HSBC France

Update to the Registration document and Interim Financial Report 2018

HSBC

Contents

Presentation of information

This document was filed with the *Autorité des marchés financiers* ('AMF') on 6 August 2018 in accordance with Article 212-13 of the AMF's General Regulation. It updates the Registration Document *(Annual Report and Accounts*) filed with the AMF on 22 February 2018 under reference number D.18-0068. It may be used in support of a financial transaction when supplemented by a transaction note that has received approval from the AMF. This document has been prepared by the issuer and is binding on its signatories.

Cautionary statement regarding forward-looking statements

This *Interim Report 2018* contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group.Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements.

These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC France plc makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statements.

Highlights

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	€m	€m	€m
For the period[1]			
Profit before tax (reported basis)	**10**	196	23
Profit before tax (adjusted basis)[2]	**31**	262	71
Net operating income before change in expected credit losses and other credit risk provisions (reported basis)[3]	**903**	1,034	873
Profit/(loss) attributable to shareholders of the parent company (reported basis)	**20**	126	51
At period end[1]			
Total equity attributable to shareholders of the parent company	**5,968**	5,687	5,676
Total assets	**172,114**	177,477	167,544
Risk-weighted assets	**35,514**	34,609	35,379
Loans and advances to customers (net of impairment allowances)	**44,567**	42,187	44,856
Customer accounts	**38,748**	37,821	38,277
Capital ratios (transitional)[1,4]			
Common equity tier 1 (%)	**N/A**	13.4	13.1
Tier 1 (%)	**N/A**	13.8	13.5
Total capital (%)	**N/A**	14.4	14.1
Capital ratios (fully loaded)[1,4]			
Common equity tier 1 (%)	**12.2**	13.0	13.2
Tier 1 (%)	**13.7**	13.6	13.8
Total capital (%)	**15.2**	14.3	14.6
Performance, efficiency and other ratios (annualised %)[1]			
Annualised return on average shareholders' equity[5] (%)	**0.7**	4.4	0.3
Pre-tax return on average risk-weighted assets (adjusted basis) (%)	**0.1**	1.5	1.0
Cost efficiency ratio (adjusted basis)[6] (%)	**95**	75	82
Liquidity Coverage Ratio (LCR) (%)	**169**	159	149
Net Stable Funding Ratio (NSFR) (%)	**112**	119	116

1 *The group has adopted IFRS 9, as well as the European Union's regulatory transitional arrangements for IFRS 9, on 1 January 2018. Comparative information has not been restated. For further details, refer to 'Standards applied during the half-year to 30 June 2018' on pages 36 to 40 and Note 13 'Effects of reclassification upon adoption of IFRS 9' on pages 54 to 57.*
2 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 6 to 7.*
3 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as revenue.*
4 *Capital ratios as detailed in the Capital section on pages 21 to 29.*
5 *The return on average ordinary shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.*
6 *Adjusted cost efficiency ratio is defined as total operating expenses (adjusted) divided by net operating income before change in expected credit losses and other credit impairment charges (adjusted).*

Strategy

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.

HSBC's strategy is built around long-term trends and reflects its distinctive advantages.

Long-term trends: increasing global connectivity

The international flow of goods, services and finance continues to expand, aided by the development of technology and data in personal and commercial exchanges.

Distinctive advantages

In this environment, HSBC's competitive advantages come from unrivalled global presence, which enables clients to participate in the most attractive global growth opportunities, and a universal banking model, which serves the full range of banking customers through four global businesses, from individual savers to large multinational corporations.

HSBC in France

HSBC operates in 67 countries and territories and France is one of the eight markets in which it aspires to be the leading international bank.

HSBC France can rely on HSBC Group's international network and strong brand to enhance its competitive edge and service clients with high value-added products and services. In France, HSBC's strategy is to develop a modernised universal banking model, differentiating itself on its unique international network, and leveraging its Global Banking and Markets positioning as a strategic platform on Euro-denominated activities for the HSBC Group. HSBC in France also relies on the quality of its wealth management expertise and digital experience while accelerating the pace of its transformation and maintaining its objectives of cost and risk-weighted assets control to improve profitability.

HSBC's strategy in France is described in the *Annual Report and Accounts 2017* on pages 3 to 4.

Process of UK withdrawal from the European Union

The period of uncertainty and market volatility which followed the UK's decision to leave the EU is likely to continue until the UK's future relationship with the EU and the rest of the world is clearer. Given the time-frame and the complex negotiations involved, a clearer picture is not expected to emerge for some time. HSBC is working with customers as they adapt to this new environment and plan for what might follow.

In addition to the transfer of the greece branch from HSBC Bank plc to HSBC France as at 1 January 2018, HSBC France and HSBC Bank plc have undertaken during the semester the necessary steps in respect of the transfer of subsidiaries and operations as described in the post balance sheet events on page 9.

Economic background

After a sustained and synchronized economic momentum in 2017 between advanced and emerging countries, brighter divergences appeared early 2018. China, Japan and the eurozone may decelerate in 2018, while the US and India may accelerate. However, leading indicators in the expansionary territory and the persistence of an abundant liquidity, thanks to still accommodative monetary policies worldwide, enable to expect the global activity to remain dynamic. Nonetheless, several shocks contribute to create a riskier environment for most of the economies, and notably for emerging countries posting imbalances: the tightening of monetary and financial conditions coming from the US with the pursuit of the Federal Reserve's policy rate hikes, trade tensions linked to some protectionism renewal, as well as higher oil prices and a stronger US dollar.

In the eurozone also, the activity decelerated in the first half of 2018 compared with end 2017. Nevertheless, considering that the underlying expansion might continue, and being confident regarding the progressive rise in inflation toward its target of 2%, the ECB anticipated in June 2018 to end its net asset purchases at the end of 2018 and to maintain its policy rates at their present levels at least through the summer of 2019, would its inflation outlook (with inflation expected at 1.7% on average in 2020) be confirmed. The formation of a new populist Italian government represents a source of uncertainty for markets, especially due to the risks of confrontation with Brussels on fiscal policy. This uncertainty has triggered some turbulences and some very erratic moves on fixed income markets: the 10-year Italian bond yield has spiked up at the end of May and, even if it has dropped since then, it remains at high levels relatively to the end of 2017. Other sovereign debt securities have also been impacted by this higher volatility.

In France, despite a decrease in the unemployment rate (to 9.2% in May, -0.3ppt on one year) and in the saving rate (at 13.6% in the first quarter 2018, -0.4ppt over the year), household consumption has been constrained by inflation (2.1% in yearly terms in June, +1.4ppt on one year). Also, moving from 5313 end 2017 to 5324 at the end of June 2018, the CAC40 index gained 0.2% over the first semester of 2018, while sovereign ten years bond yields decreased by 12bp over the same period, back from 0.79% end 2017 to 0.67% at the end of June 2018. France's economic backdrop, has seen less corporate bankruptcies (-7% in March over one year).

Financial summary

The financial statements commented on below were prepared on the basis of the HSBC France group's consolidated scope, the financial statements of which are prepared in accordance with IFRS as defined in Note 1 (see page 36 and following) to the condensed consolidated financial statements. They were subject to a limited review by the Statutory Auditors.

The results of the 2018 financial year include the HSBC France branch in Athens, data for the 2017 financial year have not been restated pro-forma.

Changes to accounting from 1 January 2018

IFRS 9

HSBC adopted the requirements of IFRS 9 'Financial Instruments' on 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted on 1 January 2017. The impact of transitioning to IFRS 9 at 1 January 2018 on the consolidated financial statements of HSBC was a decrease in net assets of EUR 31 million net of deferred tax, arising from:

- a decrease of EUR 36 million from additional impairment allowances;
- an increase of EUR 5 million from the remeasurement of financial assets and liabilities as a consequence of classification changes, mainly from revoking fair value accounting designations for certain subordinated debt instruments.

Refer to 'Standards applied during the half-year to 30 June 2018' on page 36 and Note 13 Effect of reclassification upon adoption of IFRS 9 for further detail.

Summary consolidated income statement

	Half-year to		
	30 Jun 2018 €m	30 Jun 2017 €m	31 Dec 2017 €m
Net interest income	**500**	532	516
Net fee income	**286**	291	283
Net income from financial instruments held for trading or managed on a fair value basis[2]	**59**	187	104
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	**(110)**	333	283
Changes in fair value of long-term debt and related derivatives	**(3)**	(1)	—
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss	**39**	—	—
Gains less losses from financial investments	**11**	57	50
Dividend income	**4**	5	—
Net insurance premium income	**1,081**	972	889
Other operating income/expense	**48**	34	(26)
Total operating income	**1,915**	2,410	2,099
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(1,012)**	(1,376)	(1,226)
Net operating income before change in expected credit losses and other credit impairment charges	**903**	1,034	873
Change in expected credit losses and other credit impairment charges[3]	**(15)**	4	(85)
Net operating income	**888**	1,038	788
Total operating expenses	**(878)**	(842)	(765)
Operating profit	**10**	196	23
Share of profit in associates and joint ventures	**—**	—	—
Profit before tax[1,2]	**10**	196	23
Tax expense[2]	**10**	(71)	28
Profit for the period[2]	**20**	125	51
– profit attributable to shareholders of the parent company	**20**	126	51
– profit attributable to non-controlling interests	**—**	(1)	—

1 *The group has adopted IFRS 9, as well as the European Union's regulatory transitional arrangements for IFRS 9, on 1 January 2018.Comparative information has not been restated. For further details, refer to 'Standards applied during the half-year to 30 June 2018' on pages 36 to 40 and Note 13 'Effects of reclassifications upon adoption of IFRS 9' on pages 54 to 57.*

2 *From 1 January 2018, certain structured financial liabilities are classified as 'Financial liabilities designated at fair value'. These were previously included in 'Trading liabilities'. As a consequence, changes in fair value of these instruments attributable to changes in own credit risk are recognised in other comprehensive income rather than profit or loss from this date. Comparative data have not been restated. For the half-year to 30 June 2017, a restatement would have increased 'Net income from financial instruments held for trading or managed on a fair value basis' by EUR 48 million (half-year to 31 December 2017:EUR 38 million) and increased tax expense by EUR 17 million (half-year to 31 December 2017: EUR 13 million), with an equivalent net decrease in other comprehensive income.*

3 *On 30 June 2017 and 31 December 2017, the 'changes in expected credit losses and other credit impairment changes' include the 'loan impairment charges'*

Reported performance

Net interest income was EUR 500 million at end-June 2018, from EUR 532 million in the previous year. Against a background of low interest rates and negative ones on short term, the net interest margin displays a decrease mainly on Retail banking linked with the high levels of home loans early repayments and renegotiations in the first half of 2017, the decrease is partly offset by a positive volume effect on the loan portfolio, increasing in Retail and Commercial banking and deposits growing across all the businesses. In this context of low interest rates, interest income in the bond portfolio of the insurance subsidiary were also lower.

Net fee income was 286 million to end-June 2018, compared to EUR 291 million in the first half of 2017. Banking and flow fees decline in Retail and Commercial banking and origination fees within Global banking were lower compared to a high fist half in 2017.

Net income from financial instruments held for trading or managed on a fair value basis fell to EUR 59 million compared to EUR 187 million in the first half of 2017. This trend results from Global Markets which revenues have been burdened by lower client demand and margin compression against the backdrop of strong variation in volatility levels and low liquidity in Euro rates market on which HSBC maintains its rankings. Unfavourable trend in reserves adjustments (Credit Value adjustment, Funding fair value adjustment...) also hit the revenues, partly offset by a positive change in the Debit value adjustment.

Net income from assets and liabilities of insurance measured at fair value through profit and loss was EUR -110 million compared to EUR 333 million on the same period of the previous year. this reflects the change in the market value of assets held by the insurance company on behalf of its customers partly with respect to unit-linked policies. The counterpart of this decrease is the change in liabilities to policyholders (see below).

Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss totalled EUR -39 million in accordance with IFRS9 accounting rule, partially offset by change in economic hedges accounted for in net income from financial instruments managed on a fair value basis.

Gain less losses from financial investments went to EUR 11 million from EUR 57 million in the same period of the previous year primarily from movements in the sale of available for sale securities.

Insurance premium income was EUR1,081 million in the first half of the year, compared to EUR 972 million as at 30 June 2017. Net new money was EUR 417 million over the first half for clients of the HSBC network in France.

Other operating income came to EUR 48 million versus EUR 34 million a year previously, mainly due to changes in the Present Value of In-force insurance long-term business – PVIF (Cf. Note 5 of financial statements), a EUR 45 million increase in accounting PVIF in the first half of 2018, as opposed to a EUR 29 million increase in the first half of 2017).

Net insurance claims and movements in liabilities to policyholders were EUR -1,012 million in the first half of 2018, from EUR -1,376 million in the first half of 2017. The change was due to the fall in value of fair-valued financial instruments and change in PVIF.

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 903 million, from EUR 1,034 million in the first half of 2017 which benefited from a more favourable momentum in markerts activities and EUR 873 million in the second half of 2017. This reflects the impact of ongoing low interest rates on the banking business in France, as well as unfavourable context in the Euro sovereign debt market.

Net operating income of the Greek branch amounts EUR 27 million on the half year.

Change in expected credit losses and other credit impairment charges were EUR 15 million versus a net reversal of EUR 4 million in the first half of 2017. The increase comes from both the increase in individual impairments in Commercial banking and non recurring reversals recorded in 2017. At 0.05 %, the cost of risk remains historically low.

Operating expenses totalled EUR 878 million in the first half of 2018, compared with EUR 842 million in the year-earlier period. The EUR 36 million is explained by expenses related to the new Greek branch (EUR 28 million) and the increase in the Single resolution fund contribution (EUR 9 million). Moreover, HSBC France is continuing its programme of spending and investment in IT infrastructure, digital banking as well as fight against financial crime.

Consolidated Profit before tax was EUR 10 million,in line with the result of the second half of 2017 at EUR 23 million and down from the EUR 196 million, recorded in the first half of 2017. The result of the first half of 2018 is particularly affected by low revenues in markets activities and the effects of ongoing low interest rates.

Net profit attributable to shareholders of the parent company was EUR 20 million in the first half of 2018.

Adjusted performance

Non-GAAP financial 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 published 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 HSBC France.

Basis of preparation

Global businesses are our reportable segments under IFRS 8. The global business results are assessed by the chief operating decision maker on the basis of adjusted performance that removes the effects of significant items from reported results. We therefore present these results on an adjusted basis.

Reconciliations of reported and adjusted performance are presented on pages 6 and 7.

HSBC France's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to global businesses are included in Corporate Centre.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intra-group elimination items are presented in the Corporate Centre.

A description of the Global businesses is provided on pages 3 and 4 of the *Annual Report and Accounts 2017*.

By operating segment

Significant revenue items by business line – (gains)/losses

	Half-year to 30 Jun 2018					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
Reported revenue	**406**	**258**	**221**	**27**	**(9)**	**903**
Significant revenue items	**—**	**—**	**(3)**	**—**	**—**	**(3)**
– debit valuation adjustment	**—**	**—**	**(3)**	**—**	**—**	**(3)**
– fair value movement on non-qualifying hedges	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted revenue	**406**	**258**	**218**	**27**	**(9)**	**900**
	Half-year to 30 Jun 2017					
Reported revenue	416	260	355	25	(22)	1,034
Significant revenue items	—	—	20	—	(5)	15
– debit valuation adjustment	—	—	20	—	—	20
– fair value movement on non-qualifying hedges	—	—	—	—	(5)	(5)
Adjusted revenue	416	260	375	25	(27)	1,049
	Half-year to 31 Dec 2017					
Reported revenue	345	258	274	24	(28)	873
Significant revenue items	—	—	8	—	1	9
– debit valuation adjustment	—	—	8	—	—	8
– fair value movement on non-qualifying hedges	—	—	—	—	1	1
Adjusted revenue	345	258	282	24	(27)	882

Significant cost items by business line – (recoveries)/charges

	Half-year to 30 Jun 2018					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
Reported operating expenses	**(409)**	**(186)**	**(218)**	**(23)**	**(42)**	**(878)**
Significant cost items	**—**	**1**	**7**	**—**	**16**	**24**
– impairment of goodwill	**—**	**—**	**—**	**—**	**—**	**—**
– costs to achieve	**—**	**—**	**—**	**—**	**—**	**—**
– costs associated with the UK's exit from the EU	**—**	**1**	**7**	**—**	**16**	**24**
– settlements and provisions in connection with legal and regulatory matters	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted operating expenses	**(409)**	**(185)**	**(211)**	**(23)**	**(26)**	**(854)**
	Half-year to 30 Jun 2017					
Reported operating expenses	(386)	(175)	(207)	(21)	(53)	(842)
Significant cost items	10	—	4	—	37	51
– impairment of goodwill	—	—	—	—	—	—
– costs to achieve	10	—	4	—	37	51
– costs associated with the UK's exit from the EU	—	—	—	—	—	—
– settlements and provisions in connection with legal and regulatory matters	—	—	—	—	—	—
Adjusted operating expenses	(376)	(175)	(203)	(21)	(16)	(791)
	Half-year to 31 Dec 2017					
Reported operating expenses	(372)	(170)	(166)	(22)	(35)	(765)
Significant cost items	4	—	5	—	30	39
– impairment of goodwill	—	—	—	—	—	—
– costs to achieve	4	—	1	—	25	30
– costs associated with the UK's exit from the EU	—	—	4	—	5	9
– settlements and provisions in connection with legal and regulatory matters	—	—	—	—	—	—
Adjusted operating expenses	(368)	(170)	(161)	(22)	(5)	(726)

Net impact on profit before tax by business segment

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	Half-year to 30 Jun 2018					
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Reported profit/(loss) before tax	**(6)**	**61**	**—**	**5**	**(50)**	**10**
Significant revenue items	**—**	**—**	**(3)**	**—**	**—**	**(3)**
Significant cost items	**—**	**1**	**7**	**—**	**16**	**24**
Adjusted profit/(loss) before tax	**(6)**	**62**	**4**	**5**	**(34)**	**31**
Net impact on reported profit and loss	**—**	**1**	**4**	**—**	**16**	**21**
	Half-year ended 30 Jun 2017					
Reported profit/(loss) before tax	25	88	155	3	(75)	196
Significant revenue items	—	—	20	—	(5)	15
Significant cost items	10	—	4	—	37	51
Adjusted profit/(loss) before tax	35	88	179	3	(43)	262
Net impact on reported profit and loss	10	—	24	—	32	66
	Half-year ended 31 Dec 2017					
Reported profit/(loss) before tax	(33)	92	25	2	(63)	23
Significant revenue items	—	—	8	—	1	9
Significant cost items	4	—	5	—	30	39
Adjusted profit/(loss) before tax	(29)	92	38	2	(32)	71
Net impact on reported profit and loss	4	—	13	—	31	48

Adjusted profit/(loss) for the period

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	Half-year to 30 Jun 2018					
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Net operating income before expected credit loss and other credit risk provisions	**406**	**259**	**218**	**27**	**(10)**	**900**
Change in expected credit loss and other credit risk provisions	**(3)**	**(12)**	**(3)**	**1**	**2**	**(15)**
Net operating income	**403**	**247**	**215**	**28**	**(8)**	**885**
Total operating expenses	**(409)**	**(185)**	**(211)**	**(23)**	**(26)**	**(854)**
Operating profit	**(6)**	**62**	**4**	**5**	**(34)**	**31**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted profit before tax	**(6)**	**62**	**4**	**5**	**(34)**	**31**
	Half-year to 30 Jun 2017					
Net operating income before loan impairment charges and other credit risk provisions	416	260	375	25	(27)	1,049
Change in expected credit loss and other credit risk provisions	(5)	3	7	(1)	—	4
Net operating income	411	263	382	24	(27)	1,053
Total operating expenses	(376)	(175)	(203)	(21)	(16)	(791)
Operating profit	35	88	179	3	(43)	262
Share of profit in associates and joint ventures	—	—	—	—	—	—
Adjusted profit before tax	35	88	179	3	(43)	262
	Half-year to 31 Dec 2017					
Net operating income before loan impairment charges and other credit risk provisions	345	258	282	24	(27)	882
Change in expected credit loss and other credit risk provisions	(6)	4	(83)	—	—	(85)
Net operating income	339	262	199	24	(27)	797
Total operating expenses	(368)	(170)	(161)	(22)	(5)	(726)
Operating profit	(29)	92	38	2	(32)	71
Share of profit in associates and joint ventures	—	—	—	—	—	—
Adjusted profit before tax	(29)	92	38	2	(32)	71

Adjusted Performance

Adjusted profit before tax for HSBC France was EUR 31 million, lower than the EUR 262 million recorded in the year-earlier period and EUR 71 million in the second half of 2017.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 900 million from EUR 1,049 million in the first half of 2017. This fall was due largely to a significant decrease in Euro rates markets activities and reflects the ongoing effects of low interest rates environment mainly on the Retail banking and wealth management, partially offset by an increase in income from manufacturing life assurance, which was boosted by a positive change in economic PVIF (economic PVIF includes accounting PVIF, hedging instruments and technical provisions).

