EUR 122 million (gain) in the income statement as of 31 December 2016. The impact has been booked in Balance Sheet Management activity within Global Banking and Market business line. If this situation had been identified in the first half of 2016, the impact on the first semester 2016 would have been EUR 172 million (income), and the impact on the second semester 2016 would have been EUR 50 million (loss) (Note 12). The late identification of this topic is related to incomplete control for which procedures have been reinforced.

1 Base d'établissement et principales méthodes comptables *(continued)*

Goodwill impairment testing

Following goodwill yearly impairment tests exercice performed in 2016, an impairment of EUR 127 million has been accounted on the goodwill of Retail Banking (EUR 64 million) and Private Banking (EUR 63 millions). This event is detailed in the present document, Note 16 "Goodwill and intangible assets".

HSBC Middle East Leasing Partnership ("MELP")

In December 2016, the governance of HSBC Middle East Leasing Partnership ("MELP"), a strategic aircraft leasing arrangement between HSBC Leasing France (85 per cent) and HSBC Bank Middle East Limited (15 per cent), has been amended to move from a majority voting model toward a joint control model. As per IFRS 3R, this change in governance is assimilated to a change in control, accounted for as a sale of the investment followed by the acquisition of a 85 per cent direct share of MELP's assets, liabilities, revenues and expenses. In accordance with IAS 21, in case of a derecognition, the FX revaluation of the investment which was recognised through OCI is recycled through P&L, resulting in a profit of EUR 58 million (refer to the Consolidated statement of changes in equity tab on page 194). The income has been accounted in the Global Banking and Markets segment.

Voluntary Redundancy Plan

A program of modernisation and optimisation of support functions Operations, IT, Finance, GTRF (Global Trade and Receivable Finance) and Procurement, that includes a Voluntary Redundancy Plan, has been presented to the French Unions representatives during the *Comité Central d'Entreprise* held the 15 September 2016. A provision has been accounted at 31 December 2016 in the income statement to cover the costs related to the Voluntary Redundancy Plan. In January 2017, a partial collective agreement, dealing with Voluntary Redundancy Plan modalities, has been signed by the Management and all the Unions. The agreement has also been approved and validated by the DIRECCTE (*Direction Régionale des Entreprises, de la Concurrence, de la Consommation, du Travail et de l'Emploi*).

EURIBOR

The European Commission imposed a EUR 33.6 million fine on HSBC in the Euribor investigation. More information can be found in Note 30 "Legal proceedings and regulatory matters relating to HSBC group entities generally" of this Document.

Single Resolution Fund (SFR) and Fonds de Garantie des Dépôts et de Résolution (FGDR)

HSBC France contribution to SRF for the year 2016 amounted to EUR 67 million and EUR 26 million have been recorded under security deposits as of end of December 2016. As regard as FGDR, the association and associate certificates represent an amount of EUR 10.8 million as of end of December 2016 after retrocession of EUR 3 million in 2016 ; security deposits amounted to EUR 15.8 million after retrocession of EUR 12 million payment commitments in 2016 and the retrocession of contribution accounted in the income statement amounted to EUR 6 million in 2016.

PVIF (Present Value of In Force long term insurance business)

PVIF model has been impacted by a regulatory change in the first half of 2016. This item is detailed in Note 16 "Goodwill and intangible assets" PVIF of this document.

VISA

VISA Europe was sold on 21 June 2016 in the respect of the repurchase protocol of VISA Inc.
This transaction has impacted the income statement for an amount of EUR 108 million, on which EUR 89 million were accounted in Other Comprehensive in December 2015.

Resegmentation

HSBC Group changed the business line segmentation by the end of 2016, hence a new business line "Corporate Center" has been created and some new allocation rules on income statement and balance sheet per business line have been implemented. HSBC Group decided to implement those changes from 1 January 2017. Refer to Management report (page 17).

Consolidated financial statements (continued)

2 Net earned insurance premium income and net insurance claims, benefits paid and movement in liabilities to policyholders

Through its insurance subsidiary, HSBC France issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which HSBC France accepts insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an investment contract if the insurance risk is significant.

While investment contracts with discretionary participation features are financial instruments, they continue to be treated as insurance contracts as permitted by IFRS 4.

Insurance contracts are accounted for as follows:

Insurance premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

(in millions of euros)	*Non-linked insurance*	*Linked life insurance*	*Investment contracts with DPF features*	*Total*
Gross earned premiums	**70**		**1,696**	**1,766**
– gross written premiums	**70**	**–**	**1,696**	**1,766**
– movement in unearned premiums	**–**	**–**	**–**	**–**
Reinsurers' share of gross earned premiums	**(3)**			**(3)**
– gross written premiums ceded to reinsurers	**(3)**	**–**	**–**	**(3)**
– reinsurers' share of movement in unearned premiums	**–**	**–**	**–**	**–**
Year ended 31 December 2016	**67**	**–**	**1,696**	**1,763**
Gross earned premiums	72	–	1,889	1,961
– gross written premiums	72	–	1,889	1,961
– movement in unearned premiums	–	–	–	–
Reinsurers' share of gross earned premiums	(4)	–	–	(4)
– gross written premiums ceded to reinsurers	(4)	–	–	(4)
– reinsurers' share of movement in unearned premiums	–	–	–	–
Year ended 31 December 2015	68	–	1,889	1,957

2 Net earned insurance premium income and net insurance claims, benefits paid and movement in liabilities to policyholders *(continued)*

Insurance claims and reinsurance recoveries

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. Claims arising during the year include maturities, surrenders and death claims.

Reinsurance recoveries are accounted for in the same period as the related claim.

Future profit participation on insurance contracts with discretionary participation features

In accordance with the Code des assurances, a discretionary participation is allocated to non-linked investments contract based on actual net financial income.

Assets backing non-linked investments contracts are valuated at their fair value. The fair value variation generated during the year is allocated in deferred discretionary participation. At least 85 per cent is allocated to policyholders; the remaining amount is accounted for as deferred participation and should be distributed to customers within 8 years.

(in millions of euros)	*Non-linked insurance*	*Linked life insurance*	*Investment contracts with DPF features*	*Total*
Gross claims incurred and movement in liabilities	**19**	**(1)**	**2,181**	**2,199**
– claims, benefits and surrenders paid	**21**	**5**	**1,823**	**1,849**
– movement in liabilities	**(2)**	**(6)**	**358**	**350**
Reinsurers' share of claims incurred and movement in liabilities	**(1)**	**–**	**–**	**(1)**
– gross written premiums ceded to reinsurers	**(1)**	**–**	**–**	**(1)**
– reinsurers' share of movement in unearned premiums	**–**	**–**	**–**	**–**
Year ended 31 December 2016	**18**	**(1)**	**2,181**	**2,198**
Gross claims incurred and movement in liabilities	27	2	2,456	2,485
– claims, benefits and surrenders paid	23	4	1,894	1,921
– movement in liabilities	4	(2)	562	564
Reinsurers' share of claims incurred and movement in liabilities	–	–	–	–
– gross written premiums ceded to reinsurers	–	–	–	–
– reinsurers' share of movement in unearned premiums	–	–	–	–
Year ended 31 December 2015	27	2	2,456	2,485

Consolidated financial statements (continued)

3 Net operating income (significant items)

Net operating income for the year ended 31 December 2016 amounts to EUR 2,244 million (2015: EUR 2,250 million) and includes in particular, but not exhaustively, income, expense, gains and losses as follows:

(in millions of euros)	**31.12.2016**	31.12.2015
Income		
Interest recognised on impaired financial assets	**27**	35
Interest income on loans and adcances to customers	**900**	1,129
Interest income on financial investments	**433**	482
Fees earned on financial assets or liabilities not held for trading nor designated at fair value, other than fees included in effective interest rate calculations on these types of assets and liabilities	**614**	605
Fees earned on trust and other fiduciary activities where HSBC holds or invests assets on behalf of its customers	**217**	227
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	**(136)**	(197)
– on customer accounts	**(84)**	(106)
– on debt securities in issue and subordinated liabilities, excluding interest on financial liablilities held for trading or designated at fair value	**(14)**	(51)
– other	**(38)**	(40)
Fees payable on financial assets or liabilities not held for trading nor designated at fair value, other than fees included in effective interest rate calculations on these types of assets and liabilities	**(248)**	(237)
Gains / (Losses)	**8**	17
– Gains/(losses) recognised on assets held for sale	**–**	–
– Impairment of available-for-sale equity securities	**–**	–
– Gains/(losses) on disposal of property, plant and equipment and non-financial investments	**8**	17
Loan impairment charges and other credit risk provisions	**(73)**	(121)
– net impairment charge on loans and advances	**(73)**	(120)
– release/(impairment) of available-for-sale debt securities	**–**	1
– release/(impairment) in respect of other credit risk provisions	**–**	(2)

4 Employee compensation and benefits

a *Total employee compensation and average number of employees*

(in millions of euros)	**31.12.2016**	31.12.2015
Wages and salaries	**723**	673
Social security costs	**167**	183
Post-employment benefits	**67**	69
	957	925

Average number of HSBC France's employees during the year

	2016	2015
Retail banking and wealth management	**3,803**	3,831
Commercial Bank	**1,366**	1,423
Corporate, investment and capital markets Bank	**726**	758
Private Bank	**96**	105
Support functions and others [1]	**3,254**	3,557
Total [2]	**9,245**	9,674

1 *Including preretirement (CFCS) and expatriates.*
2 *Permanent contracts (CDI) and fixed terms contracts (CDD) within HSBC France and its subsidiaries HSBC Global Asset Management and HSBC Assurances Vie.*

b *Pension and other post-retirement benefits*

1. Policy

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.

HSBC France pays each retirement a retiring allowance. The amount is determined by the final earnings, the length of service in the company at this date and the guarantees under collective and internal agreements. Those plans represent 76 per cent of all commitments in France.

HSBC France grants certain beneficiaries a scheme plan. Those scheme plan forecast the payment of benefits from the date of retirement. Those plans represent roughly 20 per cent of all commitments in France.

The costs recognised for funding these post-employment plans are determined using the Projected Unit Credit Method, with annual actuarial valuations performed on each plan. HSBC France recognises actuarial gains and losses directly in equity, without being recognised in income. Past service costs are immediately recognised. 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 related to post-employment benefits recognised represents the present value of the defined benefit obligations reduced by the fair value of plan assets.

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

Consolidated financial statements (continued)

4 Employee compensation and benefits *(continued)*

2. Post-employment defined benefit plans' principal actuarial assumptions

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2016, and the 2017 periodic costs, were:

(in %)	*Discount rate*	*Deferred revaluation* [1]	*Inflation rate*	*Rate of increase for pensions in payment and deferred pensions*	*Rate of pay increase*	*Healthcare cost trend rate* [2]
At 31.12.2016						
France	**1.65**	**1.65**	**1.50**	**1.50**	**2.65**	**–**
At 31.12.2015						
France	1.80	1.80	1.50	1.50	2.70	–

1 *Expected Return Rate on Equity.*
2 *HSBC France uses 'mortality tables' TGH/TGF05 for pensions and TV 8890 for post employment benefits.*

HSBC France determines discount rates, in consultation with its actuary based upon the current average yield of high quality (AA rated or equivalent) debt instruments, with maturities consistent with that of the defined benefit obligations.

3. Recording of post-employment obligations

Income statement charge

Defined benefit pension plans

(in millions of euros)	**31.12.2016**	31.12.2015
Current service cost	**7**	6
Interest cost	**3**	3
Net interest (income) on net defined benefit assets	**–**	–
Past service cost	**–**	–
Total net expense	**10**	9

4 Employee compensation and benefits *(continued)*

Net assets/(liabilities) recognised on the balance sheet in respect of defined benefit plans

(in millions of euros)	***Fair value of plan assets***	***Present value of defined benefit obligations***	***Total***
2016	**9**	**174**	**165**
Total employee benefit assets	**–**	**–**	**–**
Total employee benefit liabilities	**9**	**174**	**165**
2015	10	175	165
Total employee benefit assets	–	–	–
Total employee benefit liabilities	10	175	165

Cumulative actuarial gains/(losses) recognised in other comprehensive income

(in millions of euros)	**2016**	2015 [1]
At 1 January	**74**	68
Total actuarial gains/(losses) recognised in other comprehensive income for the year	**(3)**	6
At 31 December	**71**	74

Actuarial gains and losses of the year are composed of:

- EUR 3 million of actuarial losses of actuarial assumptions' changes are only explained by the decrease of the discount rate from 1.80 per cent to 1.65.
- EUR (6) million of actuarial gains arising from experience adjustments explained by the difference between actuarial assumptions adopted and what really happened over the period.

1 *2015 amounts include a technical adjustment of EUR (2) million.*

4 Employee compensation and benefits *(continued)*

Actuarial assumption sensitivities

The following table shows the effect of changes in these and the other key assumptions on the principal plan: the discount rate is sensitive to changes in market conditions arising during the reporting period. The mortality rates used are sensitive to experience from the plan member profile.

	Defined benefits pension plans	
(in millions of euros)	**2016**	**2015**
Discount rate		
Change in pension obligation at year end from a 25bps increase	**(6)**	(6)
Change in pension obligation at year end from a 25bps decrease	**6**	6
Change in following year pension cost from a 25bps increase	**–**	–
Change in following year pension cost from a 25bps decrease	**–**	–
Rate of inflation		
Change in pension obligation at year end from a 25bps increase	**1**	1
Change in pension obligation at year end from a 25bps decrease	**(1)**	(1)
Change in following year pension cost from a 25bps increase	**–**	–
Change in following year pension cost from a 25bps decrease	**–**	–
Rate of increase for pensions in payment and deferred pensions		
Change in pension obligation at year end from a 25bps increase	**1**	1
Change in pension obligation at year end from a 25bps decrease	**(1)**	(1)
Change in following year pension cost from a 25bps increase	**–**	–
Change in following year pension cost from a 25bps decrease	**–**	–
Rate of pay increase		
Change in pension obligation at year end from a 25bps increase	**5**	3
Change in pension obligation at year end from a 25bps decrease	**(4)**	(3)
Change in following year pension cost from a 25bps increase	**–**	–
Change in following year pension cost from a 25bps decrease	**–**	–
Mortality		
Change in pension obligation from each additional year of longevity assumed	**2**	2

4 Employee compensation and benefits *(continued)*

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

(in millions of euros)	Fair value of plan assets	Present value of defined benefit obligations	Net benefit asset/ (liability)
Net defined benefit liability at 1 January 2016	**10**	**175**	**165**
Current service cost	**–**	**8**	**8**
Past service cost and (gains)/ losses from settlements	**–**	**–**	**–**
Service cost	**–**	**8**	**8**
Net interest (income)/cost on the net defined benefit liability	**–**	**3**	**3**
Remeasurement effects recognised in other comprehensive income	**–**	**(3)**	**(3)**
– actuarial losses/(gains) from changes in demographic assumptions	**–**	**(6)**	**(6)**
– actuarial losses/(gains) from changes in financial assumptions	**–**	**3**	**3**
– actuarial losses/(gains) from experience	**–**	**–**	**–**
Exchange differences	**–**	**–**	**–**
Benefits paid	**(1)**	**(9)**	**(8)**
At 31 December 2016	**9**	**174**	**165**
Retirement benefit liabilities recognised on the balance sheet	**–**	**–**	**165**
Retirement benefit assets recognised on the balance sheet	**–**	**–**	**–**
Present value of defined benefit obligation relating to:	**–**	**174**	**–**
– actives	**–**	**135**	**–**
– deferreds	**–**	**1**	**–**
– pensioners	**–**	**38**	**–**

Consolidated financial statements (suite)

4 Employee compensation and benefits *(continued)*

(in millions of euros)	Fair value of plan assets	Present value of defined benefit obligations	Net benefit asset/ (liability)
Net defined benefit liability at 1 January 2015	11	169	158
Current service cost	–	6	6
Past service cost and (gains)/ losses from settlements	–	–	–
Service cost	–	6	6
Net interest (income)/cost on the net defined benefit liability	–	3	3
Remeasurement effects recognised in other comprehensive income	–	6	6
– actuarial losses/(gains) from changes in demographic assumptions	–	(1)	(1)
– actuarial losses/(gains) from changes in financial assumptions	–	7	7
– actuarial losses/(gains) from experience	–	–	–
Exchange differences	–	–	–
Benefits paid	(1)	(9)	(8)
At 31 December 2015	10	175	165
Retirement benefit liabilities recognised on the balance sheet	–	–	165
Retirement benefit assets recognised on the balance sheet	–	–	–
Present value of defined benefit obligation relating to:	–	175	–
– actives	–	132	–
– deferreds	–	7	–
– pensioners	–	36	–

Benefits expected to be paid from plans to retirees over each of the next five years and in aggregate for the five years thereafter, are as follows:

(in millions of euros)	2017	2018	2019	2020	2021	2022-2027
Total of plans	9	6	8	8	9	47

4 Employee compensation and benefits *(continued)*

Fair value of plan assets by asset classes

(in millions of euros)	**2016** Fair value	**2016** Quoted market price in active market	**2016** No quoted market price in active market	**2016** Thereof HSBC	2015 Fair value	2015 Quoted market price in active market	2015 No quoted market price in active market	2015 Thereof HSBC
Fair value of plan assets	**9**	**9**	**–**	**–**	10	10	–	–
Equities	**–**	**–**	**–**	**–**	–	–	–	–
Bonds	**9**	**9**	**–**	**–**	10	10	–	–
Property	**–**	**–**	**–**	**–**	–	–	–	–
Derivatives	**–**	**–**	**–**	**–**	–	–	–	–
Other	**–**	**–**	**–**	**–**	–	–	–	–

c *Share-based payments*

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 plans

This expense is spread on a straight-line basis over the vesting period with a balancing entry in a liability account. The expense value takes into account assumptions regarding employee departures and performance conditions.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Vesting conditions include service conditions.

Market conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other conditions are satisfied. A cancellation that occurs during the vesting period is treated as an acceleration of vesting, and recognised immediately for the amount that would otherwise have been recognised for services over the vesting period.

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

4 Employee compensation and benefits *(continued)*

When an award has been modified, as a minimum, the expense of the original award continues to be recognised as if it had not been modified. Where the effect of a modification is to increase the fair value of an award or increase the number of equity instruments, the incremental fair value of the award or incremental fair value of liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligation.

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. In 2016, this advantage has not been proposed to employees.

Income statement charge

(in millions of euros)	**31.12.2016**	31.12.2015
Restricted share awards	**13**	19
Savings related and other share option plans	**–**	2
Year ended at 31 December	**13**	21

Share Group policy

In 2005, the HSBC Group significantly revised its employee share option and share policy.

The new rules of share option and share plans were approved by its Annual General Meeting held in May 2005. These rules include a French sub-plan (Schedule 3 of the general rule), which complies with the legal and tax regulations applicable in France. 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', for the HSBC Group's Senior Executives. In this context, the French sub-plan (Schedule 5 of the new rules) has also been subjected to 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 a country specific legal and tax regulation).

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.

4 Employee compensation and benefits *(continued)*

'Group Performance Shares'

	2016	2015
	Number (000)	*Number (000)*
Outstanding at 1 January	**58**	45
Capital increase	**–**	–
Granted in the year	**17**	13
Vested in the year	**–**	–
Transferred in the year	**–**	–
Expired in the year	**–**	–
Outstanding at 31 December	**75**	58

This category of shares is available, beyond a vesting period of five years, at the retirement date. From 2016, those Group performance Shares are not available anymore.

'Restricted Shares'

For French employees, shares awarded are "French qualified shares".

These shares vest definitively after a two-year or three-year period and according to the rules of the Plan. Shares granted from 2011 will vest 66 per cent after two years and 34 per cent after three years.

Shares granted before 2016 can not be sold before a tax lock-up period of two years period after their vesting. Since 1 January 2016, this category does not support any tax lock up period and can be sold immediately.

Impatriates are awarded non-qualified "Restricted shares" that vest 33 per cent after one year, 33 per cent after two years and 34 per cent after three years.

Some "Material Risk Taker" employees are awarded "Restricted shares" that vest immediately and "French qualified shares" vest under a period about 3 or 5 years. But all the shares granted to "Material Risk Taker" are assorted to a period of tax unavailability about 6 months.

	2016	2015
	Number (000)	*Number (000)*
Outstanding at 1 January	**2,875**	3,660
Granted in the year	**1,179**	1,499
Vested in the year	**(2,442)**	(2,273)
Transferred in the year	–	–
Expired in the year	**(46)**	(11)
Shares issued	–	–
Outstanding at 31 December	**1,566**	2,875

4 Employee compensation and benefits *(continued)*

In 2016, EUR (6.3) million was charged to the income statement in respect of amortisation of the existing plans for HSBC France (in 2015: EUR (8.4) million).

Regulatory and best practice guidance has clarified the required structure and terms of the vesting period that should be recognised in the consolidated financial statements of the HSBC France group. As a result, the vesting period for deferred share awards expected to be granted in 2016, in respect of the 2015 performance year, was determined to have started on 1 January 2015. Prior to 2011, amortisation started at the date of grant of the shares.

Employee share offering

In 2016, the HSBC Group did not proceed to any capital increase opened to current employees.

5 Auditors' remuneration

Exercice 2016	PricewaterhouseCoopers Audit		BDO - Léger&Associés Audit		Autres	
(in thousands of euros)	*Amount (HT)*	*%*	*Amount (HT)*	*%*	*Amount (HT)*	*%*
Accounts certifications	**2,347**	**88%**	**586**	**85%**	**–**	**–**
Other services [1]	**306**	**12%**	**103**	**15%**	**–**	**–**
Total	**2,653**	**100%**	**689**	**100%**	**–**	**–**

1 *Including services directly related to the Statutory Auditors deleted from 17 June 2016.*

Exercice 2015	PricewaterhouseCoopers Audit		BDO - Léger&Associés Audit		Autres	
(in thousands of euros)	*Amount (HT)*	*%*	*Amount (HT)*	*%*	*Amount (HT)*	*%*
Accounts certifications	2,173	90%	713	95%	–	–
Other services	239	10%	34	5%	44	100%
Total	2,412	100%	747	100%	44	100%

The presentation of this note has been modified in order to follow the new ANC standards (certified on 27 December 2016), applicable to the financial statement as at 31 December 2016, the annual financial statements as of 31 December 2016, specifying the audit fees which must appear in the account's appendices of the annual consolidated financial statements.

6 Tax expense and deferred tax

a *Current and deferred tax expense*

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 substantively 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 offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts 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 that 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 based on tax rates and laws enacted, or substantially enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same legal entity, and relate to income taxes levied by the same taxation authority, and when the group has a legal right to offset.

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognised in other comprehensive income. Deferred tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred tax relating to fair value remeasurement of available-for-sale investments and cash flow hedging instruments, is credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

The amount of deferred tax expense has been recognised at 31 December 2016, taking into account the profit outlook as established in the budget.

Current and deferred tax expense

(in millions of euros)	**31.12.2016**	31.12.2015
Current tax	**41**	118
Deferred tax	**79**	53
Tax expense	**120**	171
Effective tax rate (per cent)	**27.7**	27.7

The 2017 Finances Law ('*Loi de Finances*') integrates a gradual decrease of the tax rate from 33 1/3 to 28 per cent. For HSBC France, the tax rate of 28 per cent will be applied only as of 2020.

The social contribution on profit (CSB at 3.3 per cent of the income tax) is maintained and is added to the income tax at 33 1/3 or 28 per cent.

The 2016 Finances Law ('*Loi de Finances*') cancelled the additional contribution of 10.7 per cent as of 2016.

As a consequence, in 2016 France's tax rate is 34.43 per cent (38 per cent in 2015).

In application of the standard IAS 12, at each deferred tax basis, assumptions of recovery were taken to determine if these deferred tax will be recovered or not before 2020. The tax rate of 34.43 per cent is applied for deferred tax recognised before 2020 and 28.92 per cent for those recognised post 01/01/2020.

The decrease of current tax between 2015 and 2016 is explained by the decrease of tax result, the increase of tax credit and the decrease of the tax rate from 38 per cent to 34.43 per cent.

6 Tax expense and deferred tax *(continued)*

Analysis of overall tax charges

(in millions of euros)	**31.12.2016** Amount	**31.12.2016** %	31.12.2015 Amount	31.12.2015 %
Taxation at French corporate tax rate of 34.43% (2015: 38%)	**149**	**34.43**	235	38.0
Effect of taxing overseas profit at different rates	**(17)**	**(3.9)**	(4)	(0.7)
Non-taxable income and gains subject to tax at a lower rate	**(35)**	**(8.2)**	(3)	(0.4)
Deferred tax temporary differences not provided	**–**	**–**	(1)	(0.1)
Permanent disallowables	**60**	**13.9**	17	2.7
Changes in tax rates	**(7)**	**(1.7)**	(11)	(1.7)
Local taxes and overseas withholding taxes	**20**	**4.7**	19	3.1
Adjustment in respect of prior years	**(4)**	**(0.9)**	8	1.2
Other items	**(46)**	**(10.6)**	(89)	(14.4)
Total tax charged/(credited) to the income statement	**120**	**27.7**	171	27.7

The effective tax rate for 2016 of 27.7 per cent was lower than the French corporate tax rate of 34.43 per cent, mainly due to tax credit and gain on French Fiscal Unity offset partly by non-deductible expenses.

Deferred taxation

(in millions of euros)	**31.12.2016** Deferred tax asset	**31.12.2016** Deferred tax liability	**31.12.2016** Total	31.12.2015[1] Deferred tax asset	31.12.2015[1] Deferred tax liability	31.12.2015[1] Total
Temporary differences:						
– retirement benefits	**38**	**1**	**39**	44	1	45
– assets leased	**53**	**(2)**	**51**	86	(2)	84
– revaluation of property	**(9)**	**–**	**(9)**	(10)	(1)	(11)
– other temporary differences	**167**	**(200)**	**(33)**	176	(202)	(26)
– deferred losses carried forward	**–**	**–**	**–**	–	–	–
	249	**(201)**	**48**	296	(204)	92

1 *The sign agreement has been reviewed in order to align with HSBC Group's display.*

The Deferred Tax amounts in "other temporary differences" category mainly concern Deferred Tax Assets on Covered Bonds Mark to market and the Deferred Tax Liabilities on PVIF.

6 Tax expense and deferred tax *(continued)*

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

(in millions of euros)	**31.12.2016**	31.12.2015[1]
Cash flow hedge	**58**	25
Available-for-sale reserve	**(70)**	(52)
Net foreign exchange	**–**	(20)
Actuarial losses	**20**	21

1 *The sign agreement has been reviewed in order to align with HSBC Group's display.*

Movement of net deferred tax assets/(liabilities)

(in millions of euros)	***Retire-ment benefits***	***Loan impair-ment allow-ances***	***Available-for-sale invest-ments***	***Goodwill and intan-gibles***	***Other[1]***	***Total***
Assets	**44**	**44**	**(29)**	**(5)**	**242**	**296**
Liabilities	**1**	**–**	**(23)**	**–**	**(182)**	**(204)**
At 1 January 2016	**45**	**44**	**(52)**	**(5)**	**60**	**92**
Income statement	**(5)**	**(1)**	**(2)**	**–**	**(73)**	**(81)**
Other comprehensive income	**(1)**	**–**	**(15)**	**–**	**33**	**17**
Equity	**–**	**–**	**–**	**–**	**–**	**–**
Foreign exchange and other adjustments	**–**	**–**	**(1)**	**–**	**21**	**20**
Movement	**(6)**	**(1)**	**(18)**	**–**	**(19)**	**(44)**
Assets	**38**	**43**	**(42)**	**(5)**	**215**	**249**
Liabilities	**1**	**–**	**(28)**	**–**	**(174)**	**(201)**
At 31 December 2016	**39**	**43**	**(70)**	**(5)**	**41**	**48**

(in millions of euros)	*Retire-ment benefits[2]*	*Loan impair-ment allow-ances[2]*	*Available-for-sale invest-ments[2]*	*Goodwill and intan-gibles[2]*	*Other[2]*	*Total[2]*
Assets	42	47	(84)	(5)	136	136
Liabilities	–	–	–	–	(3)	(3)
At 1 January 2015	42	47	(84)	(5)	133	133
Income statement	1	(3)	1	–	(52)	(53)
Other comprehensive income	2	–	4	–	26	32
Equity	–	–	–	–	–	–
Foreign exchange and other adjustments	–	–	27	–	(47)	(20)
Movement	3	(3)	32	–	(73)	(41)
Assets	44	44	(29)	(5)	242	296
Liabilities	1	–	(23)	–	(182)	(204)
At 31 December 2015	45	44	(52)	(5)	60	92

1 *Differed tax in "Other" includes liabilities differed tax from PVIF and assets differed tax from Mark to Market of Covered Bonds debts and Cash Flows Hedge.*
2 *The sign agreement has been reviewed in order to align with HSBC Group's display.*

Consolidated financial statements (continued)

6 Tax expense and deferred tax *(continued)*

b *CVAE*

Since 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 1.6 per cent of added-value of the year.