Change in expected credit losses and other credit impairment charges were EUR 15 million versus a net reversal of EUR 4 million in the first half of 2017. The increase comes from the increase in individual impairments in Commercial banking and non recurring reversals recorded in 2017. At 0.05 %, the cost of risk remains historically low.

Adjusted operating expenses totalled EUR 854 million in the first half of 2018, compared with EUR 791 million in the year-earlier period. Excluding the greek branch, increase in expenses reflects a EUR 9 million increase in the Single resolution fund contribution and ongoing spending and investment in IT infrastructure, digital banking as well as fight against financial crime.

Retail Banking and Wealth Management ('RBWM')

Adjusted profit before tax, of EUR -6 million for the first half of 2018, down compared to the EUR 35 million reported in the first half of 2017. This result reflects the lower interest margin in the banking business in France, caused by ongoing low interest rates. PBT of the greek branch was EUR -3 million on the half year.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 406 million, from EUR 416 million in the first half of 2017. This figure was affected by the change in economic PVIF, which was EUR +41 million from EUR +24 million in 2017. Interest margin was hit, against a background of low interest rates, by pressure on margins on deposits and mortgages, which saw a high level of early repayments and renegotiations in 2017, partially offset by increased volumes on deposits and loans. Net fee income was stable in a competitive market and sluggish financial markets.

Change in expected credit loss and other credit risk provisions were reduced from EUR 5 million to EUR 3 million.

Adjusted operating expenses were EUR 409 million in the first half of 2018 versus EUR 376 million in the first six months of 2017. The year 2018 includes the EUR 14 million expenses of the newly integrated greek branch and HSBC France is continuing its programme of spending and investment in IT infrastructure, digital banking as well as fight against financial crime.

Commercial Banking ('CMB')

Adjusted profit before tax was EUR 62 million at 30th June 2018 as at 30th June 2018, compared to EUR 88 million in the first half of the previous year. PBT of the greek branch was EUR -2 million on the half year.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 259 million, from EUR 260 million in the first half of 2017. Revenue was affected by the continuation of low interest rates, offset by growth in total outstanding loans taking advantage of a good momentum on medium-and long-term products.

Change in expected credit loss and other credit risk provisions amounted EUR 12 million compared with net reversals of EUR 3 million over the first half of 2017. At 0.20 %, the cost of risk remains historically low.

Adjusted operating expenses, at EUR 185 million compared with EUR 175 million as at 30 June 2017. The year 2018 includes the expenses of the newly integrated greek branch and HSBC France is continuing its programme of spending and investment in IT infrastructure, digital banking as well as fight against financial crime.

Global Banking and Markets ('GB&M')

Adjusted profit before tax for the first half of 2018 was EUR 4 million, from EUR 179 million in the first half of 2017.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 218 million, a sharp decrease from EUR 375 million in the first half of 2017.

Revenue was strongly burdened by a weak customer demand and margin compression against the backdrop of strong variation in volatility levels and low liquidity in Euro rates markets on which HSBC maintains its rankings. Structured rates products, mainly USD, display stable income. Revenue in Global Banking rose 13 % mainly thanks to air transport financing and a good momentum in M&A. Private equity business was down after a strong year 2017.

Change in expected credit loss and other credit risk provisions amount EUR 3 million in the first half of 2018 compared with net reversals of EUR 7 million over the first half of 2017.

Adjusted operating expenses were EUR 211 million, compared to EUR 203 million in the first half of 2017. Expenses were stable excluding the greek branch.

Global Private Banking ('GPB')

Adjusted profit before tax was EUR 5 million versus EUR 3 million for the first half of 2017.

Adjusted net operating income before expected credit loss and other credit risk provisions totalled EUR 27 million over the period versus EUR 25 million a year earlier. Revenue was boosted by the net interest margin supported by the loan portfolio growth. Net fees and other income benefited from positive net new money and boosted client activity although burdened by negative market effect as well as MIFID2 implementation.

Change in expected credit loss and other credit risk provisions saw a net reversal during the half year supported by an emphasis on data quality and proactive risk management in a context of growth in outstanding loans.

Adjusted operating expenses were EUR 23 million, compared to EUR 21 million in the first half of 2017. This increase was due mainly to ongoing projects and programmes relating to compliance and regulatory requirements.

Corporate Centre

Adjusted profit before tax was EUR -34 million from EUR -43 million in the first half of 2017. The Corporate Centre comprises treasury and Balance sheet management activities along with operating income and expense items that are not allocated to the global businesses.

Outlook for the second half of 2018

France's economic backdrop is expected to remain more favourably oriented during the second half year, provided that international risks do not worsen and if domestic demand, notably household consumption and business investment, recovers after a disappointing first quarter. As in 2017, GDP growth should remain above long-run potential in 2018 for both France and the Eurozone.

HSBC France has a clear and focused strategy that is consistent with the HSBC Group's strategy, which consists in accelerating growth while improving efficiency and implementing the highest standards in terms of compliance. In this context, HSBC plans to:

- Leverage its unique positioning in Retail Banking by investing in the digital transformation to grow its client base and wealth revenue, while improving customer service;
- Drive revenue growth among its priority clients in Commercial Banking, while improving productivity and fostering growth of international revenues;
- In GBM, gain market shares, diversify revenues and enhance its advisory and transaction capabilities while optimising its balance sheet;
- Enhance collaboration of Private Banking with Commercial and Retail Banking to reinforce commercial impetus;
- Simplify processes and procedures to gain efficiency while improving the customer experience. HSBC France pursues its IT infrastructure modernisation programme and also has an ambitious programme to progressively digitalise its products.

Events after the balance sheet date

As political and regulatory change in Europe continues, it is important that HSBC organises its business in a way that supports its pan-European proposition for customers. To achieve this, HSBC France:

- Acquired on 1st August 2018, two European subsidiaries, HSBC Polska Bank SA in Poland and HSBC Institutional Trust Services (Ireland) DAC in Ireland, direct and indirect subsidiaries of HSBC Bank plc respectively;
- Will acquire the activities of seven European branches (in Belgium, the Czech Republic, Ireland, Italy, Luxembourg, the Netherlands and Spain) from HSBC Bank plc. The acquisition of these activities is expected to be completed during the first quarter of 2019.

These HSBC businesses currently service both Global Banking and Markets and Commercial Banking customers. In particular, HSBC businesses in Ireland and Luxembourg provide securities services to fund and corporate customers.

These changes have been and will be approved by the appropriate supervisory authorities and the relevant Boards of Directors.

In 2017, all entities and activities acquired and to be acquired had a combined profit before tax of US$203m (EUR168m) in 2017, and a total balance sheet of US$15.1bn (EUR13.0bn) at 31 December 2017.

HSBC France is a 99.99% subsidiary of HSBC Bank plc. This restructuring, internal to HSBC Bank plc, will not impact the solvability ratios of HSBC France.

Within the framework of these operations, HSBC France carried out on 25 July 2018 a EUR 100 million capital increase, of which EUR 6.2 million share capital, wholly subscribed by HSBC Bank plc.

Review of business position

Summary consolidated balance sheet

	30 Jun 2018 €m	31 Dec 2017 €m
Total assets[1]	**172,114**	167,544
Cash and balances at central banks	**8,155**	14,630
Trading assets	**18,113**	22,401
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	**11,444**	—
Financial assets designated at fair value	**—**	8,605
Derivatives	**32,307**	34,407
Loans and advances to banks	**4,947**	4,843
Loans and advances to customers	**44,567**	44,856
Reverse repurchase agreements – non-trading	**19,979**	13,781
Financial investments	**17,223**	20,548
Other Assets	**15,379**	3,473
Total liabilities[1]	**166,116**	161,838
Deposits by banks	**10,882**	13,297
Customer accounts	**38,748**	38,277
Repurchase agreements – non-trading	**12,026**	6,586
Trading liabilities[2]	**18,524**	32,436
Financial liabilities designated at fair value[2]	**12,707**	7,565
Derivatives	**31,608**	33,229
Debt securities in issue	**4,246**	5,159
Liabilities under insurance contracts issued	**21,894**	21,853
Other liabilities	**15,481**	3,436
Total equity[1]	**5,998**	5,706
Total shareholders' equity	**5,968**	5,676
Non-controlling interests	**30**	30

1 *The group has adopted IFRS 9, as well as the European Union's regulatory transitional arrangements for IFRS 9, on 1 January 2018. Comparative information has not been restated. For further details, refer to 'Changes to accounting from 1 January 2018' on page 4, 'Standards applied during the half-year to 30 June 2018' on pages 36 to 40 and Note 13 'Effects of reclassification upon adoption of IFRS 9' on pages 54 to 57.*

2 *From 1 January 2018, certain structured financial liabilities are classified as 'Financial liabilities designated at fair value'. These were previously included in 'Trading liabilities'. Comparative data have not been restated. A restatement would have increased 'Financial liabilities designated at fair value' by EUR 2.7 billion at 31 December 2017, with an equivalent decrease in 'Trading liabilities'.For further details, refer to 'Changes to accounting from 1 January 2018' on page 4, 'Standards applied during the half-year to 30 June 2018' on pages 36 to 40.*

Balance Sheet Information by segment

	Retail Banking and Wealth Management €m	Commercial Banking €m	Global Banking and Markets €m	Private Banking €m	Corporate Centre €m	Total €m
As at 30 Jun 2018	**45,989**	**14,236**	**99,104**	**2,173**	**10,612**	**172,114**
– of which						
Loans and advances to customers	***18,931***	***11,956***	***11,995***	***2,154***	***(469)***	***44,567***
Customers accounts	***16,838***	***10,990***	***11,062***	***945***	***(1,087)***	***38,748***
As at 31 Dec 2017	47,052	10,710	105,240	887	3,655	167,544
– of which						
Loans and advances to customers	*18,329*	*11,355*	*13,245*	*1,913*	*14*	*44,856*
Customers accounts	*15,396*	*10,862*	*11,250*	*727*	*42*	*38,277*

HSBC France's consolidated balance sheet had total assets of EUR 172.1 billion at 30 June 2018, versus EUR 167.5 billion at 31 December 2017. The increase was mainly due to capital markets activities and the new Greek branch accounts for EUR 1.8 billion.

Assets

- deposits with the Central Bank fell from EUR 14.6 billion, to EUR 8.2 billion, in connection with the decrease of the cash part in the liquid assets at Central bank;
- loans and advances to customers were stable at EUR 44.6 billion increasing at Retail and Commercial banking and decreasing at Global Banking & Markets;
- other assets display a EUR 11.9 billion increase to EUR 15.4 billion mainly due to margin calls and settlement accounts relating to markets operations which usually display very low levels at year end.

Liabilities

- customer accounts rose from EUR 38.3 billion to EUR 38.7 billion during the first half, increasing at Retail and Commercial banking and slightly decreasing at Global Banking & Markets;
- other liabilities display a EUR 12.0 billion increase to EUR 15.5 billion mainly due to margin calls and settlement accounts relating to markets operations which usually display very low levels at year end;
- shareholders' equity slightly increased to EUR 6.0 billion in the first half of 2018.

Capital

During the first half of 2018, HSBC France has reviewed its capital structure and performed several operations described in the capital management section on page 21.

At 30 June 2018, the 'fully loaded' Common equity tier 1 ('CET1') ratio stands at 12.2% cent,'fully loaded' total capital ratio was 15.2% cent and 'fully loaded' Leverage ratio was 3.5%.

Liquidity and funding

The bank's medium- and long-term debt and the main funding operations performed during the first half of 2018 are presented in the Liquidity and funding section on page 19.

At 30 June 2018, the short-term Liquidity coverage ratio ('LCR') computed in respect of the EU Delegated act was 169% and the long- term Net stable funding ratio ('NSFR') computed in respect of BCBS 295 guidelines was 112%.

Average number of persons employed by HSBC France

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
Retail Banking and Wealth Management	**3,915**	3,766	3,758
Commercial Banking	**1,384**	1,330	1,360
Global Banking and Markets	**650**	659	644
Private Banking	**112**	102	108
Corporate Centre	**10**	10	9
Support functions and others	**2,857**	2,965	2,816
Total	**8,928**	8,832	8,695

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 -	Aa3	AA -
Outlook	Stable	Stable	Stable
Short-term Rating	A-1+	P-1	F1+
Last update	15 Nov 2017	27 Sep 2017	11 Oct 2017

HSBC France's credit ratings did not change during the first half of 2018.

Risk

Risk overview

HSBC France continuously monitors and identifies risks. This process, which is informed by its risk factors and the results of its stress testing programme, gives rise to the classification of certain principal risks. Changes in the assessment of principal risks may result in adjustments to the group's business strategy and, potentially, its risk appetite.

The main 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 incurs risks related to insurance.

In addition to the banking risks, other top and emerging risks can have a material impact on the bank's financial results, its reputation and the sustainability of its long-term business model.

During 2018, Geopolitical risk has been added to Macro economic risk to form a combined 'Macro economic and Geopolitical risk'.

The exposure to these risks and how these are managed are explained in more detail in the Report of the Directors on page 63 and following of the *Annual Report and Accounts 2017*.

Risk		Mitigants
Externally driven		
Macro economic & Geopolitical risks		Since the beginning of 2018, though the economic activity has been robust in Asia excluding Japan, the momentum has been strengthening further in the US, while the eurozone faced a slowdown in Q1. Global risks have been on the rise, including protectionism and higher debt ratios, with monetary policies becoming less accommodating. In the eurozone, the ECB is expecting to stop the net asset purchases at the end of 2018 and to maintain policy rates unchanged through the summer of 2019. France has exited the excessive deficit procedure and its job market has been improving, despite the economic deceleration witnessed in Q1.
Technology risk	▲	The banking industry is beginning to find itself confronted in some of its traditional banking products and services with the arrival of mobile banks, GAFAs and new non-banking entrants ('Fintechs', 'Insurtech', 'Supply Chain Specialists', etc.) which have superior, innovative and customer centric technologies. This challenge is made tougher by several regulations and market evolutions, both in the payment (PSD2, Instant Payment, NFC payment, blockchain) and data management landscape (GDPR - Global Data Protection Regulation -, Open Banking, AI). HSBC Group is fully aware of these technology innovations and maintains high level contacts with the 'Fintech' 'ecosystem'. The PSD2 programme is well structured in France and in Europe to ensure the bank will comply with this new regulation and will be able to identify new business opportunities. Beside, the GPDR requirements have been adopted on time in HSBC France. Open Banking projects in the UK can also be leveraged in France. The bank is looking into strategic Fintech partnerships to ensure that value is appropriately captured for each of HSBC France's businesses. HSBC France Labs (GTRF Lab, iLab) are also looking at strategic solutions and technologies to accelerate readiness.
Risk related to prudential regulations		The HSBC Group and HSBC France monitor and anticipate regulatory change wherever possible and maintain a permanent and intensive dialogue with their key regulators and policymakers. The impact of regulatory evolution on capital requirements and more generally on their financial results are regularly assessed, presented and discussed by management. However, these risks are increasing, in particular because of a number of credit and market model reviews by the regulator. The conclusion of these past, current and future reviews might lead to limitations - at least temporarily - of the use of advanced models for the calculation of its risk-weighted assets (RWAs) of the bank. In this context, HSBC France is ensuring with particular care that all measures have been taken in order for its capital ratios to largely continue complying with the regulatory thresholds.
Information Security Cyber Crime and Fraud Risks	►	HSBC France is actively participating in intelligence sharing and continues to improve its governance and control framework to protect its information and technical infrastructure against ever increasingly sophisticated cyber threats such as payment systems compromises and Ransomware attacks.
Tax Transparency		HSBC France continues to implement the Tax Transparency Global Standards and to develop procedures which help identifying higher risk customers requiring additional specific information. The bank has also implemented CRS to exchange information with other adopting countries.
Regulatory Compliance including conduct	►	HSBC France continues to engage with its key stakeholders to ensure compliance in the implementation of the ongoing projects of significance. These include the recent EU regulatory developments, structural changes to mitigate the consequences of Brexit (including outsourcing arrangements), French customer & whistleblower protection rules and the market abuse framework.
Financial Crime Compliance		In the first half of 2018, new milestones have been reached under the Global Standards programme to support Anti-Money Laundering ('AML'), Sanctions and Anti-Bribery & Corruption policies, with the further roll-out of Group solutions and the adaptation of detection scenarios to the HSBC France customer portfolio profile, thereby increasing the efficiency of the framework.
Legal risks		Please refer to Note 11 of Financial Statements.

Internally driven	
IT systems risk	HSBC France has accelerated its evergreening programme, including the migration of its GBM servers, and has reinforced its IT access control framework and processes. Also, ongoing security improvement programmes are being managed to enhance the bank's protection against ever-evolving cybercrime threats.
People risk	We have maintained our focus on resource management, especially vacant positions in certain areas (recruitment of employees or temporary workers where needed, retention); specific learning courses are implemented to adapt/upgrade skills and competencies (technical, management, soft skills) where needed; develop initiatives towards line managers in terms of managing change (i.e. digital, regulatory…), reorganizations and supporting their employees; attention is being paid to the social climate through specific surveys.
Heightened Execution, Project and Operational risks	IT – HSBC France pursues the optimisation processes and robotisation programmes, and its flagship "IT Modernisation" programme to change its core banking system. Operational risks – During the first half of 2018, the operational risk management transformation carried over 2016 and 2017 has landed into business as usual, with an ongoing focus on controls that actually mitigate risks. Also, HSBC France has taken part in various Group initiatives aiming at reinforcing the risk culture et improving in particular the governance around and the control of non-financial risks.
Model risk	Model risk is heightened by evolving and increasingly demanding regulatory standards. HSBC France is going through a series of on-site model reviews by the ECB, some of which concern new models not yet implemented. Beside, one final report has been received, which concerns Retail models and contains a number of findings. These models are HSBC France's oldest ones and are being redeveloped. Beside ongoing model improvement and redevelopment work, HSBC France continues to engage with the ECB and to participate in consultation papers and industry working groups on regulatory topics.
Data Management	HSBC France continues to improve the organisation, the governance and its data management and control processes across all fields of its activities.