HSBC France 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.

Since 2014, the CVAE contribution is included in 'Income Tax'. In 2016, the impact of this accounting position was a classification of a charge of EUR 22.3 million (2015: EUR 25.7 million) on the 'Income Tax' and the recognition of a deferred tax liability of EUR 3.8 million (2015: EUR 0.4 million).

c *Crédit d'impôt Compétitivité Emploi' (CICE)*

The CICE ('*Crédit d'Impôt Compétitivité Emploi*') is a new tax rebate that became operative on 1 January 2013. Available for every French company, the CICE substantially reduces the tax paid. For 2016, the CICE corresponds to 6 per cent of staff costs excluding salaries over 2.5 times the minimum wage (SMIC).

The CICE is equivalent to a reduction in staff costs and it is considered as a government grant.

Thus, the HSBC France group, in application of IAS 20, has chosen to recognise the CICE as a reduction of business expenses.

For the fiscal year 2016, HSBC France group benefited from a EUR 6.6 million tax credit under the CICE (*Crédit d'Impôt Compétitivité Emploi*), (in 2015: EUR 7.4 million).

Within the framework of the allocation of CICE, HSBC France group backed the profit of the tax credit to a pool of expenses and investments dedicated to the improvement of products and services to customers as well as enhancement of the bank's efficiency. Those expenses are broken down into the following categories:

- Premises: investments in the development and refurbishment of the branch network and headquarters, energy saving schemes;
- Information and technology innovative investments: significant expenses have been engaged during the year 2016 dedicated to the development of enhanced and better integrated commercial software, notably the complete reshape of workstation in branches, faster deployment of digital tools and services to customers as well as continuous improvement of financial crime compliance processes;
- Training: Staff benefited from numerous courses during the year 2016 with certificated courses, language training courses as well as compliance and risk management.

7 Dividends paid in 2016 and 2015 and dividend per share

	31.12.2016		31.12.2015	
(in millions of euros)	***EUR per share***	***Amount***	*EUR per share*	*Amount*
First interim dividend paid for current year	**2.00**	**135**	3.71	251
Dividend paid with respect to previous year	**0.44**	**30**	2.23	150
Total dividends paid		**165**		401

Dividends related to 2016

The board of Directors held on 22 July 2016 decided the distribution of an interim dividend of EUR 2 per share in respect of the year 2016. The interim dividend was paid to the 67,437,827 outstanding shares on 27 July 2016.

The board of Directors held on 8 February 2017 will propose at the Annual General Meeting, on 26 April 2017, to distribute a dividend amounting for EUR 269,751,308 in respect of the 2016 results. This dividend, if approved by the shareholders, will be payable after deduction of the interim dividend of EUR 2 per share decided by the Board of Directors held on 22 July and already paid to the outstanding shares at this date.

Dividends related to 2015

The board of Directors held on 8 February 2016 has proposed at the Annual General Meeting, held on 19 April 2016, to distribute a dividend amounting for EUR 279,866,982.05, or EUR 4.15 per share, in respect of the 2015 results. This dividend, approved by the shareholders, was paid on 28 April 2016 after deduction of the interim dividend of EUR 3.71 per share already paid.

Earnings and dividends per share

(in euros)	**31.12.2016**	31.12.2015
Basic earnings per share	**4.61**	6.61
Diluted earnings per share	**4.61**	6.61
Dividend per share	**4.00**	4.15

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 310 million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 67,437,827 (full year 2015: earnings of EUR 445 million and 67,437,827 weighted average number of 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 67,437,827 (full year 2015: 67,437,827 shares).

At 31 December 2016, no potentially dilutive ordinary share had been issued.

Consolidated financial statements (continued)

8 Trading assets

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. They are recognised on trade date, when HSBC France enters into contractual arrangements with counterparties to purchase the financial instruments and are normally derecognised when sold. They are initially measured at fair value, with transaction costs taken to the income statement. Subsequently changes in their fair value are recognised in the income statement in 'Net trading income'. For trading assets, the interest is shown in "Net Trading income".

(in millions of euros)	**31.12.2016**	31.12.2015
Trading assets:		
– which may be repledged or resold by counterparties	**12,044**	13,820
– not subject to repledge or resale by counterparties	**11,545**	13,341
	23,589	27,161

(in millions of euros)	**31.12.2016**	31.12.2015
Treasury and other eligible bills	**393**	791
Debt securities	**15,610**	17,831
Equity securities	**–**	–
Loans and advances to banks	**4,658**	5,112
Loans and advances to customers	**2,928**	3,427
Total trading assets	**23,589**	27,161

Included within the above figures for HSBC France are debt securities issued by banks and other financial institutions of EUR 1,662 million (2015: EUR 2,827 million), of which EUR 634 million (2015: EUR 761 million) are guaranteed by various governments.

9 Fair value of financial instruments carried at fair value

a *Accounting policy*

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in a standard transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price.

However, sometimes the fair value will be based on other observable current market transactions for the same instrument, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, HSBC France recognises a trading gain or loss (Day 1), being the difference between the transaction price and the fair value. When significant unobservable parameters have a significant impact over the valuation of financial instruments, the initial gap between fair value issued from the measurement model and the transaction price (Day 1) is not immediately recognised in the income statement but accounted for over the lifespan of the transaction.

9 Fair value of financial instruments carried at fair value *(continued)*

The fair value of financial instruments is generally measured on an individual basis. However, in cases where HSBC France manages a group of financial assets and liabilities according to its net market or credit risk exposure, HSBC measures the fair value of the group of financial instruments on a net basis but discloses the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRS offsetting criteria as described in Note 25.

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b *Critical accounting estimates and judgements related to financial instrument valuation*

The best evidence of fair value is a quoted price on an actively traded principal market. In the event that the market for a financial instrument is not active, and the valuation technique uses only observable market data, the reliability of the fair value measurement is high. However, when valuation techniques include one or more significant unobservable market inputs, they rely to a greater extent on management judgement. In absence of observable valuation inputs, due to a lack of or a reduced volume of similar transactions, management judgement is required to assess the price at which an arm's length transaction would occur under normal business conditions, in which case management may rely on historical prices for that particular financial instrument or on recent prices for similar instruments.

The main assumptions and estimates which management considers when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument; judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument: management Judgement required to assess what a market participant would regard as the appropriate premium for an instrument over the appropriate risk-free rate;
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity on the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which future cash flows are estimated. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. 'Projection' utilises market forward curves, if available. In option models, the probability of different potential future outcomes must be considered. In addition, the value of some products is dependent on more than one market factor, and in these cases it will typically be necessary to consider how movements in one market factor may affect the other market factors.

9 Fair value of financial instruments carried at fair value *(continued)*

c *Control framework*

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by an independent function of the risk taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. On inactive markets, direct observation of traded prices 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.

Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

d *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 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 on active markets that the group can access at the measurement date.

b Level 2 – Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments on active markets or quoted prices for identical or similar instruments on 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 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. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ('day 1 gain or loss') is driven by unobservable inputs. '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).

9 Fair value of financial instruments carried at fair value *(continued)*

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 on an active market for the specific instrument concerned. Where not available, the fair value will either be based upon quoted prices on an inactive market for the specific instrument concerned, or estimated by comparison with quoted prices on 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. Then, using discounted cash flow, each security is valued using a BOR-based discount curve. The difference in the valuations is attributable to the group's own credit spread. This methodology is applied consistently across all securities.

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.

Gains and losses arising from changes in the credit spread of liabilities issued by the group are recognised in the income statement over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

9 Fair value of financial instruments carried at fair value *(continued)*

e *Breakdown of financial instruments recorded at fair value by level of fair value measurement*

	Valuation techniques				Amounts with HSBC entities		
(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*	*Of which Level 3*[1]	*Total*
At 31 December 2016							
Assets							
Trading assets	**16,001**	**7,055**	**2**	**23,058**	**531**	**–**	**23,589**
Financial assets designated at fair value	**6,807**	**199**	**19**	**7,025**	**280**	**–**	**7,305**
Derivatives	**17**	**28,228**	**363**	**28,608**	**18,759**	**307**	**47,367**
Financial investments available-for-sale	**25,689**	**14**	**251**	**25,954**	**550**	**–**	**26,504**
Liabilities							
Trading liabilities	**14,389**	**8,694**	**246**	**23,329**	**3,139**	**–**	**26,468**
Financial liabilities at fair value	**2,562**	**5,902**	**–**	**8,464**	**–**	**–**	**8,464**
Derivatives	**3**	**27,827**	**37**	**27,867**	**16,146**	**455**	**44,013**
At 31 December 2015							
Assets							
Trading assets	18,609	7,660	4	26,273	888	–	27,161
Financial assets designated at fair value	6,087	286	–	6,373	395	–	6,768
Derivatives	68	31,248	262	31,578	17,906	262	49,484
Financial investments available-for-sale	27,038	13	313	27,364	313	–	27,677
Liabilities							
Trading liabilities	9,277	9,324	149	18,750	3,897	–	22,647
Financial liabilities at fair value	2,556	5,920	–	8,476	–	–	8,476
Derivatives	8	32,575	30	32,613	14,290	296	46,903

1 *This column has been added in order to identify level 3 amounts with HSBC Group subsidiaries. The remaining amounts with entities of the Group HSBC not in Level 3 are in Level 1 or 2.*

9 Fair value of financial instruments carried at fair value *(continued)*

Transfers between Level 1 and Level 2 fair values.

	Assets				Liabilities		
(in millions of euros)	*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 31 December 2016							
Transfers from Level 1 to Level 2	–	–	–	–	–	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–	–	–
At 31 December 2015							
Transfers from Level 1 to Level 2	–	–	–	–	–	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–	2	–

f *Fair value adjustments*

Fair value adjustments are adopted when HSBC France considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model. HSBC France classifies fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to Global Banking and Markets.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Risk-related adjustments

Bid-offer

IFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit valuation adjustment (CVA)

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that the group may not receive the full market value of the transactions (see below).

Debit valuation adjustment (DVA)

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the HSBC France group may default, or may not pay full market value of the transactions (see below).

9 Fair value of financial instruments carried at fair value *(continued)*

Model-related adjustments

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted by HSBC France when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

Credit valuation adjustment methodology (CVA)

HSBC France calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of HSBC France, to the group's expected positive exposure to the counterparty and multiplying the result by the expected loss in the event of default. Conversely, HSBC France calculates the DVA by applying the PD of HSBC France, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the group and multiplying by the expected loss in the event of default. Both calculations are performed over the life of the potential exposure.

The derivation of a proxy takes into account the range of market practice, relevant data in this context, including CDS index and rating transition data, and CSA characteristics determined for each counterparty.

For most products, the group uses a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates the range of potential exposures across the portfolio of transactions with the counterparty over the life of the portfolio. The simulation methodology takes into account different contractual characteristics reducing credit risk such as counterparty netting agreements and collateral agreements with the counterparty. A standard loss given default assumption of 60 per cent is generally adopted for developed market exposures, and 75 per cent for emerging market exposures. Alternative loss given default assumptions may be adopted where both the nature of the exposure and the available data support this.

For certain types of exotic derivatives where the products are not currently supported by the simulation, HSBC France adopts alternative methodologies. These may involve mapping to the results for similar products from the simulation tool or where such a mapping approach is not appropriate, a simplified methodology is used, generally following the same principles as the simulation methodology. The calculation is applied at a trade level, with more limited recognition of credit mitigants such as netting or collateral agreements than used in the simulation methodology.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk arises where the underlying value of the derivative prior to any CVA is positively correlated to the probability of default of the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect the wrong-way risk within the valuation.

During the year, HSBC France refined the methodologies used to calculate the CVA and DVA to more accurately reflect the impact of ratings downgrade triggers on credit mitigation. HSBC France reviews and refines the CVA and DVA methodologies on an ongoing basis.

Valuation of not collateralised derivatives

Historically the Group HSBC France evaluated uncollateralised derivatives by discounting estimated future cash flow at a reference interest rate such as EURIBOR or an equivalent. In order to be in line with the evolution of the sector's practices, HSBC France has modified its methodology in the second half of 2014. HSBC France now uses the OIS rate (overnight indexed swap) as the reference discounting curve for collateralised or uncollateralised derivatives. Moreover, HSBC France has adopted the funding fair value adjustment ('FFVA') which reflects the future funding exposure of any uncollateralised component at rates other than OIS rates. At 31 December 2016, the FFVA is EUR 64 million (2015: EUR 41 million).

9 Fair value of financial instruments carried at fair value *(continued)*

g *Focus Level 3*

Financial instruments measured at fair value using a valuation technique with unobservable inputs – Level 3

	Assets				Liabilities		
(in millions of euros)	*Available for sale*	*Held for Trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
Private equity investments . . .	**251**	**–**	**19**	**–**	**–**	**–**	**–**
Asset-backed securities.	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Structured notes	**–**	**2**	**–**	**–**	**246**	**–**	**–**
Derivatives	**–**	**–**	**–**	**363**	**–**	**–**	**37**
Other portfolios	**–**	**–**	**–**	**–**	**–**	**–**	**–**
HSBC Group subsidiaries . . .	**–**	**–**	**–**	**307**	**–**	**–**	**455**
At 31 December 2016	**251**	**2**	**19**	**670**	**246**	**–**	**492**
Private equity investments . . .	313	–	–	–	–	–	–
Asset-backed securities.	–	–	–	–	–	–	–
Structured notes	–	4	–	–	149	–	–
Derivatives	–	–	–	262	–	–	30
Other portfolios	–	–	–	–	–	–	–
HSBC Group subsidiaries . . .	–	–	–	262	–	–	296
At 31 December 2015	313	4	–	524	149	–	326

Private equity

The group's private equity positions are generally classified as available for sale and are not traded on 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 on an active market, or the price at which similar companies have changed ownership. Fair value investment estimation being subjected to judgement and uncertainty subjective factors remain until the private equity investment is sold.

Asset-backed securities (ABS)

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.

9 Fair value of financial instruments carried at fair value *(continued)*

Derivatives

Over-the-counter (i.e. non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some divergence in market 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.

Examples of inputs that may be unobservable include volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors such as foreign exchange rates, interest rates and equity prices.

Derivative products valued using valuation techniques with significant unobservable inputs included certain types of correlation products, such as foreign exchange basket options, equity basket options, foreign exchange interest rate hybrid transactions and long-dated option transactions. Examples of the latter are equity options, interest rate and foreign exchange options and certain credit derivatives. Credit derivatives include certain tranched CDS transactions.

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.

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.

Trading liabilities valued using a valuation technique with significant unobservable inputs principally comprised equity linked structured notes which are issued by HSBC and provide the counterparty with a return that is linked to the performance of certain equity securities, and other portfolios. The notes are classified as Level 3 due to the unobservability of parameters such as long-dated equity volatilities and correlations between equity prices, between equity prices and interest rates and between interest rates and foreign exchange rates.

9 Fair value of financial instruments carried at fair value *(continued)*

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

	Assets				Liabilities		
(in millions of euros)	*Available for sale*	*Held for Trading*	*Designated at fair value through profit or loss*	*Derivatives*[1]	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*[1]
At 1 January 2016	**313**	**4**	**–**	**524**	**149**	**–**	**326**
Total gains or losses recognised in profit or loss	(2)	(2)	–	156	99	–	154
– trading income excluding net interest income	–	(2)	(1)	156	99	–	154
– gains less losses from financial investments	(2)	–	–	–	–	–	–
Total gains or losses recognised in other comprehensive income	25	–	–	–	–	–	–
– available-for-sale investments fair value gains/(losses)	25	–	–	–	–	–	–
Purchases	27	–	20	–	–	–	–
Issues	–	–	–	–	–	–	–
Sales	(115)	–	–	–	–	–	–
Settlements	–	–	–	(14)	1	–	13
Transfer out	–	–	–	(3)	(4)	–	(1)
Transfer in	3	–	–	3	1	–	3
Exchange differences	–	–	–	4	–	–	(3)
At 31 December 2016	**251**	**2**	**19**	**670**	**246**	**–**	**492**
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 December	5	(2)	(1)	113	130	–	8
– trading income excluding net interest income	5	(2)	(1)	113	130	–	8
– loan impairment charges and other credit risk provisions	–	–	–	–	–	–	–
– gains less losses from financial investments	–	–	–	–	–	–	–

1 *Derivatives include amounts with other entities of the HSBC Group.*

Consolidated financial statements (continued)

9 Fair value of financial instruments carried at fair value *(continued)*

(in millions of euros)	Assets				Liabilities		
	Available for sale	*Held for Trading*	*Designated at fair value through profit or loss*	*Derivatives*[1]	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*[1]
At 1 January 2015	74	–	–	348	–	–	270
Total gains or losses recognised in profit or loss	(8)	–	–	222	–	–	41
– trading income excluding net interest income	–	–	–	222	–	–	41
– gains less losses from financial investments	(8)	–	–	–	–	–	–
Total gains or losses recognised in other comprehensive income	15	–	–	–	–	–	–
– available-for-sale investments fair value gains/(losses)	15	–	–	–	–	–	–
Purchases	42	–	–	–	–	–	–
Issues	–	–	–	–	–	–	–
Sales	(12)	–	–	–	–	–	–
Settlements	–	–	–	(54)	–	–	8
Transfer out	–	–	–	(354)	–	–	(257)
Transfer in	201	4	–	362	149	–	264
Exchange differences	1	–	–	–	–	–	–
At 31 December 2015	313	4	–	524	149	–	326
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 December	–	–	–	524	–	–	326
– trading income excluding net interest income	–	–	–	524	–	–	326
– loan impairment charges and other credit risk provisions	–	–	–	–	–	–	–
– gains less losses from financial investments	–	–	–	–	–	–	–

1 *Derivatives include amounts with other entities of the HSBC Group.*

9 Fair value of financial instruments carried at fair value *(continued)*

Sensitivity of Level 3 fair values to reasonably possible alternative assumption

The fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

	Reflected in profit or loss		*Reflected in other*	
(in millions of euros)	*Favourable changes*	*Unfavourable changes*	*Favourable changes*	*Unfavourable changes*
At December 2016				
Derivatives/trading assets/trading liabilities[1]	**4**	**(4)**	**–**	**–**
Financial assets and liabilities designated at fair value	**1**	**(1)**	**–**	**–**
Financial investments: available-for-sale	**–**	**–**	**26**	**(21)**
At December 2015				
Derivatives/trading assets/trading liabilities[1]	5	(5)	–	–
Financial assets and liabilities designated at fair value	–	–	–	–
Financial investments: available-for-sale	2	(2)	23	(23)

1 *Derivatives, trading assets and trading liabilities are presented as one category to reflect the manner in which these financial instruments are risk-managed.*

The following table shows the sensitivity of level 3 fair values to reasonably possible alternative assumptions.

	Reflected in profit or loss		*Reflected in other*	
(in millions of euros)	*Favourable changes*	*Unfavourable changes*	*Favourable changes*	*Unfavourable changes*
At December 2016				
Private equity investments	**1**	**(1)**	**26**	**(21)**
Asset-backed securities	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**
Derivatives	**4**	**(4)**	**–**	**–**
Other portfolios	**–**	**–**	**–**	**–**
At December 2015				
Private equity investments	2	(2)	23	(23)
Asset-backed securities	–	–	–	–
Structured notes	–	–	–	–
Derivatives	5	(5)	–	–
Other portfolios	–	–	–	–

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or most unfavourable change from varying the assumptions individually.

9 Fair value of financial instruments carried at fair value *(continued)*

Key unobservable inputs to Level 3 financial instruments

The table above lists key unobservable inputs to level 3 financial instruments, and provides the range of those inputs as at 31 December 2016. A further description of the categories of key unobservable inputs is given below.

(in millions of euros)	*Fair value*[1] *Assets*	*Fair value*[1] *Liabilities*	*Valuation technique*	*Key unobservable inputs*	*Full range of inputs* *Lower*	*Full range of inputs* *Higher*	*Core range of inputs* *Lower*	*Core range of inputs* *Higher*
At 31 December 2016								
Private equity including strategic investments	**270**	–	See notes below	See notes below	n/a	n/a	n/a	n/a
Asset-backed securities								
– CLO/CDO[2]	–	–	Market proxy	Bid quotes	–	–	–	–
– Other ABSs	–	–						
Structured notes	2	246	Model – Option model	Equity volatility	–	–	–	–
– Equity-linked notes	–	–	Model – Option model	Equity correlation	–	–	–	–
– Fund-linked notes	–	–	Model – Option model	Fund volatility	–	–	–	–
– FX-linked notes	–	–	Model – Option model	FX volatility	–	–	–	–
– Other	2	246						
Derivatives	670	492						
Interest rate derivatives:								
– securitisation swaps	161	4	Model – DCF[3]	Prepayment rate	50%	50%	50 %	50%
– long-dated swaptions	439	389	Model – Option model	IR volatility	9%	24%	10%	23%
– other	70	99						
Foreign exchange derivatives:								
– foreign exchange options	–	–	Model – Option model	FX volatility	10%	14%	10%	14%
Equity derivatives:								
– long-dated single stock options	–	–	Model – Option model	Equity volatility	–	–	–	–
– other	–	–						
Credit derivatives:								
– other	–	–						
Other portfolios	–	–						
Total Level 3	**942**	**738**						

1 *Including Level 3 amounts with HSBC Group subsidiaries.*
2 *Collateralised loan obligation/collateralised debt obligation.*
3 *Discounted cash flow.*

9 Fair value of financial instruments carried at fair value *(continued)*

(in millions of euros)	*Fair value[1]* *Assets*	*Liabi-lities*	*Valuation technique*	*Key unobser-vable inputs*	*Full range of inputs* *Lower*	*Higher*	*Core range of inputs* *Lower*	*Higher*
At 31 December 2015								
Private equity including strategic investments	313	–	See notes below	See notes below	n/a	n/a	n/a	n/a
Asset-backed securities								
– CLO/CDO[2]	–	–	*Market proxy*	*Bid quotes*	–	–	–	–
– Other ABSs	–	–			–	–	–	–
Structured notes	4	149						
– Equity-linked notes	–	–	*Model – Option model*	*Equity volatility Equity correlation*	–	–	–	–
– Fund-linked notes	–	–	*Model – Option model*	*Fund volatility*	–	–	–	–
– FX-linked notes	–	–	*Model – Option model*	*FX volatility*	–	–	–	–
– Other	4	149						
Derivatives	524	326						
Interest rate derivatives:								
– securitisation swaps	144	6	*Model– DCF[3]*	*Prepayment rate*	50%	50%	50%	50%
– long-dated swaptions	336	289	*Model – Option model*	*IR volatility*	11%	35%	13%	31%
– other	43	30						
Foreign exchange derivatives:								
– foreign exchange options	1	1	*Model – Option model*	*FX volatility*	5%	14%	5%	14%
Equity derivatives:								
– long-dated single stock options	–	–	*Model – Option model*	*Equity volatility*	–	–	–	–
– other	–	–						
Credit derivatives:								
– other	–	–						
Other portfolios	–	–						
Total Level 3	841	475						

1 *Including Level 3 amounts with HSBC Group subsidiaries.*
2 *Collateralised loan obligation/collateralised debt obligation.*
3 *Discounted cash flow.*

9 Fair value of financial instruments carried at fair value *(continued)*

Private equity including strategic investments

HSBC's private equity and strategic investments are generally classified as available for sale and are not traded on active markets. In the absence of an active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar quoted entities on an active market, or the price at which similar companies have changed ownership. Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs.

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. Prepayment rates are an important input into modelled values of asset-backed securities. A modelled price may be used where insufficient observable market prices exist to enable a market price to be determined directly. Prepayment rates are also an important input into the valuation of derivatives linked to securitisations. For example, so-called securitisation swaps have a notional value that is linked to the size of the outstanding loan portfolio in a securitisation, which may fall as prepayments occur. Prepayment rates vary according to the nature of the loan portfolio, and expectations of future market conditions. For example, prepayment rates will generally be anticipated to increase as interest rates rise. Prepayment rates may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historic prepayment rates, macro-economic modelling.

Market proxy

Market proxy pricing may be used for an instrument for which specific market pricing is not available, but evidence is available in respect of instruments that have some characteristics in common. In some cases it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence.

The range of prices used as inputs into a market proxy pricing methodology may therefore be wide. This range is not indicative of the uncertainty associated with the price derived for an individual security.

Volatility

Volatility is a measure of the anticipated future variability of a market price. Volatility tends to increase in stressed market conditions, and decrease in calmer market conditions. Volatility is an important input in the pricing of options. In general, the higher the volatility, the more expensive the option will be. This reflects both the higher probability of an increased return from the option, and the potentially higher costs that HSBC France may incur in hedging the risks associated with the option. If option prices become more expensive, this will increase the value of HSBC's long option positions (i.e. the positions in which HSBC France has purchased options), while HSBC France's short option positions (i.e. the positions in which HSBC France has sold options) will suffer losses.

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time. As a result, it is difficult to make general statements regarding volatility levels. For example, while it is generally the case that foreign exchange volatilities are lower than equity volatilities, there may be examples in particular currency pairs or for particular equities where this is not the case.

Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data. For example, longer-dated volatilities may be extrapolated from shorter-dated volatilities.

9 Fair value of financial instruments carried at fair value *(continued)*

The range of unobservable volatilities quoted in the table reflects below the wide variation in volatility inputs by reference market price. For example, FX volatilities for a pegged currency may be very low, whereas for non-managed currencies the FX volatility may be higher. As a further example, volatilities for deep-in-the-money or deep-out-of-the-money equity options may be significantly higher than at-the-money options as a result of 'volatility skew'. For any single unobservable volatility, the uncertainty in the volatility determination is significantly less than the range quoted above.

Correlation

Correlation is a measure of the inter-relationship between two market prices. Correlation is a number between minus one and one. A positive correlation implies that the two market prices tend to move in the same direction, with a correlation of one implying that they always move in the same direction. A negative correlation implies that the two market prices tend to move in opposite directions, with a correlation of minus one implying that the two market prices always move in opposite directions.

Correlation is used to value more complex instruments where the payout is dependent upon more than one market price. For example, an equity basket option has a payout that is dependent upon the performance of a basket of single stocks, and the correlation between the price movements of those stocks will be an input to the valuation. This is referred to as equity-equity correlation. There are a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations (e.g. equity-equity correlation) and cross-asset correlations (e.g. rate-rate correlation) used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Correlation may be unobservable. Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC trade prices, proxy correlations and examination of historical price relationships.

The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair. For any single unobservable correlation, the uncertainty in the correlation determination is likely to be less than the range quoted above.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept a lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices. Credit spreads may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macro-economic or other events. For example, improving economic conditions may lead to a 'risk on' market, in which prices of risky assets such as equities and high yield bonds will rise, while 'safe haven' assets such as gold and US Treasuries will decline. Furthermore, the impact of changing market variables upon the HSBC portfolio will depend upon HSBC's net risk position in respect of each variable. For example, increasing high-yield bond prices will benefit long high-yield bond positions, but the value of any credit derivative protection held against those bonds will fall.

10 Fair value of financial instruments not carried at fair value

The table below shows the fair value of financial instruments not recognised at fair value in the balance sheet. The carrying amount of all other financial instruments equals their fair-value.

(in millions of euros)	*Carrying value*	*Fair value* *Level 1 - Quoted market price*	*Level 2 - Using observable inputs*	*Level 3 - with significant unob-servable inputs*	*Total*
At 31 December 2016					
Assets					
Loans and advances to banks	**3,379**	**–**	**3,380**	**–**	**3,380**
Loans and advances to customers	**41,327**	**–**	**–**	**41,900**	**41,900**
Reverse repurchase agreements – non trading	**11,862**	**–**	**11,862**	**–**	**11,862**
Liabilities					
Deposits by banks	**12,061**	**–**	**12,061**	**–**	**12,061**
Customer accounts	**34,220**	**–**	**34,245**	**–**	**34,245**
Repurchase agreements – non trading	**7,592**	**–**	**7,592**	**–**	**7,592**
Debt securities in issue	**6,616**	**–**	**6,621**	**–**	**6,621**
Subordinated liabilities	**276**	**–**	**276**	**–**	**276**
At 31 December 2015					
Assets					
Loans and advances to banks	4,660	–	4,660	–	4,660
Loans and advances to customers	38,524	–	–	38,054	38,054
Reverse repurchase agreements – non trading	10,163	–	10,163	–	10,163
Liabilities					
Deposits by banks	7,086	–	7,086	–	7,086
Customer accounts	32,811	–	32,833	–	32,833
Repurchase agreements – non trading	10,283	–	10,283	–	10,283
Debt securities in issue	10,501	–	10,506	–	10,506
Subordinated liabilities	276	–	276	–	276

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or reprice to current market rates frequently:

Assets

- Cash and balances at central banks;
- Items in the course of collection from other banks;
- Endorsements and accepted bills;
- Short-term receivables within ‘Other assets’;
- Accrued income.

Liabilities

- Items in the course of transmission to other banks;
- Investment contracts with discretionary participation features within ‘Liabilities under insurance contracts’;
- Endorsements and accepted bills;
- Short-term payables within ‘Other liabilities’;
- Accruals.

10 Fair value of financial instruments not carried at fair value *(continued)*

Valuation

The fair value measurement is HSBC France estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs expected to flow from the instruments' cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

The fair value of financial assets and liabilities is calculated using models maintained by HSBC France, and is based on discounting expected cash flows. The calculated fair value difference predominantly arises on loans secured on residential properties. In this product segment, the most significant fair value difference arises from early repayment options included in mortgage loans, representing the cost to the bank of the embedded option.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which 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.

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 valuation models that incorporate a range of input assumptions. These assumptions may include value estimates from third party brokers which reflect over-the-counter trading activity; forward looking discounted cash flow models using assumptions which HSBC believes are consistent with those which would be used by market participants in valuing such loans; and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The stratification of a loan book considers all material factors, including vintage, origination period, estimates of future interest rates, prepayment speeds, delinquency rates, loan-to-value ratios, the quality of collateral, default probability, and internal credit risk ratings.

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

Deposits by banks and customer accounts

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 approximated by its carrying value.

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.

Repurchase and reverse repurchase agreements – non-trading

Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are generally short dated.

Consolidated financial statements (continued)

11 Financial assets designated at fair value through profit or loss

(in millions of euros)	**31.12.2016**	31.12.2015
Treasury and other eligible bills	**–**	–
Debt securities	**1,028**	1,107
Equity securities	**6,272**	5,650
Securities designated at fair value	**–**	–
Loans and advances to banks	**5**	11
Total financial assets designated at fair value	**7,305**	6,768

At 31 December 2016, financial assets designated at fair value through profit or loss are mainly owned by HSBC Assurances Vie (France).

12 Derivatives

a *Accounting policy*

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values are obtained from quoted market prices on 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 an HSBC France specific model.

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.

12 Derivatives *(continued)*

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. When derivatives are designated as hedges, they are classified 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'). 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 under 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 in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. 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 hedged 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 hedge accounting is discontinued: 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 on a recalculated effective interest rate 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 in other comprehensive income within the 'Cash flow hedging reserve'. Any gain or loss relating to an ineffective portion is recognised immediately in the income statement within 'Net trading income'.

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 recognised in other comprehensive income are included in the initial measurement of the cost of the asset or liability.

When a hedging instrument no longer meets the criteria for hedge accounting, and the expected cash flows are not highly probable but remains probable, the cumulative change in fair value recognised in Other Comprehensive Income are amortised in Income statement over the remaining maturity of the hedging instrument

When a forecast transaction is not likely to happen, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement.

12 Derivatives *(continued)*

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 and at least at each closing date.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method adopted 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'.

The interests on derivatives managed in conjunction with debt securities issued by the group, which are designated at fair value are recognised in 'interest income'. All other gains and losses on these derivatives are reported in 'net income from financial instruments designated at fair value'.

Derivatives that do not qualify for hedge accounting include non-qualifying hedges for which hedge accounting was not, or could not, be applied. The size and direction of changes in fair value of hedges can be volatile from year to year, but do not alter the cash flows expected. Non-qualifying hedges operate as economic hedges of the related assets and liabilities.

b *Use of derivatives*

HSBC France transacts derivatives mainly to create risk management solutions for clients, to manage the portfolio of risks arising from client business and to manage and hedge the HSBC France group's own risks. For accounting purposes, derivative instruments are classified as held either for trading or hedging. Derivatives (except for derivatives which are designated as effective hedging instruments as defined in IAS 39) are 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 HSBC France 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 matching deals being used to achieve this where necessary. When entering into derivative transactions, the HSBC France group employs the same credit risk management procedures to assess and approve potential credit exposures as are used for traditional lending.

12 Derivatives *(continued)*

The table shows the fair value of derivatives by contract type:

	31.12.2016					
	Assets			***Liabilities***		
(in millions of euros)	***Trading***	***Hedging***	***Total***	***Trading***	***Hedging***	***Total***
Foreign exchange	**5,099**	**16**	**5,115**	**(5,026)**	**(26)**	**(5,052)**
Interest rate	**53,514**	**330**	**53,844**	**(50,102)**	**(544)**	**(50,646)**
Equities	**160**	**–**	**160**	**(65)**	**–**	**(65)**
Credit derivatives	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Commodity and other	**–**	**–**	**–**	**–**	**–**	**–**
Gross total fair values	**58,773**	**346**	**59,119**	**(55,195)**	**(570)**	**(55,765)**
Netting			**(11,752)**			**11,752**
Net total			**47,367**			**(44,013)**

	31.12.2015					
	Assets			*Liabilities*		
(in millions of euros)	*Trading*	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*
Foreign exchange	4,972	21	4,993	(4,851)	–	(4,851)
Interest rate	52,960	402	53,362	(50,352)	(647)	(50,999)
Equities	164	–	164	(85)	–	(85)
Credit derivatives	1	–	1	(4)	–	(4)
Commodity and other	–	–	–	–	–	–
Gross total fair values	58,097	423	58,520	(55,292)	(647)	(55,939)
Netting			(9,036)			9,036
Net total			49,484			(46,903)

1. Trading derivatives

Most of the HSBC France group's derivative transactions relate to sales and trading activities. Positions come from the activity with clients, including as a result of reasonable expected short term demand of clients and dynamic hedging of the positions.

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 or have not been formally designated as hedging instruments. These include derivatives managed in conjunction with financial instruments designated at fair value and also derivative which at not eligible to hedge accounting under IAS 39.

Ineffective hedging derivatives were previously designated as hedges, but no longer meet the criteria for hedge accounting.

Consolidated financial statements (continued)

12 Derivatives *(continued)*

Gains and losses from changes in the fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are reported in 'Net Trading income', except for derivatives managed in conjunction with financial instruments designated at fair value, where gains and losses are reported in 'Net income from financial instruments designated at fair value', together with the gains and losses on the hedged items. Where the derivatives are managed with debt securities in issue, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

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

(in millions of euros)	**31.12.2016**	31.12.2015
Foreign Exchange	**128,202**	145,074
Interest rate	**2,235,593**	2,270,287
Equities	**8,667**	10,695
Credit derivatives	**104**	166
Total derivatives	**2,372,566**	2,426,222

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 104 million (2015: EUR 166 million) listed above consists especially of protection bought. HSBC France does not sale credit protection.

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)	**2016**	2015
Unamortised balance at 1 January	**3**	3
Deferral on new transactions	**–**	–
Recognised in the income statement during the period:		
– amortisation	**–**	–
– subsequent to unobservable inputs becoming observable	**–**	–
– maturity or termination, or offsetting derivative	**–**	–
Unamortised balance at 31 December	**3**	3

2. 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, or hedges in net investment of foreign operations. These are described under the relevant headings below.

12 Derivatives *(continued)*

At 31 December 2016 and 2015, HSBC France did not hold derivatives designated as 'Hedges of a net investment in a foreign operation'.

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

	2016		2015	
(in millions of euros)	***Cash flow hedge***	***Fair value hedge***	*Cash flow hedge*	*Fair value hedge*
Foreign Exchange rate	**63**	**586**	–	334
Interest rate	**21,137**	**14,661**	24,356	11,085
At 31 December	**21,200**	**15,247**	24,356	11,419

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 HSBC France 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 fixed rates loans. 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 the income statement. 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 the income statement as a yield adjustment over the remainder of the hedging period.

The fair values of outstanding derivatives designated as fair value hedges at 31 December 2016, were assets of EUR 57 million and liabilities of EUR 473 million (31 December 2015: assets of EUR 42 million and liabilities of EUR 518 million).

Gain or losses arising from fair value hedges

(in millions of euros)	**2016**	2015
On hedging instruments	**73**	38
On hedged items attributable to the hedged risk	**(67)**	(37)
Year ended 31 December	**6**	1

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was a profit of EUR 6 million for the year ended 31 December 2016 (a profit of EUR 1 million for the year ended 31 December 2015).

Cash flow hedges

The HSBC France 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.

12 Derivatives *(continued)*

Fair value of derivatives designated as cash flow hedges

	2016		2015	
(in millions of euros)	***Assets***	***Liabilities***	*Assets*	*Liabilities*
Foreign Exchange	**–**	**–**	–	–
Interest rate	**289**	**(97)**	381	(129)
Year ended 31 December	**289**	**(97)**	381	(129)

Schedule of expected cash flows

	31.12.2016			
(in millions of euros)	***3 months or less***	***More than 3 months but less than 1 year***	***5 years or less but more than 1 year***	***More than 5 years***
Assets	**6,703**	**4,420**	**3,210**	**2,268**
Liabilities	**(6,821)**	**(6,663)**	**(5,650)**	**(477)**
Net cash inflows/(outflows) exposure	**(118)**	**(2,243)**	**(2,440)**	**1,791**

	31.12.2015			
(in millions of euros)	*3 months or less*	*More than 3 months but less than 1 year*	*5 years or less but more than 1 year*	*More than 5 years*
Assets	7,496	7,193	2,590	122
Liabilities	(6,792)	(6,600)	(5,481)	(1,976)
Net cash inflows/(outflows) exposure	704	593	(2,891)	(1,854)

Reconciliation of movements in the cash flow hedge reserve

(in millions of euros)	**2016**	2015
At 1 January	**(44)**	2
Amounts recognised directly in equity during the year	**(30)**	(36)
Amounts removed from equity and included in the income statement for the year	**(64)**	(36)
Deferred taxation	**33**	26
At 31 December	**(105)**	(44)

At 31 December 2016 the amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was a gain of EUR 0.4 million (at 31 December 2015: a loss of EUR 0.4 million).

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;

12 Derivatives *(continued)*

(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 2016, derivatives embedded in home purchase savings products represented a liability of EUR 6.9 million (at 31 December 2015: a liability of EUR 6.3 million).

13 Financial investments available for sale

	31.12.2016		31.12.2015	
(in millions of euros)	***Book value***	***Fair value***	*Book value*	*Fair value*
Treasury and other eligible bills	**–**	**–**	68	68
Debt securities	**26,185**	**26,185**	27,282	27,282
Equity securities	**319**	**319**	327	327
Total financial investments	**26,504**	**26,504**	27,677	27,677

14 Assets pledged, collateral received and assets transferred

a *Assets charged as security for liabilities*

The following table shows the carrying amounts of financial assets not qualifying for derecognition and their associated liability:

(in millions of euros)	**31.12.2016**	31.12.2015
Treasury bills and other eligible securities	**330**	682
Loans and advances to banks	**3,502**	3,754
Loans and advances to customers	**18,008**	18,909
Debt securities	**14,083**	16,051
Equity shares	**–**	–
Other	**–**	–
	35,923	39,396

The table above shows encumbered assets including those linked to TLTRO II and Covered bonds debt. The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, in the case of securitisations and covered bonds, the amount of liabilities issued, plus mandatory over-collateralisation, is less than the book value of the pool of assets available for use as collateral. This is also the case where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining.

14 Assets pledged, collateral received and assets transferred *(continued)*

b *Collateral accepted as security for assets*

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 34,293 million at 31 December 2016 (EUR 35,815 million at 31 December 2015).

The fair value of financial assets accepted as collateral that have been sold or repledged was EUR 29,036 million at 31 December 2016 (EUR 27,293 million at 31 December 2015). The group is obliged to return equivalent securities.

Those transactions are made in accordance with the conditions of standard securities lending and borrowing operations.

c *Transfer of financial assets*

The HSBC France 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 asset concerned:

(i) full derecognition occurs when the HSBC France 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 HSBC France 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 HSBC France continuing involvement;

(iii) Derecognition does not occur when the group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, but:

- either, retains substantially all of the risks and rewards of ownership of the transferred asset;
- or neither retains nor transfers substantially all of the risks and rewards of ownership but has retained control. In this situation the financial assets are recognised on the balance sheet to the extent of HSBC France 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.

As the substance of these transactions is secured borrowings the asset collateral continues to be recognised in full and the related liability reflecting HSBC France obligation to repurchase the transferred assets for a fixed price at a future date is recognised in deposits from banks or customers as appropriate. As a result of these transactions, HSBC France is unable to use, sell or pledge the transferred assets for the duration of the transaction. HSBC France remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

14 Assets pledged, collateral received and assets transferred *(continued)*

The following table analyses the carrying amount of financial assets that did not qualify for derecognition during the year and their associated financial liabilities:

(in millions of euros)	**31.12.2016** Carrying amount of assets	**31.12.2016** Carrying amount of associated liabilities	31.12.2015 Carrying amount of assets	31.12.2015 Carrying amount of associated liabilities
Repurchase agreements	**12,483**	**12,570**	15,053	15,258
Securities lending agreements	**2,230**	**2,230**	5,398	5,398
Total	**14,713**	**14,800**	20,451	20,656

15 Interests in associates and partnerships

a *Associate*

At 31 December 2016, the group HSBC France consolidates under equity method only three entities on which it exercises a joint control or a significant influence. The impact on consolidated financial statements is not significant.

	31.12.2016 *Principal activity*	*Interest in equity*	*Capital*
HCM Holdings Ltd	**Asset Mgmt**	**51%**	**–**
HSBC Global Asset Management (Switzerland)	**Asset Mgmt**	**50%**	**–**
Service Epargne Entreprise	**Asset Mgmt**	**14.4%**	**–**

	31.12.2015 *Principal activity*	*PInterest in equity*	*Capital*
HCM Holdings Ltd	Asset Mgmt	51%	–
HSBC Global Asset Management (Switzerland)	Asset Mgmt	50%	–
Service Epargne Entreprise	Asset Mgmt	15.7%	–

15 Interests in associates and partnerships *(continued)*

Although the HSBC France group 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.

In the case of the entity Service Epargne Entreprise born of a partnership with other groups, the Group HSBC France takes part in strategic decisions of the associate through its representation in the executive bodies, influences operational management by providing management systems or management staff or brings its technical cooperation to the company's growth.

b *Partnerships*

In December 2016, the governance of HSBC Middle East Leasing Partnership ("MELP"), a strategic aircraft leasing arrangement between HSBC Leasing France (85 per cent) and HSBC Bank Middle East Limited (15 per cent), has been amended to move from a majority voting model toward a joint control model requiring the consent of both partners for all decisions. As per IFRS 3R, this change in governance is assimilated to a change in control, accounted for as a sale (derecognition) of the investment followed by the acquisition of a 85 per cent direct share of MELP's assets, liabilities, revenues and expenses.

As of 31 December 2016, the MELP contribution to the consolidated total assets of the HSBC France group is EUR 533 million and EUR 10.6 million to the consolidated income statement.

16 Goodwill and intangible assets

(in millions of euros)	**31.12.2016**	31.12.2015
Cost		
Goodwill – net book value	**235**	337
Other intangible assets – net book value	**30**	37
Present value of in force long term assurance business ('PVIF')	**460**	486
Total	**725**	860

a *Goodwill*

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 ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. The group's CGUs are based on global businesses. Goodwill is stated at cost less accumulated impairment losses, which are charged to the income statement.

16 Goodwill and intangible assets *(continued)*

In accordance with the Accounting Standard IAS 36, HSBC France performs an impairment test at the end of each annual closing and at each evidence of impairment in value. This test is performed by comparing the carrying amount of the cash generating unit (CGU) to its recoverable amount. If the carrying amount of the CGU exceeds its recoverable amount, an impairment loss is recognised in the income statement.

The recoverable amount of the CGU corresponds to the highest amount between the fair value less cost of sale and the value in use. On 31 December 2016, goodwill impairment tests of different CGU were performed on the basis of their value in use. The latter was determined by the so-called discounted cash flow (DCF) approach consisting of valuing a business by updating, at the cost of equity, the cash flows available to shareholders.

The choice of financial parameters reflects the long-term holding strategy of the CGU of HSBC France. The discount rate used is based on the cost of capital that the HSBC France group allocates to different CGU. The cost of capital allocated to individual CGU and held to update its future cash flows derives from a valuation model for financial assets, which itself depends on financial and economic variables, including the risk-free rate as well as a premium or discount reflecting the inherent risk of the activity assessed. These financial parameters are defined by management based on current market assessments of economic variables.

These values in use are sensitive to the cash flows projected, and to assumptions regarding the long-term sustainable pattern of cash flows. The performance of goodwill impairment tests necessarily requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used.

	Goodwill at 31.12.2016[1]	***Discount rate***	***Nominal growth rate beyond initial cash flow projections***	*Goodwill at 31.12.2015[2]*	*Discount rate*	*Nominal growth rate beyond initial cash flow projections*
	In millions of euros	*%*	*%*	*In millions of euros*	*%*	*%*
Commercial Banking	**169**	**9.5**	**2.0**	169	8.6	2.0
Asset Management	**66**	**8.5**	**2.0**	66	7	2.0
Retail Banking	**–**	**8.5**	**2.0**	64	7	2.0
Private Bank	**–**	**9**	**2.0**	63	7.9	2.0
Total goodwill in the CGUs listed above	**235**			362		

1 *Includes customer/merchant relationships which amount to EUR 9 million for Asset Management.*
2 *Includes customer/merchant relationships which amount to EUR 9 million for Asset Management and EUR 4 million for Retail Banking. Also includes rights to lease which amount is EUR 12 million for Retail Banking.*

16 Goodwill and intangible assets *(continued)*

At 31 December 2016, the following goodwill is carried by HSBC France. In 2016, HSBC France has impaired goodwill accounted an Impairment on goodwill about EUR 127 million.

(in millions of euros)	Au 31.12.2015	Au 31.12.2016 Gross	Impairment	Net
Commercial Banking	169	**169**	**–**	**169**
Asset Management	66	**66**	**–**	**66**
Retail Banking	64	**64**	**(64)**	**–**
Private Bank	63	**63**	**(63)**	**–**
Total goodwill in the CGUs listed above	362	**362**	**(127)**	**235**

Commercial banking

Based on cash flow projections, no impairment is required for the Commercial Banking CGU. The following table presents a summary of the key financial assumptions underlying the most sensitive inputs to the model (variation in % of the central value):

Discount rate	Long term Growth rate 1.0%	1.5%	2.0%	2.5%	3.0%
8.50%	+3%	+9%	+15%	+23%	+32%
8.75%	-0%	+5%	+11%	+18%	+27%
9.00%	-4%	+1%	+7%	+14%	+21%
9.50%	-9%	-5%	Central value	+6%	+12%
10.00%	-14%	-10%	-6%	-1%	+4%
10.25%	-17%	-13%	-9%	-5%	+0%
10.50%	-19%	-15%	-12%	-8%	-3%

Asset management

The test did not raise any indicators of impairment.

Retail banking

Retail banking profitability has been reduced due to the current macro-economic and financial environment in which HSBC France operates, in particular low interest rates and the re-pricing of the loan portfolio (due to massive renegotiations of mortgage loans).

16 Goodwill and intangible assets *(continued)*

Assuming this environment persists, and even if Retail banking profitability perspective remains positive in the medium-term, Retail banking goodwill was fully impaired (EUR 64 million).

Private bank

With financial performance below expectations and assuming the persistence of the relatively low interest rate environment and expected regulatory evolutions, Private Bank goodwill was fully impaired (EUR 63 million).

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b *Other intangible assets*

Other intangible assets include mortgage servicing rights, computer software, trade names, customer lists, core deposit relationships, credit card customer relationships and merchant or other loan relationships. Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

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. Where:

- intangible assets have an indefinite useful life, or are not yet ready for use, they are tested for impairment annually. An intangible asset recognised during the current period is tested before the end of the current year; and
- intangible assets have a finite useful life, except for the present value of in-force long-term insurance business, they are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life. The amortisation of mortgage servicing rights is included within 'Net fee income'.

Intangible assets with finite useful lives are amortised, generally on a straight-line basis, over their useful lives as follows:

– Trade names	10 years
– Internally generated software	between 3 and 5 years
– Purchased software	between 3 and 5 years
– Other	generally 10 years

16 Goodwill and intangible assets *(continued)*

The analysis of intangible assets movements at 31 December 2016 is as follows:

(in millions of euros)	*Customer/ merchant relation-ships[1]*	*Internally generated software[2]*	*Purchased software*	*Other*	*Total*
Cost					
At 1 January 2016	**21**	**18**	**90**	**16**	**145**
Additions	**–**	**18**	**8**	**–**	**26**
Disposals	**–**	**–**	**(1)**	**–**	**(1)**
Amount written off	**–**	**–**	**(2)**	**(1)**	**(3)**
Exchange differences	**–**	**–**	**–**	**–**	–
Other changes	**(21)**	**–**	**–**	**–**	**(21)**
At 31 December 2016	**–**	**36**	**95**	**15**	**146**
Accumulated amortisation and impairment					
At 1 January 2016	**(9)**	**(18)**	**(79)**	**(2)**	**(108)**
Amortisation charge for the year	**–**	**–**	**(7)**	**(1)**	**(8)**
Impairment charge for the year	**–**	**–**	**–**	**(12)**	**(12)**
Amount written off	**–**	**–**	**2**	**1**	**3**
Disposals	**–**	**–**	**–**	**–**	**–**
Exchange differences	**–**	**–**	**–**	**–**	**–**
Other changes	**9**	**–**	**–**	**–**	**9**
At 31 December 2016	**–**	**(18)**	**(84)**	**(14)**	**(116)**
Net carrying amount at 31 December 2016	**–**	**18**	**11**	**1**	**30**

1 *The customer merchant relationships are now included in the goodwill.*
2 *Include mainly internal cost linked to strategic development project.*

(in millions of euros)	*Customer/ merchant relation-ships*	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost					
At 1 January 2015	21	18	82	16	137
Additions	–	–	8	–	8
Disposals	–	–	–	–	–
Amount written off	–	–	–	–	–
Exchange differences	–	–	–	–	–
Other changes	–	–	–	–	–
At 31 December 2015	21	18	90	16	145
Accumulated amortisation and impairment					
At 1 January 2015	(9)	(18)	(71)	(1)	(99)
Amortisation charge for the year	–	–	(8)	–	(8)
Impairment charge for the year	–	–	–	–	–
Amount written off	–	–	–	–	–
Disposals	–	–	–	–	–
Exchange differences	–	–	–	–	–
Other changes	–	–	–	(1)	(1)
At 31 December 2015	(9)	(18)	(79)	(2)	(108)
Net carrying amount at 31 December 2015	12	–	11	14	37

c *Present value of in-force insurance business*

HSBC France's life insurance business reported through its subsidiary HSBC Assurances Vie, is accounted for using the embedded value approach which, inter alia, provides a comprehensive risk and valuation framework. The PVIF (Present Value of In-Force business) asset represents the present value of the shareholders' interest in the profits expected to emerge from the book of in-force policies.

The calculation of the PVIF is based upon assumptions that take into account risk and uncertainty. To project these cash flows, a variety of assumptions regarding future experience is made by each insurance operation, which reflects local market conditions and management's judgement of local future trends.

PVIF Movements

(in millions of euros)	2016	2015
At 1 January	**486**	334
Moving forward	**(84)**	(75)
Value of new business	**41**	55
Changes in assumption and others	**77**	37
Market impact	**(83)**	117
Experience variances	**23**	18
At 31 December	**460**	486

The PVIF moves from EUR 486 million as of 31 December 2015 to EUR 460 million as of 31 December 2016. The negative movement of EUR 26 million is mainly due to:

– The deterioration of economic conditions over the year, is essentially affecting the bond market (equity markets remained steady);

– Partially composed by the evolution of models:

• End of projection adjustments (including the treatment of residual capitalisation reserve) with an impact of EUR 35 million;

• Annual update of non-economic assumptions (lapse laws, death laws and general expenses) with an impact of EUR 10 million.

There is no other significant change.

Key assumptions modification impacts over PVIF[1]

	2016	2015
Average weighted risk free rate	**0.99%**	1.57%
Average weighted risk discount rate	**1.84%**	2.55%
Expenses inflation	**1.66%**	1.70%

Risk margin over discount rate profits are[2]

(in millions of euros)	2016	2015
Operational risk	**13**	10
Model risk	**15**	15
Volatility risk	**68**	26

1 *For 2016, market value future profits' discounted rate used for the PVIF is of 1.84 per cent, to which a risk margin of EUR 96 million is added. For 2015, market value future profits' discounted rate used for the PVIF is of 2.55 per cent, to which a risk margin of EUR 51 million is added.*
2 *Risk margin (model risk, operational and volatility risk) are detailed separately.*

16 Goodwill and intangible assets *(continued)*

Sensitivity of PVIF to changes in economic assumptions

The following table shows the effects of the risk-free rate movements and the discount rate on the value of PVIF in millions of euros for HSBC Assurances Vie.

	PVIF at 31.12.2016	PVIF at 31.12.2015
+ 100 basis points shift in risk-free rate	**94**	16
− 100 basis points shift in risk-free rate [1]	**(191)**	(121)
+ 100 basis points shift in risk-discount rate	**(20)**	(25)
− 100 basis points shift in risk-discount rate	**24**	28

1 *When a –100 basis point parallel shift in the risk-free rate would result in a negative rate, the effect on PVIF has been calculated using a minimum rate of 0 per cent.*

Due to certain characteristics of the contracts, the sensitivities may be non-linear and the results of the sensitivity-testing should not be extrapolated to higher levels of stress. In calculating the scenario, the shift in the risk-free rate results in changes to investment returns, risk discount rates and bonus rates which are incorporated. The sensitivities shown are before actions that could be taken by management to mitigate impacts and before resultant changes in policyholder behaviour.

Sensitivity of the PVIF to non-economic assumptions

Policyholder liabilities and PVIF for life manufacturers are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. The table below shows the sensitivity of total equity at 31 December 2016 to reasonably possible changes in these non-economic assumptions at that date.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates is dependent on the type of contracts being written. For insurance contracts, the cost of claims is funded by premiums received and income earned on the investment portfolio supporting the liabilities. For a portfolio of term insurance, an increase in lapse rates typically has a negative effect on profit due to the loss of future premium income on the lapsed policies.

Expense rate risk is the exposure to a change in expense rates. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative impact on profits.

The following table presents the PVIF sensitivity:

(in millions of euros)	**Effect on total equity at 31.12.2016 [1]**	Effect on total equity at 31.12.2015 [1]
10% increase in mortality and/or morbidity rates	**(6)**	(13)
10% decrease in mortality and/or morbidity rates	**7**	13
10% increase in lapse rates	**(17)**	(28)
10% decrease in lapse rates	**22**	31
10% increase in expense rates	**(30)**	(28)
10% decrease in expense rates	**30**	28

1 *Impacts on profits are shown after tax in 2016 and 2015.*

Increased expense is entirely borne by the insurer and so reduces profits.

The impact of redemption rates variations is mainly explained by savings activity. For example, an increase of redemptions generates a decrease of the contract management, and therefore, a negative impact on the insurer's profits.

17 Related information on foreign subsidiaries country by country

Related information on foreign subsidiaries country by country required by the directive 2013/36/EU ('CRD IV') has been transposed in article L. 511-45 of the French Monetary and Financial Code.

Article R. 511-16-4, I of the French Monetary and Financial Code provides that undertakings are not required to disclose the information if these elements are already published by their parent company established within another Member State of the European Union and subject to a similar requirement.

This information will be available on HSBC's website (www. hsbc.com) by 31 December 2017. Thus, HSBC France is exempted from publishing such information on a single basis.