▲ Risk has heightened during first half of 2018

▶ Risk remains at the same level during the first semester 2018

▼ Risk has decreased during first half of 2018

Managing risk

The risk profile of HSBC France is underpinned by its core philosophy of maintaining a strong balance sheet, robust liquidity position and capital strength. The bank continued to have a conservative risk profile during the first half of 2018.

As a provider of banking and financial services, the bank runs risks at the core of its day-to-day activities. While the Group's strategy, risk appetite, plans and performance targets are set top-down, day-to-day responsibility for risk management is cascaded through the delegation of individual accountability, with reporting and escalation are facilitated through risk governance structures. Policies, procedures and limits are defined to ensure activities remain within an understood and appropriate level of risk. Identification, measurement, monitoring and reporting of risks are essential to inform regular and strategic decision making. This is supported by an effective system of controls to ensure compliance.

The risk management framework promotes a strong risk culture which is reinforced by HSBC Values and Global Standards and ensures that our risk profile remains conservative and aligned to our risk appetite. Further details are set out on pages 63 to 125 of the *Annual Report and Accounts 2017*.

Top and emerging risks

Top and emerging risks are those that may impact on the financial results, reputation or business model of the bank. If these risks were to occur, they could have a material effect on the group.

HSBC France continuously monitors and identifies risks. This process, which is informed by an assessment of its risk factors and the results of stress testing, 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.

In addition, on a forward-looking basis, HSBC France aims to identify, monitor and, where possible, measure and mitigate large scale events or sets of circumstances that may have the potential to have a material impact on its financial results or reputation and the sustainability of its long-term business model. These events, giving rise to additional principal banking risks noted above, are captured together as the top and emerging risks.

These have been reviewed during the first half of 2018 with Geopolitical risk being added to Macroeconomic risk to form a combined 'Macroeconomic and Geopolitical' risk.

Further details are set out in the risk overview table on page 12.

Areas of special interest

Process of UK withdrawal from the European Union

Uncertainty regarding the terms of the UK's exit agreement and its future relationship (including trading) with both the EU and the rest of the world is ongoing. Market volatility will therefore persist as the UK continues its negotiations with the EU. Throughout this period, HSBC will continually update its assessment of potential consequences for its customers, products and banking model and re-evaluate the mitigating actions accordingly.

The scale and nature of the impact on HSBC will depend on the precise terms on which HSBC and its customers will be able to conduct cross-border business following the UK's departure from the EU. Changes to the UK's current trade relationships could require changes to HSBC's banking model to ensure HSBC continues to comply with law and regulation in meeting the needs of its customers and conducting its business. Such changes could, among other things, increase HSBC's operating costs and require the Group to relocate staff and businesses.

Mitigant actions

The UK is due to formally leave the EU in March 2019. Before this can happen the UK and the EU have to finalise the Article 50 Withdrawal Agreement, so that it can be approved by their respective Parliaments. In March 2018, political agreement was reached between the EU and the UK on a transition period of 21 months (until 31 December 2020) following the UK's departure from the EU. Both sides hope to agree outline of future relations to allow time for UK parliament and EU members to ratify a deal by Brexit day. Concluding negotiations on a comprehensive trade deal within this timeframe could be challenging. Uncertainty therefore continues and with it the risk of significant market volatility.

HSBC's objective in all scenarios is to continue to meet customers' needs and minimise disruption. This is likely to require adjustments to HSBC's cross-border banking model, with impacted business transferring from the UK to HSBC France.

Given the tight time frame and the complexity of the negotiations, HSBC has put in place a robust contingency plan. It is based on a scenario whereby the UK exits the EU in March 2019, without access to the single market or customs union, and without a transitional arrangement. When negotiation positions and timelines become clearer, HSBC will update its contingency plan. Risks are monitored continuously, with vulnerable industry sectors reviewed by management to determine if adjustments to HSBC's risk policy or appetite are required.

Credit risk Profile

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 group's holdings of debt securities.

1 January 2018 comparative credit tables reflecting the adoption of IFRS 9 have been included where available. 31 December 2017 comparative credit tables from our 2017 Report do not reflect the adoption of IFRS 9. As these tables are not directly comparable to the current 2018 credit risk tables which are disclosed on an IFRS 9 basis, the *2017 Interim Report* disclosures have been shown separately and not adjacent to 2018 tables.

There were no material changes to the policies and practices for the management of credit risk in the first half of 2018.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 73 of the *Annual Report and Accounts 2017.*

Credit risk in the first half of 2018

Credit risk at HSBC France has remained very low in the first half of 2018, both on corporates and on individual customers. Net provision allocations for credit risk are higher than last year over the same period essentially because of the significant collective provision releases booked in the first half of 2017, which has not been the case with the Stage 1 and Stage 2 impairments in 2018 in the context of IFRS 9.

Summary of credit risk

The following tables analyse loans by industry sector which represent the concentration of exposures in which how credit risks are managed. The HSBC France's total allowance for ECL is EUR 694 million. This comprises EUR 663 million in respect of assets held at amortised cost, EUR 25 million in respect of loan commitments and financial guarantees and EUR 6 million in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI'). The following tables analyse the financial instruments to which the impairment requirements of IFRS 9 are applied and the related allowance for ECL.

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

	30 Jun 2018		1 Jan 2018	
	Gross carrying/ nominal amount	**Allowance/ provision for ECL**[1]	Gross carrying/ nominal amount	Allowance/provision for ECL
	€m	**€m**	€m	€m
Loans and advances to customers at amortised cost:	**45,227**	**(660)**	45,299	(576)
– personal	**17,489**	**(192)**	16,293	(142)
– corporate and commercial	**26,150**	**(467)**	27,305	(432)
– non-bank financial institutions	**1,588**	**(1)**	1,701	(2)
Loans and advances to banks at amortised cost	**4,949**	**(2)**	4,622	(2)
Other financial assets at measured amortised costs:	**41,340**	**(1)**	35,765	–
– cash and balances at central banks	**8,156**	**(1)**	14,630	–
– items in the course of collection from other banks	**424**	**–**	435	–
– reverse repurchase agreements – non trading	**19,979**	**–**	13,781	–
– financial investment[2]	**7**	**–**	7	–
– prepayments, accrued income and other assets[3]	**12,774**	**–**	6,912	–
Total gross carrying amount on balance sheet	**91,516**	**(663)**	85,686	(578)
Loans and other credit related commitments:	**27,484**	**(9)**	26,605	(9)
– personal	**1,097**	**–**	893	–
– corporate and commercial	**23,691**	**(9)**	22,292	(9)
– financial	**2,696**	**–**	3,420	–
Financial guarantee and similar contracts:	**5,482**	**(16)**	4,974	(7)
– personal	**59**	**–**	70	–
– corporate and commercial	**4,187**	**(16)**	4,759	(7)
– financial	**1,236**	**–**	145	–
Total nominal amount off-balance sheet[4]	**32,966**	**(25)**	31,579	(16)
	124,482	**(688)**	117,265	(594)

	Fair value	**Memorandum allowance for ECL**	Fair value	Allowance for ECL
	€m	**€m**	€m	€m
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')	**17,208**	**(6)**	18,412	(6)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 32 includes financial assets measured at amortised cost and debt and equity instruments measured at fair value through other comprehensive income.*
3 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 32 includes both financial and non-financial assets.*
4 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 30 June 2018

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost:	41,020	3,158	1,035	14	45,227	(35)	(53)	(567)	(5)	(660)	0.1	1.7	54.8	35.7	1.5
– personal	16,125	935	429	–	17,489	(6)	(24)	(162)	–	(192)	–	2.6	37.8	–	1.1
– corporate and commercial	23,313	2,217	606	14	26,150	(28)	(29)	(405)	(5)	(467)	0.1	1.3	66.8	35.7	1.8
– non-bank financial institutions	1,582	6	–	–	1,588	(1)	–	–	–	(1)	0.1	–	–	–	0.1
Loans and advances to banks at amortised cost	4,916	20	13	–	4,949	(1)	–	(1)	–	(2)	–	–	7.7	–	–
Other financial assets measured at amortised cost	41,332	7	1	–	41,340	(1)	–	–	–	(1)	–	–	–	–	–
Loan and other credit-related commitments	26,218	1,243	23	–	27,484	(4)	(3)	(2)	–	(9)	–	0.2	8.7	–	–
– personal	1,059	35	3	–	1,097	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	22,554	1,117	20	–	23,691	(4)	(3)	(2)	–	(9)	–	0.3	10.0	–	–
– financial	2,605	91	–	–	2,696	–	–	–	–	–	–	–	–	–	–
Financial guarantee and similar contracts:	5,153	288	38	3	5,482	(4)	(8)	(4)	–	(16)	0.1	2.8	10.5	–	0.3
– personal	58	–	1	–	59	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	3,875	272	37	3	4,187	(4)	(8)	(4)	–	(16)	0.1	2.9	10.8	–	0.4
– financial	1,220	16	–	–	1,236	–	–	–	–	–	–	–	–	–	–
At 30 Jun 2018	**118,639**	**4,716**	**1,110**	**17**	**124,482**	**(45)**	**(64)**	**(574)**	**(5)**	**(688)**	**–**	**1.4**	**51.7**	**29.4**	**0.6**

1 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
2 Purchased or originated credit-impaired ('POCI').

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 1 January 2018

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost:	42,020	2,312	967	–	45,299	(32)	(43)	(501)	–	(576)	(0.1)	(1.9)	(51.8)	–	(1.3)
– personal	15,212	775	306	–	16,293	(5)	(16)	(121)	–	(142)	–	(2.1)	(39.5)	–	(0.9)
– corporate and commercial	25,114	1,530	661	–	27,305	(26)	(26)	(380)	–	(432)	(0.1)	(1.7)	(57.5)	–	(1.6)
– non-bank financial institutions	1,694	7	–	–	1,701	(1)	(1)	–	–	(2)	(0.1)	(14.3)	–	–	(0.1)
Loans and advances to banks at amortised cost	4,596	13	13	–	4,622	(1)	–	(1)	–	(2)	–	–	(7.7)	–	–
Other financial assets measured at amortised cost	35,765	–	–	–	35,765	–	–	–	–	–	–	–	–	–	–
Loan and other credit-related commitments	25,386	1,129	90	–	26,605	(4)	(3)	(2)	–	(9)	–	(0.3)	(2.2)	–	–
– personal	880	8	5	–	893	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	21,086	1,121	85	–	22,292	(4)	(3)	(2)	–	(9)	–	(0.3)	(2.4)	–	–
– financial	3,420	–	–	–	3,420	–	–	–	–	–	–	–	–	–	(0.1)
Financial guarantee and similar contracts:	4,946	–	28	–	4,974	(2)	(2)	(3)	–	(7)	–	–	(10.7)	–	–
– personal	69	–	1	–	70	–	–	–	–	–	–	–	–	–	(0.1)
– corporate and commercial	4,732	–	27	–	4,759	(2)	(2)	(3)	–	(7)	–	–	(11.1)	–	–
– financial	145	–	–	–	145	–	–	–	–	–	–	–	–	–	–
At 1 Jan 2018	112,713	3,454	1,098	–	117,265	(39)	(48)	(507)	–	(594)	–	(1.4)	(46.2)	–	0.5

1 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.

Reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees

	ECL allowance
	€m
At 1 Jan 2018	**(594)**
ECL income statement charge/(release) for the period	**(15)**
Assets written off	**36**
Exchange and other movements [1]	**(115)**
At 30 Jun 2018	**(688)**
ECL - Excluding modification gains or (losses)	**(16)**
Add: Recoveries	**2**
Add: Modification gains or (losses) on contractual cash flows that did not result in derecognition	**1**
Add/(less): Others	**(2)**
Total ECL income charge/(release) for the period	**(15)**

1 *The other movements for EUR 115 million correspond to transfer of HSBC Group activities in Greece to the Greek branch of HSBC France on 1 January 2018.*

2017 Interim credit disclosures

The below disclosures were included in the 2017 Interim Report and do not reflect the adoption of IFRS 9. As these tables are not directly comparable to the current 2018 credit risk tables which are disclosed on an IFRS 9 basis, the *2017 Interim Report* disclosures have been shown below and not adjacent to 2018 tables.

Distribution of financial instruments by credit quality

	At 31 Dec 2017								
	Neither past due nor impaired								
	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Total gross amount	Impairment allowances	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Cash and balances at central banks	14,630	—	—	—	—	—	14,630	—	14,630
Items in the course of collection from other banks	435	—	—	—	—	—	435	—	435
Trading assets	18,267	1,200	2,934	—	—	—	22,401	—	22,401
– treasury and other eligible bills	356	284	1	—	—	—	641	—	641
– debt securities	14,388	209	1,187	—	—	—	15,784	—	15,784
– loans and advances to banks	1,522	696	1,730	—	—	—	3,948	—	3,948
– loans and advances to customers	2,001	11	16	—	—	—	2,028	—	2,028
Financial assets designated at fair value	996	81	7	—	—	—	1,084	—	1,084
Derivatives	32,202	2,022	166	17	—	—	34,407	—	34,407
Loans and advances held at amortised cost	31,427	9,862	7,316	507	151	971	50,234	(535)	49,699
Loans and advances to banks	4,047	240	555	1	—	1	4,844	(1)	4,843
Loans and advances to customers	27,380	9,622	6,761	506	151	970	45,390	(534)	44,856
– personal	15,519	343	54	1	97	302	16,316	(82)	16,234
– corporate and commercial	11,357	8,487	6,301	499	54	668	27,366	(452)	26,914
– financials (non-bank financial institutions)	504	792	406	6	—	—	1,708	—	1,708
Reverse repurchase agreements – non-trading	10,332	1,858	1,591	—	—	—	13,781	—	13,781
Financial investments	17,775	1,712	844	—	—	—	20,331	—	20,331
Other assets	—	—	1,003	—	—	1	1,004	—	1,004
Total	126,064	16,735	13,861	524	151	972	158,307	(535)	157,772

Evolution of loan impairment charges

	Half-year to	
	30 Jun 2017	31 Dec 2017
	€m	€m
Loan impairment charges and other credit risk provisions		
Net impairment charge on loans and advances	3	(85)
Release of impairment on available-for-sale debt securities	—	—
Other credit risk provisions	1	—
Total	4	(85)

Movement in impairment allowances on loans and advances to customers and banks

	2017			
	Banks	Customers		
	Individually assessed	Individually assessed	Collectively assessed	Total
	€m	€m	€m	€m
Impairment allowance at 1 January	—	(560)	(64)	(624)
Amounts written off	—	170	—	170
Recoveries of loans and advances previously written off	—	3	—	3
Loan impairment charge	(1)	(94)	11	(84)
Exchange and other movements	—	—	—	—
At 31 Dec	(1)	(481)	(53)	(535)
Impairment allowance on loans and advances	(1)	(481)	(53)	(535)
– personal	—	(76)	(6)	(82)
– corporate and commercial	—	(405)	(47)	(452)
– financial	—	—	—	—
– banks	(1)	—	—	(1)
as a percentage of gross loans and advances	0.02%	1.06%	0.12%	1.06%

Liquidity and funding risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. The risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that funding considered to be sustainable (and therefore used to fund assets) proves not to be sustainable over time. The risk arises when the funding needed for illiquid asset positions cannot be obtained at the expected terms and when required.

Liquidity Coverage Ratio ('LCR')

The LCR metric was designed to promote the short-term resilience of a bank's liquidity profile. It aims to ensure that a bank has an adequate stock of unencumbered high-quality liquid assets ('HQLA') that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

HSBC France's LCR computed in respect of the EU Delegated act as at the end of June 2018 was 169%.

Net stable funding ratio ('NSFR')

The NSFR requires institutions to maintain sufficient stable funding in relation to required stable funding. It is designed to give a picture of the bank's long-term funding profile (that is, funding with a term of over one year) and is therefore used as a complement to the LCR.

HSBC calculates the NSFR in line with the relevant text from the Basel Committee of Banking Supervision ('BCBS 295'), pending its implementation in Europe. Therefore the HSBC NSFR may not be directly comparable to the ratios of other institutions.

HSBC France's NSFR ratio on a BCBS 295 basis as at 30 June 2018 was 112%.

Medium- and long-term debt

In March 2018, HSBC France issued a 5 years EUR 1.25 billion senior unsecured bond and, in April 2018, HSBC SFH (France) issued a 7 years EUR 1.0 billion covered bond.

During the first half of 2018, HSBC France also increased its capital resources by EUR 0.6 billion through issued securities.

Market risk

Market risk in the first half of 2018

Eurozone yields were relatively stable in the first half of 2018, despite an increase in the beginning of the year.

The principal event in the first half of 2018 has been the re-emergence of volatility on Italian debt in May. The concerns regarding the supposed 'euroscepticism' of certain key Italian government ministers caused a spike in yields with an increase up to 130 basis points (+1.3%) on short term maturities. The contagion to the other peripheral countries was limited to an average of +20 bp (+0.2%) increase for Spain and Portugal.

The European Central Bank has prepared the markets to the progressive end of the Asset Purchase Program by end of 2018.

The Federal Open Market Committee increased by 50bp (0.5%) the Fed Funds target rates. The US swap curve is very flat, with only 10 bp (0.10%) difference between 2 year and 30 year rates.

Stock Markets were negatively impacted by the increase in global trade tensions.

Exposures have been in line with the HSBC France market risk appetite.

Value at Risk

The new Value at Risk ('VaR') model has been validated by the European Central Bank in the first half of 2017. Comparing to the old one, the new VaR model exhibits a better modelling of market risk shocks, especially in a low and negative rates environment.

Trading portfolios

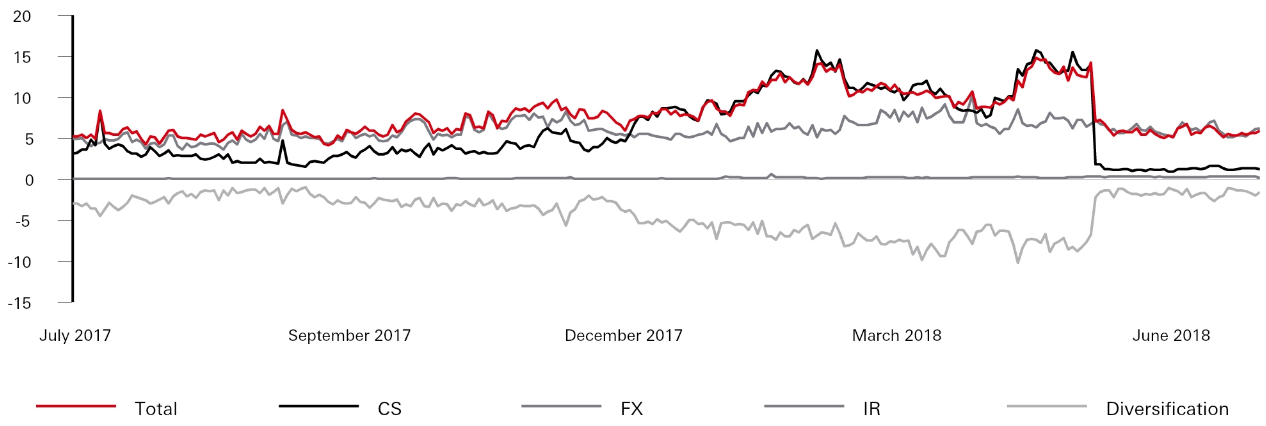
Value at Risk of the trading portfolio

Trading VaR predominantly resides within Global Markets. Despite moderate exposures, the Total VaR increased in the first half of 2018 due to the overestimation of applied shocks in the Credit Spread VaR model. The VaR level decreased significantly in May 2018 due to the introduction of the new credit spreads model.