18 Other assets and tangible assets

a *Other Assets*

(in millions of euros)	**2016**	2015
Prepayments and accrued income	**779**	852
Assets held for sale	**–**	–
Other assets	**214**	258
Tangible assets	**814**	828
At 31 December	**1,807**	1,938

b *Property, plant and equipment*

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

– freehold 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 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 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.

Consolidated financial statements (continued)

18 Other assets and tangible assets *(continued)*

(in millions of euros)	*Freehold land and buildings*	*Equipment, fixtures and fittings*	*Total*
Cost or fair value			
At 1 January 2016	**689**	**615**	**1,304**
Additions at cost	**2**	**30**	**32**
Fair value adjustments	**(7)**	**–**	**(7)**
Disposals	**–**	**(18)**	**(18)**
Transfers	**–**	**–**	**–**
Exchange and other differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**–**	**–**	**–**
At 31 December 2016	**684**	**627**	**1,311**
Accumulated depreciation			
At 1 January 2016	**(28)**	**(448)**	**(476)**
Depreciation charge for the year	**(2)**	**(38)**	**(40)**
Disposals	**–**	**19**	**19**
Transfers	**–**	**–**	**0**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**–**	**–**	**–**
At 31 December 2016	**(30)**	**(467)**	**(497)**
Net book value at 31 December 2016	**654**	**160**	**814**

(in millions of euros)	*Freehold land and buildings*	*Equipment, fixtures and fittings*	*Total*
Cost or fair value			
At 1 January 2015	548	606	1,154
Additions at cost	84	31	115
Fair value adjustments	60	–	60
Disposals	(3)	(23)	(26)
Exchange translation differences	–	1	1
Changes in scope of consolidation and other changes	–	–	–
At 31 December 2015	689	615	1,304
Accumulated depreciation			
At 1 January 2015	(27)	(421)	(448)
Depreciation charge for the year	(2)	(48)	(50)
Disposals	1	22	23
Exchange translation differences	–	(1)	(1)
Changes in scope of consolidation and other changes	–	–	–
At 31 December 2015	(28)	(448)	(476)
Net book value at 31 December 2015	661	167	828

19 Trading liabilities

Trading liabilities are classified as held for trading if they have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. They are recognised on trade date, when HSBC France enters into contractual arrangements with counterparties and are normally derecognised when extinguished.

These trading liabilities are initially measured at fair value. All gains and losses from a previous fair value variation of these assets and liabilities as well as for income and interest expense and related dividends, are recognised in the income statement in 'gains or losses on financial instruments'.

(in millions of euros)	31.12.2016	31.12.2015
Other liabilities – net short positions	**15,042**	9,803
Deposits by banks	**7,436**	8,059
Customer accounts	**1,669**	2,198
Other debt securities in issue	**2,321**	2,587
Total	**26,468**	22,647

In 2016, the HSBC France group recognised a gain of EUR 16 million with respect to HSBC France's own credit risk in the debt securities in issue (2015: a gain of EUR 29 million).

20 Financial liabilities designated at fair value through profit or loss

(in millions of euros)	2016	2015
Deposits by banks and customer accounts	**108**	161
Liabilities to customers under investment contracts	**18**	19
Debt securities in issue	**8,338**	8,296
Subordinated liabilities	**–**	–
Preference shares	**–**	–
	8,464	8,476

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2016 was EUR 420 million for the HSBC France group (at 31 December 2015: EUR 404 million).

At 31 December 2016, the accumulated amount of the change in fair value attributable to changes in credit risk for the HSBC France group was EUR 99 million (at 31 December 2015: EUR 91 million).

In 2016, the amount reported in the income statement in respect of HSBC France's own credit risk was a loss of EUR (11) million (2015: a loss of EUR 35 million).

21 Other liabilities

(in millions of euros)	2016	2015
Amounts due to investors in funds consolidated by the group	**419**	398
Share-based payments	**17**	21
Other insurance liabilities	**1**	2
Other liabilities	**297**	493
Total At 31 December	**734**	914

Consolidated financial statements (continued)

22 Provisions for liabilities and charges

HSBC France recognises a provision when the following three elements are gathered:

– existence of a present obligation occurring from a past event;

– it is probable that an outflow of resources will be required to settle the obligation;

– a reliable estimate of the amount can be made.

(in millions of euros)	*Customer remediation*	*Legal proceedings and regulatory Restructuring matters costs*	*Customer remediation*	*Contingent liabilities and contractual commitments*	*Other provisions*	*Total*
At 1 January 2016	**–**	**82**	**19**	**5**	**26**	**132**
Additions	**–**	**41**	**68**	**4**	**25**	**138**
Amounts utilised	**–**	**(3)**	**(10)**	**-**	**(23)**	**(36)**
Unused amounts reversed	**–**	**(25)**	**(13)**	**(3)**	**(11)**	**(52)**
Exchange and other movements	**–**	**1**	**–**	**–**	**–**	**1**
At 31 December 2016	**–**	**96**	**64**	**6**	**17**	**183**
At 1 January 2015	–	85	32	4	26	147
Additions	–	6	3	4	20	33
Amounts utilised	–	(5)	(15)	(1)	(16)	(37)
Unused amounts reversed	–	(3)	(2)	(2)	(4)	(11)
Exchange and other movements	–	(1)	1	–	–	–
At 31 December 2015	–	82	19	5	26	132

Information relating to legal proceedings and regulatory matters related to HSBC Group entities can be found in Note 30.

23 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 20).

	Book value	
(in millions of euros)	**31.12.2016**	31.12.2015
Subordinated liabilities:		
– at amortised cost	**276**	276
– designated at fair value	**–**	–
	276	276

23 Subordinated liabilities *(continued)*

Subordinated borrowings issued by HSBC France:

(in millions of euros)		*Book value* 31.12.2016	31.12.2015
EUR 260 million	Floating rate notes maturing 2029	**260**	260
EUR 16 million	Undated subordinated variable rate notes	**16**	16
		276	**276**

24 Maturity analysis of financial assets and liabilities

The balances in the note below will not agree directly with those in the consolidated balance sheet as the tables incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and trading derivatives). In addition, loan and other credit-related commitments and financial guarantees and similar contracts are generally not recognised on the balance sheet.

Cash flows payable in respect of customer accounts are primarily contractually repayable on demand or at short notice. However, in practice, short-term deposit balances remain stable as inflows and outflows broadly match and a significant portion of loan commitments expire without being drawn upon. The group therefore manages its balance sheet on both contractual and behaviouralised bases. Each operating entity determines the behaviouralisation of its products within the guidelines set out in the group's liquidity framework and as approved by its Asset and Liability Committee.

The following table provides an analysis of consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. Asset and liability balances are included in the maturity analysis as follows:

– except for reverse repos, repos and debt securities in issue, trading assets and liabilities (including trading derivatives) are included in the 'Due not more than 1 month' time bucket, and not by contractual maturity because trading balances are typically held for short periods of time;

– financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due over 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due over 5 years' time bucket;

– non-financial assets and liabilities with no contractual maturity (such as property, plant and equipment, goodwill an intangible assets, current and deferred tax assets and liabilities and retirement benefit liabilities) are included in the 'Due over 5 years' time bucket;

– financial instruments included within assets and liabilities of disposal groups held for sale are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction; and liabilities under insurance contracts are included in the 'Due to less than 5 years' time bucket. Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are classified based on the contractual notice period investors are entitled to give. Where there is no contractual notice period, undated contracts are included in the 'Due over 5 years' time bucket;

– loan and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

Consolidated financial statements (continued)

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

Distribution of cash flows payable by maturity

	31.12.2016					
(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]	**696**	**3,793**	**553**	**4,819**	**2,308**	**12,169**
Customer accounts[1]	**29,304**	**2,998**	**1,588**	**276**	**103**	**34,269**
Repurchase Agreements – non trading[1]	**–**	**7,479**	**114**	**–**	**–**	**7,593**
Trading liabilities	**26,468**	**–**	**–**	**–**	**–**	**26,468**
Financial liabilities designated at fair value	**–**	**1,503**	**2**	**4,214**	**2,775**	**8,494**
Derivatives	**43,376**	**5**	**56**	**513**	**63**	**44,013**
Debt securities in issue	**–**	**926**	**4,479**	**1,211**	**–**	**6,616**
Subordinated liabilities	**–**	**–**	**–**	**–**	**288**	**288**
Other financial liabilities	**–**	**818**	**400**	**84**	**578**	**1,880**
Sub Total	**99,844**	**17,522**	**7,192**	**11,117**	**6,115**	**141,790**
Loan commitments	**891**	**487**	**1,242**	**17,055**	**2,823**	**22,498**
Financial guarantee contracts	**590**	**–**	**–**	**–**	**–**	**590**
Total at 31 December 2016	**101,325**	**18,009**	**8,434**	**28,172**	**8,938**	**164,878**

1 *Repurchase agreements banks and customers are merged into one line.*

	31.12.2015					
(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]	1,658	1,945	417	3,082	38	7,140
Customer accounts[1]	27,309	3,104	2,049	280	122	32,864
Repurchase Agreements – non trading[1]	–	10,097	186	–	–	10,283
Trading liabilities	22,647	–	–	–	–	22,647
Financial liabilities designated at fair value	–	91	16	5,831	2,713	8,651
Derivatives	46,259	5	97	306	236	46,903
Debt securities in issue	–	3,438	4,471	2,595	–	10,504
Subordinated liabilities	–	–	–	–	283	283
Other financial liabilities	2	668	527	126	512	1,835
Sub Total	97,875	19,348	7,763	12,220	3,904	141,110
Loan commitments	737	1,347	2,164	16,416	2,996	23,660
Financial guarantee contracts	452	–	–	–	–	452
Total at 31 December 2015	99,064	20,695	9,927	28,636	6,900	165,222

1 *Repurchase agreements banks and customers are merged into one line.*

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

The following table shows the financial assets and liabilities by remaining maturity at the closing date for amounts to be paid or received up to one year or over one year.

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

	31.12.2016						
(in millions of euros)	*Due within 1 month*	*Due between 1 month and 1 year*	***Subtotal due within 1 year***	*Due between 1 and 5 years*	*Due after 5 years*	*Subtotal due after more than 1 year*	***Total***
Assets							
Financial assets designated at fair value	5	57	**62**	347	6,896	**7,243**	**7,305**
Loans and advances to banks [1]	490	1,300	**1,790**	1,458	131	**1,589**	**3,379**
Loans and advances to customers [1]	2,675	6,541	**9,216**	18,987	13,124	**32,111**	**41,327**
Reverse Repurchase Agreements – non-trading[1]	7,019	4,843	**11,862**	–	–	**–**	**11,862**
Financial investments . . .	324	2,370	**2,694**	15,091	8,719	**23,810**	**26,504**
Other financial assets . . .	38	135	**173**	13	22	**35**	**208**
At 31 December 2016	10,551	15,246	**25,797**	35,896	28,892	**64,788**	**90,585**
Liabilities							
Deposits by banks [1]	3,646	1,387	**5,033**	4,760	2,268	**7,028**	**12,061**
Customer accounts [1]	30,602	3,285	**33,887**	263	70	**333**	**34,220**
Repurchase Agreements – non-trading [1]	7,361	231	**7,592**	–	–	**–**	**7,592**
Financial liabilities designated at fair value	1,503	2	**1,505**	4,190	2,769	**6,959**	**8,464**
Debt securities in issue . .	64	5,341	**5,405**	1,211	–	**1,211**	**6,616**
Insurance contracts liabilities	–	1,546	**1,546**	6,967	12,789	**19,756**	**21,302**
Other financial liabilities	83	129	**212**	26	445	**471**	**683**
Subordinated liabilities . .	–	–	**–**	–	276	**276**	**276**
At 31 December 2016	43,259	11,921	**55,180**	17,417	18,617	**36,034**	**91,214**

1 *Repurchase agreements and reverse repurchase banks and are merged into one line.*

Consolidated financial statements (continued)

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

	31.12.2015						
(in millions of euros)	*Due within 1 month*	*Due between 1 month and 1 year*	*Subtotal due within 1 year*	*Due between 1 and 5 years*	*Due after 5 years*	*Subtotal due after more than 1 year*	*Total*
Assets							
Financial assets designated at fair value	50	133	183	317	6,268	6,585	6,768
Loans and advances to banks[1]	823	560	1,383	3,120	157	3,277	4,660
Loans and advances to customers[1]	2,894	5,879	8,773	16,702	13,049	29,751	38,524
Reverse Repurchase Agreements – non-trading[1]	6,428	3,391	9,819	344	–	344	10,163
Financial investments	308	3,119	3,427	14,977	9,273	24,250	27,677
Other financial assets	27	182	209	17	23	40	249
At 31 December 2015	10,530	13,264	23,794	35,477	28,770	64,247	88,041
Liabilities							
Deposits by banks[1]	3,247	720	3,967	3,081	38	3,119	7,086
Customer accounts[1]	27,892	4,548	32,440	280	91	371	32,811
Repurchase Agreements – non-trading[1]	9,652	631	10,283	–	–	–	10,283
Financial liabilities designated at fair value	91	16	107	5,740	2,629	8,369	8,476
Debt securities in issue	2,350	5,556	7,906	2,595	–	2,595	10,501
Insurance contracts liabilities	–	34	34	28	20,881	20,909	20,943
Other financial liabilities	163	149	312	19	427	446	758
Subordinated liabilities	–	–	–	–	276	276	276
At 31 December 2015	43,395	11,654	55,049	11,743	24,342	36,085	91,134

1 *Repurchase agreements and reverse repurchase banks and customers are merged into one line.*

Further information regarding the group's liquidity and funding management is available in the Risk Management section page 146 et seq.

25 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is 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.

Financial assets subject to offsetting, enforcable master netting arrangements and similar agreements:

(in millions of euros)	*Gross amounts of recogn-ised financial assets*	*Gross amounts offset in the balance sheet*	*Net amounts in the balance sheet*	*Amounts not offset in the balance sheet*			*Net amount*
				Financial Instru-ments	*Non-Cash collateral*	*Cash collateral receivedl pledged*	
At 31 December 2016							
Financial assets							
Derivatives	**59,119**	**(11,752)**	**47,367**	**36,176**	**112**	**7,726**	**3,353**
Reverse repos, stock borrowing and similar agreements	**34,128**	**(22,165)**	**11,963**	**2,341**	**9,461**	**161**	**–**
Classified as:							
– trading assets	**101**	**–**	**101**	**–**	**101**	**–**	**–**
– non-trading assets	**34,027**	**(22,165)**	**11,862**	**2,341**	**9,360**	**161**	**–**
Loans and advances to customers	**744**	**(109)**	**635**	**–**	**–**	**–**	**635**
Total	**93,991**	**(34,026)**	**59,965**	**38,517**	**9,573**	**7,887**	**3,988**
At 31 December 2016							
Financial liabilities							
Derivatives	**55,765**	**(11,752)**	**44,013**	**36,179**	**1,204**	**6,198**	**432**
Repos, stock lending and similar agreements	**29,757**	**(22,165)**	**7,592**	**2,341**	**5,097**	**154**	**–**
Classified as:							
– trading assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– non-trading assets	**29,757**	**(22,165)**	**7,592**	**2,341**	**5,097**	**154**	**–**
Customer accounts	**109**	**(109)**	**–**	**–**	**–**	**–**	**–**
Total	**85,631**	**(34,026)**	**51,605**	**38,520**	**6,301**	**6,352**	**432**

Consolidated financial statements (continued)

25 Offsetting of financial assets and financial liabilities *(continued)*

(in millions of euros)	Gross amounts of recognised financial assets	Gross amounts offset in the balance sheet	Net amounts in the balance sheet	Amounts not offset in the balance sheet: Financial Instruments	Amounts not offset in the balance sheet: Non-Cash collateral	Amounts not offset in the balance sheet: Cash collateral received/ pledged	Net amount
At 31 December 2015							
Financial assets							
Derivatives	58,520	(9,036)	49,484	38,842	113	8,437	2,092
Reverse repurchase, securities borrowing and similar agreements	36,057	(25,791)	10,266	119	9,905	242	–
Classified as:							
– trading assets	103	–	103	–	103	–	–
– non-trading assets	35,954	(25,791)	10,163	119	9,802	242	–
Loans and advances excluding reverse repos	776	(110)	666	–	–	–	666
Total	95,353	(34,397)	60,416	38,961	10,018	8,679	2,758
At 31 December 2015							
Financial liabilities							
Derivatives	55,939	(9,036)	46,903	38,847	637	6,860	559
Reverse repurchase, securities borrowing and similar agreements	36,409	(25,791)	10,618	119	10,416	83	–
Classified as:							
– trading assets	335	–	335	–	335	–	–
– non-trading assets	36,074	(25,791)	10,283	119	10,081	83	–
Deposits by banks excluding repos	–	–	–	–	–	–	–
Customer accounts excluding repos	110	(110)	–	–	–	–	–
Total	92,458	(34,937)	57,521	38,966	11,053	6,943	559

1 *In accordance to IAS 32 §42, HSBC apply offsetting on cash collateral from second half year 2015. This netting is disclosed against gross amounts of recognized financial liabilities and reduced from cash collateral pledged.*

25 Offsetting of financial assets and financial liabilities *(continued)*

Derivatives and reverse repurchase/repurchase agreements included in amounts not set off in the balance sheet relate to transactions where:

– the counterparty has an offsetting exposure with HSBC and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and

– cash and non-cash collateral received/pledged in respect of the transactions described above.

HSBC France offsets certain loans and advances to customers and customer accounts when the offset criteria are met and the amounts presented above represent this subset of the total amounts recognised in the balance sheet. Of this subset, the loans and advances to customers and customer accounts included in amounts not set off in the balance sheet primarily relate to transactions where the counterparty has an offsetting exposure with HSBC and an agreement is in place with the right of offset but the offset criteria are otherwise not satisfied.

26 Called up share capital

The share capital of HSBC France at 31 December 2015 was EUR 337 million divided into 67,437,827 ordinary shares of EUR 5 each, fully paid.

	Number of HSBC France ordinary shares	*Amount (in millions of euros)*
At 1 January 2016	**67,437,827**	**337**
Shares issued	**–**	**–**
At 31 December 2016	**67,437,827**	**337**
At 1 January 2015	67,437,827	337
Shares issued	–	–
At 31 December 2015	67,437,827	337

27 Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security as well as contingent liabilities related to legal proceedings or regulatory matters, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured.

Contingent liabilities are not recognised in the financial statements.

27 Contingent liabilities, contractual commitments and guarantees *(continued)*

a *Contingent liabilities and commitments*

(in millions of euros)	**31.12.2016**	31.12.2015
Contract amounts		
Guarantees and other contingent liabilities		
Guarantees	**4,373**	4,600
Other contingent liabilities	**–**	–
	4,373	4,600
Commitments [1]		
Documentary credits and short-term trade-related transactions	**752**	689
Undrawn formal standby facilities, credit lines and other commitments to lend [2]		
– 1 year and under	**4,785**	6,887
– over 1 year	**19,879**	19,410
	25,416	26,986

1 *Excluding capital commitments, which are separately disclosed below.*
2 *Based on original contractual maturity.*

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 amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the group's annual credit review process.

The total of the nominal principal amounts is not representative of future liquidity requirements.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

27 Contingent liabilities, contractual commitments and guarantees *(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)	**31.12.2016**		31.12.2015	
	Guarantees in favour of third parties	***Guarantees by the group in favour of HSBC entities***	*Guarantees in favour of third parties*	*Guarantees by the group in favour of HSBC entities*
Guarantee type				
Financial guarantees contracts [1]	**590**	**9**	452	6
Credit-related substitutes [2]	**2,451**	**80**	2,279	106
Other guarantees [3]	**1,163**	**80**	1,652	105
Total	**4,204**	**169**	4,383	217

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. Guarantees with terms of more than one year are subject to the group's annual credit review process.

The group had no contingent liabilities or commitments in relation to joint ventures or associates, incurred jointly or otherwise.

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.

28 Lease commitments

a *Accounting policy*

Assets leased to customers under agreements which transfer to counterparties 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.

28 Lease commitments *(continued)*

When 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.

b *Finance and operating lease commitments*

As at 31 December 2016, HSBC France's operating lease commitments amount is EUR 39 million.

There were no future minimum sublease payments expected to be received under non-cancellable subleases.

c *Finance and operating lease receivables*

HSBC leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft), property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Lessees may participate in any sales proceeds achieved. Lease rentals arising during the lease terms will either be fixed in quantum or be varied to reflect changes in, for example, tax or interest rates. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

Finance lease receivables

	31.12.2016			31.12.2015		
(in millions of euros)	***Total future minimum payments***	***Interest charges***	***Present value***	*Total future minimum payments*	*Interest charges*	*Present value*
Finance lease receivables:						
– no later than one year	**471**	**(78)**	**393**	548	(75)	473
– later than one year and no later than five years	**1,566**	**(185)**	**1,381**	1,651	(197)	1,454
– later than five years	**932**	**(87)**	**845**	1,041	(114)	927
Total	**2,969**	**(350)**	**2,619**	3,240	(386)	2,854

At 31 December 2016, unguaranteed residual values of EUR 138 million (2015: EUR 124 million) had been accrued, and there was no accumulated allowance for uncollectible minimum lease payments receivable.

29 Structured entities

a *Consolidated structured entities by HSBC France*

Total assets of the HSBC France group's consolidated structured entities, split by entity type.

(in millions of euros)	*Securiti-sations*	*HSBC France group managed funds*	*Other*	*Total*
At 31 December 2016	**–**	**3**	**3**	**6**
At 31 December 2015	–	2	4	6

b *General policy*

A structured entity is an entity designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. Thus, these entities have a limited scope of activities and a well-defined purpose.

Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 1.

HSBC France is involved directly or indirectly with structured entities mainly through securitisation of financial assets, conduits and investment funds.

Group arrangements that involve structured entities are authorised centrally when they are established to ensure appropriate purpose and governance. The activities of structured entities administered by the group are closely monitored by senior management. The HSBC France group has involvement with both consolidated and unconsolidated structured entities, which may be established by the group or by a third party, detailed below.

Securitisations

HSBC France uses structured entities to securitise customer loans and advances that it has originated in order to diversify its sources of funding for asset origination and for capital efficiency purposes. The loans and advances are transferred by HSBC France to the structured entities for cash or synthetically through credit default swaps, and in return, the structured entities issue debt securities to investors.

HSBC France group managed funds

The HSBC France group has established a number of money market, and non-money market funds in order to offer its customer investment opportunities. When HSBC France is deemed to be acting as principal rather than agent in its role as investment manager, HSBC France will control and hence consolidate these funds.

Non-HSBC France group managed funds

HSBC France purchases and holds unity of third party managed funds in order to facilitate both business and customer needs.

HSBC France sponsored structured entities

The group is considered to sponsor another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing that entity or in bringing together the relevant counterparties to a structured transaction. The group is not considered as a sponsor if the only involvement is to provide services at arm's length and it ceases to be a sponsor once it has no ongoing involvement with that structured entity.

The amount of assets transferred to and income received from such sponsored entities during 2015 and 2014 was not significant.

Consolidated financial statements (continued)

29 Structured entities *(continued)*

Other

HSBC France also enters into a number of transactions in the normal course of business, including asset and structured finance transactions where it has control of the structured entity.

c *Unconsolidated structured entities by HSBC France*

The term 'unconsolidated structured entities' refers to all structured entities that are not controlled by the group. It includes interests in structured entities that are not consolidated. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The table below shows the total assets of unconsolidated structured entities in which the group has an interest at the reporting date, as well as the group's maximum exposure to loss in relation to those interests.

(in millions of euros)	*Group managed funds*	*Non-group managed funds*	*Other*	*Total*
At 31 December 2016				
Total assets	**52**	**160**	**2**	**214**
Cash	–	–	–	–
Trading assets	–	–	–	–
Financial assets designated at fair value	**3**	**1**	–	**4**
Derivatives	–	–	–	–
Loans and advances to customers	–	–	–	–
Loans and advances to banks	–	–	–	–
Financial investments	–	–	–	–
Other assets	–	–	–	–
Total assets in relation to the group's interests in the unconsolidated structured entities	**3**	**1**	–	**4**
Total liabilities in relation to the group's interests in the unconsolidated structured entities	–	–	–	–
The group's maximum exposure	**3**	**1**	–	**4**

29 Structured entities *(continued)*

(in millions of euros)	*Group managed funds*	*Non-group managed funds*	*Other*	*Total*
At 31 December 2015				
Total assets	44	134	2	180
Cash	–	–	–	–
Trading assets	–	–	–	–
Financial assets designated at fair value	2	1	–	3
Derivatives	–	–	–	–
Loans and advances to customers	–	–	–	–
Loans and advances to banks	–	–	–	–
Financial investments	–	–	–	–
Other assets	–	–	–	–
Total assets in relation to the group's interests in the unconsolidated structured entities	2	1	–	3
Total liabilities in relation to the group's interests in the unconsolidated structured entities	–	–	–	–
The group's maximum exposure	2	1	–	3

The maximum exposure to loss from the group's interests in unconsolidated structured entities represents the maximum loss that the group could be required to report as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred. They are contingent in nature, and may arise as a result of the provision of liquidity facilities and any other funding commitments provided by the group to unconsolidated structured entities.

– For commitments and guarantees, and written credit default swaps, the maximum exposure of the Group HSBC France to loss is the notional amount of potential future losses.

– For retained and purchased investments in and loans to unconsolidated structured entities, the maximum exposure of the Group HSBC France loss is the carrying value of these interests at the balance sheet reporting date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate the group's exposure to loss.

30 Legal proceedings and regulatory matters relating to HSBC group entities generally

HSBC group entities, including HSBC France, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and on pages 166 and the following ones of the 2016 Registration Document, HSBC France considers that none of these matters is significant. HSBC France recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2016.

Anti-money laundering and sanctions-related

In December 2012, HSBC Holdings plc ("HSBC Holdings" or "HSBC"), the bank's ultimate parent company, HSBC North America Holdings ("HNAH") and HSBC Bank USA, N.A. ("HBUS") entered into agreements with US and UK government agencies regarding past inadequate compliance with the US Bank Secrecy Act ("BSA"), Anti-Money Laundering ("AML") and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year Deferred Prosecution Agreement with, amongst others, the US Department of Justice ("DoJ") (the "US DPA"). HSBC Holdings consented to a cease and desist order and HSBC Holdings and HNAH consented to a civil money penalty order with the Federal Reserve Board ("FRB").

HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ("OFAC") regarding historical transactions involving parties subject to OFAC sanctions, as well as an undertaking with the UK Financial Conduct Authority ("FCA") to comply with certain forward-looking AML- and sanctions-related obligations. In addition, HSBC Bank USA entered into a civil money penalty consent order with the Financial Crimes Enforcement Network ("FinCEN") of the US Treasury Department and a separate civil money penalty order with the Office of the Comptroller of the Currency ("OCC")

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totaling USD 1.9 billion to US authorities, and undertook various further obligations, including, among others, to continue to cooperate fully with the DoJ in any and all investigations, not to commit any crime under US federal law subsequent to the signing of the agreement, and to retain an independent compliance monitor (the 'Monitor'). Under these agreements, HSBC Holdings has also certain obligations to ensure that the entities in the HSBC Group, including HSBC Bank plc and its subsidiaries (including HSBC France), comply with certain requirements. In February 2017, the Monitor delivered its third annual follow-up review report. Through his country-level reviews, the Monitor identified potential anti-money laundering and sanctions issues that the DoJ and HSBC are reviewing further.

HSBC Bank USA also entered into two consent orders with the OCC. These required HSBC Bank USA to correct the circumstances noted in the OCC's then most recent report and to adopt an enterprise-wide compliance programme, and imposed restrictions on acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary without the OCC's prior approval.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation relating to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

30 Legal proceedings and regulatory matters relating to HSBC group entities generally *(continued)*

European interbank offered rates investigations and litigation

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America (US), the European Union, Italy, Switzerland, and elsewhere are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of European interbank offered rates ("Euribor").

HSBC and/or its subsidiaries (including HSBC France as a member of the Euribor panel) have been the subject of regulatory demands for information and are cooperating with those investigations and reviews.

In December 2016, the European Commission (the 'Commission') issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission determined that the duration of HSBC's infringement was 1 month and imposed a EUR 33.6 million fine on HSBC, which has been paid by HSBC France. HSBC has appealed the decision.

In November 2013, HSBC (HSBC Holdings plc and HSBC Bank plc, but not HSBC France) and other banking groups which contribute to the fixing of the Euribor, were named as defendants in a putative class action filed in the US District Court for the Southern District of New York on behalf of persons who transacted in euro futures contracts and other financial instruments allegedly related to Euribor. The complaint alleges, amongst other things, misconduct related to the contribution to the fixing of the Euribor in violation of US antitrust laws, the US CEA, and state law of New York. In May 2016, HSBC reached an agreement in principle with plaintiffs to resolve this action, subject to court approval. The charge corresponding to the amount of this settlement was apportioned between the HSBC entities concerned by the underlying facts, including HSBC France.

31 Related party transactions

The ultimate parent company of the group is HSBC Holdings plc, which is incorporated in England.

Copies of the Group financial statements may be obtained from the following address:
HSBC Holdings plc
8 Canada Square
London
E14 5HQ

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.

Consolidated financial statements (continued)

31 Related party transactions *(continued)*

a *Transactions, arrangements and agreements involving Key Management Personnel*

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 on one hand, their respective spouses and children living in the family home, and on the other hand, controlled companies.

	31.12.2016			31.12.2015		
(in thousands of euros)	***Number of persons***	***Highest balance during the year*** [1]	***Balance at 31 December*** [1]	*Number of persons*	*Highest balance during the year* [1]	*Balance at 31 December* [1]
Loans	**19**	**22,919**	**7,308**	19	78,861	19,502
Credit cards	**19**	**46**	**26**	19	107	26
Guarantees	**19**	**10,112**	**4,961**	19	10,112	10,112

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)	**31.12.2016**	31.12.2015
Short-term employee benefits	**174**	165
Post-employment benefits	**71**	160
Other Long-term benefits	**–**	–
Termination benefits	**45**	178
Share-based payment	**697**	1,659
	987	2,162

Directors and other Key Management Personnel shareholdings and options:

	31.12.2016 [1]	31.12.2015 [1]
Number of options under employee share plans held by Directors and other Key Management Personnel [1]	**–**	–
Number of shares held by Directors and other Key Management Personnel beneficially [2]	**997,315**	1,802,227

1 *The number of key management personnel (including Directors and executive employed) was six persons at 31 December 2016 and seven persons at 31 December 2015.*
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 Chairman's report also includes a detailed description of Directors' remuneration (see pages 57 and the following ones).

31 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 group and fellow subsidiaries of the HSBC Group.

(in millions of euros)	**2016**		2015	
	Highest balance during the year	***Balance at 31 December***	*Highest balance during the*	*Balance at 31 December*
Assets				
Trading assets	**9,293**	**531**	4,753	888
Derivatives	**24,949**	**18,759**	24,867	17,906
Loans and advances to banks	**772**	**269**	1,162	809
Loans and advances to customers	**953**	**21**	222	186
Reverse repurchase agreement – non trading	**1,984**	**640**	3,758	1,105
Financial investments	**549**	**550**	348	313
Other assets	**322**	**215**	340	280
Prepayments and accrued income	**65**	**45**	91	47
Financial asset designated at fair value	**398**	**280**	462	395
Liabilities				
Deposits by banks	**4,521**	**4,521**	1,956	566
Customer accounts	**1,055**	**63**	87	67
Repurchase agreement – non trading	**6,627**	**3,659**	9,962	5,360
Trading liabilities	**8,450**	**3,151**	7,960	3,897
Derivatives	**21,808**	**16,146**	24,164	14,290
Other liabilities	**193**	**97**	216	170
Accruals and deferred income	**143**	**104**	136	124
Financial liabilities designated at fair value	**–**	**–**	–	–
Subordinated liabilities	**260**	**260**	260	260
Guarantees	**248**	**170**	290	217
Income Statement				
Interest income[1]		**43**		43
Interest expense[1]		**31**		14
Fee income		**89**		87
Fee expense		**115**		99
Gains less losses from financial investments		**–**		–
Other operating income		**–**		–
Dividend income		**–**		–
General and administrative expenses		**106**		88

1 *Including interests on trading assets and trading liabilities for EUR 6.4 million in 2016 (2015: EUR 2.5 million).*

32 Events after the balance sheet date

There have been no material events after the balance sheet date which would require disclosure or adjustment to 31 December 2016 financial statements.

33 Group HSBC France subsidiaries, joint ventures and associates

The group classifies investments in entities which it controls as subsidiaries. The group consolidation policy is described in Note 1.2.a.

a *Subsidiaries of HSBC France*

Consolidated companies	*Country of incorporation or registration*	*Consolidation method **	*Main line of business*	HSBC France group interest % **2016**	HSBC France group interest % 2015
Retail and Commercial Banking					
HSBC Factoring (France)	France	FC	Financial company	**100.0**	100.0
SAPC Ufipro Recouvrement	France	FC	Service company	**99.9**	99.9
SARL Neuilly Valeurs [1]	France	FC	Investment company	**–**	100.0
SCI Hervet Mathurins	France	FC	Real estate company	**100.0**	100.0
Union pour la Gestion et les Transactions (UGT) [1]	France	FC	Service company	**–**	100.0
Global Banking and Markets					
Beau Soleil Limited Partnership	Hong Kong	FC	Financial company	**85.0**	85.0
CCF Charterhouse GmbH	Germany	FC	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 25	France	FC	Financial company	**100.0**	100.0
DEMPAR 1	France	FC	Financial company	**100.0**	100.0
DEMPAR 4	France	FC	Financial company	**100.0**	100.0
Elysées Immo Invest	France	FC	Financial company	**100.0**	100.0
FDM 5	France	FC	Financial company	**100.0**	100.0
FDM 6 [1]	France	FC	Financial company	**–**	100.0
Finanpar 2	France	FC	Financial company	**100.0**	100.0
Finanpar 7	France	FC	Financial company	**100.0**	100.0
Foncière Elysées	France	FC	Real estate company	**100.0**	100.0
HSBC Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC Middle East Leasing Partnership [3]	Dubai	FC	Financial company	**–**	85.0
HSBC Real Estate Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC Services (France)	France	FC	Financial company	**100.0**	100.0
HSBC SFH (France)	France	FC	Financial company	**100.0**	100.0
HSBC Trinkaus Gesellschaft für KMl oHG [1]	Germany	FC	Financial company	**–**	90.0
Euro Secured Notes Issuer (ESNI)/compartiment [6]	France	FC	Financial company	**16.7**	16.7
SAF Baiyun	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang ba [2]	France	FC	Financial company	**–**	100.0
SAF Chang jiang er [2]	France	FC	Financial company	**–**	100.0
SAF Chang jiang jiu [2]	France	FC	Financial company	**–**	100.0
SAF Chang jiang liu [2]	France	FC	Financial company	**–**	100.0
SAF Chang jiang qi [2]	France	FC	Financial company	**–**	100.0
SAF Chang jiang san [2]	France	FC	Financial company	**–**	100.0
SAF Chang jiang shi [2]	France	FC	Financial company	**–**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Liquidation.*
2 *Merger.*
3 *Deconsolidation.*
4 *New entry in Perimeter.*
5 *Name change in 2015.*
6 *HSBC France silo, which is 100%-owned by HSBC France and fully consolidated.*

33 Group HSBC France subsidiaries, joint ventures and associates *(continued)*

Consolidated companies	Country of incorporation or registration	Consolidation method *	Main line of business	HSBC France group interest % 2016	% 2015
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 [2]	France	FC	Financial company	**–**	100.0
SAF Chang jiang yi [2]	France	FC	Financial company	**–**	100.0
SAF Guangzhou	France	FC	Financial company	**100.0**	100.0
SAF Palissandre [1]	France	FC	Financial company	**–**	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	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	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 [2]	France	FC	Real estate company	**–**	100.0
Sopingest	France	FC	Financial company	**100.0**	100.0
SNC les Oliviers d'Antibes	France	FC	Financial company	**60.0**	60.0
Thasosfin	France	FC	Financial company	**100.0**	100.0
Asset Management					
CCF & Partners Asset Management Ltd.	United Kingdom	FC	Financial company	**100.0**	100.0
HCM Holdings Ltd	United Kingdom	EM	Financial company	**51.0**	51.0
HSBC Epargne Entreprise (France)	France	FC	Financial company	**100.0**	100.0
Service Epargne Entreprise	France	EM	Service company	**14.4**	15.7
HSBC Global Asset Management (France)	France	FC	Asset management	**100.0**	100.0
HSBC Global Asset Management (Switzerland) AG	Switzerland	EM	Financial company	**50.0**	50.0
HSBC REIM (France)	France	FC	Service company	**100.0**	100.0
Sinopia TRS1 [1]	France	FC	Financial company	**–**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Liquidation.*
2 *Merger.*
3 *Deconsolidation.*
4 *New entry in Perimeter.*
5 *Name change in 2015.*
6 *HSBC France silo, which is 100%-owned by HSBC France and fully consolidated.*

Consolidated financial statements (continued)

33 Group HSBC France subsidiaries, joint ventures and associates *(continued)*

				HSBC France group interest	
Consolidated companies	*Country of incorporation or registration*	*Consolidation method **	*Main line of business*	% **2016**	% 2015
Insurance					
HSBC Assurances Vie (France)	France	FC	Insurance company	**100.0**	100.0
SCI HSBC Assurances Immo	France	FC	Financial company	**100.0**	100.0
ERISA Actions Grandes Valeurs	France	FC	Financial company	**100.0**	100.0
OPCVM6 - Elysées Ecrins FCP	France	FC	Financial company	**99.8**	100.0
OPCVM8 - Erisa Diversifié N2 FCP	France	FC	Financial company	**100.0**	100.0
OPCVM9 - Erisa Opportunités FCP	France	FC	Financial company	**100.0**	100.0
HSBC Destination 3-6-8 FCP3DEC [3]	France	FC	Financial company	**–**	86.0
HSBC Horizon 2013-2015 FCP [3]	France	FC	Financial company	**–**	71.1
HSBC Horizon 2016-2018 FCP	France	FC	Financial company	**100.0**	67.8
HSBC Horizon 2034-2036 A FCP3DEC	France	FC	Financial company	**90.2**	90.5
HSBC Japane.eq. CL.H EUR C.3DEC [1]	France	FC	Financial company	**–**	65.1
HSBC MIX DYNAMIQUE FCP3DEC	France	FC	Financial company	**50.2**	50.1
HSBC MUL.AS.DYN.EUR.AD FCP4DEC [4]	France	FC	Financial company	**63.0**	–
HSBC MUL.ASS.ST.FACT.S FCP3DEC	France	FC	Financial company	**100.0**	100.0
HSBC PTF WLD Select.4 A C.3DEC	France	FC	Financial company	**51.9**	54.6
HSBC SELECT DYNAMIC A FCP 2DEC	France	FC	Financial company	**65.8**	59.4
HHSBC WORLD EQUITY FCP 3DEC [4]	France	FC	Financial company	**51.8**	–
Others					
Charterhouse Management Services Limited (CMSL)	United Kingdom	FC	Investment company	**100.0**	100.0
Charterhouse Administrators Ltd	United Kingdom	FC	Investment company	**100.0**	100.0
Keyser Ullman Ltd	United Kingdom	FC	Investment company	**100.0**	100.0
Société Française et Suisse (SFS)	France	FC	Investment company	**100.0**	100.0
Valeurs Mobilières Elysées	France	FC	Investment company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Liquidation.*
2 *Merger.*
3 *Deconsolidation.*
4 *New entry in Perimeter.*
5 *Name change in 2015.*
6 *HSBC France silo, which is 100%-owned by HSBC France and fully consolidated.*

33 Group HSBC France subsidiaries, joint ventures and associates *(continued)*

b *Main changes in the scope of consolidation*

Liquidation

FDM 6
HSBC Japane.eq.CL.H EUR C.3DEC
HSBC Trinkaus Gesellschaft für KMI oHG
SAF Palissandre
SARL Neuilly Valeurs
Sinopia TRS 1
Union pour la Gestion et les Transactions (UGT)

Mergers [1]

SAF Chang jiang ba
SAF Chang jiang er
SAF Chang jiang jiu
SAF Chang jiang liu
SAF Chang jiang qi
SAF Chang jiang san
SAF Chang jiang shi
SAF Chang jiang wu
SAF Chang jiang yi
Société Immobilière Malesherbes-Anjou

Deconsolidation

HSBC Destination 3-6-8 FCP3DEC
HSBC Horizon 2013-2015 FCP
HSBC Middle East Leasing Partnership [2]

New Entries in Perimeter

HSBC MUL.AS.DYN.EUR.AD FCP4DEC
HSBC WORLD EQUITY FCP 3DEC

1 *The entities SAF Chang jiang ba, SAF Chang jiang er, SAF Chang jiang jiu, SAF Chang jiang liu, SAF Chang jiang qi, SAF Chang jiang san, SAF Chang jiang shi, SAF Chang jiang wu and SAF Chang jiang yi have been merged into HSBC Leasing (France).*
2 *Due to HSBC Middle East Leasing Partnership's governance evolution, the entity has been de-consolidated. HSBC Leasing (France) recognised in its place a 85 per cent direct share of MELP's assets, liabilities, and (prospectively) revenues, and expenses and account for them consistently with other directly owned assets.*

Consolidated financial statements (continued)

PricewaterhouseCoopers Audit
63 rue de Villiers
92208 Neuilly-sur-Seine Cedex

BDO France – Léger Et Associés
113, rue de l'Université
75007 Paris

This is a free translation into English of the statutory auditors' report on the (consolidated) financial statements issued in French and 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 should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Statutory Auditors' report on the consolidated financial statements

For the year ended 31 December 2016

HSBC FRANCE
103, avenue des Champs-Elysées
75419 Paris Cedex 08

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 2016, 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 2016 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II - Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (*code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

– Your company accounts for depreciations to cover the credit and counterparty risks inherent to its activities (notes 1.2.c and 1.2.d to the consolidated financial statements). We have reviewed the control procedures relating to credit and counterparty risk monitoring, the assessment of risks of non-recoverability and the calculation of the corresponding individual and collective impairment.

- Your company has recorded goodwills resulting from past business combinations. These goodwills are allocated to the cash generated units in order to perform an annual impairment test in the event of an indication of impairment in accordance with the methods described in the note 16.a to the financial statements. We have examined the conditions of the management assessment, we have verified the performance and assessed the relevance, consistency of the parameters used and the impairments recorded.
- Your company has recognised cash flow hedging relationships as described in note 12.a to the consolidated financial statements. Our work consisted in examining the conditions under which this treatment was carried out and the related internal control framework put in place. We have verified the appropriateness of the effectiveness tests carried out and the accounting methods adopted by your company.
- Your company holds positions in securities and financial instruments (notes 1.2.c, 1.2.d, 8, 10, 11, 12, 13, 19, 20, and 23 to the consolidated financial statements). We have examined the control procedures for the accounting classification of these positions and for determining the parameters used to value them. We have verified the appropriateness of the accounting policies selected by your company and have satisfied ourselves that they are applied correctly.
- 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 (note 10 to the consolidated financial statements). We have assessed the appropriateness of the parameters used for this purpose.
- Your company recognises provisions to cover risks and litigation related to its activities. We have examined the procedures in your group allowing them identified, measured and accounted for. We ensured that possible uncertainties identified during the implementation of these procedures were properly described in note 30 to the financial statements.
- Your company accounts for an intangible asset which represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet reporting date (PVIF or Present Value of In-Force) (note 16.c to the consolidated financial statements). Our work consisted in assessing the model, parameters and assumptions on which this estimate is based. We have also reviewed the calculations completed by your company based on a sample and examined the approval procedures relating to this estimate. As noted in the note 16.c to the consolidated financial statements, this estimate is based on economic and non-economic assumptions, which are very sensitive and uncertain over the time of projections of the cash flows. Consequently, the evolution of these parameters could lead to an increase or a decrease of the value of the PVIF.

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.

Neuilly-sur-Seine and Paris, on the 27 February 2017

The statutory auditors

PricewaterhouseCoopers Audit	BDO France – Léger & Associés
Nicolas Montillot Partner	Fabrice Chaffois Partner

Parent company financial statements

Balance sheets 2016-2015

ASSETS

(in millions of euros)	*Notes*	**31.12.2016**	31.12.2015
Cash and amounts due from central banks and post office banks		**107**	128
Treasury bills and money-market instruments	*4*	**22,806**	29,743
Loans and advances to banks	*2*	**32,069**	27,309
Loans and advances to customers	*3*	**50,430**	50,628
Bonds and other fixed income securities	*4*	**8,897**	12,843
Equities and other variable income securities	*4*	**85**	51
Investments in subsidiaries and equity securities held for long-term	*5*	**99**	93
Interests in affiliated parties	*5*	**1,361**	1,573
Finance leases	*7*	**457**	408
Intangible fixed assets	*6*	**129**	246
Tangible fixed assets	*7*	**200**	200
Other assets	*9*	**22,129**	21,158
Prepayments and accrued income	*10*	**49,162**	46,274
TOTAL ASSETS		**187,931**	190,653
Off-balance sheet items			
Financing commitments given	*21*	**22,447**	24,845
Guarantees and endorsements given	*21*	**4,405**	4,702
Securities commitments (other commitments given)		**23,029**	30,694

LIABILITIES

(in millions of euros)	*Notes*	**31.12.2016**	31.12.2015
Central bank, CCP		**19**	21
Due to credit institutions	*11*	**40,160**	35,994
Customer accounts	*12*	**42,217**	46,279
Debt securities in issue	*13*	**12,335**	16,349
Other liabilities	*15*	**39,656**	42,140
Accruals and deferred income	*16*	**47,857**	44,181
Provisions for liabilities and charges	*14*	**431**	376
Subordinated liabilities	*17*	**276**	276
Share capital	*18*	**337**	337
Additional paid-in capital	*19*	**16**	16
Reserves	*19*	**1,043**	1,043
Special tax-allowable reserves	*19*	**–**	9
Retained earnings[1]	*19*	**3,602**	3,601
Net profit of the year	*19*	**117**	281
Interim dividend	*19*	**(135)**	(250)
TOTAL LIABILITIES		**187,931**	190,653
Off-balance sheet items			
Financing commitments received	*21*	**1,796**	1,853
Guarantees and endorsements received	*21*	**13,522**	12,797
Securities commitments (other commitments received)		**23,484**	26,861

1 *Before proposed appropriation submitted to Annual General Meeting's approval.*

The euro conversion of foreign currency denominated balance sheet amounted to EUR 22 billion at 31 December 2016 and to EUR 26 billion at 31 December 2015.

Profit and loss accounts 2016-2015

(in millions of euros)	*Notes*	**31.12.2016**	31.12.2015
Income/(Expenses)			
Interest and similar income	23	**1,462**	1,805
Interest and similar expenses	23	**(769)**	(835)
Finance leases income		**137**	111
Finance leases expenses		**(137)**	(109)
Income from equities and other variable instruments	24	**98**	77
Commissions received	25	**775**	771
Commissions paid	25	**(204)**	(195)
Dealing profits	26	**338**	222
Gains or losses on available-for-sale securities	27	**19**	20
Other banking operating income		**18**	15
Other banking operating expenses		**(4)**	(6)
Net banking operating income		**1,732**	1,876
General operating expenses	28	**(1,484)**	(1,410)
Depreciation, amortisation and impairment of fixed assets		**(179)**	(54)
Gross operating income		**69**	412
Cost of risk	8	**(76)**	(116)
Net operating income		**(7)**	296
Gains or losses on disposals of long term investments	29	**103**	12
Profit before tax		**97**	308
Exceptional items			
Income tax	30	**12**	(38)
Gains and losses from regulated provisions		**8**	11
Net income		**117**	281

Statement of reported net profit and movements in shareholders' funds

(Recommendation of the Stock Exchange Commission – Bulletin no. 79 of February 1976)

(in millions of euros)	**31.12.2016**	31.12.2015
Net profit for the year		
– total	**117**	281
– per share *(in euros)*[1,2]	**1.73**	4.17
Movements in shareholders' funds (excluding the net profit of 2016) (after appropriation of 2015 net profit)		
– change in revaluation difference	**–**	–
– transfer to reserves and change in retained earnings	**1**	243
– allocation of net profit for the previous year	**281**	393
– appropriation of net profit	**(280)**	(150)
– change in revaluation reserve and special tax-allowable reserves	**(9)**	(11)
Change in shareholders' funds	**(8)**	232
– per share *(in euros)*[1,2]	**–**	3
Proposed dividend		
– total	**270**	280
– per share *(in euros)*[1,2]	**4**	4.15

1 *Number of shares outstanding at year end: 67,437,827 in 2016 and 2015.*
2 *Based on the weighted average number of shares outstanding, dividend per share amounted to EUR 4 in 2016 (67,437,827 shares) and EUR 4.15 in 2015 (67,437,827 shares).*

Parent company financial statements (continued)

Notes to the parent company financial statements

2016 Highlights

Business review

Net banking income was EUR 1,732 million in 2016, about 8 per cent lower than in 2015. This mainly reflected the reduction in the net interest margin at the French banking business, resulting from the continued fall in interest rates, partly offset by the performance of Global Banking and Markets.

Operating expenses were EUR 1,484 million, about 5 per cent higher than 2015 and were well managed but affected by the cost of strategic initiatives, the cost of restructuring announced in September 2016 and the increase of contribution to the Single Resolution Fund by EUR 19 million.

Depreciation, amortisation and impairment of tangible and intangible assets were EUR 179 million compared to EUR 54 million in 2015. This change was mainly explained by the impairment of the goodwill on merger on both Retail Banking, Wealth Management and Private Bank for an amount of EUR 127 million.

Loan impairment charges were EUR 76 million compared to EUR 116 million in 2015. Profit before tax was EUR 97 million in 2016.

Gains or losses on disposals of long term investments was EUR 103 million compared to EUR 281 million in 2015. This change was mainly explained by the sale of Visa Europe bond to Visa Inc for EUR 108 million in 2016.

Profit attributable to shareholders was EUR 117 million compared to EUR 281 million in 2015. This change is mainly due to the impairment of the goodwill on merger particularly on Global banking, Private bank and Asset Management for an amount of EUR 127 million. In respect of financial 2016, a dividend of EUR 270 million has been proposed to be distributed to shareholders (an interim dividend of EUR 135 million was paid in 2016).

On 31 December 2016, the balance sheet was EUR 188 billion compared to EUR 191 billion in 2015.

Goodwill impairment testing

Following goodwill yearly impairment tests exercise performed in 2016, an impairment amounting EUR 127 million has been accounted impacting the goodwill on merger affected to the goodwill of Retail Banking (EUR 64 million) and Private Banking (EUR 63 millions).This event is detailed in the present document, Note 6 “Intangible fixed assets”.

Voluntary Redundancy Plan

A program of modernisation and optimisation of support functions Operations, IT, Finance, GTRF (Global Trade and Receivable Finance) and Procurement, that includes a Voluntary Redundancy Plan, has been presented to the French Unions representatives during the Comité Central d’Entreprise held the 7 September 2016. A provision has been accounted at 31 December 2016 in the income statement to cover the costs related to the Voluntary Redundancy Plan. In January 2017, a partial collective agreement, dealing with Voluntary Redundancy Plan modalities, has been signed by the Management and all the Unions. The agreement has also been approved and validated by the DIRECCTE (*Direction Régionale des Entreprises, de la Concurrence, de la Consommation, du Travail et de l’Emploi*).

EURIBOR

The European Commission imposed a EUR 33.6 million fine on HSBC in the Euribor litigation. More information can be found in Note 31 “Legal proceedings and regulatory matters relating to HSBC Group entities generally” of this Document.

Single Resolution Fund (SFR) and Fonds de Garantie des Dépôts et de Résolution (FGDR)

HSBC France contribution to SRF for the year 2016 amounted to EUR 67 million and EUR 26 million have been recorded under security deposits as of end of December 2016.

As regard as FGDR, the association and associate certificates represent an amount of EUR 10.8 million as of end of December 2016 after retrocession of EUR 3 million in 2016, security deposits amounted to EUR 15.8 million after retrocession of EUR 12 million payment commitments in 2016 and the retrocession of contribution accounted in the income statement amounted to EUR 6 million in 2016.

VISA

VISA Europe share has been sold the 21 June 2016 in the respect of the repurchase protocol of VISA Inc. This transaction has impacted the income statement for an amount of EUR 108 million.

1 Principal accounting policies

HSBC Holding Plc whose head office is located in London establishes consolidated financial statements. HSBC France is part of it and establishes consolidated financial statements in the French perimeter. The head office of HSBC France is located in Paris. These consolidated financial statements are available on the website "www.hsbc.fr" or "www.hsbc.com". The presentation of the HSBC France financial statements complies with the 2014-03 and 2014-07 ANC regulations modified by 2016-07 ANC regulation of 4 November 2016 relative to the chart of accounts and 2015-06 ANC regulation of 23 November 2016 and the accounting policies generally accepted in France and applicable to credit institutions.

a *Recognition and depreciation/amortisation of fixed assets*

HSBC France applies the principles of articles 214-1 to 214-27 Assets assessments after their first recognition of the 2014-03 ANC regulation on the depreciation, amortisation and impairment of assets.

HSBC France applies the component approach in recognising, depreciating and amortising fixed assets.

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	Periods and depreciation and amortisation methods
Infrastructure	
Building	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

Goodwill

Acquired goodwill is subject to impairment on the basis of objective indicators.

Goodwill on merger

According to 2015-06 ANC new standard of 23 November 2015 which replaces 2014-03 ANC regulation prospectively applicable from 1 January 2016, HSBC France has affected the existing goodwill resulting from previous merger in accordance with the standard's guidelines to the corresponding assets (art 745-6) and recognised it in a specific account in the relevant asset category (art 745-7). The amortisation method and period are the same as those applied to amortised assets it is linked to.

Other fixed assets

For other fixed assets, depreciation periods are determined according to the remaining useful lives of the assets concerned:

Components	Periods and depreciation and amortisation methods
Office equipment	5 years, reducing or straight-line basis
Furniture	5 to 10 years, reducing or straight-line basis
IT hardware	3 to 7 years, reducing or straight-line basis
Software	3 to 5 years, straight-line basis

1 Principal accounting policies *(continued)*

Assets held under finance leaser

The assets held under the leasing activity are recognised in accordance with the French Urgent issues Committee of the CNC recommendation 2006-C of 4 October 2006 relating to the interpretation of CNC recommendation 2004-15 of 23 June 2004 relating to the definition, recognition and valuation of assets excluding from individual company accounts lease contracts in the sense of IAS 17 from the scope of articles 211-1 to 224-4 of 2014-03 ANC regulation. Depreciation is calculated using the straight-line method over the estimated useful life of the assets.

The depreciation periods are as follows:

– furniture and office equipment: 5 years;

– computer equipment: 3 years;

– tools and equipment: 5 to 7 years.

Depreciation and amortisation of fixed assets leased under operating leases are recognised as an expense on finance lease or operating lease.

In financial accounting, the financial contracts outstanding is substituted to net fixed assets leased. The difference between the outstanding amounts of financial assets and the net book value of fixed assets is represented by the unearned finance income.

b *Securities portfolio*

Securities transactions are recognised in accordance with the principles set out in articles 2311-1 to 2391-1 of 2014-07 ANC regulation.

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.

Securities are recognised on the balance sheet at the date of settlement.

Trading account securities

Trading accounts securities are those securities traded on an active market originally acquired or sold with the intention that they will be resold or bought back within short timescale and are held for market activities or for the specialised management of the trading portfolio.

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.

Trading securities are measured mainly on the basis of quoted prices in an active market. However, if a market becomes inactive, the bank uses measurement techniques based on observable market inputs. In this case, an element of judgement is involved in determining fair value.

Parent company financial statements (continued)

1 Principal accounting policies *(continued)*

Available-for-sale securities

Available-for-sale securities are those securities not treated as trading account securities, neither portfolio activity securities nor as securities covered by articles 2351-1, 2351-2 and 2351-3 of 2014-07 ANC regulation, acquired for the purposes of income and liable to be resold within a relatively short timescale.

On the date of 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 lowest 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.

Unrealised losses give rise to the recognition of an impairment.

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.

Portfolio activity securities are recognised on the date of acquisition price.

Held-to-maturity securities are valued at historical cost.

Where the acquisition price of fixed income securities is greater than their redemption value, the difference is amortised over the residual life of the securities.