Total trading VaR by risk type

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Jun 2018	**0.09**	**6.20**	**–**	**1.21**	**(1.59)**	**5.91**
Average	**0.11**	**5.97**	**–**	**6.00**	**(4.17)**	**7.92**
Maximum	**0.64**	**10.16**	**–**	**15.69**	**(10.25)**	**14.81**
Balance at 30 Jun 2017	0.04	4.63	–	2.73	(2.40)	5.05
Average	0.02	15.51	–	1.89	(2.05)	15.54
Maximum	0.14	46.86	–	4.60	(6.58)	45.14

Total trading VaR by risk type



Non-trading portfolios

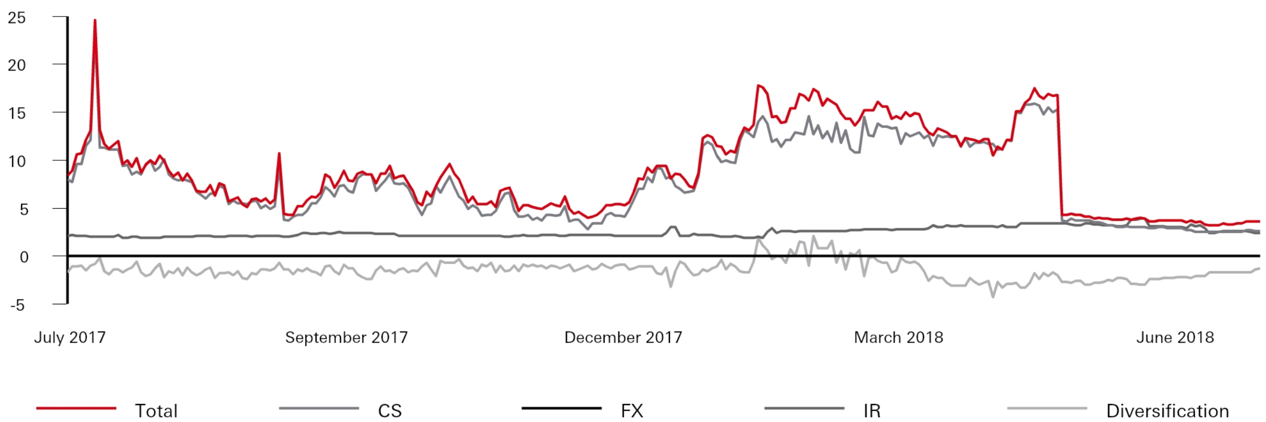
Value at Risk of the non-trading portfolio

Non-trading VaR has also been impacted by the overestimation of Credit VaR shocks in the low rates and credit spreads environment in the beginning of 2018 although this has been corrected with the introduction of the new model in May 2018.

Total non-trading VaR by risk type

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Jun 2018	**–**	**2.35**	**–**	**2.57**	**(1.33)**	**3.59**
Average	**–**	**2.48**	**–**	**7.85**	**(1.49)**	**8.85**
Maximum	**–**	**3.92**	**–**	**23.45**	**(4.33)**	**24.60**
Balance at 30 Jun 2017	–	1.53	–	6.67	(1.44)	6.77
Average	–	7.10	–	4.81	(2.65)	9.32
Maximum	–	12.05	–	13.04	(5.90)	14.43

Total non-trading VaR by risk type



Structural foreign exchange exposures

The structural foreign currency exposure of bank is represented by the net asset value of its foreign currency equity and subordinated debt investments in subsidiary undertakings, branches, joint ventures and associates.

For our policies and procedures for managing structural foreign exchange exposures see page 98 of the *Annual Report and Accounts 2017*.

Capital

Capital overview

HSBC France's objective in managing its capital is to maintain appropriate levels of capital to support its business strategy and meet regulatory and stress testing related requirements.

Throughout the six months to 30 June 2018, the bank complied with the ECB's regulatory capital adequacy requirements.

HSBC France's approach to manage its capital position has been to ensure the bank exceeds current regulatory requirements and is well placed to meet expected future capital requirements.

In March 2018 and in line with its capital plan, HSBC France has issued EUR 300 million additional tier 1 instruments and, in June 2018, EUR 300 million tier 2 instruments under the form of intragroup loans with HSBC Bank plc. These operations were meant to achieve a target capital structure, enabling the bank to diversify its capital instruments and to enhance its return on invested capital.

A summary of HSBC France's policies and practices regarding capital management, measurement and allocation is provided on page 121 of the *Annual Report and Accounts 2017*.

Regulatory developments

Basel Committee

In December, the Basel Committee ('Basel') published revisions to the Basel III framework. The final package includes:

- widespread changes to the risk weights under the standardised approach to credit risk;
- a change in the scope of application of the internal ratings based ('IRB') approach to credit risk, together with changes to the IRB methodology;
- the replacement of the operational risk approaches with a single methodology;
- an amended set of rules for the credit valuation adjustment ('CVA') capital framework;
- an aggregate output capital floor that ensures that banks' total risk-weighted assets ('RWAs') are no lower than 72.5% of those generated by the standardised approaches; and
- changes to the exposure measure for the leverage ratio, together with the imposition of a leverage ratio buffer for global systemically important institutions ('G-SIB'). This will take the form of a tier 1 capital buffer set at 50% of the G-SIB's RWAs capital buffer.

Basel has announced that the package will be implemented on 1 January 2022, with a five-year transitional provision for the output floor from that date, commencing at a rate of 50%.

HSBC France continues to evaluate the final Basel III reform package. Given that the package contains a significant number of national discretions and that Basel is in the process of recalibrating the market risk ('FRTB') elements of the final framework, significant uncertainty remains as to the impact.

In all instances, the final standards will have to be transposed into the relevant local law before coming into effect.

European Union

In the European Union ('EU'), elements of Basel's reforms are being implemented through revisions to the Capital Requirements Regulation and Capital Requirements Directive (collectively referred to as 'CRR2') except most of the new applicable rules agreed in December 2017. In relation to RWAs and leverage, the changes include reforms of the counterparty credit risk framework, new large exposures limitations and a binding leverage ratio. The CRR2 changes are expected to be agreed before the end of 2018 and generally apply from 1 January 2021, although certain elements, such as the requirement to set up an EU intermediate parent undertaking for large banking groups seated outside of the European Union), should be applicable at a later date.

In May, the EC requested that the European Banking Authority ('EBA') performs a quantitative and qualitative impact analysis of the Basel III reforms on the EU banking sector and the wider economy, including an assessment of the final FRTB standards currently subject to recalibration. This impact analysis commenced in July. A final report is not due to be published until the end of June 2019.

France

The High Council for financial stability (*Haut conseil de satabilité financière* - HCSF), chaired by the French Minister of Finance, has announced, after consultation of the ECB and the ESRB, that a countercyclical capital buffer of 0.25% will be applicable as of 1 July 2019 for all the French exposures in EEA and EU banks.

Key capital numbers (unaudited)

	At	
	30 Jun 2018	31 Dec 2017
	€m	€m
Capital resources [1]		
CET1	**4,350**	4,644
Tier 1 Capital	**4,850**	4,791
Total Capital	**5,411**	5,000
Risk-Weighted Assets		
Credit risk	**23,940**	22,446
Counterparty Credit Risk	**3,626**	3,036
Market Risk	**4,563**	5,188
Operational Risk	**3,385**	3,385
Basel 1 floor impact	**N/A**	1,324
Total Risk-Weighted Assets	**35,514**	35,379
Capital Ratios – transitional (%)		
Common equity tier 1	**N/A**	13.1%
Total tier 1	**N/A**	13.5%
Total capital	**N/A**	14.1%
Capital Ratios – fully-loaded (%)		
Common equity tier 1	**12.2%**	13.2%
Total tier 1	**13,7%**	13.8%
Total capital	**15.2%**	14.6%

1 *Reported under transitional on 31 December 2017.*

Regulatory balance sheet

Basis of consolidation

The basis of consolidation for the purpose of financial accounting under IFRSs, described in Note 1 on the Financial Statements, differs from that used for regulatory purposes. The following table provides a reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation.

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of these insurance subsidiaries to be recorded at cost and deducted from CET1 (subject to thresholds).

Reconciliation of balance sheet – financial accounting to regulatory scope of consolidation (unaudited)

	Accounting balance sheet	De-consolidation of insurance/ other entities	Consolidation of banking associates	Regulatory balance sheet
	€m	€m	€m	€m
Assets				
Cash and balances at central banks	8,155	–	–	8,155
Items in the course of collection from other banks	424	–	–	424
Trading assets	18,113	–	–	18,113
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	11,444	(10,611)	–	833
Financial assets designated at fair value	–	–	–	–
Derivatives	32,307	(44)	–	32,263
Loans and advances to banks	4,947	(188)	–	4,759
Loans and advances to customers	44,567	–	–	44,567
– *of which:*	–	–	–	–
impairment allowances on IRB portfolios	*(543)*	–	–	*(543)*
impairment allowances on standardised portfolios	*(124)*	–	–	*(124)*
Reverse repurchase agreements – non-trading	19,979	–	–	19,979
Financial investments	17,223	(11,241)	–	5,982
Capital invested in insurance and other entities	–	–	–	–
Prepayments, accrued income and other assets	13,805	(134)	–	13,671
– *of which: retirement benefit assets*	–	–	–	–
Current tax assets	124	(19)	–	105
Interests in associates and joint ventures	2	–	–	2
Goodwill and intangible assets	837	(502)	–	335
Deferred tax assets	187	–	–	187
Total assets at 30 Jun 2018	172,114	(22,738)	–	149,376
Liabilities and equity				
Deposits by banks	10,882	(30)	–	10,852
Customer accounts	38,748	–	–	38,748
Repurchase agreements – non-trading	12,026	–	–	12,026
Items in the course of transmission to other banks	435	–	–	435
Trading liabilities	18,524	–	–	18,524
Financial liabilities designated at fair value	12,707	815	–	13,522
– *of which:*	–	–	–	–
term subordinated debt included in tier 2 capital	–	–	–	–
preferred securities included in tier 1 capital	–	–	–	–
Derivatives	31,608	(7)	–	31,601
Debt securities in issue	4,246	–	–	4,246
Accruals, deferred income and other liabilities	13,877	(924)	–	12,953
– *of which: retirement benefit liabilities*	*169*	*(2)*	–	*167*
Current tax liabilities	49	(17)	–	32
Liabilities under insurance contracts	21,894	(21,894)	–	–
Provisions	91	(1)	–	90
– *of which:*	–	–	–	–
credit-related provisions on IRB portfolios	*20*	–	–	*20*
credit-related provisions on standardised portfolios	–	–	–	–
Deferred tax liabilities	153	(149)	–	4
Subordinated liabilities	876	–	–	876
– *of which:*	–	–	–	–
preferred securities included in tier 1 capital	–	–	–	–
perpetual subordinated debt included in tier 2 capital	*16*	–	–	*16*
term subordinated debt included in tier 2 capital	*860*	–	–	*860*
Total liabilities at 30 Jun 2018	166,116	(22,206)	–	143,910
Called up share capital	337	–	–	337
Share premium account	16	–	–	16
Other equity instruments	500	–	–	500
Other reserves	1,553	(27)	–	1,526
Retained earnings	3,562	(505)	–	3,057
Total shareholders' equity	5,968	(532)	–	5,436
Non-controlling interests	30	–	–	30
– *of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital*	–	–	–	–
Total equity at 30 Jun 2018	5,998	(532)	–	5,466
Total liabilities and equity at 30 Jun 2018	172,114	(22,738)	–	149,376

Reconciliation of balance sheet – financial accounting to regulatory scope of consolidation (unaudited) (continued)

	Accounting balance sheet	De-consolidation of insurance/ other entities	Consolidation of banking associates	Regulatory balance sheet
	€m	€m	€m	€m
Assets				
Cash and balances at central banks	14,630	—	—	14,630
Items in the course of collection from other banks	435	—	—	435
Trading assets	22,401	(4)	—	22,397
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	N/A	N/A	N/A	N/A
Financial assets designated at fair value	8,605	(8,551)	—	54
Derivatives	34,407	(90)	—	34,317
Loans and advances to banks	4,843	(119)	—	4,724
Loans and advances to customers	44,856	—	—	44,856
– *of which:*				
impairment allowances on IRB portfolios	*(517)*	—	—	*(517)*
impairment allowances on standardised portfolios	*(14)*	—	—	*(14)*
Reverse repurchase agreements – non-trading	13,781	—	—	13,781
Financial investments	20,548	(13,217)	—	7,331
Capital invested in insurance and other entities	—	—	—	—
Prepayments, accrued income and other assets	1,915	(252)	—	1,663
– *of which: retirement benefit assets*	—	—	—	—
Current tax assets	130	(39)	—	91
Interests in associates and joint ventures	2	—	—	2
Goodwill and intangible assets	766	(457)	—	309
Deferred tax assets	225	—	—	225
Total assets at 31 Dec 2017	167,544	(22,729)	—	144,815
Liabilities and equity				
Deposits by banks	13,297	(49)	—	13,248
Customer accounts	38,277	—	—	38,277
Repurchase agreements – non-trading	6,586	—	—	6,586
Items in the course of transmission to other banks	490	—	—	490
Trading liabilities	32,436	703	—	33,139
Financial liabilities designated at fair value	7,565	(7)	—	7,558
Derivatives	33,229	18	—	33,247
Debt securities in issue	5,159	—	—	5,159
Accruals, deferred income and other liabilities	2,086	(850)	—	1,236
– *of which: retirement benefit liabilities*	*169*	*(2)*	—	*167*
Current tax liabilities	29	(43)	—	(14)
Liabilities under insurance contracts	21,853	(21,853)	—	—
Provisions	103	(1)	—	102
– *of which:*				
credit-related provisions on IRB portfolios	*7*	—	—	*7*
credit-related provisions on standardised portfolios	—	—	—	—
Deferred tax liabilities	152	(145)	—	7
Subordinated liabilities	576	—	—	576
– *of which:*				
preferred securities included in tier 1 capital	—	—	—	—
perpetual subordinated debt included in tier 2 capital	*16*	—	—	*16*
term subordinated debt included in tier 2 capital	*560*	—	—	*560*
Total liabilities at 31 December 2017	161,838	(22,227)	—	139,611
Called up share capital	337	—		337
Share premium account	16	—		16
Other equity instruments	200	—		200
Other reserves	1,600	(32)		1,568
Retained earnings	3,523	(470)		3,053
Total shareholders' equity	5,676	(502)		5,174
Non-controlling interests	30	—		30
– *of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital*	—	—		—
Total equity at 31 Dec 2017	5,706	(502)		5,204
Total liabilities and equity at 31 Dec 2017	167,544	(22,729)		144,815

Own funds (unaudited)

Ref*		At 30 Jun 2018 €m
	Common equity tier 1 ('CET1') capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	**353**
	– ordinary shares	**16**
2	Retained earnings	**3 613**
3	Accumulated other comprehensive income (and other reserves)	**1 460**
3a	Funds for general banking risk	**(62)**
5	Transitional adjustments due to additional minority interests	**–**
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**6**
6	**Common equity tier 1 capital before regulatory adjustments**	**5,370**
	Common equity tier 1 capital: regulatory adjustments	
7	Additional value adjustments	**(103)**
8	Intangible assets (net of related deferred tax liability)	**(335)**
11	Fair value reserves related to gains or losses on cash flow hedges	**46**
12	Negative amounts resulting from the calculation of expected loss amounts	**(76)**
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**55**
19	CET1 instruments of financial sector entities where the institution has a significant investment	**(575)**
22	Amount exceeding the 15% threshold	**(31)**
28	**Total regulatory adjustments to common equity tier 1**	**(1,020)**
29	**Common equity tier 1 capital**	**4,350**
	Additional tier 1 ('AT1') capital: instruments	
30	Capital instruments and the related share premium accounts	**500**
36	**Additional tier 1 capital before regulatory adjustments**	**500**
	Additional tier 1 capital: regulatory adjustments	
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period	**–**
43	**Total regulatory adjustments to additional tier 1 capital**	**–**
44	**Additional tier 1 capital**	**500**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,850**
	Tier 2 capital: instruments and provisions	
46	Capital instruments and the related share premium accounts	**876**
51	**Tier 2 capital before regulatory adjustments**	**876**
	Tier 2 capital: regulatory adjustments	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	**(315)**
57	**Total regulatory adjustments to tier 2 capital**	**(315)**
58	**Tier 2 capital**	**561**
59	**Total capital (TC = T1 + T2)**	**5,411**
60	**Total risk-weighted assets**	**35,514**
	Capital ratios and buffers	
61	Common equity tier 1	**12,2 %**
62	Tier 1	**13,7 %**
63	Total capital	**15,2 %**
64	Institution specific buffer requirement	**6.375%**
65	– capital conservation buffer requirement	**1.875%**
68	Common equity tier 1 available to meet buffers	**6.375%**
	Amounts below the threshold for deduction (before risk weighting)	
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**8**
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**495**
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**187**

* *The references identify the lines prescribed in the EBA template that are applicable.*

Leverage ratio

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. Although there is currently no binding leverage ratio requirement before 2019 , the risk of excess leverage is managed as part of HSBC France's risk appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

The RAS articulates the aggregate level and types of risk that HSBC France is willing to accept in its business activities in order to achieve its strategic business objectives.

The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM').

The leverage exposure and the leverage ratio are also calculated and presented to the Asset and Liability Management Committee every month.

HSBC France's leverage ratio, calculated on a 'fully-loaded' basis under CRD IV was 3.5% at 30 June 2018.