Where the acquisition price of fixed income securities is less than the redemption price, the difference is recognised in income over the residual life of the securities.

In the event of counterparty risk, impairment is charged.

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.

her 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. These securities are recorded individually at the lowest of their acquisition value or their value-in-use.

The methods for assessing value-in-use are set out below.

1 Principal accounting policies *(continued)*

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 lowest 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 trading securities are recorded under the heading "Dealing profits".

Gains or losses on sale and changes in impairment of available-for-sale securities are recorded under the heading "Gains or losses on available-for-sale securities".

Concerning the other securities, gains or losses on sale and impairment charges are recognised under the heading "Gains or losses on disposals of long-term investments" in the income statement, except for capital gains realised as part of restructuring operations, which are recognised as exceptional items.

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 2411-1 to 2412-4 of 2014-07 ANC regulation, 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" and "Sell and buy back" transactions.

Bonds versus bonds

Bonds versus bonds transactions are recognised in accordance with the principles set out in the article 2361-2 of 2014-07 ANC regulation.

Off-balance sheet repos and reverse repos

In accordance with articles 2371-4 "measured at cost" of 2014-07 ANC regulation, repo transactions recorded in off-balance sheet between the trade date and the settlement/delivery date are shown under "Securities Commitments".

1 Principal accounting policies *(continued)*

c *Loans and advances*

Loans assessed individually

Non-performing and impaired loans

Non-performing loans and impaired loans are recorded in accordance with the article 2222-1 of 2014-07 ANC regulation.

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.

Loans and receivables are classified according to HSBC France's internal loan rating system. Performing loans have a rating of between 1 and 8, non-performing loans have a rating of 9 and impaired loans, including unrecoverable loans not yet written off, have a rating of 10. External ratings do not have a direct influence on loan classification, except that a loan whose external rating reflects a position of default will be classified as "non-performing" other than in exceptional circumstances.

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.

HSBC France applies the provisions of articles 2221-2 of 2014-07ANC regulation 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 withdraws amounts without overdraft authorisation.

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 the article 2221-5, HSBC France has introduced a specific system for dealing with restructured debt and impaired loan.

In application of the articles 2221-8 of 2014-07 ANC regulation, impaired loans are those for which the prospect of recovery is very remote and for which a write-off is being considered. These include receivables which are long overdue or for which the contract has been terminated in case of leasing, 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. Interests on impaired loans are not recognised through profit or loss until the date of actual payment.

1 Principal accounting policies *(continued)*

Reclassification into performing loans

In application of the article 2221-5 of the 2014-07 ANC regulation, a loan that has been classified as non-performing may be reclassified as performing when the original scheduled payments have been resumed without further incident and, in the case of restructured loans, the counterparty risk has been eliminated.

Risk mitigation instruments

The bank uses the customary risk mitigation instruments including guarantees and collateral (which is re-measured at least annually depending on its nature) and, to a minor extent, the purchase of credit default swaps (CDS). In this latter case, the risk mitigation impact is only recognised if the CDS meets the relevant regulatory conditions for recognition (term, currency, etc.).

Recognition of gains and losses

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. In application of the article 2231-1 of the 2014-07 ANC regulation, impairment of non-performing and impaired loans has been calculated on the basis of the difference between the net present value of expected future recoveries and the carrying amount of the loan. Impairment may not be less than the amount of unpaid, recognised interest on the loan.

Expected future cash flows are determined on the basis of an individual review of the customer's position, including the existence or probability of a collective procedure against the customer, as well as the value and liquidity of any guarantees or collateral. The discount rate used is the original effective interest rate for fixed-rate loans and the last known contractual rate for variable-rate loans.

In the income statement, charges and releases of provisions, losses on irrecoverable receivables and recoveries on receivables that had been written off are recognised in the "Cost of risk" line.

Loans assessed on a portfolio basis

Non-performing loans are not measured on a portfolio basis. Impairment is individually assessed.

Discount on restructured debt

In application of articles 2221-5 and 2231-3 of the 2014-07 ANC regulation, HSBC France applies a specific system for dealing with restructured debt, when they have a significant impact.

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 articles 2111-1 to 2171-1 of the 2014-07 ANC regulation. 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 *Due to credit institutions and customer accounts*

All liabilities towards banks and customers are recognised at amortised cost. These headings include repurchase transactions. Accrued interest on these liabilities is recorded in the balance sheet in an accrued interest account.

e *Debt securities in issue*

Debt securities are classified according to their nature: certificates of deposit, interbank market securities, tradable debt securities, bonds and similar securities. This category does not include any subordinated securities, which are recorded under subordinated debt.

Accrued unpaid interest on these securities is recorded in the balance sheet in an accrued interest account with a corresponding amount recognised in profit or loss.

Issue or redemption premiums on bonds are amortised on an actuarial basis over the life of the bond. Issue expenses are deferred over the life of the bond on a straight-line basis.

f *Provisions*

In accordance with the article 3222 of 2014-03 ANC regulation, provisions are registered where it is probable that an outflow of resources, without an 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 and other benefit liabilities

As of 1 January 2004, HSBC France has opted to adopt ANC recommendation 2013-02 on the rules for recognising and measuring obligations for retirement and similar benefits.

HSBC France provides some of its employees post-employment benefits such as pension plans, termination payments.

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.

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 the scheme's 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 articles 2621-1 to 2624-2 of 2014-07 ANC regulation 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, distinct 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 rule), which respected the legal and tax regulations applicable in France. This regulation was revised in 2012 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 to 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.

No cover arrangements were put in place for the plans granted in 2010 and onwards 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 accordance with the article 624-1 of the 2014-03 ANC regulation:

– 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 value-creation objectives for shareholders. 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.

1 Principal accounting policies *(continued)*

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. These 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.

g *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.

h *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.

i *Financial derivatives*

The HSBC France group operates on all financial instruments markets, whether on behalf of its customers or for the purposes of hedging balance sheet items or for arbitration purposes.

Interest-rate and currency options

Options are contracts reached 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 articles 2511-1 to 2516-1 of Book II – Title 5 – Chapter 1 Recognition of financial derivatives of interest rate of ANC 2014-07 regulation, 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.

1 Principal accounting policies *(continued)*

Interest-rate futures (tradable futures)

The accounting treatment is identical to that set out above for options.

Currency swaps and/or interest terms (swaps, FRAs)

Currency and/or interest rate swaps are recognised in accordance with the articles 2521-1 and 2529-1 of the 2014-07 ANC regulation.

The contracts are recorded separately depending 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).

On the accounting side, methodology varies depending on whether the transactions are for hedging or trading business purposes.

Income on positions managed as part of a trading portfolio of swaps is recognised at market value after a reduction to reflect counterparty risk and future management expense.

In many market activities, the contracts negotiated by HSBC France are revalued at market conditions after the date of the trade.

The notionals are recorded as off-balance-sheet items.

Counterparty risk on derivatives

The fair value of contracts has to take into account counterparty risk linked to contracts.

The adjustment to value for counterparty risk is at least equal to the cost in equity determined under the terms of articles 2525-3 of 2014-07 ANC regulation.

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j *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.

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k *Segment reporting*

This information is not available on the parent company accounts but details are given on a consolidated base page 10 and following of the management report.

Parent company financial statements (continued)

2 Loans and advances to banks

(in millions of euros)	31.12.2016	31.12.2015
On demand deposits[1]	**11,875**	12,540
Term deposits	**20,170**	14,754
≤ 3 months	**16,049**	9,258
> 3 months and ≤ 1 year	**2,254**	1,391
> 1 year and ≤ 5 years	**1,604**	3,799
> 5 years	**262**	307
Accrued interest	**25**	15
Total	**32,069**	27,309
Of which securities received under repurchase agreements	***20,857***	*19,644*
Of which subordinated loans	***62***	*62*

1 *Including overnight stock lending.*

3 Customer loans

Outstanding at 31 December

Breakdown of outstanding loans by type

(in millions of euros)	31.12.2016	31.12.2015
Commercial loans	**1,498**	1,058
Ordinary accounts – debit balances	**1,101**	1,512
Other customer facilities	**47,832**	48,058
Total	**50,430**	50,628
Of which eligible loans for European Central Bank or Banque de France refinancing	***14,537***	*14,119*

Breakdown of outstanding loans by quality

	31.12.2016				31.12.2015
(in millions of euros)	***Performing loans***	***Non- performing loans***	***Impairment on non-performing loans***	***Total***	*Total*
Retail loans	**13,192**	**238**	**(68)**	**13,362**	12,864
Financial customer loans	**1,523**	**20**	**(15)**	**1,527**	675
Non-financial customer loans	**21,766**	**887**	**(455)**	**22,197**	20,603
Securities received under repurchase agreements	**13,269**	**–**	**–**	**13,269**	16,411
Accrued interest	**75**	**–**	**–**	**75**	74
Total	**49,825**	**1,144**	**(539)**	**50,430**	50,628
Of which subordinated loans				***1***	*1*
Of which gross non-performing loans				***506***	*580*
Of which gross impaired loans				***638***	*700*
Of which impairment on gross non-performing loans				***(131)***	*(148)*
Of which impairment on gross impaired loans				***(408)***	*(449)*
Of which restructured loans				***157***	*244*

3 Customer loans *(continued)*

Breakdown of outstanding loans by remaining contractual maturity

(in millions of euros)	**31.12.2016**	31.12.2015
Repayable on demand [1]	**5,367**	2,193
Term deposits	**44,988**	48,361
≤ 3 months	**9,742**	16,653
> 3 months and ≤ 1 year	**5,605**	4,744
> 1 year and ≤ 5 years	**17,499**	14,927
> 5 years	**12,142**	12,038
Accrued interest	**75**	74
Total	**50,430**	50,628

1 *Including overnight stock lending.*

Breakdown by business sector

(in millions of euros)	**31.12.2016**	31.12.2015
Retail	**13,530**	13,282
Industrial	**1,807**	1,814
Commercial and Services	**9,918**	8,955
Real estate	**4,328**	5,990
Finance	**14,912**	17,872
Others	**5,936**	2,716
Total	**50,430**	50,628

Parent company financial statements (continued)

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities

(in millions of euros)	31.12.2016 Carrying amount	31.12.2015 Carrying amount
Treasury bills and other eligible bills	**22,806**	29,743
Trading account securities	**15,399**	21,082
Available-for-sale securities	**7,377**	8,616
Held-to-maturity securities	**–**	–
Accrued interest	**31**	46
Debt securities	**8,897**	12,843
Trading account securities	**3,804**	7,985
– bonds and other quoted securities	**3,804**	7,985
– unquoted bonds, interbank market securities and tradable debt securities	**–**	–
Available-for-sale securities	**4,696**	4,558
– quoted bonds	**4,696**	4,558
– unquoted bonds, interbank market securities and tradable debt securities	**–**	–
Held-to-maturity securities	**370**	270
– quoted bonds	**370**	270
– unquoted bonds, interbank market securities and tradable debt securities	**–**	–
Accrued interest	**27**	30
Of which subordinated debt	***270***	*270*
Equity shares and similar & portfolio equities	**85**	51
Trading account securities	**–**	–
– quoted shares	**–**	–
– unquoted shares and similar	**–**	–
Available-for-sale securities	**8**	8
– quoted shares	**–**	–
– unquoted shares and similar	**8**	8
Portfolio activity securities	**78**	43
– quoted portfolio activity shares	**–**	–
– unquoted portfolio activity shares	**78**	43
Total	**31,788**	42,637

Breakdown by remaining contractual maturity of treasury bills and government bonds

(in millions of euros)	31.12.2016	31.12.2015
Treasury bills and other eligible bills		
≤ 3 months	**2,374**	6,925
> 3 months and ≤ 1 year	**1,092**	2,996
> 1 year and ≤ 5 years	**10,469**	10,345
> 5 years	**8,840**	9,431
Accrued interest	**31**	46
Total	**22,806**	29,743
Debt securities		
≤ 3 months	**2,358**	5,062
> 3 months and ≤ 1 year	**509**	266
> 1 year and ≤ 5 years	**4,714**	5,421
> 5 years	**1,289**	2,064
Accrued interest	**27**	30
Total	**8,897**	12,843

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities *(continued)*

Estimated value of the portfolio of available-for-sale and portfolio business securities

	31.12.2016		31.12.2015	
(in millions of euros)	***Net carrying***	***Estimated***	*Net carrying*	*Estimated*
Treasury bills and other eligible bills	**7,376**	**7,733**	8,616	9,032
Debt securities	**4,696**	**4,799**	4,558	4,663
Equity shares and similar and other portfolio equities	**85**	**110**	51	62
Total available-for-sale and portfolio activity securities (excluding related receivables)	**12,158**	**12,642**	13,225	13,757

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 on pages 295 to 297.

Unrealised gains and losses in available-for-sale and portfolio business securities

	31.12.2016		
(in millions of euros)	***Before provisions***	***Provisions***	***Net amount***
Unrealised gains in available-for-sale and portfolio business securities[1]	**490**	**2**	**492**
– treasury bills and other eligible bills	**360**	**2**	**362**
– bonds and other fixed-income securities	**105**	**–**	**105**
– equity shares and similar & portfolio equities	**25**	**–**	**25**
Unrealised losses in available-for-sale and portfolio business securities[1]	**15**	**7**	**8**
– treasury bills and other eligible bills	**5**	**–**	**5**
– bonds and other fixed-income securities	**4**	**2**	**2**
– equity shares and similar & portfolio equities	**5**	**5**	**–**

1 *Available derivatives of partners cover EUR -358 million.*

Additional information on the securities given in compliance with ANC 2014-07 regulation dated 26 November 2014

Total of held-to-maturity securities sold during the period

This information is not material

Unamortised difference between the acquisition price and the redemption price of securities

The net premium of available-for-sale and held-to-maturity securities amounted to EUR 91 million in 2016 and to EUR 134 million in 2015.

Total of securities assigned to another portfolio

No security was transferred from a portfolio to another portfolio in 2016 or in 2015.

5 Investments in subsidiaries and equity securities held for long-term

(in millions of euros)	**31.12.2016** *Net carrying amount*	31.12.2015 *Net carrying amount*
Interests in subsidiaries and associates	**88**	79
Listed securities	**–**	–
– banks	**–**	–
– others	**–**	–
Non-listed securities	**88**	79
– banks	**45**	45
– others	**43**	34
Other long-term securities	**11**	14
Listed securities	**–**	–
– banks	**–**	–
– others	**–**	–
Non-listed securities	**11**	14
– banks	**–**	–
– others	**11**	14
Interests in group companies	**1,361**	1,573
Listed securities	**–**	–
– banks	**–**	–
– others	**–**	–
Non-listed securities	**1,361**	1,573
– banks	**565**	572
– others	**796**	1,001
Accrued interests	**–**	–
Total (including the 1976 statutory revaluation)	**1,460**	1,666

(in millions of euros)	**31.12.2016**	31.12.2015
Gross amounts at 1 January (excluding advances and accrued interests)	**1,791**	1,892
Changes in the year:		
– acquisitions of securities/share issues	**8**	3
– disposals/capital reductions[1]	**(223)**	(105)
– effect of foreign exchange differences	**(3)**	1
– other movements/merger	**–**	–
Gross amounts at 31 December (excluding advances and accrued interests)	**1,572**	1,791
Impairments at 1 January	**(125)**	**(160)**
Changes in the year:		
– new allowances	**(7)**	(3)
– release of allowances no longer required[2]	**19**	39
– other movements	**–**	–
– effect of foreign exchange differences	**–**	–
Impairment at 31 December	**(113)**	**(125)**
Accrued interests	**–**	–
Net book value including accrued interests	**1,460**	1,666

1 *Relate mainly to retroactive merger on 01/01/2016 for Société Immobilière Malesherbes Anjou for EUR 49 million, to the merger of FDM6 for EUR 129 million, to the merger of SAF Palissandre for EUR 42 million and to reversal of FGDR for EUR 3 million.*
2 *Relate mainly to reversal of provisions for EUR 18 million following the retroactive merger for SI Malesherbes Anjou.*

6 Intangible fixed assets

(in millions of euros)	31.12.2016	31.12.2015
Gross amounts at 1 January	**511**	504
Changes in the year:		
– transfers and other movements	**(7)**	–
– fixed asset acquisitions [1]	**26**	8
– fixed asset disposals and other changes	**(4)**	–
Gross amounts value at 31 December	**526**	511
Amortisation at 1 January	**265**	259
Changes in the year:		
– charges for the period for amortisation and impairment [2]	**132**	7
– transfers and other movements	**–**	–
– fixed asset sales, disposals and other changes	**–**	–
Amortisation at 31 December	**397**	265
Net book value of fixed assets at 31 December	**129**	246

1 *Relate mainly to the capitalisation of internal cost development linked to strategic initiatives.*
2 *Relate mainly to the impairment of goodwill on merger of HSBC Hervet and HSBC Private Bank France for EUR 127 million.*

Since 1 January 2016 and according to 2015-06 ANC new regulation of 23 November 2015 which modifies 2014-03 ANC regulation, the goodwill is recognised in a specific account in the relevant asset category after its affectation (art 745-6). The amortisation method and period are the same as those applied to amortised assets it is linked to (art 745-7).

According to the article 745-3 of 2015-06 ANC regulation, a goodwill, corresponding to the difference between the shares' book value of the merged company and the net asset value transferred, was recognised on the merger of HSBC Hervet with HSBC France in 2008, of HSBC Private Bank France with HSBC France in 2011 and SI Malesherbes Anjou with HSBC France in 2016.

In accordance with the article 745-7, goodwill is written back through profit or loss when the assets to which it was affected are realised.

Goodwill is impaired when the current value of one or more underlying assets, to which a portion of it was affected, is lower than 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 articles 214-1 to 214-27 of 2015-06 ANC regulation).

Attributed to goodwill on merger	***Gross amounts at 1 January 2016***	***Increases***	***Decreases***	***Carrying amounts at 31 December 2016***
Intangible assets	161.4	–	134.1	27.3
Tangible assets	–	10.4	3.8	6.6
Financial assets	–	0.2	–	0.2
Total	**161.4**	**10.6**	**137.8**	**34.1**

6 Intangible fixed assets *(continued)*

Concerning HSBC Hervet

The goodwill on merger, amounting initially to EUR 140 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 Baecque Beau HSBC securities	48
Unrealised gains in fixed assets	10
Unrealised gains in securities	–
Purchased goodwill (no attribution)	82
Total	**140**

At the end of 2016, because of the realisation of some assets (arising mainly from the merger between HSBC de Baecque Beau and HSBC France in 2008), according to the buildings amortisation and after the goodwill impairment for EUR 64 million, the remaining goodwill is about EUR 23.6 million at 31 December 2016.

Concerning HSBC Private Bank France

At the end of 2016, after impairment of the goodwill for an amount of EUR 63 million, the remaining goodwill was about EUR 8.8 million.

Concerning SI Malesherbes Anjou

SI Malesherbes Anjou merged with HSBC France in September 2016. The goodwill affected to the buildings was about EUR 3.5 million and EUR 1.7 million after buildings amortisation.

7 Tangible fixed assets

(in millions of euros)	**31.12.2016**	31.12.2015
Gross amounts at 1 January	**824**	805
Changes in the year:		
– transfers and other movements	**7**	–
– fixed asset acquisitions	**37**	32
– fixed asset disposals and other changes	**(29)**	(13)
Carrying amount at 31 December	**839**	824
Depreciation at 1 January	**623**	589
Changes in the year:		
– charges for the period for depreciation and impairment	**44**	47
– transfers and other movements	**–**	(0,1)
– fixed asset disposals and other changes	**(28)**	(13)
Depreciation at 31 December	**639**	623
Carrying amount at 31 December	**200**	200

Breakdown of tangible fixed assets by type

(in millions of euros)	**31.12.2016**	31.12.2015
Operating land and buildings	**38**	31
Non-operating land and buildings	**1**	3
Other tangible assets	**161**	167
Carrying amount at 31 December	**200**	200

Leasing and renting with buy option

(in millions of euros)	**31.12.2016**	31.12.2015
Assets under construction	**29**	3
Gross values [1]	**706**	603
Amortisation	**(279)**	(198)
Related loans	**–**	–
Total	**457**	408

1 *Main assets in 2016: road assets for EUR 322 million, public building and construction for EUR 83 million, machine tools for EUR 57 million.*

At 31 December 2016, the financial outstanding amounts to EUR 418 million (EUR 369 million in 2015) and the negative unearned finance income before deferred tax to EUR 57 million (EUR 49 million in 2015).

Parent company financial statements (continued)

8 Loan impairment

(in millions of euros)	*Balance at 31.12.2015*	*Charges*	*Utilised releases*	*Available releases*	*Other changes*	***Balance at 31.12.2016***
Impairment on interbank and customer non-performing loans (excluding doubtful interest)	597	186	(104)	(134)	(7)[1]	**539**
Impairment on securities	1	–	–	–	–	**1**
Provisions for commitments by signature	5	4	–	(3)	–	**5**
Total of impairment and provisions recognised in cost of risk	603	190	(104)	(137)	(7)	**544**

1 *Of which discounting effect on impaired loans recognised in net operating income*	*(7)*
Of which effect on exchange rate variation	*0*

Loan impairment

(in millions of euros)	**31.12.2016**	31.12.2015
Net impairment charge for the period:		
– interbank and customer non-performing and impaired receivables (excluding doubtful interest)[1]	**(79)**	(117)
– counterparty risk on securities	**–**	1
– commitments by issuer[2]	**–**	(2)
– recoveries of amounts previously written off	**3**	2
Total cost of risk[3]	**(76)**	(116)

1 *Of which unprovided losses on non-performing and impaired receivables*	***(17)***	*(17)*
2 *Of which unprovided losses*	–	–
3 *Of which losses hedged by provisions*	***(113)***	*(118)*

9 Other assets

(in millions of euros)	**31.12.2016**	31.12.2015
Securities transactions settlement accounts	**487**	24
Sundry debtors and other receivables	**21,642**	21,134
Total	**22,129**	21,158

10 Prepayments and accrued income

(in millions of euros)	**31.12.2016**	31.12.2015
Items in course of collection from other banks	**400**	282
Other prepayments and accrued assets[1]	**48,762**	45,992
Total	**49,162**	46,274

1 *Including mark-to-market on derivatives instruments for EUR 48,287 million in 2016 and EUR 45,417 million in 2015.*

11 Treasury and interbank transactions

Deposits by banks

(in millions of euros)	**31.12.2016**	31.12.2015
On demand deposits	**2,476**	2,832
Term deposits	**37,599**	33,081
≤ 3 months	**26,932**	24,692
> 3 months and ≤ 1 year	**515**	799
>1 year and ≤ 5 years	**5,903**	5,384
>5 years	**4,250**	2,207
Accrued interest	**86**	81
Total	**40,160**	35,994
Of which securities given under repurchase agreements	***22,212***	*23,778*

12 Customer accounts

Outstanding at 31 December

Breakdown of customer credit balances by type of deposit

(in millions of euros)	**31.12.2016**	31.12.2015
On demand deposits	**22,104**	20,846
Special demand accounts	**7,022**	6,909
Special term accounts	**696**	668
Term accounts	**4,837**	5,209
Total customer deposits (excluding repurchase agreements)	**34,659**	33,632
Securities given under repurchase agreements	**7,545**	12,632
Accrued interest	**13**	15
Total customer credit balance accounts	**42,217**	46,279

Breakdown of customer credit balances by remaining contractual maturities

(in millions of euros)	**31.12.2016**	31.12.2015
On demand deposits	**29,126**	27,755
Term deposits	**13,077**	18,509
≤ 3 months	**10,970**	14,789
> 3 months and ≤ 1 year	**1,589**	3,232
>1 year and ≤ 5 years	**342**	282
>5 years	**177**	206
Accrued interest	**13**	15
Total	**42,217**	46,279

13 Bonds and other fixed income securities

(in millions of euros)	**31.12.2016**	31.12.2015
Certificates of deposit (including accrued interest)	**–**	–
Interbank market securities and tradable debt securities	**5,182**	7,023
Bonds	**7,130**	9,303
Accrued interest	**23**	23
Total	**12,335**	16,349

Parent company financial statements (continued)

13 Bonds and other fixed income securities *(continued)*

Breakdown of debt securities by maturity

(in millions of euros)	31.12.2016	31.12.2015
Debt securities	**12,312**	16,326
≤ 3 months	**1,020**	3,765
> 3 months and ≤ 1 year	**4,645**	4,677
>1 year and ≤ 5 years	**4,772**	5,857
>5 years	**1,875**	2,027
Accrued interest	**23**	23
Total	**12,335**	16,349

Issuances premium yet paid off are EUR 6 million at 31 December 2016 and EUR 9 million at 31 December 2015.

14 Provisions

(in millions of euros)	*Balance at 31.12.2015*	***Charges***	***Release for written off***	***Available releases***	***Other movements***	***Balance at 31.12.2016***
Provisions for commitments by signature and disputes	80	41	(2)	(27)	2	**94**
Other provisions [1]	296	141	(73)	(25)	(1)	**337**
Total	376	182	(75)	(53)	1	**431**

1 *Including employee benefits provision (see Note 20 "Pensions, post-employment benefits"), share-based payment provision (see the comments of Note 28 "General operating expenses") and restructuring provision.*

Provision on PEL/CEL home ownership products

	31.12.2016				
	PEL				
(in millions of euros)	***≤ 4 years***	***> 4 years and ≤ 10 years***	***> 10 years***	***Total***	***CEL***
Amounts collected	**203**	**117**	**360**	**680**	**96**
Outstandings collected	**–**	**(3)**	**–**	**(4)**	**–**
Provisions	**(6)**	**–**	**(1)**	**(7)**	**–**
Allocation to provisions/reversal	**(1)**	**–**	**–**	**–**	**–**

15 Other liabilities

(in millions of euros)	31.12.2016	31.12.2015
Securities transactions settlement accounts	**168**	9
Sundry creditors[1]	**7,959**	8,799
Short position and securities received under repurchase agreements confirmed resold	**31,528**	33,332
Total	**39,656**	42,140

1 *Of which deposits on derivatives received in 2016: EUR 7,891 million and EUR 8,627 million in 2015.*

16 Accruals and deferred income

(in millions of euros)	31.12.2016	31.12.2015
Items in course of collection from other banks	**338**	259
Accruals and deferred income[1]	**47,519**	43,922
Total	**47,857**	44,181

1 *Including mark-to-market on derivatives instruments for EUR 46,936 million in 2016 and EUR 42,768 million in 2015.*

17 Subordinated debt

This heading deals with the debts materialised or not by term or perpetual securities. The refund in the event of the liquidation of the payer is possible only in the case of the desinterest of the other creditors.

If the need arises, accrued interest on these subordinated securities are recorded in the balance sheet in an accrued interest account with a corresponding amount recognised in profit or loss.

(in millions of euros)	31.12.2016	31.12.2015
Subordinated notes	**–**	–
Undated subordinated notes	**16**	16
Subordinated debts	**260**	260
Accrued interest	**0.2**	0.2
Total	**276**	276

Securities issued by HSBC France

Subordinated securities issued by HSBC France, in euros and other currencies, are liabilities which will only be repaid, in the event of liquidation, after the interests of other creditors have been extinguished but before repayment of the holders of participating securities or equity.

Participating securities: undated subordinated securities and debt

(in millions of euros)	Date of issue	Date of maturity	Interest type	Currency of issue	31.12.2016	31.12.2015
Undated subordinated securities	22.07.1985	perpetual	Effective monthly rate – 0.25	FRF	**16.2**	16.2
Accrued interest					**0.1**	0.1
Total (including accrued interest)					**16.3**	16.3

Participating securities are refunded at a price equal to the par only in the case of the liquidation of the company. Nevertheless, the amortisation by subordinated debts buyback is possible by the buyback in the Stock Exchange.

The subordinated liabilities conversion in equity or in debt is not possible.

Subordinated debts

(in millions of euros)	Date of issue	Date of maturity	Interest type	Currency of issue	31.12.2016	31.12.2015
Subordinated debts	22.12.2014	22.12.2029	Floating rate	EUR	**260**	260
Accrued interest					**0.2**	0.2
Total for securities issued by HSBC France (including accrued interest)					**260.2**	260.2

A total or a part refund will be possible from December 2024.

The subordinated liabilities conversion in equity or in debt is not possible.