Summary reconciliation of accounting assets and leverage ratio exposures (unaudited)

		At	
		30 Jun 2018	31 Dec 2017
Ref*		**€m**	€m
1	Total assets as per published financial statements	**172,114**	167,544
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(22,738)**	(22,729)
4	– derivative financial instruments	**(25,870)**	(27,578)
5	– securities financing transactions ('SFT')	**(1,752)**	(1,695)
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**16,237**	15,424
7	– other adjustments	**(851)**	(386)
8	**Total leverage ratio exposure**	**137,140**	130,580

Leverage ratio common disclosure (unaudited)

		At	
		30 Jun 2018	31 Dec 2017
Ref*		**€m**	€m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**97,301**	97,001
2	(Asset amounts deducted in determining Tier 1 capital)	**(1,018)**	(759)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**96,283**	96,242
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**914**	1,469
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**10,517**	9,908
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**–**	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(5,132)**	(4,643)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	**–**	
9	Adjusted effective notional amount of written credit derivatives	**94**	94
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**–**	
11	**Total derivative exposures**	**6,393**	6,828
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**19,979**	13,781
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(1,981)**	(1,925)
14	Counterparty credit risk exposure for SFT assets	**228**	230
16	**Total securities financing transaction exposures**	**18,226**	12,086
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**16,237**	15,424
18	(Adjustments for conversion to credit equivalent amounts)	**–**	
19	**Total off-balance sheet exposures**	**16,237**	15,424
	Capital and total exposures		
20	**Tier 1 capital**[1]	**4,850**	4,791
21	**Total leverage ratio exposure**	**137,140**	130,580
22	Leverage ratio % – transitional	**N/A**	3.7%
22b	Leverage ratio % – fully-loaded	**3.5%**	3.6%

* *The references identify the lines prescribed in the EBA template, when applicable.*
1 *Reported under transitional on 31 December 2017.*

Risk-weighted assets ('RWAs')

Credit risk – RWA by exposure class (unaudited)

	Exposure value	RWAs	Capital required
	€m	€m	€m
IRB advanced approach	52,764	17,309	1,385
– central governments and central banks	1,046	113	9
– institutions	1,129	360	29
– corporates	28,707	13,673	1,094
– total retail	21,882	3,163	253
– *of which:*	–	–	–
secured by mortgages on immovable property – small- and medium-sized enterprises ('SME')	*504*	*304*	*24*
secured by mortgages on immovable property non-SME	*3,043*	*634*	*51*
qualifying revolving retail	*1*	–	–
other SME	*1,878*	*716*	*57*
other non-SME	*16,456*	*1,509*	*121*
IRB securitisation positions	2,023	186	15
IRB equity	492	1,103	88
IRB foundation approach	344	318	25
– central governments and central banks	–	–	–
– institutions	–	–	–
– corporates	344	318	25
Standardised approach	24,849	5,024	402
– central governments and central banks	15,044	–	–
– regional government or local authorities	65	–	–
– public sector entities	1,801	2	–
– international organisations	1,236	–	–
– institutions	1,046	298	24
– corporates	2,963	1,981	158
– retail	115	75	6
– secured by mortgages on immovable property	649	226	18
– exposures in default	101	119	10
– items associated with particularly high risk	–	–	–
– claims in the form of collective investments undertakings	–	–	–
– equity	–	–	–
– other items	1,830	2,323	186
At 30 Jun 2018	80,472	23,940	1,915

Credit risk – RWA by exposure class (unaudited) (continued)

	Exposure value €m	RWAs €m	Capital required €m
IRB advanced approach	52,669	16,549	1,324
– central governments and central banks	1,413	172	14
– institutions	1,392	450	36
– corporates	27,934	13,040	1,043
– total retail	21,930	2,887	231
– *of which:*	–	–	–
secured by mortgages on immovable property – small- and medium-sized enterprises ('SME')	*528*	*329*	*26*
secured by mortgages on immovable property non-SME	*3,098*	*557*	*45*
qualifying revolving retail	*1*	–	–
other SME	*1,902*	*707*	*57*
other non-SME	*16,401*	*1,294*	*103*
IRB securitisation positions	2,076	194	16
IRB equity	387	853	68
IRB foundation approach	305	302	24
– central governments and central banks	–	–	–
– institutions	–	–	–
– corporates	305	302	24
Standardised approach	30,723	4,548	364
– central governments and central banks	23,977	–	–
– regional government or local authorities	–	–	–
– public sector entities	10	2	–
– international organisations	1,391	–	–
– institutions	425	86	7
– corporates	2,130	1,431	114
– retail	503	334	27
– secured by mortgages on immovable property	278	97	8
– exposures in default	75	90	7
– items associated with particularly high risk	–	–	–
– claims in the form of collective investments undertakings	–	–	–
– equity	–	–	–
– other items	1,934	2,508	201
At 31 Dec 2017	86,160	22,446	1,796

Counterparty credit risk – RWAs by exposure class and product (unaudited)

	At			
	30 Jun 2018		31 Dec 2017	
	RWAs €m	**Capital required €m**	RWAs €m	Capital required €m
By exposure class				
IRB advanced approach	**1,215**	**97**	685	55
– central governments and central banks	**–**	**–**	–	–
– institutions	**1,215**	**97**	685	55
– corporates	**–**	**–**	–	–
IRB foundation approach	**827**	**66**	638	51
– corporates	**827**	**66**	638	51
Standardised approach	**475**	**38**	422	34
– central governments and central banks	**–**	**–**	–	–
– regional government or local authorities	**4**	**–**	–	–
– institutions	**468**	**37**	419	34
– corporates	**3**	**–**	3	–
CVA advanced	**–**		–	–
CVA standardised	**959**	**77**	1,128	90
CCP standardised	**150**	**12**	163	13
Total	**3,626**	**290**	3,036	243
By product				
Derivatives (OTC and Exchange traded derivatives)	**1,941**	**155**	1,784	143
SFTs	**678**	**54**	73	6
Other	**–**	**–**	–	–
CVA advanced	**–**	**–**	–	–
CVA standardised	**959**	**77**	1,128	90
CCP default funds	**48**	**4**	51	4
Total	**3,626**	**290**	3,036	243

Market risk – RWA by approach

	At			
	30 Jun 2018		31 Dec 2017	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
Internal model based	**4,071**	**326**	4,787	383
– VaR	**1,143**	**92**	1,191	95
– stressed VaR	**2,928**	**234**	3,596	288
– incremental risk charge	**—**	**—**	—	—
– other VaR and stressed VaR	**—**	**—**	—	—
Standardised approach	**492**	**39**	401	32
– interest rate position risk[1]	**440**	**35**	356	28
– foreign exchange position risk	**15**	**1**	—	—
– equity position risk	**—**	**—**	—	—
– commodity position risk	**—**	**—**	—	—
– securitisations	**—**	**—**	—	—
– options	**37**	**3**	45	4
Total	**4,563**	**365**	5,188	415

1 *Includes the general rate risk and the specific interest rate risk.*

Operational risk RWAs

	At			
	30 Jun 2018		31 Dec 2017	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
Own funds requirement for operational risk	**3,385**	**271**	3,385	271

Condensed Financial Statements

Consolidated income statement

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	€m	€m	€m
Net interest income	**500**	532	516
– interest income	**769**	789	779
– interest expense	**(269)**	(257)	(263)
Net fee income	**286**	291	283
– fee income	**427**	456	408
– fee expense	**(141)**	(165)	(125)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis[2]	**59**	187	104
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	**(110)**	333	283
Changes in fair value of long-term debt and related derivatives	**(3)**	(1)	—
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss	**39**	—	—
Gains less losses from financial investments	**11**	57	50
Dividend income	**4**	5	—
Net insurance premium income	**1,081**	972	889
Other operating income/(expense)	**48**	34	(26)
Total operating income	**1,915**	2,410	2,099
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(1,012)**	(1,376)	(1,226)
Net operating income before change in expected credit losses and other credit impairment charges	**903**	1,034	873
Change in expected credit losses and other credit impairment charges[3]	**(15)**	4	(85)
Net operating income	**888**	1,038	788
– employee compensation and benefits	**(458)**	(459)	(432)
– general and administrative expenses	**(398)**	(362)	(312)
– depreciation and impairment of property, plant and equipment	**(19)**	(19)	(18)
– amortisation and impairment of intangible assets and goodwill	**(3)**	(2)	(3)
Total operating expenses	**(878)**	(842)	(765)
Operating profit/(loss)	**10**	196	23
Share of profit in associates and joint ventures	**—**	—	—
Profit/(loss) before tax[1,2]	**10**	196	23
Tax expense[2]	**10**	(71)	28
Profit/(loss) for the period[2]	**20**	125	51
Attributable to:			
– shareholders of the parent company	**20**	126	51
– non-controlling interests	**—**	(1)	—

1 *The group has adopted IFRS 9, as well as the European Union's regulatory transitional arrangements for IFRS 9, on 1 January 2018.Comparative information has not been restated. For further details, refer to,'Standards applied during the half-year to 30 June 2018' on pages 36 to 40 and Note 13 'Effects of reclassifications upon adoption of IFRS 9' on pages 54 to 57.*

2 *From 1 January 2018, certain structured financial liabilities are classified as 'Financial liabilities designated at fair value'. These were previously included in 'Trading liabilities'. As a consequence, changes in fair value of these instruments attributable to changes in own credit risk are recognised in other comprehensive income rather than profit or loss from this date. Comparative data have not been restated. For the half-year to 30 June 2017, a restatement would have increased 'Net income from financial instruments held for trading or managed on a fair value basis' by EUR 48 million (half-year to 31 December 2017:EUR 38 million) and increased tax expense by EUR 17 million (half-year to 31 December 2017: EUR 13 million), with an equivalent net decrease in other comprehensive income.*

3 *On 30 June 2017 and 31 December 2017, the 'changes in expected credit losses and other credit impairment changes' include the 'loan impairment charges'.*

Consolidated statement of comprehensive income

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	€m	€m	€m
Profit/(loss) for the period[1,2]	**20**	125	51
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Available-for-sale investments	**N/A**	(47)	(4)
– fair value gains/(losses)	**N/A**	(15)	36
– fair value gains reclassified to the income statement	**N/A**	(57)	(47)
– amounts reclassified to the income statement in respect of impairment losses	**N/A**	–	–
– income taxes	**N/A**	25	7
Debt instruments at fair value though other comprehensive income	**(15)**	N/A	N/A
– fair value gains/(losses)	**(12)**	N/A	N/A
– fair value gains transferred to the income statement on disposal	**(12)**	N/A	N/A
– expected credit losses recognised in income statement	**1**	N/A	N/A
– income taxes	**8**	N/A	N/A
Cash flow hedges	**24**	10	25
– fair value (losses)/gains	**9**	(32)	1
– fair value losses/(gains) reclassified to the income statement	**29**	47	38
– income taxes	**(14)**	(5)	(14)
Exchange differences and other	**–**	(2)	–
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability	**5**	(2)	(2)
– before income taxes	**7**	(2)	(3)
– income taxes	**(2)**	–	1
Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[2]	**58**	(4)	(13)
– before income taxes	**90**	(6)	(15)
– income taxes	**(32)**	2	2
Equity instruments designated at fair value through other comprehensive income	**–**	N/A	N/A
– fair value gains/(losses)	**–**	N/A	N/A
– income taxes	**–**	N/A	N/A
Other comprehensive expense for the period, net of tax[2]	**72**	(45)	6
Total comprehensive income/(expense) for the period[1]	**92**	80	57
Attributable to:			
– shareholders of the parent company	**92**	81	57
– non-controlling interests	**–**	(1)	–

1 *The group has adopted IFRS 9, as well as the European Union's regulatory transitional arrangements for IFRS 9, on 1 January 2018.Comparative information has not been restated. For further details, refer to,'Standards applied during the half-year to 30 June 2018' on pages 36 to 40 and Note 13 'Effects of reclassifications upon adoption of IFRS 9' on pages 54 to 57.*

2 *From 1 January 2018, certain structured financial liabilities are classified as 'Financial liabilities designated at fair value'. These were previously included in 'Trading liabilities'. As a consequence, changes in fair value of these instruments attributable to changes in own credit risk are recognised in other comprehensive income rather than profit or loss from this date. Comparative data have not been restated. For the half-year to 30 June 2017, a restatement would have increased 'Net income from financial instruments held for trading or managed on a fair value basis' by EUR 48 million (half-year to 31 December 2017:EUR 38 million) and increased tax expense by EUR 17 million (half-year to 31 December 2017: EUR 13 million), with an equivalent net decrease in other comprehensive income.*

Consolidated statement of financial position

	Notes	30 Jun 2018 €m	31 Dec 2017 €m
Assets			
Cash and balances at central banks		**8,155**	14,630
Items in the course of collection from other banks		**424**	435
Trading assets		**18,113**	22,401
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		**11,444**	—
Financial assets designated at fair value		**—**	8,605
Derivatives		**32,307**	34,407
Loans and advances to banks		**4,947**	4,843
Loans and advances to customers		**44,567**	44,856
Reverse repurchase agreements – non-trading		**19,979**	13,781
Financial investments		**17,223**	20,548
Asset held for sale		**59**	—
Prepayments,accrued income and other assets		**13,746**	1,915
Current tax assets		**124**	130
Interests in associates and joint ventures		**2**	2
Goodwill and intangible assets	8	**837**	766
Deferred tax assets		**187**	225
Total assets[1]		**172,114**	167,544
Liabilities			
Deposits by banks		**10,882**	13,297
Customer accounts		**38,748**	38,277
Repurchase agreements – non-trading		**12,026**	6,586
Items in the course of transmission to other banks		**435**	490
Trading liabilities[2]		**18,524**	32,436
Financial liabilities designated at fair value[2]		**12,707**	7,565
Derivatives		**31,608**	33,229
Debt securities in issue		**4,246**	5,159
Accruals,deferred income and other liabilities		**13,877**	2,086
Current tax liabilities		**49**	29
Liabilities under insurance contracts		**21,894**	21,853
Provisions	9	**91**	103
Deferred tax liabilities		**153**	152
Subordinated liabilities		**876**	576
Total liabilities[1]		**166,116**	161,838
Equity			
Called up share capital		**337**	337
Share premium account		**16**	16
Other equity instruments[3]	3	**500**	200
Other reserves		**1,553**	1,600
Retained earnings		**3,562**	3,523
Total Shareholders' equity		**5,968**	5,676
Non–controlling interests		**30**	30
Total equity[1]		**5,998**	5,706
Total liabilities and equity[1]		**172,114**	167,544

1 *The group has adopted IFRS 9, as well as the European Union's regulatory transitional arrangements for IFRS 9, on 1 January 2018.Comparative information has not been restated. For further details, refer to,'Standards applied during the half-year to 30 June 2018' on pages 36 to 40 and Note 13 'Effects of reclassifications upon adoption of IFRS 9' on pages 54 to 57.*
2 *From 1 January 2018, certain structured financial liabilities are classified as 'Financial liabilities designated at fair value'. These were previously included in 'Trading liabilities'. Comparative data have not been restated. A restatement would have increased 'Financial liabilities designated at fair value' by EUR 2.7 billion with an equivalent decrease of 'Trading liabilities'.For further details, refer to 'Changes to accounting from 1 January 2018' on page 4, 'Standards applied during the half-year to 30 June 2018' on pages 36 to 40.*
3 *Please refer note 1g, in the section 'Significant events during the first half-year' – 'Additional Tier 1 issuance (Other Equity Instrument)'.*

Consolidated statement of cash flows

		Half-year to		
		30 Jun 2018	30 Jun 2017	31 Dec 2017
	Notes	**€m**	€m	€m
Profit before tax		**10**	196	23
Adjustments for non-cash items		**60**	1	120
– depreciation and amortisation		**22**	21	21
– net gain from investing activities		**(6)**	(57)	(50)
– share of profits in associates and joint ventures		**—**	—	—
– loss on disposal of subsidiaries, businesses, associates and joint ventures		**—**	—	—
– change in expected credit losses gross recoveries and other credit risk provisions		**16**	(4)	85
– provisions including pensions		**10**	7	25
– share-based payment expense		**6**	5	7
– other non-cash items included in profit before tax		**11**	15	14
– elimination of exchange differences		**1**	14	18
Changes in operating assets and liabilities		**(7,333)**	8,151	(1,420)
– change in net trading securities and derivatives		**(6,061)**	(1,853)	11,298
– change in loans and advances to banks and customers		**(261)**	5,089	(9,776)
– change in reverse repurchase agreements – non-trading		**(3,968)**	(1,737)	1,903
– change in financial assets designated at fair value		**(268)**	(617)	(684)
– change in other assets		**(5,737)**	124	(76)
– change in deposits by banks and customer accounts		**(3,572)**	4,476	817
– change in repurchase agreements – non-trading		**5,441**	3,271	(4,277)
– change in debt securities in issue		**(913)**	(388)	(1,069)
– change in financial liabilities designated at fair value		**2,499**	(960)	34
– change in other liabilities		**5,497**	666	502
– dividends received from associates		**—**	—	—
– contributions paid to defined benefit plans		**—**	—	—
– tax paid		**10**	80	(92)
Net cash (used in)/generated from operating activities		**(7,263)**	8,348	(1,277)
Purchase of financial investments		**(2,180)**	(899)	(703)
Net cash flow on financial investments		**3,502**	4,895	2,240
Net cash flows from the purchase and sale of property, plant and equipment		**(5)**	(12)	(80)
Net cash inflow/(outflow) from disposal of customer and loan portfolios		**—**	—	—
Net cash flow on disposal/purchase of goodwill and intangible assets		**(30)**	(26)	(23)
Net cash flow on disposal/acquisition of subsidiaries, businesses, associates and joint ventures[3]		**32**	—	—
Net cash flows from investing activities		**1,319**	3,958	1,434
Issue of ordinary share capital and other equity instruments[1]	*3*	**300**	200	—
Net sales/(purchases) of own shares for market-making and investment purposes		**—**	—	—
Redemption of preference shares and other equity instruments		**—**	—	—
Subordinated loan capital issued[2]		**300**	300	—
Subordinated loan capital repaid		**—**	—	—
Dividends paid to shareholders of the parent company	*3*	**(51)**	(435)	(70)
Net cash inflow from change in stake of subsidiaries		**—**	—	—
Dividends paid to non-controlling interests		**—**	—	—
Net cash (used in)/from financing activities		**549**	65	(70)
Net increase/(decrease) in cash and cash equivalents		**(5,395)**	12,371	87
Cash and cash equivalents at beginning of the period		**22,231**	9,807	22,163
Exchange differences in respect of cash and cash equivalents		**1**	(15)	(17)
Cash and cash equivalents at the end of the period		**16,837**	22,163	22,231
Cash and cash equivalents comprise of:				
– cash and balances at central banks		**8,155**	6,149	14,630
– items in the course of collection from other banks		**424**	221	435
– loans and advances to banks of one month or less		**706**	9,526	1,985
– reverse repurchase agreement with banks of one month or less		**7,656**	6,530	5,426
– treasury bills, other bills and certificates of deposit less than three months		**331**	179	245
– less: items in the course of transmission to other banks		**(435)**	(442)	(490)

1 *New Additional Tier 1 issuance explained in note 1g, in the section 'Significant events during the first half-year' – 'Additional Tier 1 issuance (Other Equity Instrument)'.*
2 *New Tier 2 issuance explained in note 1g, in the section 'Significant events during the first half-year' – 'Tier 2 issuance (Subordinated loan)'.*
3 *This flow corresponds to the amount of the "*Cash and balances at central banks *" of the Greek branch of HSBC France (see note 2 on page 42).*

Consolidated statement of changes in equity

					Other reserves						
	Called up share capital	Share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI Reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2017	337	16	200	3,523	110	(70)	(27)	1,587	5,676	30	5,706
Impact on transition to IFRS 9	—	—	—	30	(59)	—	—	—	(29)	—	(29)
At 1 Jan 2018	337	16	200	3,553	51	(70)	(27)	1,587	5,647	30	5,677
Profit for the period[1]	—	—	—	20					20	—	20
Other comprehensive income (net of tax)	—	—	—	63	(15)	24	—	—	72	—	72
– debt instruments at fair value through other comprehensive income	—	—	—	—	(15)	—	—	—	(15)	—	(15)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—	—	—	—	—	—
– cash flow hedges	—	—	—		—	24	—	—	24	—	24
– re-measurement of defined benefit asset/liability	—	—	—	5	—	—	—	—	5	—	5
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	—	58	—	—	—	—	58	—	58
– exchange differences and Other	—	—	—	—	—	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	83	(15)	24	—	—	92	—	92
– capital securities issued[2]	—	—	300	—	—	—	—	—	300	—	300
– dividends to shareholders[3]	—	—	—	(51)	—	—	—	—	(51)	—	(51)
– exercise and lapse of share option and vesting of share awards	—	—	—	—	—	—	—	—	—	—	—
– cost of share based payment arrangements	—	—	—	3	—	—	—	—	3	—	3
– other movements[4]	—	—	—	(26)	3	—	—	—	(23)	—	(23)
– change in ownership interest in subsidiaries that did not result in loss of control	—	—	—	—	—	—	—	—	—	—	—
Total Other	—	—	300	(74)	3	—	—	—	229	—	229
At 30 Jun 2018	337	16	500	3,562	39	(46)	(27)	1,587	5,968	30	5,998

At 1 Jan 2017	337	16	—	3,871	161	(105)	(25)	1,587	5,842	31	5,873
Profit for the period	—	—	—	126	—	—	—	—	126	(1)	125
Other comprehensive income (net of tax)	—	—	—	(6)	(47)	10	(2)	—	(45)	—	(45)
– available-for-sale investments	—	—	—	—	(47)	—	—	—	(47)	—	(47)
– cash flow hedges	—	—	—	—	—	10	—	—	10	—	10
– actuarial gains/(losses) on defined benefit plans	—	—	—	(2)	—	—	—	—	(2)	—	(2)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	—	(4)	—	—	—	—	(4)	—	(4)
– exchange differences and Other	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Total comprehensive income for the period	—	—	—	120	(47)	10	(2)	—	81	(1)	80
– capital securities issued	—	—	200	—	—	—	—	—	200	—	200
– dividends to shareholders	—	—	—	(435)	—	—	—	—	(435)	—	(435)
– exercise and lapse of share option and vesting of share awards	—	—	—	—	—	—	—	—	—	—	—
– cost of share based payment arrangements	—	—	—	2	—	—	—	—	2	—	2
– other movements	—	—	—	(3)	—	—	—	—	(3)	1	(2)
– transfers	—	—	—	—	—	—	—	—	—	—	—
– changes in ownership interest in subsidiaries that did not result in loss of control	—	—	—	—	—	—	—	—	—	—	—
Total Other	—	—	200	(436)	—	—	—	—	(236)	1	(235)
At 30 Jun 2017	337	16	200	3,555	114	(95)	(27)	1,587	5,687	31	5,718

Consolidated statement of changes in equity (continued)

	Called up share capital	Share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI Reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Merger reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jul 2017	337	16	200	3,555	114	(95)	(27)	1,587	5,687	31	5,718
Profit for the period	—	—	—	51	—	—	—	—	51	—	51
Other comprehensive income (net of tax)	—	—	—	(15)	(4)	25	—	—	6	—	6
– available-for-sale investments	—	—	—	—	(4)	—	—	—	(4)	—	(4)
– cash flow hedges	—	—	—	—	—	25	—	—	25	—	25
– actuarial gains/(losses) on defined benefit plans	—	—	—	(2)	—	—	—	—	(2)	—	(2)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	—	(13)	—	—	—	—	(13)	—	(13)
– exchange differences and Other	—	—	—	—	—	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	36	(4)	25	—	—	57	—	57
– capital securities issued	—	—	—	—	—	—	—	—	—	—	—
– dividends to shareholders	—	—	—	(70)	—	—	—	—	(70)	—	(70)
– exercise and lapse of share option and vesting of share awards	—	—	—	(8)	—	—	—	—	(8)	—	(8)
– cost of share based payment arrangements	—	—	—	4	—	—	—	—	4	—	4
– other movements	—	—	—	7	—	—	—	(1)	6	(1)	5
– transfers	—	—	—	(1)	—	—	—	1	—	—	—
– changes in ownership interest in subsidiaries that did not result in loss of control	—	—	—	—	—	—	—	—	—	—	—
Total Other	—	—	—	(68)	—	—	—	—	(68)	(1)	(69)
At 31 Dec 2017	337	16	200	3,523	110	(70)	(27)	1,587	5,676	30	5,706

The following footnotes refer to the Consolidated Statement of changes in equity as of the 30 June 2018 :

1 *At 30 June 2018, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of Eur (44) million.*
2 *Cf. note 1g 'Significant events during the first half-year' – 'Additional Tier 1 issuance (Other Equity Instrument)'.*
3 *Dividend includes EUR 5 million related to coupon payment on AT1 capital.*
4 *At 30 June 2018, other movements include EUR 21 million related to transfer of HSBC Group activities in Greece to the Greek branch of HSBC France on 1 January 2018.*

Notes on the Condensed Financial Statements

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards ('IFRS')

HSBC France is a domiciled entity in France. The HSBC France condensed consolidated financial statements for the half-year up to 30 June 2018 contain the financial statements of HSBC France, its subsidiaries and HSBC France's interests in jointly controlled entities and associates.

The interim consolidated financial statements of HSBC France have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). They do not include all the information disclosed in the annual financial statements and have to be consulted within the HSBC France consolidated financial statements for the year ending 31 December 2017.

At 30 June 2018, there were no unendorsed standards effective for the period ending 30 June 2018 affecting these interim 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.

The consolidated financial statements of HSBC France for the financial year 2017 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 interim consolidated financial statements were established by the Board of Directors on 3 August 2018.

(b) Standards applied during the half-year to 30 June 2018

The group has adopted the requirements of IFRS 9 from 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017.

This includes the adoption of 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' which is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The effect of its adoption is not considered to be significant. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which HSBC has exercised. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, HSBC has not restated comparatives. Adoption reduced net assets at 1 January 2018 by 31 million as set out on pages 54 to 57.

In addition, the group has adopted the requirements of IFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on the financial statements.

IFRS 9 transitional requirements

The transition requirements of IFRS 9 have necessitated a review of the designation of financial instruments at fair value.

IFRS 9 allows the revocation and designation of additional elements to the fair value option for accounting mismatch based on the situation at the date of transition. The results of these changes are presented in the reconciliation table on pages 54 to 57.

Changes in accounting policy

While not necessarily required by the adoption of IFRS 9, HSBC France has applied the voluntary changes in accounting presentation presented below. The impact of presentation changes at January 1, 2018 is included in the reconciliation table in Note 13.

- HSBC France have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components. Henceforth,these financial liabilities are recognized at fair value option and no longer at fair value through profit or loss. A result of this change in presentation is that the effects of changes in the liabilities' credit risk will be presented in Other comprehensive income with the remaining effect presented in profit or loss.
- Cash collateral, margin and settlement accounts have been reclassified from 'Trading assets' and 'Loans and advances to banks and customers' to 'Prepayments, accrued income and other assets' and from 'Trading liabilities' and 'Deposits by banks' and 'Customer accounts' to 'Accruals, deferred income and other liabilities'. The change in presentation for financial assets is in accordance with IFRS 9 and the change in presentation for financial liabilities is considered to provide more relevant information, given the change in presentation for the financial assets. The change in presentation for financial liabilities has had no effect on measurement of these items.

Differences between IAS 39 and IFRS 9

Classification and measurement

Key similarities and differences between IAS 39 and IFRS 9 for the classification and measurement of financial assets are set out below. There are no differences for financial liabilities, except for the presentation of gains and losses on financial liabilities designated at fair value and the requirements to reconsider fair value designation on transition to IFRS 9.

	IAS 39	IFRS 9
Classification criteria	Financial assets are measured at amortised cost (loans & receivables and held to maturity), fair value through OCI-FVOCI (AFS), or fair value through profit or loss (derivatives and trading) based on the nature of the instrument and the purpose for which it is held. Embedded derivatives are separated from their host contract unless the contract as a whole is measured at fair value through profit or loss. The fair value option applies where there are non-closely related embedded derivatives that are not bifurcated, financial instruments are managed on a fair value basis or where measuring at fair value through profit or loss would reduce or eliminate an accounting mismatch. AFS is the category by default .	Debt instruments are measured at amortised cost or FVOCI based on their contractual terms and the business model in which they are held as set out in the accounting policies above. The concept of embedded derivatives does not apply to financial assets. Therefore, the fair value option only applies where it would reduce or eliminate an accounting mismatch. Fair value through profit or loss is the category by default . Equity securities are measured at fair value through profit or loss unless, where permitted by IFRS 9, the option has been exercised to measure at FVOCI.
Presentation	Upon disposal of AFS securities (debt instruments and equity securities) the cumulative gains or losses in other comprehensive income are recognised in profit or loss.	Upon disposal of debt instruments measured at FVOCI the cumulative gains or losses in other comprehensive income are recognised in profit or loss. Cumulative gains or losses in other comprehensive income are not recognised in profit or loss on the disposal of equity securities measured at FVOCI.

A reconciliation of presentational and measurement differences resulting from the adoption of IFRS 9 at 1 January 2018 is set out hereafter.

In general:

- loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 are measured at amortised cost under IFRS 9, unless these operations fail the test to ensure that the characteristics are compatible with the criteria set by the standard
- financial assets designated at Fair Value through Profit and Loss ('FVPL') remain at FVPL when the designation is allowed
- debt securities classified as available for sale are measured at amortised cost or FVOCI, with a small minority at FVPL either because of their contractual cash flow characteristics or the business model within which they are held;
- A significant majority of equity securities have fair value movements shown in profit or loss, while a minority have fair value movements presented in other comprehensive income.

Impairment

The recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge may be more volatile. The adoption has resulted in an increase in the total level of impairment allowances as set out hereafter, since all financial assets are assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL.

Key similarities and differences between IAS 39 and IFRS 9

	IAS 39	IFRS 9
Scope	For amortised cost assets, impairment is recognised when there is objective evidence of impairment. Losses are measured by comparing the carrying amount with the discounted future cash flows. IA39 corresponds to a depreciation model based on incurred and unexpected losses.For available-for-sale financial assets, impairment is recognised when there is objective evidence of a shortfall in the recovery of future cash flows. Impairment is measured as the decrease in fair value below the original cost at initial recognition.	The same recognition and measurement requirements apply to both amortised cost and FVOCI financial assets. Impairment is not recognised on equity securities which are measured at FVOCI. Impairment is recognised for all financial assets in scope at either 12-month ECL or lifetime ECL. All reasonable and supportable information, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date is used in measuring ECL.
Application	Accounting policies generally make a distinction between individually significant loans and homogeneous groups of loans which are assessed collectively.	The credit risk assessment depends on the way it is managed. The distinction between individual and collective assessment is less relevant.
Impaired/ Stage 3	The determination of the realisable value of security is based on the most recently updated market value at the time the impairment assessment is performed and is not adjusted for expected future changes in market prices. Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant using either roll rate methodologies or historical loss rate experience for loans. Under these methodologies, impairment allowances are recognised at a portfolio level.	The stage 3 population is consistent with impaired loans under IAS 39 which are considered individually significant.For wholesale loans, individual discounted cash flow calculations continue to be performed. However, the net realisable value of security is adjusted for expected future changes in market and the losses reflecting cash flows under different scenarios are probability-weighted to determine the ECL rather than using the best estimate of cash flows.For the retail population, stage 3 is determined by considering the relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days, or a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, or the loan is otherwise considered to be in default.The impairment allowance is determined by the same calculation used for stage 2, with the probability of default set to 1. The result may, therefore, not be the same as that determined by the IAS 39 statistical methods and the population disclosed as stage 3 will not necessarily correspond with that disclosed as impaired in accordance with IAS 39.
Stage 2	This is not an IAS 39 concept.	An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to stage 2, is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument.The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

<table>
<tr><th></th><th>IAS 39</th><th>IFRS 9</th></tr>
<tr><td></td><td></td><td>
In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2. For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ("PD") which encompasses a wide range of information including the obligor's customer risk rating ("CRR"), macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (for internal ratings above 3.3 at the origin, this deterioration is considered significant if the probability of default has doubled).The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations.
<table>
<tr><th>Origination CRR</th><th>Significance trigger – PD to increase by</th></tr>
<tr><td>0.1–1.2</td><td>15bps</td></tr>
<tr><td>2.1–3.3</td><td>30bps</td></tr>
<tr><td>Greater than 3.3 and not impaired</td><td>2x</td></tr>
</table>
For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:
<table>
<tr><th>Origination CRR</th><th>Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage2) ≥</th></tr>
<tr><td>0.1</td><td>5 notches</td></tr>
<tr><td>1.1–4.2</td><td>4 notches</td></tr>
<tr><td>4.3–5.1</td><td>3 notches</td></tr>
<tr><td>5.2–7.1</td><td>2 notches</td></tr>
<tr><td>7.2–8.2</td><td>1 notches</td></tr>
<tr><td>8.3</td><td>0 notches</td></tr>
</table>
For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure.
Retail exposures are first segmented into homogeneous portfolios. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.
</td></tr>
<tr><td>Stage 1</td><td>This is not an IAS 39 concept. However, incurred but not yet identified impairment is assessed loans for which no evidence of impairment has been specifically identified by estimating a collective allowance determined after taking into account factors including the estimated period between impairment occurring and the loss being identified. This is assessed empirically on a periodic basis and may vary over time. Similarly, for homogeneous groups of loans and advances which are assessed under IAS 39 on a collective basis, the inherent loss is determined using risk factors including the period of time between loss identification and write-off which is regularly benchmarked against actual outcomes.</td><td>Financial assets which are not considered to have significantly increased in credit risk have loss allowances measured at an amount equal to 12-month ECL. This 12-month time horizon is likely to be equal to or longer than the period estimated under IAS 39 (typically between 6 and 12 months).</td></tr>
</table>

	IAS 39	IFRS 9
Movement between stages	This is not an IAS 39 concept.	Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.
Measurement of ECL	Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date.	The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, HSBC calculates ECL using three main components, a probability of default, a loss given default and the exposure at default ('EAD'). The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD on the date of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which HSBC is exposed to credit risk. For wholesale uncommitted overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Groups exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. The Group will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments.

(c) Use of estimates and judgements

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from those reported.

In the opinion of management, all adjustments considered necessary for a fair presentation of HSBC France's net income, financial position and cash flows for the period presented have been made.

The significant judgements made by management in applying the group accounting policies and the key sources of uncertainty in the estimates are the same as those on the financial statements ending 31 December 2017.

(d) Composition of HSBC France's group

There were no material changes in the composition of the group in the half-year to 30 June 2018. The changes in the first half-year of 2018 are described in Note 14 of this document.

(e) Accounting policies

The accounting policies adopted by HSBC France for the interim consolidated financial statements are consistent with those described in Note 1 of the *Annual Report and Accounts 2017*.

The description of accounting changes for the next exercises is given in Note 1b of the *Annual Report and Accounts 2017*.

IFRS 17 'Insurance contracts' was issued in May 2017 and sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2021.Currently, HSBC is considering its impact.

(f) 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.

(g) Significant events during the first half-year

Acquisition of the Greek branch of HSBC Bank plc

The acquisition of the Greek branch of HSBC Bank plc was completed on January 1, 2018 and payment of EUR 1 (see Note 2). The Greek branch's contribution to the consolidated operating result amounts to 1 million EUR as of June 30, 2018.

Single Resolution Fund ('SRF')

HSBC France contribution amounted to EUR 59 million for 2018 and EUR 9 million has been recorded under security deposits. Total of the contribution to Single Resolution Fund amounted to EUR 43 million in balance sheet.

Tier 2 issuance (Subordinated loan)

HSBC France has issued in May 2018 a New Tier 2 Capital (Tier 2 instrument) subscribed by HSBC Bank plc for EUR 300 million. The new Tier 2 Capital Subordinated Instrument has a maturity of 10 years and will floating rate.

Additional Tier 1 issuance (Other Equity Instrument)

HSBC France has issued in March 2018 a New Tier1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 300 million. The new AT1 Capital Instrument is undated perpetual instrument callable by HSBC France on any interest payment dates falling five years after the date of issue and will form part of Equity (see Note 3).

Significant Issuance of HSBC France

On 20 March 2018, HSBC France issued a senior variable rate debt with a nominal value of EUR 1.25 billion and a maturity of 5 years.

SFH Issuance

HSBC SFH (France) is a company dedicated to the refinancing of HSBC France by issuing bonds secured by mortgage. On 17 April 2018 HSBC SFH (France) issued a covered bond with a nominal value of EUR 1 billion and a maturity of 7 years, with a deferred repayment option of one year.

Contractual modification of the commission sharing agreement on the division of commissions related to Unit-Linked contracts

The contractual amendment of the tripartite agreement between HSBC Global Asset Management (France), HSBC France and HSBC Assurance Vie (France) on the share of the insurance company's unit-linked contracts generated a positive impact of 36 EUR million on the PVIF value;this impact has not been eliminated as an the intra-group operations in order to reflect in the PVIF the valuation of all the assets of the insurance company and to comply with the principle of the permanence of the accounting policies (see Note 5).

(h) Presentation of information

Information related to results by activity (IFRS 8) are now disclosed in the Report of the Board of Directors to the Annual General Meeting on pages 6 to 11.

The following sections, are presented in the Risks and Capital sections:

- Credit risks: page 14 and following
- Market risks: page 19 and following
- Liquidity risks: page 19
- Capital management and allocation: page 21 and following

2 Business combination and disposal of subsidiaries

In order to be compliant to the new 'Ringfencing' law on the retail banking activities separation in the United Kingdom, HSBC France opened last 14 August 2017 a branch in Greece, within the project of acquisition of the HSBC plc Greece branch activities.

The operational transfer has been done on 1 January 2018 and realised through a payment of 1 Euro.

For accounting purposes, the branch 'HSBC France Athens Branch' is consolidated within HSBC France perimeter since 1 January 2018.

The operation has been classified out of the scope of 'IFRS 3 business combination' as the investment has simply been moved within the same group. For this reason HSBC opted for the application of the book value accounting.

At the acquisition date, the assets and liabilities acquired from HSBC Bank plc are as follows:

Assets	€m
Cash and balances at central banks	32
Trading assets	4
Derivatives	2
Loans and advances to banks	690
Loans and advances to customers	622
Financial investments	300
Other assets	23
Total assets	**1,673**

Liabilities	
Deposits by banks	23
Customer accounts	1,641
Derivatives	5
Other liabilities	25
Total Shareholders' equity	(21)
Total liabilities	**1,673**

3 Dividends

(a) Dividends related to 2018

There was no interim dividend distribution for the 2018 financial year during the first half of 2018.

(b) Dividends related to 2017

The Combined General Meeting held on 13 March 2018 approved the proposal of the Board of Directors held on 20 February 2018 to distribute a dividend amounting for EUR 111,946,792.82, or EUR 1.66 per share, in respect of the year 2017. This dividend was paid on 15 March 2018 after deduction of the interim dividend of EUR 0.97 per share decided by the Board of Directors held on 27 October 2017 and already paid to the outstanding shares at this date.

The Combined General Meeting of 15 May 2017 approved the proposal of the Board of Directors held on 26 April 2017 to distribute an exceptional dividend amounting for EUR 300,098,330.15, or EUR 4.45 per share. This exceptional dividend was paid on 30 May 2017 to the 67,437,827 outstanding shares at this date.

The Board of Directors held on 27 October 2017 decided the distribution of an interim dividend of EUR 0.97 per share in respect of the year 2017, to be paid to the 67,437,827 outstanding shares at this date. The interim dividend was paid on 16 November 2017.

(c) Earnings and dividends per share

Earnings and dividends per share

	Six months ended		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	€ per share	€ per share	€ per share
Basic earnings per share	**0.30**	1.87	0.76
Diluted earnings per share	**0.30**	1.87	0.76
Dividends per share	—	4.45	1.66

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 20 million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 67,437,827 (first half of 2017: earnings of EUR 126 million and 67,437,827 weighted average number of shares; second half of 2017: earnings of EUR 51 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 effects 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 (first half of 2017: 67,437,827 shares; second half of 2017: 67,437,827 shares). At 30 Jun 2018 , no potentially dilutive ordinary shares has been issued .