Parent company financial statements (continued)

18 Share capital

(shares of 5 euros)	**31.12.2016** Number of shares	**31.12.2016** Total (in thousands of euros)	31.12.2015 Number of shares	31.12.2015 Total (in thousands of euros)
At 1 January	**67,437, 827**	**337,189**	67,437,827	337,189
– subscription options exercised	**–**	**–**	–	–
– new capital issued – merger	**–**	**–**	–	–
– reduction of capital	**–**	**–**	–	–
At 31 December	**67,437,827**	**337,189**	67,437,827	337,189

Voting rights

At 31 December 2016, the total of voting rights stood at 67,437,827.

19 Equity

(in millions of euros)	**31.12.2016**	31.12.2015
Called-up share capital	**337**	337
Share premium account	**16**	16
Reserves	**1,043**	1,043
– legal reserve	**38**	38
– long-term gains reserve	**406**	406
– revaluation reserve	**5**	5
– extraordinary and other reserve	**305**	305
– free reserve	**294**	294
– revaluation reserve on past service costs	**(5)**	(5)
Retained earnings [1]	**3,602**	3,601
Interim dividend	**(135)**	(250)
Special tax-allowable reserves	**–**	9
Net profit for the year	**117**	281
Equity	**4,980**	5,036

1 *Before proposed appropriation submitted to Annual General Meeting's approval.*

Changes in equity in 2015

(in millions of euros)	**2016**
Balance at 1 January	**5,036**
Net profit for the year	**117**
New shares issued upon exercise of stock options	**–**
Reduction of capital	**–**
Interim dividend	**(135)**
Others	**(38)**
Balance at 31 December	**4,980**

Legal reserve

This reserve is built up by appropriating at least one-twentieth of the year’s profit. This appropriation ceases to be mandatory once this reserve reaches one-tenth of share capital. It is not distributable.

Net long-term gains reserve

Distributing this reserve would lead to an additional tax charge equal to the difference between standard tax rate and reduced tax rate.

19 Equity *(continued)*

Revaluation reserve (1976 revaluation)

This reserve could be incorporated into capital, but it cannot be distributed or used to offset losses.

Other reserves

Amounts put into reserves over five years ago would be subject to a levy if they were to be distributed.

For distributions paid on or after 1 January 2000, HSBC France can charge the dividends against profits liable to corporate income tax for accounting periods ended at most five years ago, starting with the oldest, in application of the decree of 21 December 1999.

20 Pensions, post-employment benefits

(in millions of euros)	**31.12.2016**	31.12.2015
Provision for employee-related commitments[1]	**160**	161

1 *Including defined benefits pension plans for Executive Board for EUR 3 million in 2016 and for EUR 2 million in 2015.*

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 pensions*	*Rate of pay increase*	*Mortality table*[2]
At 31 December 2016	**1.65**	**1.65**	**1.50**	**1.50**	**2.65**	**–**
At 31 December 2015	1.80	1.80[1]	1.50	1.50	2.70	–

1 *Expected rate of return on bonds.*
2 *HSBC France uses the tables TGH/TGF05 for pension obligations and TV 88/90 for retirement benefits.*

HSBC France determines discount rates in consultation with its actuaries based on the current average yield of high quality (AA-rated) debt instruments, with maturities consistent with that of the pension obligation. The expected rate of return on plan assets is determined in consultation with HSBC's actuaries, based on historical market returns, adjusted for additional factors such as the current rate of inflation and interest rates.

Provision recognised

(in millions of euros)	**31.12.2016**	31.12.2015
Present value of benefit obligations	**169**	171
Fair value of plan assets	**(9)**	(10)
Net liability recognised	**160**	161

Parent company financial statements (continued)

21 Off-balance sheet items

(in millions of euros)	**31.12.2016**	31.12.2015
A - Loan commitments		
Commitments given	**22,447**	24,845
Refinancing agreements and other financing commitments in favour of banks	**769**	2,025
In favour of customers	**21,678**	22,820
– confirmed credit facilities	**21,634**	22,739
– acceptances payable and similar instruments	**44**	81
Commitments received	**1,796**	1,853
Refinancing agreements and other financing commitments in favour of banks	**1,796**	1,853
B - Guarantee commitments		
Commitments given	**4,405**	4,702
Guarantees, acceptances and other securities to banks	**692**	854
Guarantees, acceptances and other securities to customers	**3,712**	3,848
Commitments received	**13,522**	12,797
Guarantees, acceptances and other security from banks	**13,522**	12,797

Loans pledged for Covered Bonds issues

(in millions of euros)	**31.12.2016**
Covered bonds	**7,007**
Loans pledged on guarantee 3G and TRICP	**2,933**
Loans pledged on guarantee CCBM	**5,170**
Securities pledged on guarantee	**2,974**
Total	**18,084**

Exchanges rate contracts

	31.12.2016				31.12.2015			
(in billions of euros)	***Fair value at 31.12.2016***	***Hedging contracts*[1]**	***Trading contracts*[1]**	***Total*[1]**	*Fair value at 31.12.2015*	*Hedging contracts*[1]	*Trading contracts*[1]	*Total*[1]
Unconditional transactions	**1.4**	**57**	**1,713**	**1,770**	2.2	53	1,855	1,908
Exchange traded	**–**	**–**	**61**	**61**	–	–	83	83
– interest rate	**–**	**–**	**61**	**61**	–	–	83	83
– exchange rate	**–**	**–**	**–**	**–**	–	–	–	–
– equity	**–**	**–**	**–**	**–**	–	–	–	–
Non-exchange traded	**1.4**	**57**	**1,652**	**1,709**	2.2	53	1,772	1,825
– futures	**–**	**–**	**55**	**55**	–	–	64	64
– interest rate	**1.3**	**56**[2,3]	**1,480**	**1,536**	2.1	52	1,535	1,587
– exchange rate	**(0.1)**	**1**	**39**	**40**	–	1	41	41
– other contracts	**0.2**	**–**	**77**	**77**	0.1	–	132	132
Conditional transactions	**(0.2)**	**–**	**634**	**634**	(0.7)	–	591	591
Exchange traded	**–**	**–**	**25**	**25**	–	–	30	30
Interest rate	**–**	**–**	**–**	**–**	–	–	2	2
Exchange rate	**–**	**–**	**25**	**25**	–	–	28	28
Other contracts	**–**	**–**	**–**	**–**	–	–	–	–
Non-exchange traded	**(0.2)**	**–**	**609**	**609**	(0.7)	–	561	561
Caps and floors	**(0.5)**	**–**	**212**	**212**	(0.6)	–	172	172
Swaptions and options	**0.4**	**–**	**–**	**–**	(0.1)	–	–	–
– bought	**–**	**–**	**48**	**48**	–	–	49	49
– sold	**–**	**–**	**349**	**349**	–	–	341	341
Total derivatives	**–**	**58**	**2,346**	**2,404**	–	53	2,446	2,499

1 *Notional contract amounts.*
2 *Interest rate swaps accounted for as micro-hedging are used to hedge interest and currency rate risk of an asset or a liability at the beginning of the transaction.*
3 *Interest rate swaps accounted for as macro-hedging are used to hedge and to manage the global interest rate risk of portfolio of assets and liabilities of the bank.*

22 Derivatives *(continued)*

Other information on derivatives

(in billions of euros)	**31.12.2016**	31.12.2015
Microhedge contract	**23**[1]	23
Macrohedge contract	**33**[2]	30
Trading	**1,480**	1,535
Other	**–**	–

1 *Cf. footnote 2 page 319.*
2 *Cf. footnote 3 page 319.*

Derivatives: maturity analysis

	31.12.2016			
(in billions of euros)	***≤ 1 year***	***>1 year and ≤ 5 years***	***> 5 years***	***Total***
Derivatives:				
– Exchange contracts	**5**	**18**	**17**	**40**
– Interest rate contracts	**728**	**880**	**680**	**2,288**
– Others	**64**	**11**	**1**	**75**
Total	**797**	**909**	**698**	**2,404**

Risk-weighted assets - Amount of Exposure At Default (EAD) for derivatives contracts

(in millions of euros)	**31.12.2016**	31.12.2015
A – Contracts concluded under Master agreement with close-out netting	**9,845**	7,857
1. Transactions with banks from OECD countries	**9,718**	7,775
2. Transactions with customers and banks localised outside OECD countries	**126**	82
B – Other contracts	**634**	594
1. Transactions with banks from OECD countries	**575**	537
– interest rate contracts	**552**	517
– exchange contracts	**22**	16
– equity derivatives contracts	**–**	–
– credit derivatives contracts	**–**	4
– commodities contracts	**–**	–
2. Transactions with customers and banks localised outside OECD countries	**59**	56
– interest rate contracts	**17**	16
– exchange contracts	**43**	41
– equity derivatives contracts	**–**	–
Total Exposure At Default	**10,479**	8,450
Corresponding risk-weighted assets (RWA)	**2,333**	*2,277*

Clearing effect on Exposure At Default

(in millions of euros)	**31.12.2016**	31.12.2015
Original exposure before credit risk mitigation (including close-out netting)	**73,013**	70,519
Exposure mitigation due to close-out netting	**(55,132)**	(53,712)
Exposure mitigation due to credit mitigation	**(7,403)**	(8,357)
Exposure value after credit risk mitigation (including close-out netting)	**10,479**	8,450

23 Net interest income

(in millions of euros)	**31.12.2016**	31.12.2015
Interest and similar income		
Banks and financial institutions	**285**	189
Customers	**861**	930
Bonds and other fixed-income securities	**316**	687
Total	**1,462**	1,805
Interest and similar expenses		
Banks and financial institutions	**399**	222
Customers	**102**	101
Subordinated liabilities	**5**	6
Other bonds and fixed-income securities	**263**	506
Total	**769**	835

24 Fixed-income securities

(in millions of euros)	**31.12.2016**	31.12.2015
Income		
Available-for-sale and similar & portfolio activity securities	**–**	–
Interests in subsidiaries and associates and other long-term securities	**–**	–
Interests in group companies	**98**	77
Total	**98**	77

25 Breakdown of fees

(in millions of euros)	**31.12.2016**	31.12.2015
Fees		
Income	**775**	771
On transactions with banks	**4**	4
On transactions with customers	**89**	91
On foreign exchange transactions	**2**	2
On primary securities market activities	**55**	78
On provision of services for third parties	**482**	442
On commitments	**102**	112
Other commission	**43**	43
Expenses	**(204)**	(195)
On transactions with banks	**(8)**	(8)
On corporate actions	**(24)**	(26)
On forward financial instrument activities	**(9)**	(12)
On provision of services for third parties	**(155)**	(133)
On commitments	**(4)**	(5)
Other commission	**(4)**	(10)
Total fees	**571**	576

26 Gains and losses on portfolio business transactions

(in millions of euros)	**31.12.2016**	31.12.2015
Gains or losses		
Trading securities	**258**	(107)
Foreign exchange transactions	**43**	96
Forward financial instruments	**37**	234
Total	**338**	222

Parent company financial statements (continued)

27 Gains or losses on available-for-sale securities

(in millions of euros)	31.12.2016	31.12.2015
Results for available-for-sale securities		
Gains or losses	**19**	20
Impairment	**3**	(2)
– charges	**(4)**	(4)
– releases	**6**	3
Results for portfolio activity securities		
Gains or losses	**–**	–
Impairment	**(2)**	1
– charges	**(3)**	–
– releases	**–**	1
Total	**19**	20

28 General operating expenses

(in millions of euros)	31.12.2016	31.12.2015
Employee compensation and benefits		
Salaries and wages, social security, taxes and levies on compensation[1]	**(733)**	(752)
Pension expense	**(95)**	(95)
Profit sharing	**(3)**	(2)
Incentive plan	**(19)**	(20)
Compensation expense subtotal	**(850)**	(869)
Other administrative expenses[2]	**(635)**	(541)
Total operating expenses	**(1,485)**	(1,410)

1 *Including EUR 16.4 million for Executive Committee compensation for 2016 and EUR 18 million for Executive Committee compensation for 2015.*
2 *Including EUR 57 million for the Single Resolution Fund for 2016 and EUR 37 million for 2015.*

Share award plans

Allowance was 34 per cent released for the 2012 plan, 34 per cent released for the English sub-plan 2012 plan and 66 per cent released for the 2013 plan, 33 per cent released for the 2013 English sub plan released, against shares attribution for EUR 8.7 million.

Regarding the ongoing plans, the final charge for HSBC France is not yet known as the attributed shares were not 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 31 December 2016.

At 31 December 2016, allowance stood at EUR 0.1 million for the 2012 plan, at EUR 4 million for the 2013 plan, at EUR 4.9 million for the 2014 and at EUR 4.9 million for the 2015 plan.

2016 share award plans

The allowance defined is hence accounted on a linear basis on the employee's grant acquisition period based on awarding hypothesis.

At 31 December 2016, allowance stood at EUR 1.6 million.

29 Gains or losses on disposals of fixed assets

(in millions of euros)	**31.12.2016**	31.12.2015
Gains or losses on held-to-maturity securities	**–**	–
Gains or losses on tangible and intangible fixed assets[1]	**(1)**	8
Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies[2]	**104**	4
Total	**103**	12

1 *In 2016, no gain and no loss on disposal. In 2015, gains on disposal of Paris Saint Germain for EUR 7.7 million and Avron for EUR 0.6 million.*

2 *In 2016, gains on disposal of ROBERTET shares for EUR 0.9 million, gains on disposal of VISA shares for EUR 108.4 million, provisions on investments of S.F.M for EUR 7.3 million, reversal of provisions on investments of MTS AM and Italy for EUR 1.2 million, reversal of provisions on Foncière Elysées and HSBC Services for EUR 0.4 million. In 2015, gains on disposal of ROBERTET shares for EUR 0.6 million, gains on disposal of UGT for EUR 0.1 million, gains on disposal of VME shares for EUR 1.4 million, gains on disposal of HSBC Services shares for EUR 1.8 million, provisions on investments of HSBC Services for EUR 1.8 million, various gains on debt disposal for EUR 0.1, reversal of provisions on SFS for EUR 1.1 million, reversal of provisions on Foncière Elysées for EUR 0.8 million.*

30 Corporate income tax

(in millions of euros)	**31.12.2016**	31.12.2015
Current tax		
At standard rate	**(2)**	(30)
At reduced rate	**–**	–
Deferred taxation	**15**	(9)
Total	**12**	(38)

Deferred tax is calculated according to the principles set out in Note 1 j on page 303.

The rates used for calculating taxes are:

(in %)	**Echéance 2017**	**Echéance 2016**	Echéance 2015
Standard rate	**33.33**	33.33	33.33
Reduced rate (PVLT gains rate)	**4.0**	4.0	4.0
Reduced rate (gains on disposal of property to SIIC)	**19.0**	19.0	19.0
Reduced rate (common funds on risk placement)	**15.0**	15.0	15.0
Tax contribution			
CSB	**3.3**	3.3	3.3
Exceptional contribution		10.7	5.0
Deferred taxation			
Standard rate on DT	**33.3**	33.33	33.33
Standard rate after 01/01/2020	**28.0**	–	–
Reduced rate on DT	**4.0**	4.0	4.0
Reduced rate after 01/01/2020	**3.4**	–	–
Tax contributions to apply in the periods in which the assets will be realised or the liabilities settled			

At 31 December 2016, deferred taxes are calculated on the taxation discrepancies generated by temporary differences.

Tax group

Since 2001, the parent company of the tax group has been HSBC Bank plc Paris branch.

In 2016, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 75 million. The proportion of benefits passed on to HSBC France was EUR 34 million.

In 2015, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 99 million. The proportion of benefits passed on to HSBC France was EUR 54 million.

These benefits are recognised in their entirety under the heading “Taxes”.

30 Corporate income tax *(continued)*

Deferred tax in the balance sheet

The net deferred tax receivable recognised in the balance sheet at 31 December 2016 was EUR 99 million compared with EUR 86 million at 31 December 2015. At 31 December 2016 this receivable is made up of deferred tax assets of EUR 130 million against EUR 121 million at 31 December 2015 and a deferred tax liability of EUR 31 million compared with EUR 35 million at 31 December 2015.

CICE allocation

The CICE (*Crédit d'Impôt Compétitivité Emploi*) is a new tax rebate that become operative on 1 January 2013. Available for every French company, the CICE substantially reduces the tax paid. For 2015, the CICE corresponds to 6 per cent of staff costs excluding salaries over 2.5 times the minimum wage (SMIC).

The CICE is equivalent to a reduction in payroll taxes. As such, HSBC France recognises the CICE as a reduction in employee compensation and benefits.

HSBC France benefited from a EUR 6 million tax credit (7 million EUR at HSBC France group level) in respect of CICE (Crédit d'Impôt Compétitivité Emploi) during the fiscal year of 2015.

Within the framework of the allocation of CICE, HSBC France group backed the profit of the tax credit to a pool of expenses and investments dedicated to the improvement of products and services to customers as well as enhancement of the bank's efficiency. Those expenses are broken down into the following categories:

- Information and technology innovative investments: significant expenses have been engaged during the year 2016 dedicated to the development of enhanced and better integrated commercial software, notably the complete reshape of workstation in branches, faster deployment of digital tools and services to customers as well as continuous improvement of financial crime compliance processes;
- Premises: investments in the development and refurbishment of the branch networkand headquaters, energy saving schemes;
- Training: Staff benefited from numerous courses during the year 2016 with certificated courses, language training courses as well as compliance and risk management.

31 Legal proceedings and regulatory matters relating to HSBC Group entities generally

HSBC Group entities, including HSBC France, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and on pages 166 of the 2016 Registration Document, HSBC France considers that none of these matters is significant. HSBC France recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2016.

Anti-money laundering and sanctions-related

In December 2012, HSBC Holdings plc ("HSBC Holdings" or "HSBC"), the bank's ultimate parent company, HSBC North America Holdings ("HNAH") and HSBC Bank USA, N.A. ("HBUS") entered into agreements with US and UK government agencies regarding past inadequate compliance with the US Bank Secrecy Act ("BSA"), Anti-Money Laundering ("AML") and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year Deferred Prosecution Agreement with, amongst others, the US Department of Justice ("DoJ") (the "US DPA"). HSBC Holdings consented to a cease and desist order and HSBC Holdings and HNAH consented to a civil money penalty order with the Federal Reserve Board ("FRB").

HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ("OFAC") regarding historical transactions involving parties subject to OFAC sanctions, as well as an undertaking with the UK Financial

31 Legal proceedings and regulatory matters relating to HSBC Group entities generally. *(continued)*

Conduct Authority ("FCA") to comply with certain forward-looking AML- and sanctions-related obligations. In addition, HSBC Bank USA entered into a civil money penalty consent order with the Financial Crimes Enforcement Network ("FinCEN") of the US Treasury Department and a separate civil money penalty order with the Office of the Comptroller of the Currency ("OCC")

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totaling USD 1.9 billion to US authorities, and undertook various further obligations, including, among others, to continue to cooperate fully with the DoJ in any and all investigations, not to commit any crime under US federal law subsequent to the signing of the agreement, and to retain an independent compliance monitor (the 'Monitor'). Under these agreements, HSBC Holdings has also certain obligations to ensure that the entities in the HSBC Group, including HSBC Bank plc and its subsidiaries (including HSBC France), comply with certain requirements. In February 2017, the Monitor delivered its third annual follow-up review report. Through his country-level reviews, the Monitor identified potential anti-money laundering and sanctions issues that the DoJ and HSBC are reviewing further.

HSBC Bank USA also entered into two consent orders with the OCC. These required HSBC Bank USA to correct the circumstances noted in the OCC's then most recent report and to adopt an enterprise-wide compliance programme, and imposed restrictions on acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary without the OCC's prior approval.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation relating to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

European interbank offered rates investigations and litigation

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America (US), the European Union, Italy, Switzerland, and elsewhere are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of European interbank offered rates ("Euribor").

HSBC and/or its subsidiaries (including HSBC France as a member of the Euribor panel) have been the subject of regulatory demands for information and are cooperating with those investigations and reviews.

In December 2016, the European Commission (the 'Commission') issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission determined that the duration of HSBC's infringement was 1 month and imposed a EUR 33,6 million fine on HSBC, which has been paid by HSBC France. HSBC has appealed the decision.

In November 2013, HSBC (HSBC Holdings plc and HSBC Bank plc, but not HSBC France) and other banking groups which contribute to the fixing of the Euribor, banks were named as defendants in a putative class action filed in the US District Court for the Southern District of New York on behalf of persons who transacted in euro futures contracts and other financial instruments allegedly related to Euribor. The complaint alleges, amongst other things, misconduct related to the contribution to the fixing of the Euribor in violation of US antitrust laws, the US CEA, and state law of New York. In May 2016, HSBC reached an agreement in principle with plaintiffs to resolve this action, subject to court approval. The charge corresponding to the amount of this settlement was apportioned between the HSBC entities concerned by the underlying facts, including HSBC France.

32 Presence in non-cooperative States or territories

HSBC France does not hold any direct or indirect presence in any non-cooperative States or territories in accordance with the article 238-0 A of the General Tax Code.

33 Events after the balance sheet date

There was no significant event after the closing date.

34 Other information

34.1 Appropriation of net profit

(in millions of euros)	**31.12.2016**	31.12.2015
Results available for distribution		
– retained earnings	**3,602**	3,601
– net profit for the year	**117**	281
TOTAL (A)	**3,719**	3,882
Appropriation of income		
– dividends	**270**	280
– legal reserve	**–**	–
– free reserve	**–**	–
TOTAL (B)	**270**	280
Retained earnings (A - B)	**3,449**	3,602

34.2 Five-year highlights

(Articles R. 225-81 and R. 225-102 of the French Commercial Code)

(in millions of euros)	**2016**	2015	2014	2013	2012
Share capital at year end					
Called up share capital	**337**	337	337	337	337
Number of issued shares	**67,437,827**	67,437,827	67,437,827	67,437,827	67,437,827
Nominal value of shares in euros	**5**	5	5	5	5
Results of operations for the year					
Sales	**2,847**	3,020	2,903	3,063	3,264
Profit before tax, depreciation and provisions	**292**	459	698	644	799
Profit after tax, depreciation and provisions	**117**	281	393	331	601
Per share data *(in euros)*					
Profit after tax, but before depreciation and provisions	**4.5**	6.0	8.6	7.9	8.6
Profit after tax, depreciation and provisions	**1.7**	4.2	5.8	4.9	8.9
Dividend paid per ordinary share, eligible as of 1 January	**4.0**	4.15	2.23	1.78	3.56
Employees (France)					
Number of employees[1]	**8,382**	8,979	9,144	9,198	9,424
Average number of employees (excluding employees available)[2]	**8,652**	9,056	9,158	9,207	9,645
Salaries and wages	**515**	529	534	554	560
Employee benefits	**249**	259	257	267	289
Payroll and other taxes	**63**	60	70	60	63
Incentive schemes and/or employee profit-sharing scheme[3]	**23**	25	27	38	–

1 *Banking status employees, registered as at 31 December of each year.*
2 *Of which 5,991 executives and 2,661 non-executives in 2016; of which 6,165 executives and 2,891 non-executives in 2015; of which 6,194 executives and 2,964 non-executives in 2014; of which 6,202 executives and 3,005 non-executives in 2013; of which 6,402 executives and 3,243 non-executives in 2012.*
3 *Based on previous year's profits.*

34 Other information *(continued)*

34.3 List of equity shares and debt securities held at 31 December 2016 (excluding trading securities)

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

(in millions of euros)	31.12.2016
A - Held-to-maturity securities	**370**
Debt securities	**370**
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	**370**
Accrued interest	**–**
B - Available-for-sale and portfolio activity securities	**12,216**
Debt securities	**12,130**
Treasury bills and other eligible bills	**–**
Other public sector securities	**7,377**
Money market instruments	**–**
Commercial paper	**–**
Negotiable certificates of deposit	**–**
Negotiable medium-term notes	**–**
Asset-backed securities	**–**
Bonds and similar	**4,696**
Negotiable medium-term notes issued by banks	**–**
Accrued interest	**58**
Equity shares	**85**
Equity shares and similar	**85**
Mutual fund units	**–**
Total held-to-maturity, available-for-sale and portfolio activity securities	**12,586**

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

(in millions of euros)	31.12.2016
A – Other participating interest and long-term securities	**99**
Securities listed on a recognised French exchange	**–**
Unlisted French securities	**99**
Foreign securities listed on a recognised French exchange	**–**
Foreign securities listed elsewhere	**–**
Unlisted foreign securities	**–**
Accrued income	**–**
B – Interests in related parties	**1,361**
Listed French securities	**–**
Unlisted French securities	**1,344**
Listed foreign securities	**–**
Unlisted foreign securities	**17**
Accrued income	**–**
Total interests in related parties, other participating interests and long-term securities	**1,460**

Parent company financial statements (continued)

34 Other information *(continued)*

34-4 Interests in subsidiaries and related parties at 31 December 2016

(in thousands of euros unless otherwise stated)	Legal status	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). . . . . 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Financial company	113,250	340	100.00
HSBC Factoring (France) . . . . 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Factoring	9,240	77,381	100.00
Société Française et Suisse . . . . 64, rue Galilée – 75008 Paris (France)	Limited company (SA)	Investment company	599	7,847	100.00
SAPC UFIPRO Recouvrement . . . . 39, rue de Bassano – 75008 Paris (France)	Limited liability company (SARL)	Debt collecting company	7,619	1,608	99.98
HSBC Epargne Entreprise (France). . . . . 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Limited company (SA)	16,000	11,858	100.00
HSBC Global Asset Management (France) . . . 4, place de la Pyramide – La Défense 9 92800 Puteaux (France)	Limited company (SA)	Asset management	8,050	22,369	93.67
HSBC Services (France) (ex - HSBC Securities) . . . . 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Commercial company	2,442	2,507	100.00
Valeurs Mobilières Elysées (ex - Nobel). . . . . . . 109, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Limited company (SA)	41,920	8,215	100.00
HSBC Leasing (France) . . . . 39, rue de Bassano – 75008 Paris (France)	Simplified join-stock company (SAS)	Leasing	168,528	4,200	100.00
Société Financière et Mobilière . . . . 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Holding company	40,000	36,657	100.00
Foncière Elysées S.A. . . . . 103, avenue des Champs-Elysées – 75008 Paris (France)	Simplified join-stock company (SAS)	Real estate	14,043	14,639	100.00

1 *Loans, advances and guarantees granted outside the framework of normal banking business.*

Book value of securities held		Loans and advances granted by HSBC France1 [1]	Guarantees given by HSBCFrance [1]	Last year's sales	Last year's net profit or loss	Dividends received by HSBC France in the last financial year
Cost	Net					
113,239	113,239	667,650	–	113,978	579	3,775
39,236	39,236	980,353	–	32,703	3,586	–
60,384	10,488	–	–	–	71	–
16,260	9,184	–	–	–	(6)	–
15,148	15,148	–	–	8,479	(1,751)	–
134,546	134,546	331	–	208,248	40,270	27,807
36,877	4,954	–	–	–	(25)	–
67,757	67,757	3,618	–	–	8,298	4,978
281,756	281,756	259,519	–	31,433	34,113	36,100
84,052	76,758	38,394	–	131	(1,731)	–
44,478	38,763	–	–	586	921	1,574

Parent company financial statements (continued)

34 Other information *(continued)*

(in thousands of euros unless otherwise stated)	Legal status	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
Charterhouse Management Services Ltd. 8 Canada Square – London E14 5HQ (United Kingdom)	Limited company under English law	Investment company	GBP 10,000	GBP 1,695	100.00
HSBC Real Estate Leasing (France) 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Crédit-bail immobilier	38,255	40,335	80.98
CCF & Partners Asset Management Ltd. 8 Canada Square – London E14 5HQ (United Kingdom)	Limited company under English law	Investment holding	GBP 5,000	GBP 848	100.00
HSBC Assurances Vie (France) 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Insurance company	115,000	393,204	100.00
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.*

Book value of securities held: Cost	Book value of securities held: Net	Loans and advances granted by HSBC France1 [1]	Guarantees given by HSBCFrance [1]	Last year's sales	Last year's net profit or loss	Dividends received by HSBC France in the last financial year
11,680	11,680	–	–	54	36	–
37,190	37,190	–	–	129,105	9,273	4,066
4,947	4,947	–	–	15	1	–
513,999	513,999	–	–	1,762,287	63,506	–
32	32	–	–	–	–	343
1,819	1,360	–	–	–	–	–
4	4	–	–	–	–	–
–	–	–	–	–	–	–

Parent company financial statements (continued)

34 Other information *(continued)*

34.5 Transactions with subsidiaries and other related parties

	31.12.2016	
(in millions of euros)	**Subsidiaries**	**Other related parties**
ASSETS		
Treasury bills and money-market instruments	**–**	**2,043**
Loans and advances to banks	**3,508**	**5,092**
Loans and advances to customers	**379**	**662**
Bonds and other fixed income securities	**371**	**2,006**
LIABILITIES		
Due to credit institutions	**6,186**	**15,629**
Customer accounts	**512**	**63**
Debt securities	**–**	**–**
Other liabilities	**–**	**3,326**
Subordinated liabilities	**–**	**260**
OFF-BALANCE SHEET ITEMS		
Financing commitments given	**160**	**–**
Guarantees and endorsements given	**31**	**170**
Securities commitments (other commitments given)	**–**	**–**

PricewaterhouseCoopers Audit
63 rue de Villiers
92208 Neuilly-sur-Seine Cedex

BDO France – Léger Et Associés
113, rue de l'Université
75007 Paris

Statutory Auditors' report on the 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 and in the documents addressed to shareholders.