(d) Other Equity instruments

HSBC France has issued new Tier1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 300 million. The new AT1 Capital Instrument, included into the other equity instruments, is undated perpetual instrument callable by HSBC France on any interest payment dates falling five years after the date of issue.

Other equity instruments

		Six months ended		
		30 Jun	30 Jun	31 Dec
		2018	2017	2017
	First call	**€m**	€m	€m
Total coupons on capital securities classified as equity				
Undated Subordinated additional Tier 1 instruments				
– EUR 200 million	27/11/2017	**5**	–	5
– EUR 300 million	28/09/2018	**–**	–	–

4 Net fee income

Net fee income

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2018	2017	2017
	€m	€m	€m
Account services	**59**	62	60
Funds under management	**93**	104	101
Cards	**25**	27	28
Credit facilities	**58**	59	57
Broking income	**4**	4	4
Unit trusts	**3**	2	1
Underwriting	**30**	59	30
Imports/exports	**4**	5	4
Remittances	**13**	15	14
Global custody	**4**	3	3
Insurance agency commission	**10**	10	8
Other	**124**	106	98
Fee income	**427**	456	408
Less: fee expense	**141**	165	125
Net fee income	**286**	291	283
Global Business			
Retail Banking and Wealth Management	**137**	139	142
Commercial Banking	**93**	97	90
Global Banking and Markets	**45**	43	41
Global Private Banking	**11**	12	10
Corporate Centre	**–**	–	–

5 PVIF

HSBC France's life insurance business, reported through its subsidiary HSBC Assurances Vie (France), 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 are made by each insurance operation, which reflect local market conditions and management's judgement of local future trends.

(a) Movements in PVIF

	Movement of first semester 2018	Movement on full year 2017
	€m	€m
At 1 Jan	**457**	460
Moving forward	**(24)**	(68)
Value of new business	**16**	39
Changes in assumption and others	**52**	(4)
Market impact	**(12)**	13
Experience variances	**13**	17
At the end of the period	**502**	457

The PVIF moves from EUR 457 million as of 31 December 2017 to EUR 502 million as of 30 June 2018. The positive movement of EUR 45 million is mainly due to following items:

- a positive impact of current year new business amounting EUR 15 million which partially offsets the negative impact of the moving forward effect for EUR (24) million
- a positive effect of changes in assumption for EUR 52 million due to :
  - On the one hand the positive impact of EUR 36 million on the contractual amendment of the tripartite agreement between HSBC Global Asset Management (France), HSBC France and HSBC Assurances Vie (France) on the sharing of accounts which is not eliminated for intra-group transactions in order to reflect in PVIF the valuation of all insurance assets and to comply with accounting methods continuity ;
  - On the other hand the positive impact of EUR 16 million of the data correction estimate aiming at taking into account some contractual conditions detailed in the Unit-Linked insurance contracts.
- a positive impact of EUR 1 million of the combined effect of the Market impact and experience variances

(b) Key assumptions modification impacts over PVIF[1]

	At	
	30 Jun 2018	31 Dec 2017
	%	%
Average weighted risk – free rate	**1.47**	1.50
Average weighted risk – discount rate	**2.19**	2.20
Expenses inflation	**1.48**	1.48

1 *For the first-half 2018, market value future profits' discounted rate used for the PVIF is of 2.19%, to which a risk margin of EUR 84 million is added. In 2017, the market value future profits' discounted rate was of 2.20%, to which a risk margin of EUR 67 million.*

Risk margin over discount rate profits are[2]:

	At	
	30 Jun 2018	31 Dec 2017
	€m	€m
Operational risk	**13**	13
Model risk	**15**	15
Volatility risk	**56**	39
Total	**84**	67

2 *Risk margin (model risk, operational and volatility risk) are detailed separately.*

(c) 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 before tax for HSBC Assurances Vie (France).

	At	
	30 Jun 2018	31 Dec 2017
	€m	€m
+100 basis points shift in risk-free rate	**45**	35
- 100 basis points shift in risk-free rate	**(57)**	(69)
+ 100 basis points shift in risk-discount rate	**(24)**	(27)
- 100 basis points shift in risk-discount rate	**23**	25

Due to certain characteristics of the contracts, the sensitivities may be non-linear. Therefore the results of the sensitivity-testing should not be extrapolated to higher levels of stress. The analysis of the shift in the risk free rate shows a decrease in investments returns, risk discount rates and credited rates. The sensitivities are shown before any impact of management actions or decisions that could mitigate these impacts.

(d) 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 following table shows the sensitivity of total equity as of 30 June 2018 to reasonably realistic 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 subscribed to.

Sensitivity to lapse rates is dependent on the type of underwritten contracts. For insurance contracts, the cost of claims is funded by received premiums and earned income 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 table below presents the PVIF sensitivity after tax.

PVIF sensitivity after tax

	At	
	30 Jun 2018	31 Dec 2017
	€m	€m
10% increase in mortality and/or morbidity rates	**(11)**	(11)
10% decrease in mortality and/or morbidity rates	**11**	12
10% increase in lapse rates	**(22)**	(22)
10% decrease in lapse rates	**25**	25
10% increase in expense rates	**(27)**	(27)
10% decrease in expense rates	**27**	27

The impact of variations in redemption rates is mainly explained by savings business. For example, an increase in redemptions generates a decrease of the contracts under management, and therefore, leading to a negative impact on the insurer's profit.

6 Fair values of financial instruments carried at fair value

Fair values of financial instruments, the control system and the hierarchy description are determined in accordance with the methodology described in the *Annual Report and Accounts 2017* in Note 9 – Fair value of financial instruments carried at fair value. There has been no change in accounting policy, control system or hierarchy level since 31 December 2017.

Financial instruments carried at fair value and bases of valuation

	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	Total
	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2018							
Assets							
Trading assets	**18,102**	**9**	**2**	**18,113**	**–**	**–**	**18,113**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**9,989**	**171**	**729**	**10,889**	**555**	**103**	**11,444**
Derivatives	**12**	**17,299**	**341**	**17,652**	**14,655**	**266**	**32,307**
Financial investments	**16,740**	**38**	**10**	**16,788**	**428**	**–**	**17,216**
Liabilities							
Trading liabilities	**18,521**	**3**	**–**	**18,524**	**–**	**–**	**18,524**
Financial liabilities designated at fair value	**3,788**	**8,642**	**277**	**12,707**	**–**	**–**	**12,707**
Derivatives	**5**	**17,958**	**40**	**18,003**	**13,605**	**356**	**31,608**
At 31 Dec 2017							
Assets							
Trading assets	16,380	5,227	2	21,609	792	–	22,401
Financial assets designated at fair value	8,040	199	54	8,293	312	–	8,605
Derivatives	21	19,461	380	19,862	14,545	299	34,407
Financial investments available-for-sale	19,727	13	224	19,964	584	–	20,548
Liabilities							
Trading liabilities	23,478	7,082	268	30,828	1,608	–	32,436
Financial liabilities at fair value	2,538	5,027	–	7,565	–	–	7,565
Derivatives	9	19,853	53	19,915	13,314	444	33,229

There were no significant fair value transfer between Level 1 and Level 2.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2018							
Private equity investments including strategic investments	**7**	**—**	**291**	**—**	**—**	**—**	**—**
Asset-backed securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Structured notes	**—**	**2**	**—**	**—**	**—**	**277**	**—**
Derivatives	**—**	**—**	**—**	**341**	**—**	**—**	**40**
Other portfolios	**3**	**—**	**438**	**—**	**—**	**—**	**—**
HSBC Group subsidiaries	**—**	**—**	**103**	**266**	**—**	**—**	**356**
Total	**10**	**2**	**832**	**607**	**—**	**277**	**396**
At 31 Dec 2017							
Private equity investments including strategic investments	221	—	54	—	—	—	—
Asset-backed securities	—	—	—	—	—	—	—
Structured notes	—	2	—	—	268	—	—
Derivatives	—	—	—	380	—	—	53
Other portfolios	3	—	—	—	—	—	—
HSBC Group subsidiaries	—	—	—	299	—	—	444
Total	224	2	54	679	268	—	497

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2018[1]	**10**	**2**	**955**	**679**	**–**	**268**	**497**
Total gains/(losses) recognised in profit or loss	**–**	**–**	**(40)**	**(44)**	**–**	**(12)**	**(37)**
– net income from financial instruments held for trading or managed on a fair value basis	**–**	**–**	**–**	**(44)**	**–**	**(12)**	**(37)**
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**12**	**–**	**–**	**–**	**–**
– gains less losses from financial investments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– expected credit loss charges and other credit impairment charges	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– fair value gains transferred to the income statement on disposal	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**–**	**–**	**(52)**	**–**	**–**	**–**	**–**
Total gains/(losses) recognised in other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– financial investments: fair value gains/(losses)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– cash flow hedges: fair value gains/(losses)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Purchases	**–**	**–**	**50**	**4**	**–**	**37**	**1**
New Issuances	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sales	**–**	**–**	**(14)**	**–**	**–**	**–**	**–**
Settlements	**–**	**–**	**(119)**	**(19)**	**–**	**(5)**	**(7)**
Transfer out	**–**	**–**	**–**	**(13)**	**–**	**(11)**	**(58)**
Transfer in	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 30 Jun 2018	**10**	**2**	**832**	**607**	**–**	**277**	**396**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2018	**–**	**–**	**–**	**(44)**	**–**	**(11)**	**(34)**
– net income from financial instruments held for trading or managed on a fair value basis	**–**	**–**	**–**	**(44)**	**–**	**(11)**	**(34)**
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– loan impairment recoveries and other credit risk provisions	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 1 Jan 2017	251	2	19	670	246	–	492
Total gains/(losses) recognised in profit or loss		–		(60)	24	–	(76)
– trading income/(expense) excluding net interest income	–	–		(60)	25	–	(76)
– gains less losses from financial investments		–	–	–	(1)	–	–
Total gains/(losses) recognised in other comprehensive income	4	–	(1)	–	–	–	
– available-for-sale investments fair value gains/(losses)	6	–	(1)	–	–	–	–
– cash flow hedges: fair value gains/(losses)	–	–	–	–	–	–	–
– exchange differences	(2)	–	–	–		–	
Purchases	10	–	12	–	–	–	–
New issuances	–	–	–	–	–	–	–
Sales	(11)	–	–	–	–	–	–
Settlements	–	–	–	(26)	(3)	–	15
Transfer out	–	–	–			–	
Transfer in		–	–			–	
At 30 Jun 2017	254	2	30	584	267	–	431
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 Dec	6	–	(1)	(55)	25	–	(76)
– trading income excluding net interest income	6	–	(1)	(55)	25	–	(76)
– net income/(expense) from other financial instruments designated at fair value	–	–	–	–	–	–	–
– loan impairment charges and other credit risk provisions	–	–	–	–	–	–	–

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jul 2017	254	2	30	584	267	—	431
Total gains/(losses) recognised in profit or loss	(17)	—	—	56	6		25
– trading income/(expense) excluding net interest income	—	—	—	56	6	—	25
– gains less losses from financial investments	(17)	—	—	—	—	—	—
Total gains or losses recognised in other comprehensive income	17	—	3	—	—	—	—
– available-for-sale investments: fair value gains/(losses)	17	—	3	—	—	—	—
– cash flow hedges: fair value gains/(losses)	—	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	11	—	21	—	—	—	2
New issuances	—	—	—	—	—	—	—
Sales	(41)	—	—	—	—	—	—
Settlements	—	—	—	(2)	(2)	—	11
Transfers out	(11)	—	—	(18)	(20)	—	(61)
Transfers in	11	—	—	58	17	—	88
At 31 Dec 2017	224	2	54	679	268	—	497
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec	25	—	2	8	31	—	(41)
– trading income/(expense) excluding net interest income	—	—	2	8	31		(41)
– loan impairment charges and other credit risk provisions	—	—	—	—	—	—	—
– gains less losses from financial investments	25	—	—	—	—	—	—

1 *Opening balances exclude Greek branch.*

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

	At 30 Jun 2018				At 31 Dec 2017			
	Reflected in profit or loss		**Reflected in other comprehensive Income**		Reflected in profit or loss		Reflected in other comprehensive Income	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Derivatives/trading assets/trading liabilities[1]	**9**	**(9)**	**—**	**—**	13	(13)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	**34**	**(32)**	**—**	**—**	3	(3)	—	—
Financial investments	**—**	**—**	**1**	**(1)**	—	—	21	(22)
HSBC Group subsidiaries	**12**	**(12)**	**—**	**—**	22	(22)	—	—
Total	**55**	**(53)**	**1**	**(1)**	38	(38)	21	(22)

1 *Derivatives, trading assets and trading liabilities are presented as one category to reflect the manner in which these financial instruments are risk-managed.*

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m
At 30 Jun 2018				
Private equity investments including strategic investments	**29**	**(23)**	**1**	**(1)**
Asset-backed securities	**–**	**–**	**–**	**–**
Structured notes	**1**	**(1)**	**–**	**–**
Derivatives	**9**	**(9)**	**–**	**–**
Other portfolios	**4**	**(8)**	**–**	**–**
HSBC Group subsidiaries	**12**	**(12)**	**–**	**–**
Total	**55**	**(53)**	**1**	**(1)**
At 31 Dec 2017				
Private equity investments including strategic investments	3	(3)	21	(22)
Asset-backed securities	–	–	–	–
Structured notes	–	–	–	–
Derivatives	13	(13)	–	–
Other portfolios	–	–	–	–
HSBC Group subsidiaries	22	(22)	–	–
Total	38	(38)	21	(22)

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 by varying the assumptions individually.

Quantitative information about significant unobservable input in Level 3 valuations

The following table lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2018. The categories of key unobservable inputs are described in the Note 9 of the *Annual Report and Accounts 2017*.

	Fair value[1]				Full range of inputs		Core range of inputs	
	Assets	Liabilities		Key unobservable	Lower	Higher	Lower	Higher
	€m	€m	Valuation technique	inputs	%	%	%	%
At 30 Jun 2018								
Private equity including strategic investments	**298**	**–**	**See notes below[4]**	**See notes below[4]**	**n/a**	**n/a**	**n/a**	**n/a**
Asset-backed securities	**–**	**–**						
– CLO/CDO[2]	**–**	**–**	**Market proxy**	**Bid quotes**	**n/a**	**n/a**	**n/a**	**n/a**
– other ABSs	**–**	**–**						
Loans held for Securitisation	**–**	**–**						
Structured notes	**2**	**277**						
– equity-linked notes	**–**	**277**	**Model – Option model**	**Equity volatility**	**–**	**–**	**–**	**–**
– fund-linked notes	**–**	**–**	**Model – Option model**	**Fund volatility**	**–**	**–**	**–**	**–**
– FX-linked notes	**–**	**–**	**Model – Option model**	**FX volatility**	**–**	**–**	**–**	**–**
– other	**2**	**–**						
Derivatives	**607**	**396**						
Interest rate derivatives								
– securitisation swaps	**121**	**–**	**Model – DCF[3]**	**Prepayment rate**	**50%**	**50%**	**50%**	**50%**
– long-dated swaptions	**385**	**328**	**Model – Option model**	**IR volatility**	**12%**	**35%**	**14%**	**31%**
– other	**87**	**60**						
Foreign exchange derivatives								
– foreign exchange options	**–**	**–**	**Model – Option model**	**FX volatility**	**12%**	**15%**	**13%**	**14%**
Equity derivatives								
– long-dated single stock options	**–**	**–**	**Model – Option model**	**Equity volatility**	**–**	**–**	**–**	**–**
– other	**14**	**8**						
Credit derivatives								
– other	**–**	**–**						
Other portfolios	**544**	**–**						
Total Level 3	**1,451**	**673**						
At 31 Dec 2017								
Private equity including strategic investments	275	–	See notes below[4]	See notes below[4]	n/a	n/a	n/a	n/a
Asset-backed securities	–	–						
– CLO/CDO[2]	–	–	Market proxy	Bid quotes	n/a	n/a	n/a	n/a
– other ABSs	–	–						
Structured notes	2	268						
– equity-linked notes	–	–	Model – Option model	Equity volatility	–	–	–	–
– fund-linked notes	–	–	Model – Option model	Fund volatility	–	–	–	–
– FX-linked notes	–	–	Model – Option model	FX volatility	–	–	–	–
– other	2	268						
Derivatives	679	497						
Interest rate derivatives								
– securitisation swaps	136	–	Model – DCF[3]	Prepayment rate	50%	50%	50%	50%
– long-dated swaptions	429	370	Model – Option model	IR volatility	14%	41%	16%	38%
– other	87	113						
Foreign exchange derivatives								
– foreign exchange options	9	9	Model – Option model	FX volatility	10%	14%	10%	14%
Equity derivatives								
– long-dated single stock options	–	–	Model – Option model	Equity volatility	–	–	–	–
– other	18	5						
Credit derivatives								
– other	–	–						
Other portfolios	3	–						
Total Level 3	959	765						

1 *Including Level 3 amounts with HSBC Group subsidiaries.*
2 *Collateralised Loan Obligation/Collateralised Debt Obligation.*
3 *Discounted Cash Flow.*
4 *See notes on pages 158 and 159 of the* Annual Report and Accounts 2017.

7 Fair values of financial instruments not carried at fair value

		Fair value			
	Carrying value	Level 1 – quoted market price	Level 2 – using observable inputs	Level 3 – with significant unobservable inputs	Total
	€m	€m	€m	€m	€m
At 30 Jun 2018					
Assets					
Loans and advances to banks	**4,947**	**–**	**4,866**	**81**	**4,947**
Loans and advances to customers	**44,567**	**–**	**–**	**44,495**	**44,495**
Reverse repurchase agreements – non-trading	**19,979**	**–**	**19,979**	**–**	**19,979**
Financial investments: debt securities	**7**	**–**	**–**	**7**	**7**
Liabilities					
Deposits by banks	**10,882**	**–**	**10,882**	**–**	**10,882**
Customer accounts	**38,748**	**–**	**38,754**	**–**	**38,754**
Reverse repurchase agreements – non-trading	**12,026**	**–**	**12,026**	**–**	**12,026**
Debt securities in issue	**4,246**	**–**	**4,246**	**–**	**4,246**
Subordinated liabilities	**876**	**–**	**876**	**–**	**876**
At 31 Dec 2017					
Assets					
Loans and advances to banks	4,843	–	4,843	–	4,843
Loans and advances to customers	44,856	–	–	44,932	44,932
Reverse repurchase agreements – non-trading	13,781	–	13,781	–	13,781
Financial investments: debt securities	–	–	–	–	–
Liabilities					
Deposits by banks	13,297	–	13,297	–	13,297
Customer accounts	38,277	–	38,296	–	38,296
Reverse repurchase agreements – non-trading	6,586	–	6,586	–	6,586
Debt securities in issue	5,159	–	5,169	–	5,169
Subordinated liabilities	576	–	576	–	576

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 will not be possible to immediately achieve 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.

8 Goodwill and intangible assets

Impairment testing

Impairment testing as described on pages 169-170 of the *Annual Report and Accounts 2017*, HSBC France tests Goodwill for impairment as at 31 December each year and whenever there is an indication that Goodwill may be impaired. At 30 June 2018, there is no indication that Goodwill may be impaired.