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 2016

To the shareholders,
HSBC FRANCE
103, avenue des Champs-Elysées
75419 Paris Cedex 08

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended 31 December 2016, on:

– the audit of the accompanying financial statements of HSBC France;

– the justification of our assessments;

– the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I - Opinion on the 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 sample 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 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 2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to the matter set out in the Note 1.a to the financial statements regarding the change in accounting method.

II - Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (*code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

– Your company has recorded merger losses resulting from past business combinations. These merger losses are mainly allocated to the businesses assets of their activities related and your company tests for impairment in the event of an indication of impairment in accordance with the methods described in notes 1.a and 6 to the financial statements.
We have examined the conditions of the management assessment, we have verified the performance and assessed the relevance, consistency of the parameters used and the impairments recorded.

– Your company accounts for impairment losses to cover the credit and counterparty risks inherent to its activities (note 1.c to the company financial statements). We have reviewed the control procedures relating to credit and counterparty risk monitoring, the assessment of risks of non-recoverability and the calculation of the individual impairment.

– Your company holds positions in securities and financial instruments (notes 1.b, 1.h and 1.i to the company financial statements). We have examined the control procedures for the accounting classification of these positions and for determining the parameters used to value them. We have verified the appropriateness of the accounting policies selected by your company and have satisfied ourselves that they are applied correctly.

– Your company recognises provisions to cover risks and litigation related to its activities. We have examined the procedures in your company allowing them identified, measured and accounted for. We ensured that possible uncertainties identified during the implementation of these procedures were properly described in note 31 to the financial statements.

– The note 1.a of the financial statements sets out the rules and methods relating to goodwill and merger losses. As part of our assessment of the accounting rules and principles followed by your company, we are satisfied that the change in accounting method mentioned above and the presentation made thereof are correct.

These assessments were made as part of our audit of the 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 financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the 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 financial statements, or with the underlying information used to prepare these 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.

Neuilly-sur-Seine and Paris, on the 27 February 2017

The statutory auditors

PricewaterhouseCoopers Audit	BDO France – Léger & Associés
Nicolas Montillot Partner	Fabrice Chaffois Partner

HSBC France's principal subsidiaries and investment policy

HSBC France group's principal subsidiaries at 31 December 2016

Commercial Banking

Distribution	HSBC Factoring (France) (100%)

Global Banking and Markets

Real estate	Foncière Elysées (100%) HSBC Real Estate Leasing (France) (100%)
Structured financing and Global Banking	HSBC SFH (France) (100%) Société Financière et Mobilière (100%) HSBC Leasing (France) (100%)

Asset Management

France	HSBC Global Asset Management (France) (100%) HSBC Epargne Entreprise (France) (100%) HSBC REIM (France) (100%)
Abroad	HSBC Global Asset Management (Switzerland) (50%)

Insurance

France	HSBC Assurances Vie (France) (100%)

Subsidiaries and equity investments

France	Valeurs Mobilières Elysées (100%) Société Française Suisse (100%)
Abroad	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.

HSBC France's principal subsidiaries and investment policy (continued)

Summary business activities of HSBC France group's principal subsidiaries at 31 December 2016

Commercial Banking
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
HSBC Factoring (France)	**2,185,412**	2,098,937	**90,207**	86,621	**3,586**	5,467	**100.0**	100.0

HSBC Factoring (France)'s activity remained relatively stable in 2016, with gross turnover of EUR 13.3 billion at the end of December 2016. Net operating income before provisions amounted to EUR 26.4 million, a similar level to 2015. Costs decreased significantly over the year, having been impacted by major IT migrations. The cost of risk increased substantially following an allowance for fraud, but remains within the industry standards.
At 31 December 2016, the cost efficiency ratio returned to the 44 per cent of 2014, after rising to 55 per cent in 2015.

Global Banking and Markets
(in thousands of euros)

HSBC SFH (France)	**5,969,872**	5,301,132	**114,169**	117,365	**579**	1,639	**100.0**	100.0

HSBC SFH (France) is a company dedicated to refinancing HSBC France by issuing covered bonds secured by home loans (cover pool). HSBC SFH (France) launched its first issue on 20 January 2010 for an amount of EUR 1.5 billion, followed by three issues of CHF 200 million each, in the same year. During 2013, the company completed two bond issues: in April for an amount of EUR 1.25 billion and in October for an amount of EUR 1 billion. On 11 March 2015, the Company completed a bond issue for an amount of EUR 1 billion. On 7 September 2015, one of the two bond issues of CHF 200 million, issued 7 April 2010, matured and so has been repaid.
At 31 December 2016, issues totaled EUR 5,1 billion secured by a cover pool of EUR 7.0 billion.

HSBC Leasing (France)	**1,721,979**	2,136,910	**229,919**	231,906	**34,113**	87,973	**100.0**	100.0

HSBC Leasing (France) specialises in lease finance for major corporates. The company holds subsidiaries intended for leasing activities with a call option. It operates more particularly in the aeronautics sector by financing assets on behalf of airlines. The equity interests in 2016 totaling EUR 1.6 billion, a decrease of 17 per cent compared to 2015.

HSBC Real Estate Leasing (France)	**1,275,025**	1,239,922	**87,863**	83,610	**9,273**	9,683	**100.0**	100.0

In spite of a context of historically low interest rates, the control of cost of risk and the operating expenses reducing allow a stable net profit of this real estate leasing specialist subsidiary.

Asset Management
(in thousands of euros)

HSBC Global Asset Management (France)	**151,981**	148,046	**70,630**	60,105	**40,211**	41,437	**100.0**	100.0

Profit before tax went down, reflecting the impact of the outflows on Multi-asset products and adverse financial markets in H1 2016.
Assets managed and distributed amounted to EUR 79 billion compared with EUR 76 billion at end 2015, an increase of 4 per cent. This increase was due to net inflows of EUR 4.2 billion in money market products, EUR 0.7 billion on net inflows Fixed-income funds, EUR 2.4 billion net outflows in equity-based and diversified products, while the total value effect on assets amounted to EUR 0.9 billion.
HSBC Global Asset Management (France) continued to leverage on its expertise within HSBC Group to develop its "cross border" customer base and to win in 2016 some awards such as the "Lipper Fund Award" (Thomson Reuters) on 5 year and 10 year for 3 liquidity mutual funds, the "*Globes de la Gestion* 2016" for 2 Fixed-Income mutual funds or the "*excellence, performance, régularité*" 2016 quality label for the "Mix" Multi-Asset product range.

* *Before net profit appropriation.*

Asset Management (continued)
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
HSBC Epargne Entreprise (France)	**55,247**	112,906	**26,107**	27,858	**(1,751)**	(880)	**100.0**	100.0

HSBC Epargne Entreprise (France) is an investment company, wholly-owned by HSBC France, specialised in employee savings & pensions accounts administration for the HSBC Group in France. It has a clientele of 3,500 companies and manages 235,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totaling EUR 3.6 billion as of 31 December 2016, making the Group the seventh-largest employee savings manager in France. Its products are distributed via the HSBC Group distribution network in France, covering the needs of companies of all sizes.

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage	
HSBC REIM (France)	**12,791**	13,665	**9,086**	9,013	**5,573**	5,923	**100.0**	100.0

HSBC REIM (France) is the asset Management subsidiary specialised in third parties' real estate management. As of 31 December 2016, market value of assets under management was EUR 2.65 billion. Its main fund is the real estate investment trust SCPI Elysées Pierre, a non-trading property company, with 125 properties, primarily invests in the Paris area office market. Over the last nine years, the fund yield-based strategy has resulted in a steady annual dividend distribution. Gross inflows amounted to EUR 163 million in 2016. Share price valorisation grew by 7 per cent in 2016, after a 15 per cent increase in 2015, reflecting the SCPI real estate assets' underlying value appreciation.

HSBC REIM (France)'s net profit was down 6.0% per cent compared to 2015, due to a slight decrease in fund subscription (EUR 163 million in 2016 vs. EUR 185 million) with stable operational costs. Net operating income is EUR 15.1 million (vs. EUR 15.3 million in 2015), with 74 per cent derived from property management recurring fees and 26 per cent from SCPI Elysées Pierre's capital increase management fees.

Insurance
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage	
HSBC Assurances Vie (France)	**21,171,874**	20,826,669	**703,954**	641,139	**63,501**	62,515	**100.0**	100.0

HSBC Assurances Vie (France) manufactures a wide range of products and services to meet HSBC Group customers' needs (individuals, professionals and companies) in terms of life insurance, pension and protection.

For 2016 Insurance business and financial performance have been significantly impacted by the low rate environment. This economic context which also reduces the yield of Euro fund/asset portfolio, lead to a significant variation of PVIF, of which the adverse market assumptions and the low volume on savings despite the good level of unit link share and commercial performance on Protection. The net new money is positive and stands at EUR 146 million for HSBC France Retails Network of which EUR 108 million (74 per cent) on Unit Link. The AUMs look up at EUR 19.1 billion for 2016 (+3 per cent compared to 2015), with an increase of Unit Link AUMs for 4 per cent and Unit Link share from 17.4 per cent (2015) to 17.6 per cent (2016).

The expertise of HSBC Assurances France and the suitability of its products to the needs of individual customers, professionals and companies were recognised in 2016 through various awards of which:

– the Golden trophy of life insurance contracts (*magazine Le Revenu*) for "*HSBC Stratégie Patrimoine*" product (2nd year in a row);
– the Seal of Excellence of The Savings Records for "HSBC Key Man" product 2nd year in a row).

Profit before tax amounted to EUR 87 million in French GAAP and EUR 68 million in IFRS GAAP (of which EUR -35 million on Economic PVIF variation).

Own investments
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage	
Société Française et Suisse (SFS)	**8,554**	8,524	**8,517**	8,446	**71**	117	**100.0**	100.0

In 2016, Société Française et Suisse realised a profit decreasing, in relation with lower interest income (low rate environment). The total balance sheet is mainly composed of liquid assets.

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage	
Valeurs Mobilières Elysées	**63,933**	62,955	**58,434**	55,113	**8,298**	4,986	**100.0**	100.0

Valeurs Mobilières Elysées is a subsidiary in which are booked investments in principal of the HSBC Group in France. These investments include listed midcaps and Private Equity funds. The HSBC Group having decided in 2009 not to make any more investments in listed midcap shares Valeurs Mobilières Elysées manages a portfolio of listed shares gradually declining. No new Private Equity investments will be booked in Valeurs Mobilières Elysées and in consequence this portfolio will be also gradually declining. The total assets of the Private Equity and listed securities totalised EUR 72 million in January 2016 and account for only EUR 55 million at the end of December 2016.

Capital gains realised amount to EUR 6.7 million on the funds and EUR 0.5 million on the listed securities.

* *Before net profit appropriation.*

HSBC France's principal subsidiaries and investment policy (continued)

Investment policy

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 20 million.
- Capital decrease of Charterhouse Management Services Limited.
  Proceeds: GBP 15 million.

2012

- Subscription by HSBC France to capital increase made by HSBC Factoring (France).
  Cost: EUR 34 million.
- Subscription by HSBC France to capital increase made by HSBC SFH (France).
  Cost: EUR 6.7 million.
- Capital decrease of SAF Palissandre.
  Proceeds: EUR 458.4 million.
- Increase by HSBC France of its participation in Oséo SA capital.
  Cost: EUR 1.3 million.

2013

- Subscription by HSBC France to capital increase made by HSBC SFH (France).
  Cost: EUR 58.5 million.
- Acquisition by HSBC France of 100 per cent of HSBC Assurances Vie (France) from HSBC Bank plc Paris Branch.
  Cost: EUR 514 million.

2014

- Subscription by HSBC Leasing (France), a wholly-owned subsidiary of HSBC France, to capital increase made by Beau Soleil Limited Partnership.
  Cost: EUR 22.1 million.
- Capital decrease of Valeurs Mobilières Elysées.
  Proceeds: EUR 51.7 million.
- Capital decrease of Société de Financement de l'Economie Française.
  Proceeds: EUR 4.7 million.
- Capital decreases of HSBC Trinkhaus Gesellschaft für Kapitalmarketinvestments oHG, owned up to 90 per cent by Société Financière et Mobilière, a wholly-owned subsidiary of HSBC France.
  Proceeds: EUR 299.7 million.

2015

- Subscription by HSBC Leasing (France), a wholly-owned subsidiary of HSBC France, to capital increase made by HSBC Middle East Leasing Partnership.
  Cost: USD 150.5 million.
- Capital decrease of Valeurs Mobilières Elysées.
  Proceeds: EUR 50.0 million.
- Capital decrease of HSBC Services (France).
  Proceeds: EUR 20.9 million.

2016

- Capital decrease of CCF Charterhouse GmbH & Co. Asset Leasing KG, owned up to 99% by HSBC Leasing (France).
  Proceeds: EUR 36.8 million.
- Sale of Visa Europe share to Visa Inc.
  Capital gain : EUR 108 million

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 authorised in 2016

A new agreement subject to the provisions of article L. 225-38 of the French Commercial Code was approved by the HSBC France's Board of Directors during its meeting on 22 July 2016 and entered into on 26 January 2017.

This agreement, between HSBC France, HSBC Holdings plc and HSBC Bank plc, sets out the allocation between the three companies of the settlement of the Class Action on Euribor initiated in the United States of America.

Agreements entered into in prior years and still in force and effect during 2016

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 2016. 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 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 2016.

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 2016.

PricewaterhouseCoopers Audit	**BDO France – Léger Et Associés**
63 rue de Villiers	113, rue de l'Université
92208 Neuilly-sur-Seine Cedex	75007 Paris

Statutory Auditors' report on regulated agreements and commitments

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

To the shareholders,

In our capacity as Statutory Auditors of your company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with article R. 225-31 of the French Commercial Code ("Code de commerce"), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with article R. 225-31 of the French Commercial Code ("Code de commerce") concerning the implementation of the agreements and commitments already approved by the Annual General Meeting of the Shareholders.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France to such engagements. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

Agreements and commitments submitted for approval by the annual general meeting

In accordance with article R. 225-40 of the French Commercial Code ("Code de commerce"), we were informed that the following agreements were authorized by the Board of Directors during the year ended December 31, 2016.

With HSBC Holdings plc

On 22 July 2016, your Board of Directors authorized a new agreement between HSBC France, HSBC Holdings plc and HSBC Bank plc. The agreement was signed on January 26, 2017.

This agreement sets out the allocation between the three companies of the settlement amount of the transaction intended to terminate the Class Action on Euribor initiated in the United States.

Terms:

The parties of the agreement have agreed on the allocation of the settlement amount of the transaction intended to resolve the Class Action on Euribor.

Agreement's interest for the company:

As the underlying facts – whether constitutive of a manipulative event or not – would be attributable to HSBC France, the settlement with the plaintiffs will mainly benefit to HSBC France.

With respect to this agreement, a provision for risks and charges has been recorded in HSBC France accounts at December 31st, 2016 for € 34,2 million.

Agreements and commitments already approved by the annual general meeting

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.

With HSBC Holdings Plc

The renewed agreement in 2007 and ensuring the free use of the HSBC brand by HSBC France and its subsidiaries had no impact in the HSBC France accounts during the financial year 2016.

With HSBC Bank Plc Paris Branch

Three agreements concluded in 2001 between HSBC France and HSBC Bank plc Paris Branch also continued their effects in 2016:

– A group wide service agreement for the purpose of rendering services to its members at cost concerning various 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 2016 amounted to € 0,7 million.

– Tax integration agreement between HSBC Bank plc Paris Branch and HSBC France. With respect to this agreement, a tax income of € 33,6 million has been recorded in 2016.

Agreements and commitments relating to the supplementary defined benefit pension scheme for Senior Executives

The agreement, adopted in 2009, confirmed the decisions previously adopted by the Board of Directors concerning the updating of the rules governing the supplementary defined benefit pension scheme for four Senior Executives of HSBC France.

The situation of each of these Senior Executives, under this scheme, is different. Mr. Filippi and Mr. Denoyel received a pension since their departure from the company, Mr. Backer has lost the benefit at the time of his departure from the company, and finally Mr. Beunardeau continued to acquire new rights of 2016.

With respect to this agreement, an additional provision for pension commitments has been recorded in HSBC France accounts at December 31st, 2016 for € 0,4 million.

Neuilly sur Seine and Paris, on the 27 February 2017

The statutory auditors

PricewaterhouseCoopers Audit	BDO France – Léger & Associés
Nicolas Montillot	Fabrice Chaffois
Partner	Partner

Proposed resolutions to the Combined 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, on the financial statements for the year ended 31 December 2016, and the Chairman's report on the composition of the Board of Directors and on the application of the principle of balanced representation of men and women on the Board, the preparation and organisation of the Board's work, on internal control and risk management procedures and on the financial risks associated with the effects of climate change and the measures taken by the company to reduce them by implementing a low carbon strategy in all the components of its activity and the Statutory Auditors' report aforesaid, 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	EUR116,568,185.53
Plus retained profits	EUR3,601,668,338.74
Total sum available for distribution	EUR3,718,236,524.27

To be distributed as follows:

Dividend of EUR4 per share to be paid	EUR269,751,308.00
Retained earnings	EUR3,448,485,216.27

The dividend will be payable from 26 April 2017, after deduction of the interim dividend of EUR 2 per share voted by the Board of Directors at its meeting of 22 July 2016 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
2013	EUR1.78
2014	EUR2.23
2015	EUR4.15

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 2016, 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 co-optation of Mrs Paule Cellard decided by the Board on 8 February 2017 to replace Mr Alan Keir, who resigned, for the remainder of the term of office of his predecessor, that is until the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2018.

Sixth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Jean Beunardeau, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2019.

Seventh resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mrs Lucile Ribot, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2019.

Eighth resolution

Voting under the quorum and majority conditions to transact ordinary business, in accordance with article L. 511-73 of the French Monetary and Financial Code, the shareholders hereby issue a favourable opinion on the aggregate amount of compensation of all kinds paid in 2016 to executive members and employees having a significant impact on risks, which amounts to EUR52,002,084.

Ninth resolution
Voting under the quorum and majority conditions to transact ordinary business, pursuant to the Article L. 225-37-1 of the French Commercial Code, the shareholders hereby approve the principles and criteria for determining, allocating and attributing the fixed, variable and exceptional components of total compensation and benefits of any nature, due to their mandate, attributable to the Chief Executive Officer and Deputy Chief Executive Officer, as detailed in the report attached to the report mentioned in Articles L. 225-100 and L. 225-102 of the French Commercial Code, presented in the Registration Document.

Tenth resolution
Voting under the quorum and majority conditions required to transact special business, the shareholders hereby authorise the Board of Directors to increase the share capital on one or more occasions at the time or times it deems appropriate up to a maximum amount of one hundred million euros, it being stipulated that this sum does not include capital increases made in respect of scrip dividend payments or upon exercise of stock options by employees.

Should the Board of Directors decide to use this authority, it may implement the capital increase at its discretion either by capitalising earnings, reserves or share premiums by means of an increase in the nominal value of existing shares or by means of a bonus issue of new shares identical in all respects to the existing shares, or by issuing new shares for cash or by way of a set-off, with pre-emptive rights in favour of existing shareholders, or by a combination of both procedures either successively or simultaneously.

In the event of a capital increase by issuing new shares for cash, the Board of Directors is specifically authorised to:

1. give those shareholders who applied for a greater number of shares than their entitlement as of right preference over any securities not taken up under the shareholders' pre-emptive rights, scaled back in the event that applications exceed the number of shares available;

2. Limit the capital increase to the amount of applications received, provided that such amount represents at least three quarters of the initial proposed capital increase.

The shareholders hereby empower the Board of Directors to complete the capital increase or increases, if it deems appropriate, to fix the terms and conditions thereof and notably the issue price of the shares, the dividend entitlement date, which may be retrospective, and the opening and closing dates for applications, to officially record the capital increase and alter the Articles of Association accordingly, and, more generally, to take all measures and fulfil all formalities required to complete the operation.

This authority is valid for a period of 26 months with effect from the date of this meeting. It cancels and supersedes the authority granted at the Annual General Meeting held on 23 April 2015.

Eleventh resolution
Voting under the quorum and majority conditions to transact special business, and having heard and considered the report of the Directors and the special report of the Auditors, and in accordance with the provisions of Article L. 225-129-6, indent 1 of the French Commercial Code, the shareholders hereby authorise the Board of Directors to increase the share capital, in one or several steps at its sole discretion, by issuing shares to be subscribed in cash reserved for participants in the company's employee share ownership plan in accordance with the provisions of Article L. 3332-18 of the French Labour Code.

The shareholders set the maximum increase in the share capital at EUR 10 million.

The shareholders expressly renounce their pre-emptive subscription right with respect to new shares issued for the benefit of participants in the company's employee share ownership plan.

This authority shall extend for two years from the date of this General Meeting.

The shareholders grant full powers to the Board of Directors to decide all terms and conditions of the issuance transactions to be made, in particular the issue price of the new shares. The shareholders also grant the Board full powers to recognise the capital increase or increases effected under this authority, to amend the articles of association accordingly and generally to do what is necessary.

Twelfth resolution
Voting under the quorum and majority conditions to transact ordinary and special business, the shareholders hereby confer full powers on the bearer of an original, copy or abstract of the minutes of this meeting for the purpose of completing any formalities required by law.

Information on HSBC France and its share capital

Information on the company

Name
HSBC France. New name of CCF since 1 November 2005.

Commercial name
HSBC since 1 November 2005 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 of HSBC France)
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 the *Autorité de contrôle prudentiel et de résolution* and the European Central Bank. 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 have to be 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.

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.

Information on HSBC France and its share capital (continued)

This approval clause, which is the purpose of this article, also applies to disposals of allocation rights in the event of capital increases by way of incorporation of reserves, profits or issue premiums, and disposals of subscription rights in respect of capital increases in cash or individual waivers of subscription rights in favour of named individuals.

In these cases, the rules governing approval and the buyback conditions shall apply to the securities subscribed, and the time given to the Board of Directors to notify the third party subscriber whether it accepts him as a shareholder shall be three months from the date of final completion of the capital increase.

In the event of a buyback, the price shall be equal to the value of the new shares or negotiable securities giving access to the capital determined under the conditions provided by article 1843-4 of the 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 de Baecque Beau, HSBC UBP and HSBC Picardie 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.

December 2013: HSBC France acquires HSBC Assurances Vie (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 2016, 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	23 April 2015
Expiry date	23 June 2017
Maximum nominal amount	EUR100 million
Used amount	EUR0

Movements in share capital

	Number of shares	Share capital in euros	Share premium in euros
At 1 January 2016	**67,437,827**	**337,189,135**	**–**
Increase (Reduction) during the year	**–**	**–**	**–**
At 31 December 2016	**67,437,827**	**337,189,135**	**–**
At 1 January 2015	67,437,827	337,189,135	–
Increase (Reduction) during the year	–	–	–
At 31 December 2015	67,437,827	337,189,135	–
At 1 January 2014	67,437,827	337,189,135	–
Increase (Reduction) during the year	–	–	–
At 31 December 2014	67,437,827	337,189,135	–
At 1 January 2013	67,437,827	337,189,135	–
Increase (Reduction) during the year	–	–	–
At 31 December 2013	67,437,827	337,189,135	–
At 1 January 2012	67,437,827	337,189,135	–
Increase (Reduction) during the year	–	–	–
At 31 December 2012	67,437,827	337,189,135	–

Ownership of share capital and voting rights at 31 December 2016

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

	2016	2015	2014	2013	2012
Number of shares at 31 December	**67,437,827**	67,437,827	67,437,827	67,437,827	67,437,827
Average number of shares outstanding during the year	**67,437,827**	67,437,827	67,437,827	67,437,827	67,437,827
EPS [1]	**EUR4.61**	EUR6.61	EUR2.94	EUR5.68	EUR4.75
Net dividend	**EUR4**	EUR4.15	EUR2.23	EUR1.78	EUR3.56
Exceptional dividend	**–**	–	–	–	–
Dividend + tax credit	**–**	–	–	–	–
Payout [2]	**86.8%**	62.8%	75.9%	31.3%	74.9%

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 26 April 2017, the Board will propose a net dividend of EUR 4 per EUR 5 nominal share, that will be payable after deduction of the interim dividend voted by the Board on 22 July 2016 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.

Persons responsible of 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 Registration 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 of which the cross reference table can be found on page 351 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 Registration Document in its entirety.

Paris, 1 March 2017

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

	Date first appointed	Date re-appointed	Date term ends
Incumbents			
PricewaterhouseCoopers Audit [1] Represented by Nicolas Montillot 63, rue de Villiers 92200 Neuilly-sur-Seine	2015	–	2018
BDO France – Léger & Associés [2] Represented by Fabrice Chaffois [3] 113, rue de l'Université 75007 Paris	2007	2012	2018
Alternates			
Jean-Baptiste Deschryver [1] 63, rue de Villiers 92200 Neuilly-sur-Seine	2015	–	2018
François Allain [1] 2, rue Hélène-Boucher 78286 Guyancourt Cedex	2007	2012	2018

1 *Member of the Compagnie Régionale des Commissaires aux comptes of Versailles.*
2 *Member of the Compagnie Régionale des Commissaires aux comptes of Paris.*
3 *BDO represented by Fabrice Chaffois as of financial year 2013.*

Statutory Auditors' fees paid in 2016 within the HSBC France group are available in Note 5 to the consolidated financial statements on page 222.

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".

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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 2015 and the Statutory Auditors' report on the financial consolidated statements, presented on pages 166 to 273 and 274 to 275 of the Registration Document filed with the AMF on 4 March 2016 under reference number D16-0110; and
- the parent company financial statements for the year ended 31 December 2015 and the Statutory Auditors' report on the parent company financial statements, presented on pages 276 to 317 and 318 to 319 of the Registration Document filed with the AMF 4 March 2016 under reference number D16-0110.

This Registration Document includes the annual financial report:

Cross table on Management report:

Network of offices

HSBC NETWORK IN FRANCE

HSBC France
319 locations
103 avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40
www.hsbc.fr

HSBC FRANCE SUBSIDIARIES

DISTRIBUTION

HSBC Factoring (France)
103 avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 72 00

ASSET MANAGEMENT

HSBC Global Asset Management (France)
4 place de la Pyramide – La Défense 9
92800 Puteaux
Mail address: 75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40

HSBC Epargne Entreprise (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 27 17

HSBC REIM (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 39 44

ASSURANCE

HSBC Assurances Vie (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 41 02 40 40

OTHER LOCATIONS OF THE HSBC GROUP IN FRANCE

HSBC Bank plc Paris Branch
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40

OTHER LOCATIONS OF THE HSBC FRANCE GROUP

SPAIN
HSBC Global Asset Management (France), Spanish branch
Plazza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
Telephone: 34 914 566 979

ITALY
HSBC Global Asset Management (France), Italian branch
Piazzeta Bossi, 1
20121 Milan
Telephone: 39 02 72 437 496

SWEDEN
HSBC Global Asset Management (France), Swedish branch
Birger Jarlsgatan 25
SE-111 45 Stockholm
Telephone: 46 8 4545435

SWITZERLAND
HSBC Global Asset Management (Switzerland) AG
Bederstrasse 49
CH-8027 Zürich
Telephone: 41 44 206 26 00

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HSBC France
103 avenue des Champs-Elysées
75419 Paris Cedex 08
France
Telephone: (33 1) 40 70 70 40
www.hsbc.fr