9 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Other provisions	Total
	€m	€m	€m	€m
Provisions (excluding contractual commitments)				
At 31 Dec 2017	**51**	**26**	**22**	**99**
Additions	**1**	**1**	**5**	**7**
Amounts utilised	**(12)**	**(12)**	**(15)**	**(39)**
Unused amounts reversed	**—**	**—**	**(1)**	**(1)**
Exchange and other movements	**—**	**—**	**—**	**—**
At 30 Jun 2018	**40**	**15**	**11**	**66**
Contractual commitments				
At 31 Dec 2017				**4**
Impact on transition to IFRS 9				**12**
Net change in expected credit loss provisions				**9**
At 30 Jun 2018				**25**
Total provisions				
At 31 Dec 2017				**103**
At 30 Jun 2018				**91**

Information relating to legal proceedings and regulatory matters related to HSBC Group entities can be found in Note 11.

10 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2018	31 Dec 2017
	€m	€m
Guarantees and contingent liabilities:		
– financial guarantees and similar contracts	**5,482**	4,974
– other contingent liabilities	**—**	—
At the end of the period	**5,482**	4,974
Commitments:		
– documentary credits and short-term trade-related transactions	**490**	481
– forward asset purchases and forward deposits placed	**—**	—
– standby facilities, credit lines and other commitments to lend[1]	**27,031**	25,846
At the end of the period	**27,521**	26,327

1 *Based on original contractual maturity.*

Nominal principal amounts of potential liabilities and commitments represent the amounts at risk in a case where contracts would be fully drawn upon and client defaulted.

As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of these nominal principal amounts is not representative of future liquidity requirements.

11 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 109 and the following ones of the 2017 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 30 June 2018.

Anti-money laundering and sanctions-related matters

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 and regulatory 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 AML 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 orders with the Financial Crimes Enforcement Network ('FinCEN') of the US Treasury Department and the Office of the Comptroller of the Currency ('OCC').

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling USD 1.9 billion to US authorities, and undertook various further obligations, including, among others, to retain an independent compliance monitor (who is, for FCA purposes, a 'skilled person' under section 166 of the UK Financial Services and Markets Act) to produce annual assessments of the Group's AML and sanctions compliance programme (the 'Monitor'). Under the 2012 cease and desist order issued by the FRB, the Monitor also serves as an independent consultant to conduct annual assessments. 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 2018, the Monitor delivered its fourth annual follow-up review report. Through his country-level reviews, the Monitor identified potential anti-money laundering and sanctions compliance issues that HSBC is reviewing further with the DoJ, FRB and/or FCA.

In December 2017, the AML DPA expired and the charges deferred by the AML DPA were dismissed. The Monitor will continue working in his capacity as a skilled person and independent consultant for a period of time at the FCA's and FRB's discretion.

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 imposed a fine against HSBC based on a one-month infringement, 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 panel 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 Euribor in violation of US antitrust laws, the US CEA, and state law of New York. In December 2016, HSBC reached an agreement 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. The court issued an order granting preliminary approval in January 2017.In May 2018, the court issued an order finally approving the settlement.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the US, the EU, Switzerland, Brazil, South Korea and South Africa, are conducting civil and criminal investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including continuing to cooperate with authorities and implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC Holdings agreed to pay a financial penalty and restitution.

12 Related party transactions

In accordance with the resources redeployment strategy, HSBC France received from HSBC Banks plc interbank loans of EUR 300 million subordinated instrument (Tier 2) and a EUR 300 million undated perpetual instrument callable (Additional Tier 1) subordinated instrument (Tier 2). Excluding these operations, there were no changes in the related party transactions described in the *Annual Report and Accounts 2017* that have had a material effect on the financial position or performance of the HSBC France's group in the six months leading up to 30 June 2018. All related party transactions which took place in the period ending 30 June 2018 were similar in nature to those disclosed in the *Annual Report and Accounts 2017.*

13 Effects of reclassifications upon adoption of IFRS 9

Reconciliation for Consolidated Balance Sheet as at 31 December 2017 and 1 January 2018

					IFRS 9 reclassification to					
	Footnotes	IFRS 9 Measurement Category	IAS 39 Carrying Amount at 31 Dec 2017	Other Changes in Classification	Fair Value through Profit and Loss	Fair value through other comprehensive income	Amortised cost	Carrying Amount Post Reclassification	IFRS 9 remeasurement and IFRS 9 Expected Credit Losses	IFRS 9 carrying amount at 1 Jan 2018[1]
			€m	€m	€m	€m	€m	€m	€m	€m
Assets										
Cash and balances at central banks		Amortised Cost	14,630	—	—	—	—	14,630	—	14,630
Items in the course of collection from other banks		Amortised Cost	435	—	—	—	—	435	—	435
Trading assets		FVPL	22,401	(5,975)	—	—	—	16,426	—	16,426
Financial assets designated and otherwise mandatorily measured at Fair Value through Profit or Loss		FVPL	8,605	—	2,563	—	—	11,168	7	11,175
Derivatives		FVPL	34,407	—	—	—	—	34,407	—	34,407
Loans & advances to banks		Amortised Cost	4,843	(127)	(95)	—	—	4,621	(1)	4,620
Loans & advances to customers		Amortised Cost	44,856	(12)	(79)	—	—	44,765	(42)	44,723
Reverse repurchase agreements – non-trading		Amortised Cost	13,781	—	—	—	—	13,781	—	13,781
Financial investments		FVOCI debt	20,331	—	(2,057)	—	(7)	18,267	—	18,267
		FVOCI equity	217	—	(210)	—	—	7	—	7
		Amortised Cost	—	—	—	—	7	7	—	7
Prepayments, Accrued Income & Other Assets/ Amortised cost		Amortised Cost	1,915	6,114	(122)	—	—	7,907	—	7,907
Current tax assets		N/A	130	—	—	—	—	130	—	130
Interest in Associates and Joint Ventures		N/A	2	—	—	—	—	2	—	2
Goodwill and intangible Assets		N/A	766	—	—	—	—	766	—	766
Deferred tax assets		N/A	225	—	—	—	—	225	19	244
Total assets			**167,544**	**—**	**—**	**—**	**—**	**167,544**	**(17)**	**167,527**

1 The amounts as of January 1, 2018 do not include the Greek branch.

Reconciliation for Consolidated Balance Sheet as at 31 December 2017 and 1 January 2018 (continued)

	Footnotes	IFRS 9 Measurement Category	IAS 39 Carrying Amount at 31 Dec 2017	Other Changes in Classification	IFRS 9 reclassification to: Fair Value through Profit and Loss	IFRS 9 reclassification to: Fair value through other comprehensive income	IFRS 9 reclassification to: Amortised cost	Carrying Amount Post Reclassification	Remeasurement and IFRS 9 Expected Credit Losses	IFRS 9 carrying amount at 1 Jan 2018[1]
			€m	€m	€m	€m	€m	€m	€m	€m
Liabilities										
Deposits by banks		Amortised cost	13,297	—	—	—	—	13,297	—	13,297
Customer accounts		Amortised cost	38,277	(39)	—	—	—	38,238	—	38,238
Repurchase agreements - non trading		Amortised cost	6,586	—	—	—	—	6,586	—	6,586
Items in the course of transmission to other banks		Amortised cost	490	—	—	—	—	490	—	490
Trading liabilities		FVPL	32,436	(9,073)	—	—	102	23,465	—	23,465
Financial liabilities designated at fair value		FVPL	7,565	2,733	—	—	—	10,298	—	10,298
Derivatives		FVPL	33,229	—	—	—	—	33,229	—	33,229
Debt securities in issue		Amortised cost	5,159	—	—	—	—	5,159	—	5,159
Accruals, deferred income and other liabilities		Amortised cost	2,086	6,379	—	—	(102)	8,363	(4)	8,359
Current tax liabilities		N/A	29	—	—	—	—	29	—	29
Liabilities under insurance contracts		N/A	21,853	—	—	—	—	21,853	—	21,853
Provisions		N/A	103	—	—	—	—	103	12	115
Deferred tax liabilities		N/A	152	—	—	—	—	152	4	156
Subordinated liabilities		Amortised cost	576	—	—	—	—	576	—	576
Total Liabilities			**161,838**	**—**	**—**	**—**	**—**	**161,838**	**12**	**161,850**

1 *The amounts as of January 1, 2018 do not include the Greek branch.*

	Footnotes	IAS 39 Carrying Amount at 31 Dec 2017	Reclassification	Carrying Amount Post Reclassification	Remeasurement and IFRS 9 Expected Credit Losses	IFRS 9 Carrying Amount at 1 Jan 2018[1]
		€m	€m	€m	€m	€m
Called up share capital		337	—	337	—	337
Share premium account		16	—	16	—	16
Other Equity Instruments		200	—	200	—	200
Other Reserves		1,600	(59)	1,541	—	1,541
Equity – Total Retained Earnings		3,523	59	3,582	(29)	3,553
Total Shareholders Equity		5,676	—	5,676	(29)	5,647
Non-controlling interests		30	—	30	—	30
Total Equity		**5,706**	**—**	**5,706**	**(29)**	**5,677**

1 *The amounts as of January 1, 2018 do not include the Greek branch.*

	Reclassification		Remeasurement			
	Fair Value through Profit and Loss	Fair value through other comprehensive income	Amortised cost	Stage 3	Stage 1 & Stage 2	Total
	€m	€m	€m	€m	€m	€m
Financial Assets at Amortised Cost						
IAS 39 impairment allowance as at 31 Dec 2017						535
Cash & balances at Central Banks	—	—	—	—	—	—
Loans & advances to banks	—	—	—	—	1	1
Loans & advances to customers	—	—	—	21	21	42
Reverse repurchase agreements – non-trading	—	—	—	—	—	—
Prepayment, accrued income & other assets	—	—	—	—	—	—
Expected Credit Loss Allowance as at 1 Jan 2018 [1]	**—**	**—**	**—**	**21**	**22**	**578**
Loan Commitments & Financial Guarantee Contracts						
IAS 37 Impairment Allowance as at 31 Dec 2017						4
Provisions (Loan Commitments & Financial Guarantees)	—	—	—	—	12	12
Expected Credit Loss Allowance as at 1 Jan 2018 [1]	**—**	**—**	**—**	**—**	**12**	**16**

1 *The amounts as of January 1, 2018 do not include the Greek branch.*

IFRS 9 Impacts:

The adoption of IFRS 9 on January 1, 2018 reduced HSBC France Group's net position by EUR 31 million net of taxes deferred, with an increase of EUR 5 million related to the 'Classification and Measurement' phase and a decrease of EUR 36 million in the 'Impairment' phase. The IFRS9 transition reduced the transitional CET1 ratio by 2 basis points. The total amount of provisions for expected credit losses at 1 January 2018 is EUR 578 million for financial assets at amortized cost, EUR 16 million for commitments and guarantees and EUR 5 million for financial assets at fair value through other comprehensive income.

1.The reclassification of loans and advances which failed Solely Payment of Principal and Interest ('SPPI') test (loans with Cross Currency Swaps breakage costs) totalling EUR 296 million from amortised cost to fair value through profit and loss resulted in a remeasurement gain of EUR 7 million.

2.As required by IFRS 9, the Fair Value Option ('FVO') has been removed for external debt which are no longer subject to an accounting mismatch.

3.The reclassification of Available-For-Sale debt instruments which failed SPPI test of EUR 2.1 billion to fair value through profit or loss had no impact on net assets as these instruments were already measured at fair value.

4.The reclassification of Available-For-Sale equity instruments as required by IFRS 9 of EUR 210 million to fair value through profit or loss had no impact on net assets as these instruments were already measured at fair value.

Other impacts:

Although not required by IFRS 9, the group HSBC France has adopted the following voluntary presentation changes:

- On the assets side:
  - Cash, margin calls and settlement accounts have been reclassified from 'Trading assets' and 'loans and advances to banks and customers' to 'Prepayments,accrued income and other assets'. The change in the presentation of financial assets had no impact on their measurement.
- On the liabilities side:
  - Cash collateral, margin and settlement accounts have been reclassified from 'Trading liabilities' to 'Deposits by banks and customer accounts' to 'Accruals, deferred income & other liabilities'. The change in the presentation of financial liabilities had no impact on their measurement.
  - On the liability side, structured liabilities originally classified as Held for Trading will be designated as at Fair Value Option. There is no change in measurement, although fair value gains and losses related to own credit movements will be recognised through Other Comprehensive Income rather than in profit and loss in the future.

14 Changes in consolidation perimeter during the first half-year of 2018

The table below shows the changes, in the first half-year of 2018, within the legal perimeter published in the *Annual Report and Accounts 2017*, Note 33.

Removals:	**Additions:**
SAF Zhu jiang shi	HSBC Special Situations Europe
SAF Zhu jiang shiyi	

In May 2018, Société Financière et Mobilière was renamed « SFM ». Its activity has changed from financial to commercial activity.

Those changes have not generated a material impact on the accounts.

15 Events after the balance sheet date

Capital increases

The Board of Directors at its meeting on 30 May 2018 decided, under the delegation granted by the shareholders' general meeting on 26 April 2017, to increase the HSBC France core capital by approximately EUR 100 million (of which EUR 6.2 million of share capital). Following the completion of this operation on 25 July 2018, the HSBC France share capital has been increased from EUR 337,189,135 to EUR 343,410,030.

As part of the anticipation of activities transfers to the balance sheet of HSBC France, the Board of Directors decided, at its Meeting of July 26, 2018, an increase of HSBC France's capital of approximately EUR 388 million, to be submitted for approval to shareholders at the extraordinary general meeting on August 10, 2018.

Acquisition of subsidiaries and activities from European branches

In the context of the upcoming structural changes to mitigate the consequences related to the future exit of the United Kingdom from the European Union and to simplify the legal organisation in Continental Europe, HSBC France acquired the 1 August 2018 100% of European subsidiaries HSBC Polska Bank SA and HSBC Institutional Trust Services (Ireland) DAC.

In the same context, HSBC France will acquire the activities of seven European branches (in Belgium, the Czech Republic, Ireland, Italy, Luxembourg, the Netherlands and Spain) from HSBC Bank plc. The acquisition of branches is expected to be effective during the first quarter of 2019. These changes have been and will be approved by the appropriate supervisory authorities and the relevant Boards of Directors.

Statutory Auditor's Review Report on the 2018 half-year financial information

PricewaterhouseCoopers Audit

63 rue de Villiers
92200 Neuilly-sur-Seine

BDO France – Léger Et Associés

43-47 avenue de la Grande-Armée
75116 Paris

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

(For the six-month period ended 30 June 2018).

To the Shareholders,

HSBC FRANCE

103, avenue des Champs-Elysées
75419 Paris Cedex 08

In compliance with the assignment entrusted to us by your General meetings and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of HSBC France, for the six months ended 30 June 2018;
- the verification of the information contained in the half year management report.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

1 Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - the standard of IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our conclusion, we draw your attention to:

- Note 1, which sets out the requirements and the evolution of accounting principles resulting from the adoption of IFRS 9 'financial Instruments' beginning 1 January 2018;
- Note 13, which presents the impacts of re-classifications since the adoption of IFRS 9 and specifies that the published comparative data have not been restated as permitted by the transitional provisions of the standard.

2 Specific verification

We have also verified the information given in the half-year management report on the condensed half-year consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Neuilly sur Seine and Paris, 3 August 2018

PricewaterhouseCoopers Audit
Nicolas Montillot

BDO France – Léger & Associés
Fabrice Chaffois

Person responsible for the registration document

Mr Jean Beunardeau, Chief Executive Officer.

Statement by person responsible

To the best of my knowledge, having taken all reasonable steps for this purpose, I certify that the information provided in this update is true and accurate and contains no material omission that would impair its significance.

I certify, to the best of my knowledge, that the condensed accounts for the first half of the financial year have been prepared in accordance with the relevant accounting standards and give a fair view of assets and liabilities, financial position and result of the company and of all the entities included in the consolidation, and that the interim management report on pages 4 to 11 presents a fair review of the significant events that occurred during the first six months of the financial year, their impact on the accounts and the major related party transactions, as well as a description of the principal risks and uncertainties for the remaining six months of the financial year.

I have obtained a completion letter from the Company's Statutory Auditors in which they confirm that they have verified the information presented in this update on the financial position and the financial statements, and also that they also have read the entire update.

Paris, 3 August 2018

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

	Date		
	First appointed	Re-appointed	Term ends
Incumbents			
PricewaterhouseCoopers Audit[1] Represented by Nicolas Montillot[4] 63, rue de Villiers 92200 Neuilly-sur-Seine	**2015**	**2018**	**2024**
BDO France – Léger & Associés[2] Represented by Fabrice Chaffois[3] 43-47 avenue de la Grande Armée 75116 Paris	**2007**	**2018**	**2024**

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 France – Léger & Associés represented by Fabrice Chaffois starting from 2013.*
4 *Starting from 2015 PricewaterhouseCoopers Audit is represented by Nicolas Montillot.*

Cross-reference tables

The cross-reference table refers to the main headings required by the European regulation 809/2004 (Annex XI) implementing the directive known as 'Prospectus' and to the pages of the *Annual Report and Accounts 2017* D.18-0068 updated by this document.

Section of Annex XI to EU Regulation 809/2004		Pages in registration document D.18-0068 filed with the AMF on 22 Feb 2018	Pages in this update document
1	Persons responsible	241	60
2	Statutory auditors	242	61
3	Risk factors	62 to 121	12-21
4	Information about the issuer		
4.1	History and development of the company	239	–
5	Business overview		
5.1	Principal activities	3 to 14 and 198	3-11
5.2	Principal markets	3 to 14 and 198	3-11
6	Organisational structure		
6.1	Brief description of the group	2 to 15, 226 and 232 to 234	–
6.2	Issuer's relationship with other group entities	233 to 240	–
7	Trend information	14	9
8	Profit forecasts or estimates	–	–
9	Administrative, management and supervisory bodies and senior management	–	–
9.1	Administrative and management bodies	17 to 23	–
9.2	Administrative and management bodies – conflicts of interest	25	–
10	Major shareholders		–
10.1	Control of the issuer	23 to 240	–
10.2	Arrangements known to the issuer which could entail a change in control at a subsequent date	–	–
11	Financial information concerning the issuer's assets and liabilities, financial position and profits and losses		–
11.1	Historical financial information	14 and 224	–
11.2	Financial statements	127 to 187 and 195 to 227	–
11.3	Auditing of historical financial information	188 to 193 and 228 to 231	–
11.4	Age of latest financial information	14	–
11.5	Interim and other financial information	–	30-58
11.6	Legal and arbitration proceedings	109 to 110	53 and 54
11.7	Significant change in the issuer's financial or trading position	184	9 and 59
12	Material contracts	240	–
13	Third-party information and statement by experts and declarations of any interest	–	–
14	Documents on display	238	62

In application of Article 212-13 of the Autorité des marchés financiers's General Regulations, this update contains the information of the interim financial report referred to in Article L.451-1-2 of the French Monetary and Financial Code and Article 222-4 of the AMF's General Regulations:

- Management report
  - Main events occurring during the first six months of 2018 — 1 to 4
  - Main risks and uncertainties — 12 to 21
  - Principal related party transactions — 54
- Condensed consolidated financial statements — 30 to 58
- Report of the Statutory Auditors on the interim financial information at 30 June 2018 — 59
- Statement by person responsible — 60

The following items are incorporated by reference:

- the consolidated financial statements for the year ended 31 December 2017 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 126 to 187 and 188 to 193 of reference document D.18-0068 filed with the AMF on 22 February 2018.

The chapters of the reference documents not mentioned above are either of no interest to investors or are covered in another section of this update.

These documents are available on the HSBC France group's website (www.hsbc.fr) and on the AMF's website (www.amf-france.org).

Any person requiring additional information on the HSBC France group may, without commitment, request documents by mail:

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